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A Closer Look at the Property Market: A year that was and the promises that the New Year brings

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We marched into 2021 with a pandemic-riddled economy. The real estate industry was quick to lay the ground work for a quick turnaround, in the way it did business. Making recovery faster than expected with a new phase of growth, innovation, technology, and investment trends.

Real estate is a multi-dimensional industry, with many facets to it. While some of its sectors boomed during the pandemic, some are recovering from the slowdown it faced. Industrial real estate has been one of the top-performing sectors of the commercial sector, for several years, based on demand and revenues. The pandemic accelerated the demand on the industrial front, particularly for warehouses, data centers, and distribution centers. This trend opened new pathways for the sector to grow in the coming years.



The year that was

A shift in consumer priorities – Interestingly, the past 20 months have seen drastic changes in lifestyle preferences of the consumers. The pandemic made consumers revisit the importance of owning a home and this in turn increased the demand for residential real estate. The significance of having additional space in the house became a prominent trend in the era of physical distancing, work-from-home, and home-schooling routines. Demand for homes with amenities and townships that allow home-owners to live more freely and lead healthier lives also increased.

Inclination towards ready-to-move-in projects – Last year saw the demand for ready-to-move-in units surge in almost all cities. It became a preferred segment owing to shift in buyer mentality, to seek safety and avoid risks associated with under-construction properties.

Increase in demand in Tier 2 & 3 cities and peripheral areas – The industry witnessed an increase in demand for residential properties in Tier 2 and Tier 3 cities. This upward trajectory in demand opened new roads of opportunities, for these cities to become the destination-next of real estate. The desire for a better lifestyle, remote working culture and reverse migration led to an increased demand for homes in the peripheral areas. Furthermore, this created a chance for real estate players to explore and offer great home experiences to this untapped consumer demand and capture new markets.

Government led incentives boosted the industry – Considering the revival potential of the real estate sector, the government offered progressive policies to give a boost to the industry. In order to boost the economy, the government took initiatives to reduce tax incentives, providing a conducive environment to encourage home buyers. The low-interest rates on home loans have invariably increased the affordability of houses as well.

Reflection on Sales – The sales volume for the residential sector from the period October 2020 to December 2020 increased 2-fold to 61,593 units, compared to 33,403 in the previous quarter, signifying healthy recovery, despite the challenges faced by the industry. According to an industry report, homebuyers took advantage of incentives offered by developers and low interest rates, leading to an increase in residential sales in seven cities across the country. Post the second wave, sales in the fourth quarter of 2021 recovered to >90% volumes recorded in 2020 across the top seven cities.

Commercial real estate market – Flexible workspaces are in high demand because they not only perfectly match the 'new normal,' but also provide companies with a way to save costs, raise productivity, improve work experience and provide employees with more flexibility. In 2022, the co-working segment is expected to have greater demand. With companies now re-opening in a phased manner, they are looking at staggered timings for their employees.

The sector-wide digitization wave – The sector also witnessed a digitization wave on a large scale. With the changing paradigm, real estate players were required to adapt to the new normal. From online site visits to online payment, developers are using innovative technological tools and practices across various stages of business operations. Virtual walkthroughs have been a game-changer for the industry during the pandemic and will continue to be so, with players adding more layers to the entire marketing experience.

Future of the Industry in 2022 -23

The real estate sector's contribution to the country's GDP is set to go up to 10% by 2030, contributing about \$1 trillion to the economy, according to an industry report. Let us look at some of the key trends which will shape the future of the real estate industry. Here are 4 key elemental trends that we foresee in the coming years.

Data centers– Due to digitalization in the aftermath of the pandemic, the demand for data centers has multiplied. India's transformation into a 'digital economy' increased the demand for the sector. Leading players in the industry are now building data centers to reap benefits from early investments. As a result, data centers are emerging as an attractive real estate asset class with enormous potential. The demand for data centers in India has increased due to rising demand from fintech, e-commerce, media, education, and content companies. Policy measures, a growing customer base, and increasing corporate data storage requirements, are all driving India's data center growth.

Flexibility is the future of office space – The pandemic re-shaped the office working models for not only employees but also for employers. Leading companies moved their offices to co-working locations and continue to do so to optimize costs and achieve better employee engagement in current circumstances. Flexible working options have emerged as the workspaces of choice for all businesses. Companies are fragmenting their offices across Tier 1 and Tier 2 cities, offering flexibility to employees.

The emergence of fractional ownership in commercial – Fractional ownership is where investors collectively put small pegs of money to individually own a fraction of a high-value property with a goal to gain high returns over time. Online investment platforms are pursuing investors by offering fractional ownership with high yield returns. Unlike mutual funds and shares, where clear regulations are in place, fractional ownership in commercial real estate is a relatively new concept targeting a wider pool of institutional investors, individual investors, and fractional investors. The concept has gained popularity and is poised to reduce the financial burden on the sole investor of the property.

Affordability is here to stay – In 2021, we witnessed the affordable segment as a leading buyer preference. Over half of the housing demand in leading markets was driven by the affordable segment. From this, the coming year has offered developers a chance to focus on optimizing cost, despite the increasing input prices, by deploying technology and bringing innovation to their offerings for keeping the segment afloat in 2022 and meeting consumer demands.

The rise of last-mile delivery Warehousing – The pandemic accelerated the pace of the e-commerce industry to meet the consumers' needs for increased home shopping. Swift fulfilment and timely distribution of orders became a priority of every online shopping experience. This has led to last-mile delivery with city-specific local warehousing touchpoints. Driven by the rising wave of e-commerce, from home seeking consumers, the concept of these micro-warehouses has created quite a demand in the market. In the years to come, micro-warehouses will become a common phenomenon, with more and more players adopting it countrywide.

Conclusion

As aforementioned, the industry projections and trends suggest that the future of Indian real estate not only looks bright but is set to move up the ladder in the coming years. There are several dynamics that will continue to impact the multiple facades of the real estate industry, such as: prices, buyer behaviour, demographic shift, cost of raw materials in general. Therefore, it can be said that affordable, self-sustaining properties with a consumer experience centric approach is the future of real estate for at least the next 5-7 years.

(By Bijay Agarwal, MD, Sattva Group)