COVID-19 AND INDIAN REAL ESTATE

WHAT DOES THE FUTURE HOLD?

JUNE 2020

CUSHMAN & WAKEFIELD

EXECUTIVE SUMMARY

The COVID-19 pandemic outbreak has ensured that our future will not be the same anymore. Since the first case was reported in late December last year, nations across the world have been overwhelmed by this unprecedented public health and financial emergency. Embracing and adjusting to the 'new normal' will be key. Financial institutions and governments globally are moving from rescue to recovery measures as managing the economic crisis has become equally critical.

The changes anticipated in the next decade are being compressed in a matter of couple of years. Darwin's theory of evolution and survival applies to those most adaptable to change. So change we must. What was normal is now passé.

A change of such unprecedented proportions will create tectonic shifts in the Indian real estate ecosystem. A holistic focus on safety, wellness, health and hygiene will accompany a massive transformation in how real estate asset classes evolve across both their physical as well as commercial aspects.

In this report, we present forecasts for the Indian real estate sector, based on the current economic landscape, the economic projections over the short to medium term and most critically insights derived from market activity, impact assessment on major occupier categories, analysis of past trends and current stakeholder conversations. These forecasts are linked to economic recovery forecasts and vaccine development and present a high-level outlook for the different asset classes. We shall continue to keep a close watch on market progress to revise and recalibrate these forecasts. Also, we bring to you key trends to watch out for, which we think will drive future conversations between various real estate participants, in an environment that will inevitably be shaped by the COVID pandemic.

"Never let a good crisis go to waste"

Winston Churchill

INTRODUCTION

The COVID Insurrection

The COVID-19 pandemic has been the defining moment of the first year in a new decade. The contagion was widespread, swiftly taking on a global hue. It hit us hard and it hit us where it hurts. Economic dislocations, stymied business sentiments, job losses, lockdowns, home confinements, industry shutdowns have precipitated a paralyzing effect on the country and economy.

The globalized world with its cross-linkages has never been exposed to a crisis like this. Sure, over the last century we saw the Spanish Flu, two Great Wars, The Great Depression and the Asian Financial Crisis but economic synergies for a more connected world were still developing. This century, we have seen the SARS epidemic in Asia, the Global Financial Crisis and now the COVID-19 pandemic and the global impacts of all these events have come to define this century so far.

The COVID-19 pandemic was a powder keg and its explosion has upended all global predictions around economic growth.

In India, which has been under a state of lockdown of varying degrees for over 70 days, the economic repercussions are threatening to derail the country's progress. Cases have risen despite the lockdown measures in place and there are just shifting markers for the infection peak. However, some respite for people and goods movement has the country limping its way back. An Unlock 1.0 has also started to bring back economic activity in some form, though a comprehensive reopening of the country is still some time away.

The Indian Real Estate segment has been hard hit and for an industry contributing 6% to the Indian GDP, the current state has been one of shock, followed quickly by impact assessment and re-strategizing business goals and priorities to align towards the new normal. Of course, different asset types were at different stages in their journey, but the impact has reverberated across all. Various scenarios are being built and the impact across asset classes and the investment climate is bound to be different and hence recovery periods will be different as well.

Through this paper, we bring to you potential scenarios and forecasts as we head in to a state of – Recovery Readiness, Restart and Reimagine the path ahead. The situation remains one that needs immense scrutiny going forward as well, as we are not out of the woods yet.

No. of cases: 569
Fatalities: 12
Phase 1
25th March
State of complete lockdown except essential services

No. of cases: 12,403
Fatalities: 414
Phase 2
15th April
Extension of the lockdown but with conditional relaxations

No. of cases: 42,533
Fatalities: 1,373
Phase 3
4th May
Easing of restrictions based on zones

No. of cases: 95,598
Fatalities: 3,025
Phase 4
18th May
More freedom for states, greater easing of restrictions

No. of cases: 1,98,317
Fatalities: 5,608
Phase 5
1st June
Substantial relaxations except in COVID-19 containment zones

Unlock 1.0
1st June

- Phased reopening of areas outside containment zones
- Hotels, shopping malls, restaurants allowed to reopen from 8th June
- Religious places of worship allowed to reopen from 8th June
- No restrictions on interstate and intrastate movement of persons and goods
- Passenger train services to restart
- Schools, colleges, cinema halls, theatres to remain closed

“A combination of reopening and lockdown measures to ensure economic recovery keeps pace even as health remains a priority”

ECONOMY

A time of deep dislocations

The COVID-19 pandemic outbreak has severely affected global economic activity. Sharp deceleration in both manufacturing and services activity due to national lockdowns, is expected to result in recession across much of the developed world in 2020. For instance, real GDP is expected to contract by around 12% in the US in H1 2020 with the government battling a surge in cases.

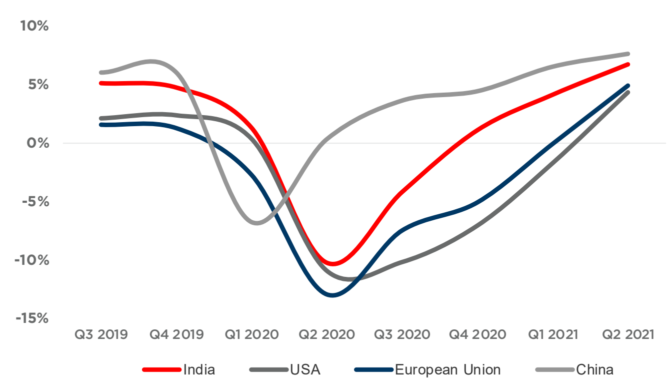
In recent weeks, however, the US and much of Europe have been opening up, fueling the belief that economic recovery will gain pace by H1 2021. Governments have moved from **RESCUE TO RECOVERY** in order to drive economic growth and support businesses and jobs. Several nations have adopted a combination of fiscal and monetary stimulus packages, including policy rate cuts and business loans. These measures are expected to fuel substantial economic recovery by late 2021 to mid 2022.

The Asia Pacific region, as a whole, is expected to witness a sharp economic deceleration in 2020 followed by a gradual recovery next year with the vaccine development a key element in determining the shape of the recovery curve.

India is emerging from a strict national lockdown, which had led to a sharp economic disruption. Phased re-opening of offices and retail establishments has begun while businesses have commenced manufacturing and construction activities. This, coupled with fiscal and monetary stimulus packages, are expected to drive gradual economic recovery by H1 2021, with full recovery likely by H1 2022. However, going forward, labour shortage is a challenge that the real estate and manufacturing sectors will have to address.

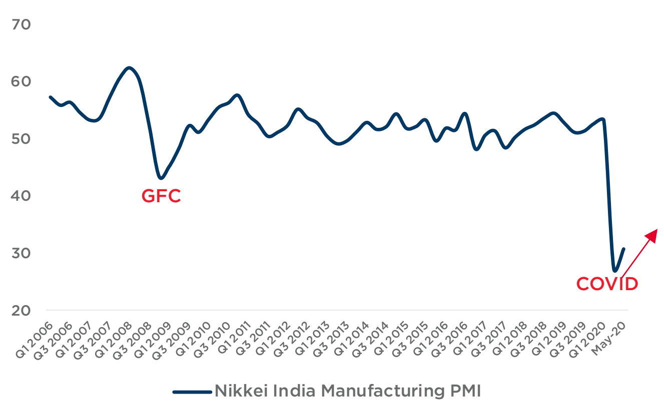
Faster economic recovery in the US and Europe next year is good news for India’s office market. Given that around 75% of India’s office segment is dependent on transactions by US and European companies, leasing transactions will remain at multi-year lows in 2020. However, with economy recovery taking hold in the US by early next year and considering vaccine trials could be successful by then, Indian office leasing activity is expected to bounce back by Q2-Q3 2021.

Sharp economic deceleration in 2020 followed by a gradual recovery



Source: IMF, Moody’s, Oxford Economics

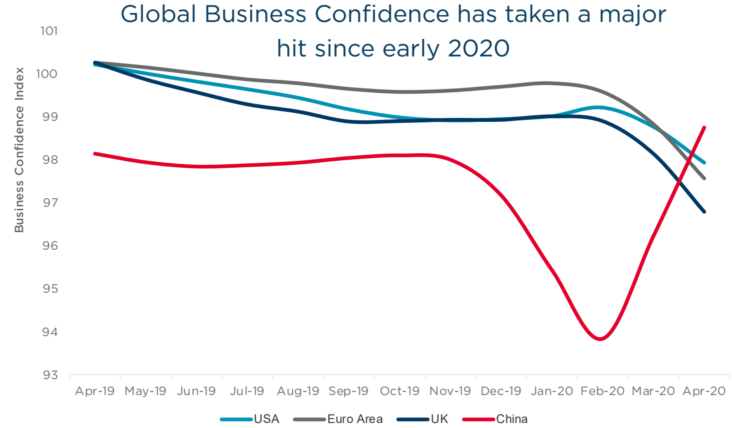
Manufacturing takes a bigger hit, early signs of recovery visible



Source: Nikkei, IHS Markit

COVID has sharply curtailed consumer and business sentiments

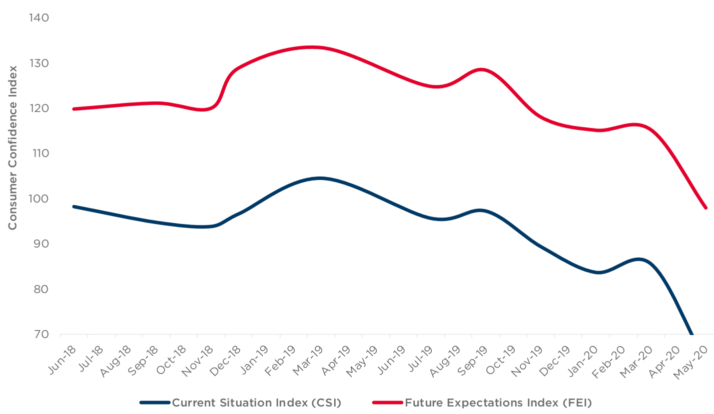
Global Business Confidence has taken a major hit since early 2020



Source: Organization for Economic Cooperation and Development (OECD)

- COVID-19 outbreak has plunged global businesses into uncertainty
- Public health emergency and national lockdowns have affected business sentiments across nations
- Bankruptcies and unemployment claims have increased in the US
- Economic recovery will be gradual in the US and Europe from H1 2021 as economies open up
- Economic recovery in the US and Europe will drive growth of Indian real estate, especially the office market
- Chinese economy has posted a recovery in April but sustained growth is expected only over the medium term

COVID-19 has accelerated the fall in consumer sentiments



Source: Reserve Bank of India

- Indian consumer sentiments have been on a downward trajectory since mid-2019
- With private consumption contributing 57% of GDP, consumption growth crucial for economic recovery
- Since April, domestic demand has been affected by business closures and retrenchments
- Government’s stimulus package including direct cash transfers and loan support for MSMEs to help supply side elements only
- Restarting of the economy and gradual recovery from Q3 FY 2021 will also help expand domestic demand

PHASED STIMULUS PACKAGES

FISCAL STIMULUS | MONETARY STIMULUS

Announced on 26th March 2020 (during lockdown Phase 1) (Fiscal)

- The Indian government unveiled a fiscal package of INR 1.7 trillion amounting to 0.8% of GDP
- INR 5 million medical insurance to cover doctors, paramedics and other medical staff

Announced on 27th March 2020 (during lockdown Phase 1) (Monetary)

- RBI injected liquidity worth 3.2% of GDP
- Repo rate slashed by 75 bps from 5.15% to 4.4%
- Reverse repo rate cut by 90 bps from 4.9% to 4%
- Cash reserve ratio (CRR) reduced by 100 bps to 3% for 1 year
- Moratorium of 3 months on interest payments

Announced on 17th April 2020 (during lockdown Phase 2) (Monetary)

- Reverse repo rate cut by 25 bps to 3.75%, repo rate unchanged at 4.4%
- Targeted long term repo operations (TLTRO) of INR 500 billion

Announced during 13th- 17th May 2020 (during lockdown Phase 3) (Fiscal)

- Indian government announced INR 20 trillion stimulus package (10% of GDP), including earlier fiscal measures and RBI's monetary stimulus
- INR 3 trillion worth of loans to SMEs, loans to be guaranteed by the government
- INR 450 billion for NBFCs with low credit ratings
- INR 700 billion - extension of credit-linked subsidy scheme to the middle class for affordable housing

Announced on 22nd May 2020 (during lockdown Phase 4) (Monetary)

- Repo rate slashed by 75 bps from 4.4% to 4.0%, lowest ever
- Reverse repo rate also reduced to 3.35%
- Extension of loan and working capital loan moratoriums by another 3 months to 31st August

Stimulus for the Real Estate Sector

- Cut in repo rate to 4% to translate into lower lending rates
- Deferment in working capital interest to help small businesses, including SMEs in the real estate sector
- Moratorium on loan EMI payments will provide income support for households
- MSMEs definition has been changed to include all entities (including real estate) with investments as low as INR 10 million (for micro) and turnover up to INR 1 billion (medium), thus facilitating access for bank loans
- RBI's INR 500 billion liquidity scheme and investment of 50% of the money in housing finance companies (HFCs), small and medium NBFCs
- INR 700 billion worth extension of credit-linked subsidy scheme (CLSS) to middle class for affordable housing
- Extension of real estate project deadlines under RERA by 6 months
- INR 500 billion liquidity scheme for distressed MSMEs, including construction material suppliers and small real estate-linked businesses

COMMERCIAL - OFFICE

Before COVID (BC): The growth years of Indian office Markets

Year	Supply	Net absorption	Vacancy rate	Rent growth
2017	29.7 msf	26.7 msf	14.6%	2.0%
2018	34.4 msf	28.8 msf	14.7%	3.0%
2019	50.6 msf	45.0 msf	14.2%	5.0%

- A 5-year bull run for office markets; driven by India's continued dominance as a global outsourcing destination
- Robust leasing momentum from 2017 till 2019. Increased IT spending and tech enablement in a positive economic growth scenario being key drivers for growth
- Office demand and supply have reached new historic highs in 2019

**Average rent growth, pan India basis. Rental growth in institutional assets is higher than market average*

2020: The year of halt, recovery readiness and restart

During COVID: Q1 2020

Supply	Net absorption	Vacancy rate	Rent growth
10.8 msf	7.4 msf	14.5%	1.0%

Early momentum blighted by COVID outbreak in India and globally

- Office market remained robust in Jan-Feb 2020 before tapering off in March as COVID and lockdown took hold
- Deals in advanced stages pushed to the backburner as corporates focused on BCP measures and put RE decisions on hold

H1 2020 & H2 2020

Supply	OC awaited supply (Q2-Q4 2020)	Pre-leasing in upcoming supply	Net absorption	Vacancy rate	Rent growth
30-34 msf	18 msf	10 msf	21-24 msf	15.0-15.5%	- (5-10)%

Landlords will be strategic in offering rental concessions and discounts across different corridors in varying degrees.

Rent discounts could be beyond the given range in either direction given each submarket's dynamics.

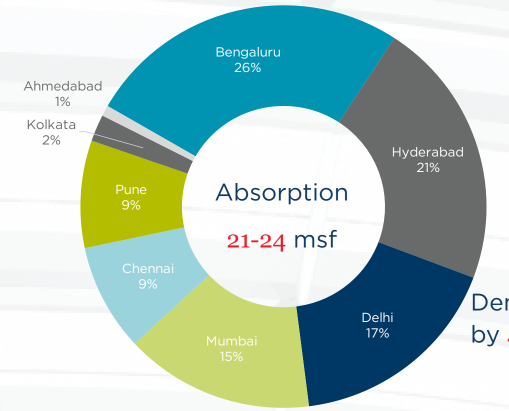
Flexibility through direct reduction in rents and/or other concessions like longer rent-free periods in new deals as well as renewals / renegotiations

During lockdown (H1 2020)

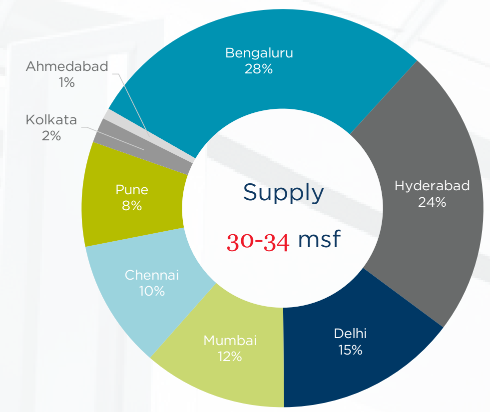
- Fast evolving ground reality as the pandemic spread across the globe
- Mandatory office closures. People and organizations pivoted to create a global rollout of the 'remote working' experiment
- Planning for new workplace strategies revolving around cost optimization, flexibility to employees and social distancing and hygiene norms
- Occupiers and landlords in "wait-and-act" mode. Evolving deal dynamics with portfolio realignments
- Ongoing deals deferred, renegotiations in advanced stage deals and renewals; some deals concluded

Post Lockdown (H2 2020 – Unlock 1.0 as major cities tread back to normalcy)

- 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



Demand down by 45-55% y-o-y



Supply down by 30-40% y-o-y

Downside, uncertainty risks arising out of an unprecedented event and are still evolving around:

Revisiting of existing pre-commitments

Deferment and replanning of ongoing space requirements

Potential replanning of existing space footprint

Post Vaccine: Early rebound in 2021 with vaccine development and commercial production to be the shot in the arm

Recovery starts in H1 2021

Supply	Net absorption	Vacancy rate	Rent growth
37-42 msf	27-32 msf	15.5-16.0%	0-2%

Linked to restart and recovery in US and EMEA

Recovery starts in H2 2021

Supply	Net absorption	Vacancy rate	Rent growth
35-40 msf	25-29 msf	15.5-16.0%	0-1%

Rents could jump faster in tight vacancy markets on renewed demand

If recovery starts in H1 2021:-

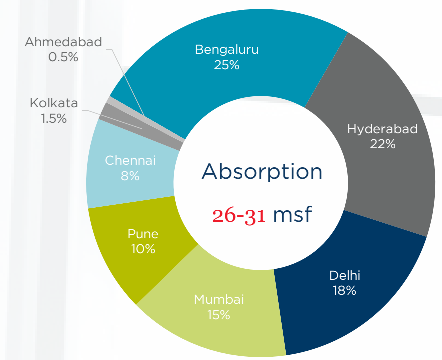
- New normal to be the norm; business cycles to restart
- **Vaccine development will restore confidence at a faster pace**
- Office demand to pivot with long-term positive sentiment; speedy recovery in hot markets such as Bengaluru and Hyderabad
- Slow start in H1 but momentum to rise in H2
- Contractual obligations - conversations about negotiating escalations and renewals may go away as soon as vaccine comes up

Demand from large scale consolidation, expansion and setting up of GCCs is likely to come back in 2021 and strongly in 2022. Growth in deep tech, healthcare, pharma and India's continued strength of talent, experience, favourable real estate costs to drive the tech story.

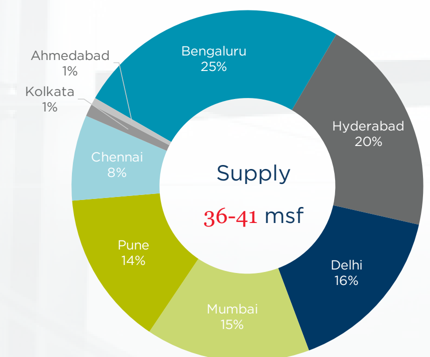
Greater acceptance of a new reality with social distancing, non-conventional work formats to drive businesses to reflect inwards on core business once again, in a delayed vaccine or no vaccine scenario.

If recovery starts in H2 2021:-

- Demand to return strongly in hot markets, momentum in 2022 could signal a full recovery



Demand recovery by 25-30% y-o-y



Supply up by 20-25% y-o-y

TRENDS TO WATCH OUT FOR

RECOVERY READINESS & 6FT OFFICE

Return to workplace. Protocols. Employee Sentiment. New Normal

- Workplace readiness & Workforce readiness
- Physical and behavioural recovery
- Focus on **People & Processes, Physical Aspects of workplace, Health, Hygiene & Safety, Technology Infrastructure, Transport & F&B**
- Monitor space utilization, behavior adaptation, experience & productivity as a recurring metric
- Decreasing density, schedule management, office traffic patterns
- Creating a social distancing plan, office protocols on deep cleaning
- Enforcing touchless ingress/egress, clean desk policy, cleaning common areas

DEMAND

Deferment. Pause. Revisit Space Needs. Flex against conventional. Capex Control. Alternate Workplace Strategies

NOW (0-6 months)

- Delayed closures of advanced stage transactions. On-going transactions, RFPs hit PAUSE; business volatility impacting growth with deferments varying from 3-6 months, going up to 9 months – 1 year. Ongoing space requirements undergoing re-planning
- A number of occupiers with existing pre-commitments re-evaluating space sizing/take-up strategies; focus on cost optimization and capex savings
- Explore alternate strategies around flexible office, agile workspace formats and dispersed workplaces to achieve cost savings
- Portfolio re-assessments for workplace de-densification and evolving space strategy
- Focus on renewals with renegotiated terms; pre-renewals being considered for lease expiries 3-6 months hence

LATER (6-12 months)

- Return of demand from the tech segment driven by BCP spends and increased outsourcing*
- Renewals to continue as capex spends are put off. Relocation decisions to be fueled by cost control driving demand to peripheral office locations
- Medium to long-term consolidation strategies to be redrawn with new space needs
- Demand from small, medium enterprises and start-ups to decrease
- Possible recovery in 2021, highly dependent on revival in USA & EMEA

RENT

Discounts and flexibility. Contractual obligations to sustain

- Rental growth to cease; minor flexibility in negotiations for deal re-pricing to cause a 5-10% rent reduction across corridors, but local demand-supply dynamics will rule
- Long tenures and fit-out spends will make it impractical for occupiers to break leases
- Institutional landlords/developers to be strategic in offering rental concessions and restructuring deals to safeguard long term commitments and occupier relationships
- Mid-sized developers may be flexible to offer some rent relief in the short term
- Smaller developers will be amenable to rental concessions and better incentives
- Limited opportunity for 6-9 months for negotiating reduced occupancy costs
- Occupiers will continue to seek rental renegotiations, discounts on renewals & space re-alignment in agreements
- Contractual obligations on Force Majeure best interpreted by lawyers than brokers

SUPPLY

Deferments. Completion slippages. Greenfield development on hold

- Lockdown and impact on labour availability and material supply chains has cascaded into project completion slippages
- Liquidity challenges and demand slowdown will impact nearing completion projects with no pre-commitments causing slippages in completion
- Short term disruptions may impact projects with higher pre-leasing levels as well, developers will aim to meet deadlines with a grace period of 30-60 days
- Institutional landlords to pour concrete for near-term completions with occupier commitments, **they account for more than 50% of the upcoming supply in 2020**
- Institutional landlords to review long-term project timelines with commencement put off for the time being
- Markets like Bengaluru and Hyderabad where pre-leasing levels are high will continue to dominate upcoming supply over the rest of 2020 and 2021 (>50% share)
- Developers to be cautious about distorting market dynamics, expect controlled supply pipeline in tight vacancy markets in line with demand recovery

CO-WORKING

Customized, private office formats, enterprise demand, segment consolidation, tech & hygiene focus, value for money

- Business disruption for startups and freelancers to push them towards WFH. Small and mid-sized pure coworking players may see center shutdowns
- **Flex space demand in 2019 (~7.0 msf), to drop by 50-60% y-o-y in 2020**
- Large players to survive while smaller ones struggle. Consolidation likely
- Operators to look at revenue/cost sharing models with landlords
- Opportunity for developers to on-board coworking brands in their portfolio
- Move towards cubicle, private office formats catering to enterprise demand
- Occupier cost optimization also to work in favor of flex players
- Health and hygiene will be key; tech platforms for seamless building and center experience
- Reduction/Discounts in per seat costs (15-20% likely reduction)
- New space take-up by sewing up end-to-end deals with developer and potential tenants. Soft selling of upcoming flex centers for early capture of demand
- Demand from office de-densification and multiple office location portfolio strategy to aid flex space operators

In-person space tours are difficult or impossible in some locations in the short term. Look for technology (e.g.,virtual tours) to be leaned on to assist during social distancing periods.

* Amidst tight cashflow scenarios, companies could look at increased outsourcing. Rupee depreciation, talent pool availability and likelihood of stable wages for the next 2 years are critical elements. For global firms, RE costs too will be lower or more or less stable on the back of rupee – dollar dynamics in the medium term.

RETAIL

Mall & store shutdowns - Severe impact on revenues, jobs - Unsold stocks - Long road to recovery

Indicator	2017	2018	2019	2020F
Mall supply	3.6	4.6	2.9	1.5
Gross leasing in malls (msf)	3.0	5.0	6.3	1.7
Overall mall vacancy (%)	14.0%	13.4%	12.3%	12.6%*

*Possible store closures and retailer exits considered

Impact on developers \ Impact on retailers	Medium	High
High	• Big retailers announcing unilateral decisions for no rent payments during shutdowns • Move towards pure revenue share models by retailers; LRD payments of malls to be impacted • Pressure on developers to keep CAM costs manageable despite a higher degree of excellence demanded in asset management	• F&B, entertainment to be in hibernation for a longer period, churn in existing footprint likely • Short term rental abatement and deferments to be agreed upon; flexibility in rent payment period; revisiting minimum guarantee; vanilla rent structures till normalcy returns • Limits in number of shoppers allowed at any given point of time, prior-appointments, social distancing, frequent cleaning etc. to increase wait times and impact store incomes
Medium	• Supply chain disruptions • Global retailers – losses in parent countries impacting global plans • Restructuring of business models for retailers	• Loss of footfalls in COVID before the mall shutdowns; footfalls in Unlock 1.0 to be impacted by social distancing and mall density norms • Loss of business income & inventory held in abeyance • In lockdown mode, CAM charges were reduced and benefits passed on to retailers, but not waived off – developers still maintaining malls

Share of organised retail in India still remains just around 11% of the nearly USD 800 billion Indian retail market

Malls in India are still a place for social interaction and connections. People will return to malls.

Retail segment contributes 10% to the GDP and **employs** 8% of the country's total workforce

India's per capita mall space is <1 sf, compared to 24 sf for USA, 5 sf for China and 1.8 sf for Germany

E-commerce is just 4% of organized retail. Online grocery retailing to be a major factor in e-commerce growth. **E-commerce share to rise to double digits** at a faster pace than the earlier anticipated year 2025

BEFORE COVID

- Steady growth in supply, gross leasing
- Growth driven by F&B, Apparel, Multiplexes and Family Entertainment Centers (FECs)
- Omni-channel strategy of online players; offline, brick and mortar players exploring digital
- Global players entering the country

DURING COVID

- Loss of business incomes due to reduced footfalls and supply chain disruptions, mandatory store closures
- F&B, luxury retail most impacted; Hypermarkets to perform better
- Developers and retailers working closely on rent deferrals and/or abatements
- Strategy being built around reworking of commercial arrangements
- Short term changes in rental agreements which are more revenue share driven, under consideration by both landlords and retailers

UNLOCK 1.0
From June 8th, 2020

- Social distancing in stores, deep cleaning costs in malls and stores
- People to venture out for focused shopping, footfalls to be 30-40% of normal in initial days
- Revenge/herd shopping to mark initial euphoria; lockdown restrictions on cinemas to impact F&B
- Most plans towards selling off existing inventory
- E-commerce to see a massive surge as a new normal way of shopping emerges with people already adjusted
- Restrictions on mall openings may continue in select cases, some retailers may want to wait little longer to reopen
- Rental payment flexibility, rent adjustments, revenue share arrangements to be key points of discussion

Mutually acceptable commercial terms have to be agreed upon with warranties/caveats to counter COVID-like events in the future

Constant re-calibration on rent agreements

Rent cuts on cards for vanilla rent agreements; percentage of minimum guarantee to be lower compared to revenue share; revenue share percentages to be renegotiated

POST UNLOCKING

- Store count optimization; shutting sub-optimal stores
- Omni-channel strategy a key element going forward
- More stores to be experience-driven rather than POS
- Slower recovery on business models
- Waiting for festive season to mitigate business loss for the year
- Mall completions to be pushed further by 9-18 months
- Rental reduction of 15-20% likely, superior grade malls to engage with retailers for rent discounts
- Do not expect major activity in new store openings till end-2020 except select retailers in hypermarket formats or those looking for value deals

Retailers to focus on income revival and cost protection

Landlords to focus on revisiting cost structures to retain retailers while complying with LRD obligations

POST VACCINE

- Complete recovery to take 6 months hence
- Back to normal with new norms
- Return to new store openings
- Footfalls coming back to normal or may even exceed pre-lockdown levels in good and superior malls at a faster rate
- Improved NOI measures for mall operators as normalcy is restored
- Revised contractual obligations and revenue share models may no longer hold true when normalcy returns, mall operators / developers likely to go back to pre-COVID terms

RESIDENTIAL

Buyers to defer purchases - Liquidity concerns - Completion Delays - Impact on buying patterns

Indicator	2017	2018	2019	2020	2021
Launches (YOY change)	-32%	16%	10%	-40 to -50%	+20-30%
Sales (YOY change)	-25%	18%	10%	-20 to -25%	+15 to 20%

Impact on developers

High / Medium (impact on developers: High; impact on buyers: Medium)

- Existing distress in the segment to get aggravated
- Labor / resource constraints, construction delays
- Over-leveraged balance sheet, slowdown in sales to impact cash flows
- Completion timelines extension from RERA
- Short-term impact on affordable housing – smaller developers and target customers hit hard due to COVID
- Bigger, well-capitalized players and those with corporate set-ups to sustain in the longer run
- Consolidation in the sector

High / High (impact on developers: High; impact on buyers: High)

- Income uncertainty and job security to impact purchase decisions
- Developers looking to offload unsold inventory to reduce their widening cash flow gaps; price reduction likely
- Deeper discounts such as
  a. Minimal booking amount (fully refundable, no cancellation / re-allocation charges)
  b. Zero Pre-EMI offer / Price protection /10-90 developer-backed payment schemes unlike subvention with no upfront loan tie-ups

Medium / Medium (impact on developers: Medium; impact on buyers: Medium)

- Opportunity for bargain hunting buyers and investors with fire sales scenario for smaller, cash-strapped players
- Slowdown in sales to trickle down into 2021, increasing stress on developers
- Affordable versus affordability - affordability in mid-segment housing to be key; starter homes concept to continue with greater strength
- 17-20% average reduction in unit size over the last 5 years, thus keeping ticket sizes affordable

Medium / High (impact on developers: Medium; impact on buyers: High)

- Affordability is better but income preservation is key
- 4.0%, lowest repo rate ever by RBI; Best home loan rates ever
- Extension of CLSS for mid-income housing
- Secondary markets for completed and near-completion inventory to become more attractive

Medium — Impact on buyers — High

Points to Ponder

- Home loans at lowest ever in over two decades but construction loans still expensive
- Established developer brands have access to capital-debt & structured equity, rest struggling for working capital amid sluggish sales
- NBFCs Liquidity Scheme 2.0 – to kickstart retail lending as wholesale lending portfolio remains under stress
- Developer lending still a challenge, developer defaults and working capital issues to drive distressed lending
- **Buyers to defer purchases in line with economic sentiments, job security concerns**
- Developers under pressure from financial partners for kickstarting sales; bargain deals
- Distressed opportunities in bank-held projects for buyers/opportunistic investors
- Consolidation to accelerate in the residential sector

1/3rd
Share of affordable housing in new launches

>3.2 lakh Cr.
Loans outstanding from residential developers

~17-20% reduction
Average reduction in unit sizes across tier 1 cities over the last 5 years

Limited headroom for massive price cuts

But sales pressure to trigger a 5-10% price cut across segments. Established players in premium and luxury housing segments may hold on to price levels though lenders and sales pressure could trigger a 15-20% discount previous price quotes

Changing behaviour of millennials

With focus on flexible working and work from home, those living on rent and not impacted by salary cuts or job losses could look at starter homes or upgrades with a BHK+ study or home+office concept.

Residential demand in city peripheries

Dispersed offices, flexible workplace policies around WFH will spur housing demand on city peripheries and create more 'suburbanisation' trends helped long by township developments which offer a holistic lifestyle.

CUSHMAN & WAKEFIELD

WAREHOUSING & LOGISTICS

Long term strengths - E-commerce – 3PL - Industrial-warehousing mix – FMCG - cold storage
Automation. New age premises - Investment dry powder - Defensive asset
Vocal for Local – Make In India and production linked government incentives, states drawing up incentive packages

	2017	2018	2019	2020F (Pre COVID)	2020F (Post COVID)
Demand	27 msf	30 msf	34 msf	37 msf	32-25 msf
Supply	25 msf	28 msf	30 msf	32 msf	22-24 msf

1 DURING COVID

- Material movement restrictions
- Lack of labour
- Essential items in higher demand
- Short-term warehousing requirement by FMCG, essential items, cold storage
- E-commerce and 3PL ramping up plans
- Institutional landlords sewing up land parcels for development
- Construction activity curtailed during lockdown, supply to face delays

2 POST LOCKDOWN

- Easier movement
- Long-term demand in consumption centres
- Hub-spoke model for distribution centres/facilitation centres locations
- Key strategic points/locations to be targeted for country's interiors being serviced
- Strategic land buys by institutional landlords; good valuations in stressed times
- Demand from e-commerce, 3PL, FMCG
- Increased investments in automation, hygiene, IoT for inventory management
- Slowdown in demand due to lack of adequate space options, more new supply likely in 2021

3 POST VACCINE

- India's push for attracting manufacturing firms and firms' China +1 policy to create increased industrial demand
- Integrated industrial-warehousing parks
- PE funds to target this sector aggressively

Demand in short-term to face a supply crunch with projects impacted by the lockdown and shortage of materials and labour. New construction to restart now, completions in 2021 aligned to demand.

India's push to grow the share of manufacturing from 16% to 25% of GDP

(12-18 months before tangible on-ground progress is seen)

- Identification of 461,589 hectares as land pool bank to tackle delays in land acquisition
- States and the central government lining up incentives blueprint to attract foreign manufacturing companies
- Easing labour laws to provide flexibility; consideration of single window clearance and tax breaks as per investment thresholds
- India's approach to 1000 firms operating in China for potential entry for diversifying supply chains
- Reinventing the SEZ Policy to create manufacturing enclaves
- Offering readymade facilities of PSUs with spare and idle capacities to investors
- Rolling out initiatives that will improve capabilities, scale up technologies, and diversify into new sunrise areas (For example, rolling out production-linked incentive scheme to attract electronics makers with a total outlay of INR 50,000 crore)

INVESTMENTS

Deals on hold - Asset valuation and risk models - Yield repricing – REITs - Strategic capital allocation strategy

Segment share 2017-19

Office	Residential	Retail	Industrial	Others
50%	25%	11%	10%	4%

Debt Vs Equity 2017-19

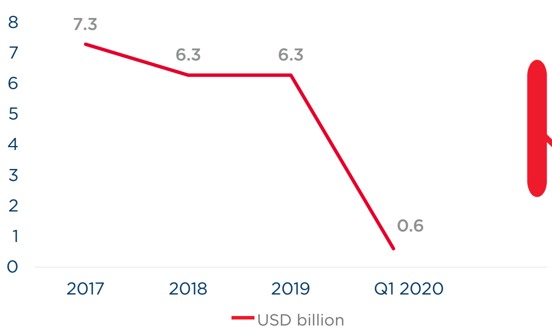
Debt	Equity
29%	71%

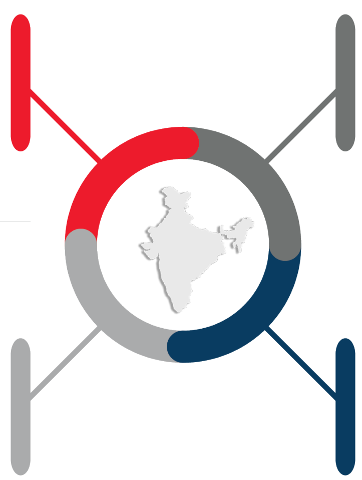
Foreign Vs Domestic 2017-19

Foreign	Domestic
68%	32%

Pre COVID

Investment Volumes in USD billion





Post Vaccine

- Hospitality assets to find favour again; greenfield developments under focus with appropriate risk models
- Yield compression to renew though risk metrics will evolve around changing dynamics of retail (omni-channel) and office (conventional versus flex) assets

Investment Activity Restart

Relook at value retail models with attractive valuations

Yields to be more attractive as cash flows normalize while valuations may be impacted with risk pricing

During COVID / Lockdown

- Ongoing deals put on hold
- Changing asset dynamics may impact deal repricing & yields
- Funds with money to deploy seeking value opportunities
- Changes to risk models; repricing sustainability, operational costs and challenges to value growth
- Strategy being firmed up but with view on developing on-ground situation
- REITs doing the ground work

During COVID / Post Lockdown

- Pre-leased and core assets to regain deal traction
- However, yield repricing to happen with increased risks on rental portfolio
- Office REITs to be listed; commercial asset yields main advantage for institutional investors
- Focus on defensive assets – warehousing, logistics, data centres
- Distressed opportunities but strategic buys/long investment plays even in residential
- New funds to look at India for fresh allocations towards office, warehousing

PE Inflows in 2020 to be **45-50%** lower y-o-y; short-term blip as PE funds realign their capital allocation stack

USD **4-4.5** bn of dry powder in Indian RE; higher allocations from global funds going forward to increase dry powder chasing Indian assets

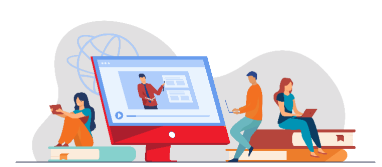
Yield re-pricing northwards as a short-term trend; could be anywhere between **50-100bps** but to be driven by lease tenures and contractual terms

ALTERNATIVE ASSET CLASSES

Hospitality

- The hardest hit with occupancies going to near zero and many hotels shutting down operations in the early part of COVID
- No financial or stimulus support announced for the industry
- Mainly operating through delivery-based kitchen services or being used as quarantine centres

With inbound tourism likely to be impacted severely due to shutdown in international travel and even local travel for leisure and business curtailed to a large extent, recovery is long and hard in terms of occupancies and revenues



Co-living & Student Housing

- Hygiene, safety and social distancing will be driving factors in managing occupancies
- With VC funding to be limited for a while, growth may be driven only by well-funded players or opportunistic operators
- Opportunity for better commercial terms from stressed commercial landlords and residential developers
- Lesser beds in operational premises, high standards in food and hygiene services and reducing touch surfaces will entail more costs with pressure of reducing per bed prices
- Student housing operators could gain from their full-stack operating models
- Co-living as a more affordable alternative would see more interest from those looking to limit living expenses and seeking convenience
- Capacity augmentation will be delayed as cost control gains more traction than growth spend

Operating models to move strongly towards revenue sharing and full-stack operator models only.

Private rooms would increase in terms of % share of operational and planned beds as users will evaluate social distancing against higher price more favorably.

Data Centres

- Data consumption, hyperscale and enterprise demand to drive cloud-based and colocation data centre services
- Investments in key gateway cities with access to undersea cable network, quality power supply and government land support to spur data centre parks development
- India's privacy laws along with rising online content consumption, e-commerce transactions and e-payment gateways to spur increased need for data centre rack space
- Large investments already made by cloud-based service providers

India's data centre market to nearly double to USD 5 billion over the next 5 years

THE 'NEW NORMAL' WORLD

CONCLUSION

Our forecasts are grounded in the current situation, which while being a 'black swan' event, continues to evolve at rapid pace. Baseline projections are a little more focused and account for an infection peak which is nearer rather than distant. However, one cannot anticipate further shocks such as unchecked growth in infections locally as well as at the global level. Extension of lockdown protocols and further weakening of business sentiments and global economic forecasts could cause a further revision for 2020 forecasts. A revival will come, but many factors not in the least a successful vaccine development will be crucial to the shape of the recovery curve and improvement in India's economic fortunes and the real estate sector. The Unlock 1.0 is an indicator that the restart will be dynamic with local administrations having been empowered to evaluate the on-ground situation while considering central advisory on re-opening and health and hygiene norms.

Along with economic and real estate performance forecasts, new trends driven by behavioural and technology-driven change to work, workplace, leisure and travel will be seminal, with COVID, unwittingly being the agent of change. While the vaccine will enable return to normality, we will do well to not turn our backs on the lessons learnt.

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About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 53,000 employees in 400 offices and 60 countries. In 2019, the firm had revenue of $8.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

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