

# Future of Real Estate Investments in a Post-COVID Scenario

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# REAL ESTATE SECTOR OVERVIEW

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# INDIA'S REAL ESTATE GROWTH STORY

## Demographics dividend & urbanization

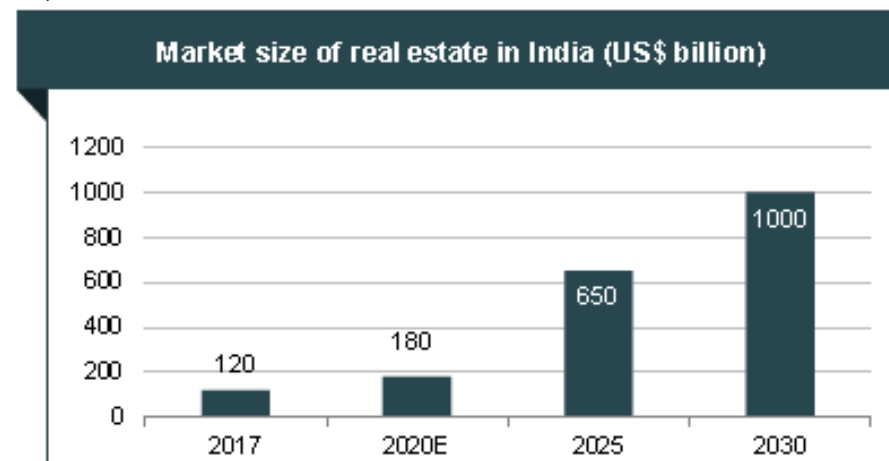
- 40% of India's population by 2030 will live in Indian Cities; ~10 Million people migrate to cities every year
- Median age in 2030 will be 31.4 years vis-à-vis 40 years in US & 42 years in China
  - Increase in % of working age population from 51% in 2011 to 59% in 2031
- Declining emigration of Indian talent since 2015 to boost domestic talent base and lead to entrepreneurial evolution in coming years
- By 2030, India's urban population will contribute 75% to the GDP, up from current 63%

## Rise in Infrastructure spending & Investments

- India's required annual spending on infrastructure will touch 7-8% of its GDP
- Relaxation FDI norms for real estate sector by Government
- Government to build 100 smart cities – will open up growth avenues for the sector
  - FDI upto 100% allowed for townships and settlements development projects

## Real estate growth in India

- Real estate sector to reach US\$ 1 Trillion by 2030 from US\$ 120 Bn in 2017; 19.5% CAGR from 2017 to 2028

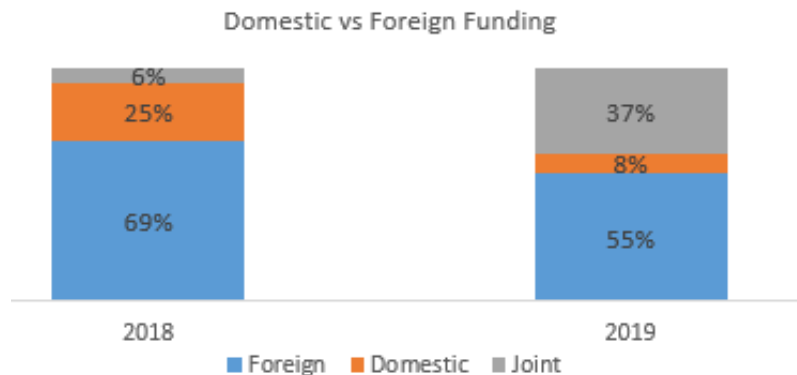


- **Residential Real Estate:**
  - By 2030, residential real estate can potentially increase 2X in key cities
  - India to need 25 Million affordable housing units to meet the urban population's demand
- **Commercial Real Estate:**
  - Growing economy driving demand for commercial and retail space
  - Potential REIT structures enhance sector attractiveness; First REIT listed in April 2019 & with more in pipeline

# REALTY INVESTMENT: KEY TRENDS

## Investment trends in 2019

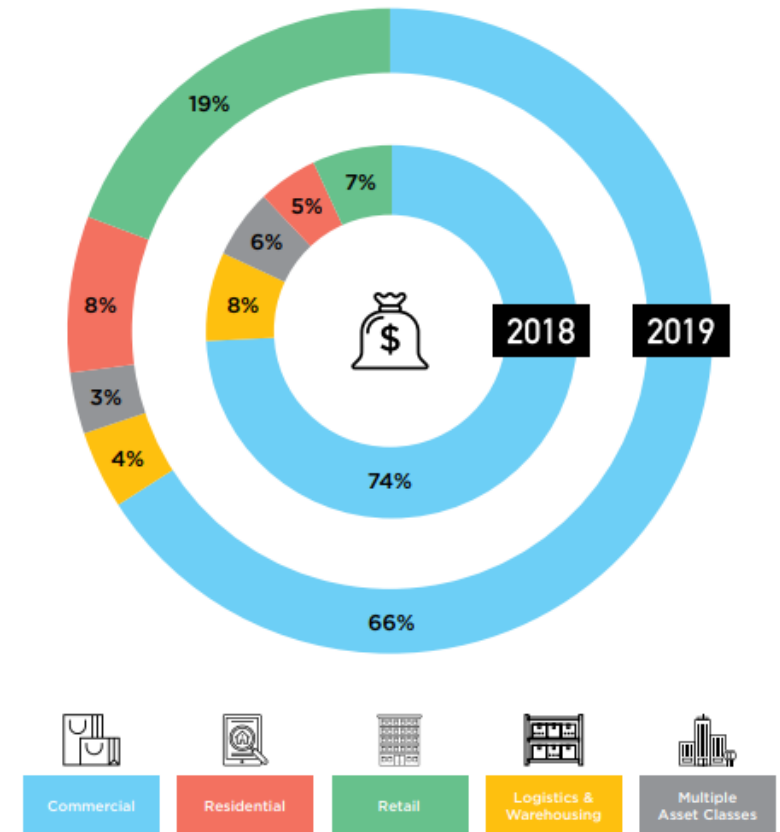
- The real estate sector attracted an investment of **\$6.2 bn**, up **8.7% from 2018**
  - Foreign investors preferred to invest through platform with domestic developers/ investors (Joint) in 2019; way higher than the previous year



- West, North and Bengaluru saw rise in investments; led by commercial & retail

## Investment outlook for 2020

- Investment in India's real estate sector is likely to rise by 5% to **\$6.5 bn in 2020**
- **Commercial assets** will remain key attraction for PE investors in 2020 driven by strong demand and expected rental appreciation
- Stressed funds started considering residential assets; 2020 to see many last mile funding deals in residential
- Investments in retail jumped sharply in 2019; expected to continue in 2020



Asset class wise funding, 2019

# RESIDENTIAL – SNAPSHOT FOR 14 TOP CITIES

<b>4.35 Bn. Sft</b>	Approx. 4,35 Bn. Sft of area was launched b/w 2009-2019 <b>against 3.85 Bn. Sft area absorbed</b> during the same period
<b>-12%</b>	Available stock decreased by 12% in 2019 after <b>hitting its peak in 2016</b> with 858,524 units
<b>252,622 units</b>	Approx. 252,622 units were launched in 2019 <b>decreasing by 48% as compared to its peak value</b> in 2010
<b>30 Months</b>	Inventory overhang stood at 30 months which is <b>higher than the acceptable limit of 20-24 months</b>

Source: PropEquity

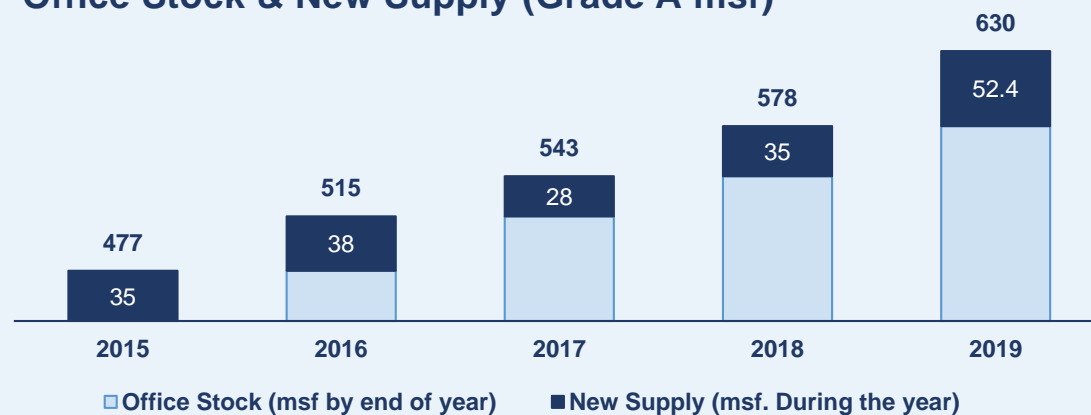
# RESIDENTIAL – EMERGING DYNAMICS

	Unsold Inventory (Units)					Absorption (Units)					New Launches (Units)			
	Peak Year	Units in peak year	Units in 2019	Change %		Peak Year	Units in peak year	Units in 2019	Change %		Peak Year	Units in peak year	Units in 2019	Change %
NCR	2014	196,886	138092	-30%		2010	124,929	29282	-77%		2010	191161	17822	-91%
MMR	2016	327436	292473	-11%		2010	106836	101043	-5%		2012	152139	83309	-45%
Bangalore	2015	116461	95760	-14%		2013	60002	43151	-28%		2013	86836	38235	-56%
Chennai	2014	44903	36079	-14%		2012	28686	15663	-46%		2012	39169	13124	-66%
Hyderabad	2019	36508	36508	0%		2019	22901	22901	0%		2019	28317	28317	0%
Pune	2016	139830	112103	-20%		2019	71087	71087	0%		2015	75343	59716	-21%
Kolkata	2018	51926	48064	-7%		2015	16352	15961	-2%		2015	20347	12099	-41%

Source: PropEquity

# COMMERCIAL – INDIA SNAPSHOT

Office Stock & New Supply (Grade A msf)



City	New Supply			Net Absorption		
	H1 2019	H1 2020	% change	H1 2019	H1 2020	% change
Mumbai	3.63	2.95	-18.7%	2.44	2.46	0.9%
NCR	4.26	3.06	-28.1%	2.30	1.29	-44.2%
Bengaluru	7.51	4.72	-37.2%	7.16	2.54	-64.5%
Chennai	1.62	0.54	-67.1%	1.42	0.73	-48.7%
Pune	1.13	1.31	15.7%	1.93	0.23	-87.9%
Hyderabad	8.97	4.05	-54.8%	8.63	2.65	-69.3%
Kolkata	0.74	-	-100.0%	0.58	0.59	1.6%
Ahmedabad	3.18	0.81	-74.5%	1.08	0.63	-41.6%
<b>PAN India</b>	<b>31.05</b>	<b>17.43</b>	<b>-43.8%</b>	<b>31.05</b>	<b>11.12</b>	<b>-56.5%</b>

## Key Highlights:

- Adding approx. 40-50 million sft of IT office space every year
- Commercial office space saw USD 2.8 Billion investment inflow in 2019
- Employs close to 15 lakh employees in the office space management category
- Plays a crucial role in making India the No. 1 ranked outsourcing destination of the world with a large number of Fortune 500 firms; IT BPM continues to contribute highest leasing share (~43% in H1 2020)
- Supply and Absorption across India seen significant drops (43% and 57% respectively) since past year due to COVID 19

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# IMPACT OF COVID-19

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# OFFICE REAL ESTATE OUTLOOK

## Absorption

H1 & H2 (F) 2020

21-24 msf

▼ 45-55% YOY

## Supply

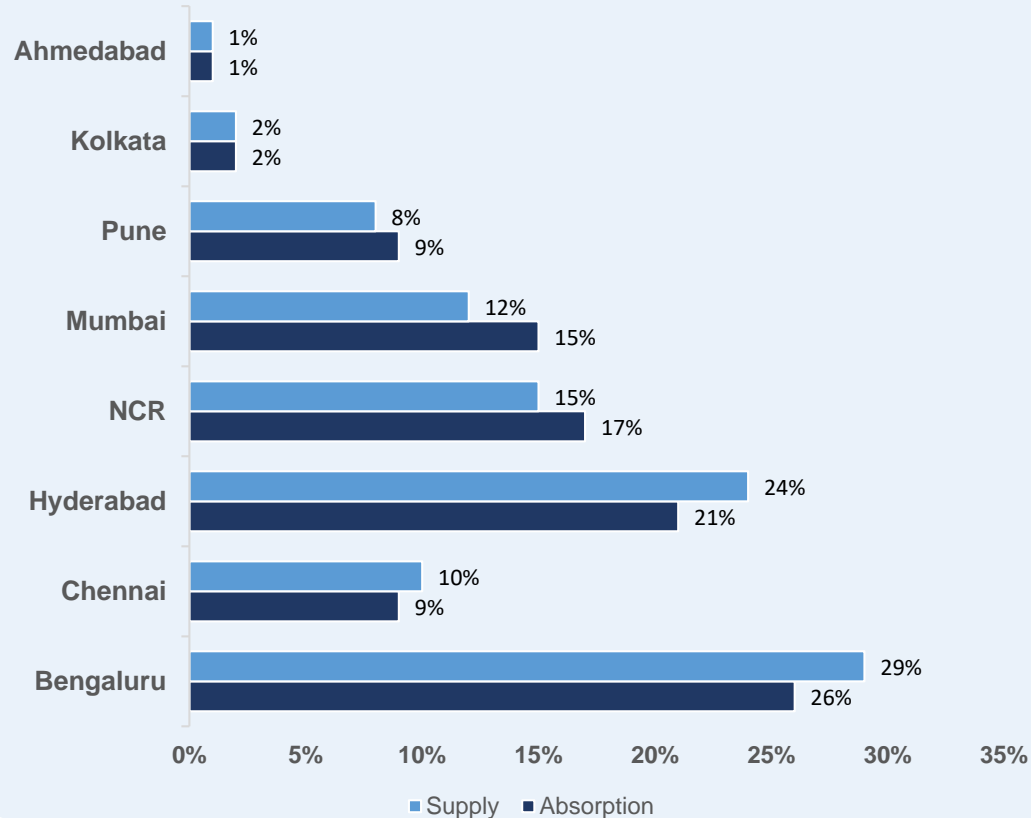
H1 & H2 (F) 2020

30-34 msf

▼ 30-40% YOY

## Outlook Post Lockdown (H2 2020)

- Focus on recovery readiness and making workspace new normal-ready
- Staggered office opening, WFH / Rotational shifts to be the norm
- Focus on renewals, revisiting space footprint needs. Pre-leased space sizing being revisited
- Small to mid-scale demand to reduce significantly especially from startups and medium sized enterprises.
- New market entrants to be more watchful and delay decision making
- New supply to be deferred, especially with no pre-commitments in them
- Strategic decision on greenfield development in line with anticipated recovery
- Lingering effects on rents, leasing; landlord – tenant conversations



# DEEP IMPACT ACROSS CATEGORIES



Office  
transaction stalls



Retail  
Collapse in discretionary retail as most  
markets are still under lockdown



Logistics  
demand for e-commerce spikes with 3 PLs  
likely to remain resilient



Residential  
launches are generally delayed



Investment  
market paused but some very limited deals  
have remained flowing

# SOCIAL IMPLICATIONS: CHANGES ON CUSTOMER BEHAVIOR



## **RE asset class as a safe haven, not just financially**

- Owner versus tenant comfort in these times, other assets more volatile



## **Gravitating towards large 'caring' 'trustworthy' developers**

- Behavior towards residents & workers during lockdown a key decision maker



## **Digitization the new normal**

- Fully online deals have happened – digital marketing & sales here to stay

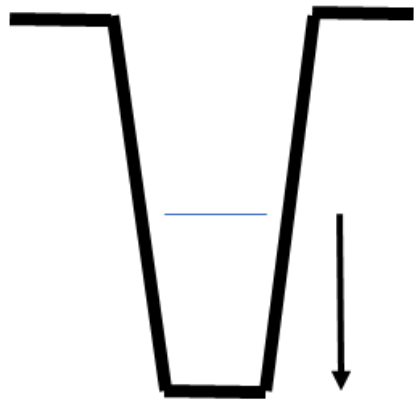


## **Work From Home (WFH), not just co-working**

- Corporates reconfiguring working styles to maintain efficiency

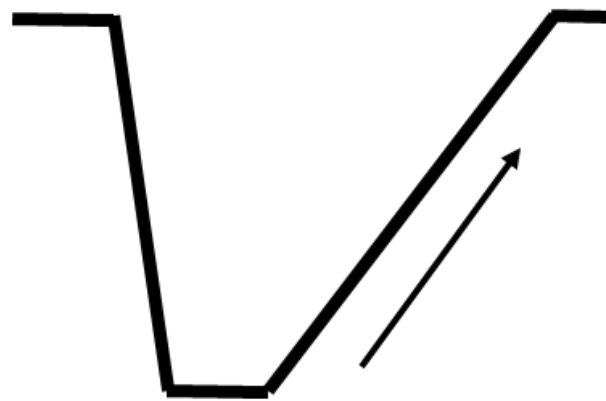
# VIEW ON EXTENT OF COVID 19 DISRUPTION

Disruption Depth



Deep reduction of demand expected  
- 2020-21 & 2021-22

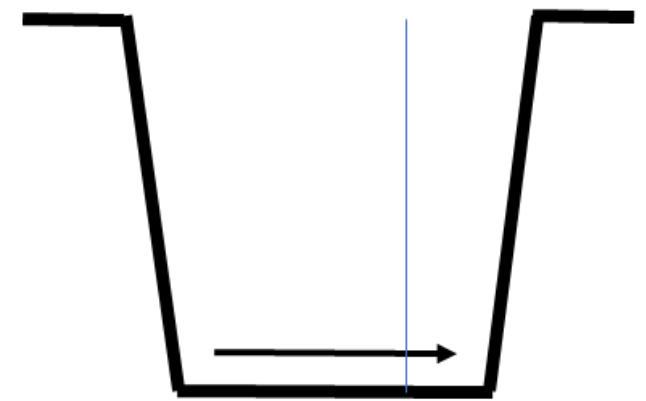
Recovery Shape



Recovery to take time - once signs  
of recovery in place, it will be a slow  
path to normal

Office/ Retail/ Warehousing

Disruption Length



Disruption itself likely to be long - FY21  
entirely, and some parts of FY22 as  
well. Sentiments may change sooner.

Residential

Tracking leading indicators of the depth, length and recovery shape will be critical [Consumer spending, Auto sales, Interest rate, Lending, Unemployment, etc.]

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# REIT OVERVIEW

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# REIT IN OTHER COUNTRIES

Country	Market Capitalization (US\$ billion)	No. of Listed REITs	Inception
USA	939	200	1960
Japan (J-REIT)	111	61	2000
UK	76	52	2007
Singapore (S-REIT)	52	35	1999

Source: EPRA Reporting, Global REIT Survey 2018

REITs in Singapore	Ascendas REIT		CapitaLand Commercial Trust		Mapletree Commercial Trust		Mapletree Logistics Trust	
Year	2002 (listing)	2019	2004 (listing)	2019	2011 (listing)	2019	2005 (listing)	2019
No of Properties	8	171	7	10	3	5	15	141
Operational Area	2.6 msf		1.8 msf	5.2 msf	1.8 msf	3.9 msf	8.5 msf	56 msf
Asset Value on Listing* Current Market Cap (SGD)	\$636 mn	\$10.44 bn	\$580 mn	\$7.9 bn	\$1500 mn	\$7.2 bn	\$422 mn	\$8 bn
Unit Price (SGD)	\$0.88	\$2.89	\$1.18	\$1.99	\$0.88	\$2.31	\$0.65	\$1.66

Source: Company Prospectus, Annual Reports, Company Websites

**In the past 20 years, REITs have delivered better returns than equity market indices in the developed markets**

# REIT IN INDIA: TO EMERGE AS A STRONGER ASSET CLASS

Indian REIT Details	Embassy Office Parks REIT	Mindspace Business Parks REIT	Brookfield Asset Management REIT
Listing/Issue Date	1-Apr-19	12-Aug-20	TBD
Primary Raise (INR mn)	47500	45000	40000-55000
Issue Price per Unit (INR)	300	274-275	TBD
Current Price per Unit (INR)	~360	~301	To be listed
Approx. Distribution Yield (%)	8%	7.5%	-
Completed Portfolio	24 mn. sq. ft.	23 mn. sq. ft.	~23 mn. Sq. ft.
Under Construction Portfolio	9 mn. sq. ft.	6 mn sq. ft.	NA

## REIT market opportunity is still significant and also still largely untapped in India

- As of Aug 2019, US REITs market capitalization was 96% of real estate market, 55% in Singapore and 51% in Japan – in comparison, it was only 17% in India – only 1 listed REIT
- Currently, top 7 cities of India have ~600 million sq ft Grade A office supply, of which 310 - 320 million sq. ft. is REIT-able
- Regulatory environment has also evolved favourably over the last few years
- Indian REITs are still at a nascent stage with immense potential even in other asset classes (like retail, warehousing) going forward

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# POST COVID-19 TRENDS: CHALLENGES & OPPORTUNITIES

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# DEVELOPER CONSOLIDATION TO ACCELERATE

Total No. of Developers			
City	2011-12	2017-18	% Change
Mumbai	364	248	-32%
Pune	658	531	-19%
Thane	680	355	-48%
Bengaluru	646	251	-61%
Chennai	445	101	-77%
Hyderabad	387	146	-62%
Kolkata	235	83	-65%
Gurugram	82	19	-77%
Noida	41	11	-73%
Pan India	5,692	2,670	-53%

**Half of developers operating in 2011-12 across top 9 cities have withdrawn from business or tied up with big builders**

- Pan India Consolidation: 53%
- Gurugram, Noida & Chennai: 70%
- Kolkata & Bengaluru: 65%

**Consistent trend of top developers replacing smaller players in the market**

- Share of projects launched by top ten developers in Gurgaon & Noida today stands at 55% & 78% - was 28% & 52% respectively in 2011

**Estimate ~30,000 Cr to be invested in Tier 1 companies while several more Tier 2 & 3 developers will withdraw**

# TECHNOLOGY & WELLNESS – KEY DRIVERS OF CHANGE IN ASSET MANAGEMENT



# COVID 19 – IMPACT ON DEVELOPERS / INVESTORS



Uncertainty/short-term pullback/investment volume



Yield repricing



Price discovery/asset management phase



Rent reduction/escalation uncertainty



Increased cost of capital



JV deals getting renegotiated



Increased activity of stressed funds



Developers stuck with land loans liquidating assets



Availability of LRD capital but at lower tenures



Cross border flight of capital to safer/known markets



Sale and leasebacks



Operational criticality, occupation density and income stability



Abundant dry powder globally



Newer fundraising will be delayed

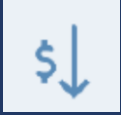


Extended transaction timelines/valuation challenges



Evolving forward sale models

# COVID 19 – WINNERS AND LOSERS



## Severe Impact

### **Co-Working**

Energy

Aviation

### **Travel & Tourism**

Restaurants & Dining

Performing Arts & Spectator

Sports

### **General Retail**

### **Senior Housing**

### **Education**

Non-Emergency Healthcare



## At risk

Legal

Finance & Banking

Accounting & Consulting

Marketing & Advertising

Consumer Technology



## Positive Impact

e-Commerce

### **Data Centres**

### **Warehouses**

Federal Government

Government Contractors

Grocery & Consumer Staples

Medical & Biotech

Urgent Care Healthcare

Construction & Infrastructure

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THANK YOU!

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