

Factors driving real estate investments in 2020

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Covid-19 took the entire world by surprise and disrupted most of the economic activities across the world. Even the strongest economies took the toll and shrunk by significant percentage in the last two quarters. India, like all the major economies, also faced the brunt of the pandemic. One of the most severely affected sectors across the world was the real estate sector. The government of India, in the past few years introduced several reforms like GST to make taxation transparent, demonetisation to uproot black money and the crackdown on banking malpractices to end corruption in the real estate sector. These actions are expected to yield positive results for the sector in the long run by enhancing growth and transparency, some time it took to adjust to these reforms. The Covid-19 and the resulting economic slowdown made the future of real estate look grim and the investors & homebuyers were sceptical about investing in the sector. However, as the economy is gradually opening, real estate is emerging as one of the best options for safe investment offering steady income.

It is said that India will be one of the worst affected countries from climate change owing to the stage of development the country is right now in. The Government of India is gradually pushing for sustainability and eco-friendliness of the real estate projects. Projects with minimum environmental impact, sustainable concepts and climate friendly technologies will get faster government approvals and support. This will lead to faster completion and handover of the projects to the end users. In the longer run, these factors will be the driving forces of investments in the sector. However, in the short term where the covid has severely grappled the business and economy the factors that may lead to the investment in the real estate may be different. Let us try to analyse these factors that may be the differentiators

Real estate is a safe investment option

Like all the major economies across the globe, Covid-19 did hamper India's GDP growth rate to a certain extent. While experts believe that this slowdown in the economy might be temporary and the Indian economy is bound to bounce back very soon, this might be a frightening news for the smaller and short-term investors. The high gold prices are a sign that the investors are looking for safety. Real estate being a real asset is one of the safest avenues to secure capital. On one hand it gives a sense of safety of owning something real, it also generates steady passive income on the other. The ready to move unsold properties are attracting investors and home buyers.

Government's commitment towards smart cities and affordable housing Despite tough economic phase, the government has not revised its target of smart cities and affordable housing programs. This shows the government's commitment and determination towards development of real estate sector. Such confidence from the government is passing on to the investors and home buyers. This is one of the factors which is driving real estate investments. The focus of the government towards developing the smart cities is encouraging the developers to infuse the funds in the land banks.

Reversal of sentiments

During the earlier part of the current decade, a sentiment was creeping in the minds of the homebuyers, 'renting a home is cheaper than owning.' The high property prices and higher home loan rates were fuelling this sentiment. However, the home loan rates have fallen sharply post demonetisation. Currently the rates are among the cheapest in the history of India. Moreover, the slowdown in the sector has led to the fall of property prices in several areas. These factors have once again made owning a house cheaper or equivalent to renting. A lot of home buyers have once again started investing in real estate.

Equity markets are highly volatile

In the last decade and half, as the Indian economy was booming, stock trading was one of the most profitable avenues for short term investors. Currently, the equity markets are highly volatile. The volatility of the stock market is pushing the smaller and risk averse investors in search for safety to invest in real estate.

FDI norms relaxation will attract investments

The relaxation of the FDI norms in the real estate sector is also one of the factors attracting investments in the sector. The government of India has allowed up to 100 percent FDI in real estate. This will lead India becoming one of the safe havens for institutional investors investing in real estate. Indian economy is mostly dependent on the domestic market and has strong rural demand. This makes it less vulnerable to the economic turmoil across the world. Once the FDI starts flowing in the sector, the confidence of the domestic investors will also grow stronger.

Adapting to the new normal

The Indian economy has started adapting to the new normal. This adaptation will help recover faster than expected. The lower mortality rate in the country and hope for a cure in near future are pumping positive sentiments in the market. Although the idea of renting is 'cheaper than buying' started gaining prominence a few years ago, the traditional Indian mindset makes owning a house one of the most important goals of a family. This traditional mindset, government initiatives, volatility of the equity market and the tendency of the Indian economy to bounce back are contributing to the revival of the Indian real estate market. The scepticism of the investors and home buyers is rapidly turning into hope.