

Real estate sector is on track to pre-crisis levels

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Key takeaways:

- *The Indian real estate sector is on a recovery trajectory. The office space segment is seeing an increasing demand as technology firms expand. The unprecedented technology consumption is driving the demand for data centre real estate, while ecommerce continues to contribute to the warehousing space. Finally, the residential property segment is expected to see a growth due to a need for bigger homes and better amenities and revived consumer spending*

The global real estate sector saw an uneven recovery in 2021. While mobility restrictions, necessitated by the spread of the Delta variant, hindered recovery in some parts of the world, the sector saw a sustained rebound in many countries. In the U.S., for example, six million houses were sold by the end of 2021, reaching the highest sales recorded in 15 years.¹ The Asia Pacific (APAC) region also saw deal volumes rebounding after the subdued figures of 2020. According to a recent study, acquisitions of income-producing properties from January to November reached a whopping USD167.38 billion, up by 24 per cent year on year and a 1.5 per cent increase from the same period in 2019 within APAC.² With increasing investments expected in commercial properties, aided by the expansion of financial, technology and flexible space operators, the net absorption level of office space in APAC is estimated to rise, thereby bringing an end to the downward rental cycle. Overall, significant growth opportunities across segments make the outlook for the APAC region clearly positive.

During the final quarter of 2021, global sentiment in real estate remained optimistic, with many segments starting to display signs of a demand recovery.

Technology sector's upswing to drive office space demand

As a key contributor to APAC's growth story, India stands to benefit from global investors' bullish view of the region. The year 2021 saw a strong revival in occupiers' confidence. This momentum is expected to continue in 2022 in tandem with the economic outlook as India aims to clock a 8–9 per cent³ growth this year. While the fresh rise in infection may affect the planned return to office timelines, its impact may not be significant on absorption. This is because increasing spending on technology and digital transformation are persuading Indian technology firms to ramp up their hiring plan, creating a need for office space. There are indications that these firms are inclined to acquire next-generation offices, which could spur demand for quality, grade-A properties in prominent places.

Flexible office spaces are resilient towards accommodating the changing needs of employees, making them an ideal option for occupiers embracing agility and flexibility in their work model. Currently popular in

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metropolitan cities, these spaces are expected to see major expansion in smaller cities, owing to talent availability which has further strengthened because of the pandemic-triggered reverse migration.

Mobility restrictions, however, are expected to reduce the demand in retail and hospitality sectors, which will result in subdued leasing demand. But, in the meanwhile, appealing prices of these properties are expected to lure buyers, setting the stage for a surge in deal-making activities, which will lead to consolidation in the sector.

Warehouse and data centre segments have vast growth potential

The e-commerce sector clocked a substantial growth during the pandemic, with its share in total transactions increasing from 18 per cent in FY2017 to 31 per cent in FY2021.⁴ To meet this surge in demand, e-commerce players and third-party logistics firms are committing to investment in warehouses. Further, e-commerce's growing popularity of instant delivery options is also fuelling the demand for small warehouses within the cities. Overall, the sector's share in total warehousing transactions is expected to grow in the next few years.

The data centre segment—one of the least affected sectors during the pandemic—is witnessing a major boom in India as well. The country is likely to see a higher growth in this segment compared to the global average. Its key drivers include a massive increase in data consumption, a growing user base of social media and streaming platforms and data localisation, among others. To meet the rising data usage, data centre capacities need to be scaled up and investment in this space is expected to grow at a CAGR of 5 per cent to reach USD5 billion⁵ per annum by 2025. Given the segment's immense growth potential, there has been a rise in interest from global players, who prefer to strengthen their footprint either through acquisitions or joint ventures.

Residential realty retains its growth momentum

The previous year was the year of recovery for real estate in India. Home sales and new launches both registered a boost, with new housing supply standing at 65,211 units by the third quarter—an increase from the 19,865 units launched in the third quarter of 2020.⁶ The pandemic created a huge demand for residential properties in tier 2 cities. Further, infrastructure development, planned connectivity and ease of living are some of the key features attracting home buyers to these places, which is expected to lead the sector's growth. The affordable housing space, benefiting from government incentives, will also be an important contributor to demand. Luxury projects, on the other hand, received a positive boost from increased purchasing power on the back of a rise in unicorns and the booming IT sector. After two years of pent-up demand, the residential real estate is expected to retain its current upswing.

Interestingly, one of the notable trends in the residential space is homebuyers' preference for spacious homes with amenities to accommodate the work-from-home (WFH) and online education realities. Developers have already started fulfilling these expectations. Additionally, as the trend of working from anywhere is becoming a reality, there is a rising demand for second homes. Further, when it comes to home buying, the preference is increasingly towards top brands, which is expected to enable organised players to increase their market share.

Overall, the real estate sector has shown increased immunity to uncertainty and is on track to reach its pre-pandemic levels. Real estate players, who have aligned their operations with emerging trends and changing home buyers' preferences, are likely to emerge as winners.

¹ Number of existing homes sold in the United States from 2005 to 2022, Statista, accessed on 20 January 2022.

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² Office, retail, industrial properties underpin Asia-Pacific investment bonanza, The Business Times, 27 December 2021, accessed on 20 January 2022.

³ World Economic Outlook, January 2022, International Monetary Fund, accessed on 20 January 2022

⁴ How warehousing policy will reduce logistics expenses, Mint, 22 December 2021, accessed on 18 January 2022

⁵ India – the next datacenter hub, NASSCOM, February 2021, accessed on 18 January 2022

⁶ Indian real estate industry, Indian Brand Equity Foundation, 17 December 2021, accessed on 20 January 2022

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