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The year 2019, the month November, the place China – things changed and so did the lives of so many across the globe and no one could have imagined this in their wildest dreams. People could no longer work, eat, shop, meet and socialise as before. The working class shifted rapidly from business as usual, to cautious travel, office closures, and work-from-home ordains. Instead of travelling and going out to eat at restaurants, consumers across the world have been tightening their purse strings to spend only on essentials, primarily food, medicine, and home supplies and getting these delivered much more often. In a matter of months, the lives of so many people have changed in ways that they had never even dreamt before. The working world moved rapidly from business as usual to cautious travel, and work-from-home mandates. Social and physical distancing has changed the way people live and interact with others. An immediate consequence of COVID – 19 on real estate was the shortage of hospitals and the way people started using their residences, as working/business spaces. If this crisis persists we will see many more transformative behavioural changes. This has impacted real estate companies in an unprecedented manner depending on the region and country and this may make some permanent changes in the way these companies work in the future.

The changes commenced happening in India too. According to a survey conducted by Knight Frank India, an astonishing 87 percent wanted to shift homes, 26 percent of them have shifted their house to suburban areas within the lockdown period. This shifting was prompted by the factors such as wanting more open spaces and proximity to friends and family. 32 percent more want to shift within the next 12 months.

This thought process has affected the valuation too as worldwide 64 percent respondents expect that the valuation of their residence will increase within the next two-three years. However, in India only 32 percent feel the same. According to CMD of Knight Frank, 'India in the pandemic has changed the outlook towards ownership of homes. Globally, two trends have stood out in the last few months. Firstly, a growing ambivalence of some buyers when it comes to location, provided they can secure a co-primary home that delivers the lifestyle and enjoyment they feel they've missed out on. And, secondly given low savings rates and frothy stock markets, buyers are taking a more defensive stance by rebalancing their portfolios with a greater focus on tangible assets such as property, diminished'. In India where 'kitne ka hai' is the most sensitive decision-making factor across all segment of the society, the willingness to pay for a premium branded house has diminished. This turn-around has come about not only due to the economic fundamentals but also the buyer psychology, which has been severely impacted by the pandemic. It is an influential factor in determining the home price dynamics.

The COVID-19 threat to the real estate industry must be responded to, with a well-defined plan to counter what may be permanent changes to the industry after the crisis. Industry leaders may centralise the financial control to make it more efficient with better portfolio and capital expenditure decisions. Real estate had very low volume of digitisation prior to the crisis, this may soon change in a big way. It may alter the tenant/customer experience in a big way. Even in the commercial real estate sector, things will change in ways which will be more permanent than make-shift in nature.

The Immediate Challenge

Over the years, investments in real estate have given steady cash flow and generated incomes significantly above other sources, such as corporate debt, with only slightly more risk. Since the COVID outbreak, however, this has changed, and real estate players have been hit hard across the value chain. Construction companies are struggling to hold onto their employees and customers. Many developers cannot obtain permits and they face construction delays, stoppages, and potentially shrinking rates of return. Meanwhile, many house owners face drastically reduced operating income, and almost all are nervous about how many tenants will struggle to make their lease payments. ‘Concession’ and ‘abatement’ are the words of the day, and all parties are working rapidly to figure out for whom do they apply and how much.

However, not all real estate assets are performing the same way during the crisis. The market seems to have hinged mostly on the level of physical proximity among users of the property than on its lease length. Properties that have greater human density seem to have been the hardest hit: office spaces specially in the IT sector, shopping malls, lodging, and student housing have sold off considerably. By contrast, self-storage facilities, industrial facilities, and data centres have faced less-significant declines. As of Oct 2021, by one estimate, the value of real estate properties had fallen 25 percent or more in most sectors and as much as 37 percent for lodging (the most extreme example). It’s no surprise that when shoppers avoid crowds, colleges/universities send students home, and retailers, restaurants, and hotels close their doors, owning and operating those properties is a less valuable proposition. As such, liquidity and balance-sheet resilience have become paramount.

Behavioural Changes Beyond the Crisis

Real estate owners across almost every category are considering several potential long-term effects of the COVID outbreak and the required changes that these scenarios are likely to bring.

For example, within commercial/office space, the decade old trend towards densification and open-plan layouts may reverse sharply. Governments may increasingly amend building codes to restrict the risk of future pandemics, potentially affecting standards for HVAC, area per person, and permissible amount of enclosed space. At the same time, just as baby boomers age into independent living, the fear of pandemic may prompt them to stay in their current homes longer. It is possible that demand for senior living properties also could reduce, or the product could change altogether to meet new preferences for more physical space and more-intensive operational requirements. It is also possible that senior-living properties could prove they are best able to handle viral outbreaks, accelerating demand.

The pandemic experience could also permanently change habits that may affect demand for other real estate properties, such as hospitality properties and short-term leases. Even a short moratorium on business travel could have lasting impact when alternatives such as video conferences prove sufficient or even preferrable. Near-shoring of supply chains may further reduce demand for cross-border business travel, and consumers who are afraid of traveling overseas may shift leisure travel to local destinations.

People are forced to shop online because of closed malls and restaurants, and may permanently adjust their buying habits for certain categories toward e-commerce. In India, people were already shifting to online purchases prior to the pandemic but with the COVID outbreak it just accelerated, especially as many previously struggling brands are pushed into bankruptcy or forced to radically reduce their public presence. The shift to e-commerce has boosted the demand for industrial spaces, and more storage spaces and cloud kitchens could see an increase in business as demand density goes up with more people working from home while sophisticated offices & sharing spaces could suffer losses. In the business of education, universities/colleges/schools forced to educate remotely for entire semesters could convince students and other stakeholders that existing tools are sufficient to provide a high-quality education at a lower cost, and a new type of hybrid (online–offline) education could become even more widely embraced. This will further reduce the demand for the real estate.

The enormity of economic impact on the real estate sector is uncertain, just as the scale of human catastrophe from the pandemic is yet to be seen. However, behavioural changes that will lead to large amount of space becoming obsolete in a post-coronavirus environment seem imminent. Given the capability for transformative changes, real estate players will be well served to not only take immediate action to improve their businesses but also keep one eye on a future that could be meaningfully different.

Back to the Future

Similar to the period following the global financial crisis in 2008, we will see some real estate players adapting and flourishing while others will fade away. Some developers have already started the process of thinking ahead to when the crisis is over. Company's ability to weather the storm will depend on how they respond to immediate challenges to the industry, particularly the declining short-term cash flow and demand for real estate properties, as well as the uncertainty surrounding the ability of commercial space tenants to pay their bills. In the long term, the changed behaviours of the industry will have likely changed the way consumers and businesses use and interact with real estate. Will employees ask for larger and more enclosed work areas? Will people decide not to live in high rise buildings for fear of having to use the elevators? While uncertainty reigns, by employing a range of creative architects & engineers and using new technologies, such as deep design interviews, real estate developers may find new and more predictive insights. The most important question is which of these changes will be successful. No one can be sure, however, acting quickly and smartly will help determine the success rate, not only in these difficult times but also as the industry emerges from the current crisis and reinvents itself.

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Commander Abhijit Sinha, MTech in Aerospace Engineering from Indian Institute of Science, is an Indian Navy veteran which he served for 23 years prior to taking premature retirement. He thereafter in 2012 joined a Japanese Multinational Company dealing in manufacturing Amphibious Aircraft and Aerobridges among many other products and went on to become its CEO & Director. He served the company till Jun 2020. He founded a manufacturing company and deals in developing niche products for Indian Railways.

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