



AMIDST THE AFTERMATH: CHALLENGES OF REAL ESTATE SECTOR IN THE POST COVID LANDSCAPE

Ms. Monica Anand Kumar
B.Com (Hons.) LL.B. LL.M. (Gold Medalist)
Ph.D. Scholar, Jagannath University, Jaipur
E-mail Id: monicanand23@gmail.com

Dr. Suman Paliwal, Associate Professor
Faculty of Law, Jagannath University, Jaipur
E-mail ID: suman.paliwal@jagannathuniversity.org

ABSTRACT

The COVID-19 pandemic has significantly disrupted various sectors worldwide, with the real estate market experiencing profound changes that continue to challenge home buyers. This paper explores the myriad challenges faced by individuals attempting to purchase homes in the post-pandemic era, a task that has become increasingly Herculean due to multiple intertwined factors. The economic impact of the pandemic has been a primary driver of change, with substantial job losses and reduced incomes weakening buyer purchasing power. Additionally, the shift to remote work has altered housing preferences, leading to increased demand for homes in suburban and rural areas, thus escalating prices and intensifying competition in previously less sought-after locations.

The study analyzes how these changes have affected the affordability and availability of housing, drawing on data from real estate trends, economic reports, and consumer surveys. One key finding is the significant influence of supply chain disruptions on the construction industry, which has led to increased costs of building materials, subsequently raising home prices. These factors combine to make the pursuit of homeownership an arduous task for many, particularly first-time buyers and those in lower income brackets. Moreover, the paper examines the responses from governments and financial institutions, which have included mortgage forbearance programs and stimulus measures aimed at stabilizing the housing market. However, the long-term effects of these interventions remain uncertain, with potential implications for market stability and buyer sentiment.

The implications of these findings are critical for policymakers, financial institutions, and potential home buyers. Understanding the post-pandemic shifts in the real estate market is essential for devising strategies that ensure the availability of affordable housing and the stability of the housing market. The paper concludes with recommendations for future research and policy actions that could help mitigate the challenges faced by home buyers in the new normal.

Keywords: COVID-19, Real Estate Market, Home Buyers, Homeownership Challenges, Economic Impact



INTRODUCTION

The onset of the COVID-19 pandemic brought about an unprecedented disruption across multiple sectors, with the real estate market being one of the most significantly impacted. The dynamics of buying a home, traditionally seen as a cornerstone of personal and financial stability, were altered dramatically. This shift has left many potential home buyers grappling with new challenges in their pursuit of homeownership. As the world adjusts to the post-pandemic reality, understanding these challenges becomes crucial, not just for buyers and real estate professionals, but also for policymakers who must navigate the fine balance between market stability and housing affordability.

Initially, the pandemic triggered widespread economic uncertainty, leading to cautious spending behaviors and a temporary slowdown in home buying. However, as the situation evolved, so did the market dynamics. The shift towards remote work prompted a significant change in homebuyer preferences, with increased demand for larger spaces and more remote locations, thus reshaping the landscape of demand across urban and suburban areas. Concurrently, the economic impact of the pandemic, characterized by job losses and reduced incomes, strained the purchasing power of many households. Despite lower interest rates intended to stimulate the market, the economic barrier became a substantial hurdle for many.

Furthermore, the pandemic exposed and exacerbated the challenges of the supply side of the market. Supply chain disruptions led to increased costs of construction materials, and health-related restrictions slowed down construction activities, resulting in a shortage of new homes in the market. This shortage, combined with rising demand, led to a sharp increase in home prices, thereby compounding the affordability crisis.

The purpose of this paper is to explore these multifaceted challenges faced by home buyers in the post-COVID era. By analyzing current market trends, economic data, and consumer behavior, this study aims to provide insights into the ongoing struggles for those seeking to purchase homes and offer considerations for future strategies to ease the path to homeownership in a drastically altered market landscape. As we delve into these aspects, we aim to uncover the depth and breadth of the "Augean task" that home buying has become in the contemporary socio-economic climate.



I. THE PANDEMIC DOMINO EFFECT

The building and real estate sectors were hit particularly hard by the pandemic's effects on supply chains. As a consequence, building projects ran behind schedule and material prices went up, making it more difficult for homebuyers and driving up construction costs generally. Raw material price spikes have ripple effects throughout many sectors, including the real estate market, as a result of the world's precarious supply chain.¹ Developers' pricing tactics have been impacted by the rising cost of construction, which is a result of unprecedented issues such as inflation and supply-side shocks. Significant problems associated with cartelization have plagued the construction sector, drawing attention to the possibility of market distortions and anti-competitive actions. These methods have a double-whammy: they make it harder for customers to buy goods and services and they limit honest competition. Along with the pandemic's impact on the migrant labour dilemma, which halted building projects throughout the country, the industry took a further hit. Workforce shortages and logistical problems caused by this crisis pushed up operating expenses even higher and pushed back project deadlines.

In addition to these operational hurdles, the withdrawal of critical fiscal stimulus measures, such as the stamp duty waivers introduced during the pandemic, has added to the financial burden on homebuyers. These incentives played a pivotal role in incentivizing property transactions and lowering acquisition costs. Their removal has not only increased upfront expenses for prospective buyers but also altered market dynamics, potentially dampening demand and prolonging the recovery period for the real estate sector. The interplay of these factors underscores the fragile balance within the construction and real estate domains, necessitating nuanced policy interventions to sustain recovery and foster long-term stability. Addressing issues of cartelization, ensuring adequate labor availability through policy measures, and carefully calibrating fiscal incentives are crucial steps toward revitalizing the sector and meeting housing demands effectively in post-pandemic economic landscapes

¹Anshul Jain, 'Indian real estate in the post-COVID-19 era' (2022), 11(3) Corporate Real Estate Journal, 266-279.

II. DILEMMA OF DEVELOPERS

As a result of falling property values, real estate developers are finding it harder to satisfy their financial commitments. Companies' bottom lines may be impacted by market dynamics in the real estate industry, which is known for its high level of competition. Having relied on borrowings to finance their projects, the real estate corporations are highly leveraged or indebted. The difficulties encountered by developers, including the increasing cost of financing, are in line with the stated surge in house prices. Rising costs associated with project finance are a problem for the developers. Rising borrowing expenses may be caused by a number of factors, including but not limited to rising interest rates on loans and the increasing costs connected with obtaining funds.

The ever-increasing cost of borrowing money, which causes a chain reaction and ultimately leads to consumers paying more for housing. Credit, construction, and consumption expenses have a direct correlation to the effect on developers' operational profit margins. The real estate industry as a whole has felt the effects of the series of interest rate rises, which have reduced developer profit margins and prompted consolidation. The affordable housing category has been hit hard by the increasing costs of construction, which have cut into its already slim profit margins and made it harder for them to continue and expand. The table below shows how the cost of building materials has increased significantly following the COVID-19 outbreak:

Table 1 – Rise in cost of construction materials²

Raw material	Cost Before 2020	Cost After 2020
Steel	43000-46000	67000-70000
Cement	230-260	360-400
Sand	3500	3500-4000
Copper Pipes	280-300	330-340
Electric wires	180-190	230-250
Lumber	340-380	415-430

(Cost in Rupees)

² Source: <https://housing.com/news/real-estate-construction-costs-grew-by-5-in-fy23-truboard-report/>



The above table makes it quite evident that building expenses have climbed at an exponential rate since the epidemic, driving up house prices. The prices of later-stage construction materials, such as electrical cables, plumbing, UPVC windows, glass panes, sanitary, and wood floors, have increased by 10-65 percent. Neither have the costs of raw materials decreased in tandem with the current decline in fuel prices. Developers may decide to raise property prices to compensate for the high costs of project finance, site acquisition, building, and other associated expenditures. These price adjustments indicate how the real estate market reacts to changes in the economy, particularly changes in borrowing rates. This financial difficulty may affect their ability to start new initiatives or complete existing ones.

Unanticipated difficulties encountered by real estate industry heavyweights may stem from operational as well as financial concerns, compelling them to reevaluate their project portfolios and strategic objectives. Even if developers take financial and business factors into account when making strategic choices, this is still a challenging time for the industry. In an effort to reduce their debt and keep their financials in good shape, developers may be consolidating their operations. Mergers, acquisitions, and strategic alliances are some of the many ways in which businesses might combine their operations. Stakeholders, such as purchasers and developers, must negotiate a market environment where market dynamics may experience considerable fluctuations, as this tendency underlines the susceptibility of the real estate industry to economic considerations.

III. CONSTRUCTION BAN EFFECT

Ongoing projects registered under RERA (Real Estate Regulatory Authority) have faced indefinite delays due to construction bans enforced by various government bodies like the National Green Tribunal (NGT), the Commission for Air Quality Management in the National Capital Region and Adjoining Areas (CAQM), and occasionally by Supreme Court rulings aimed at curbing pollution, especially during the winter months. These restrictions, while crucial for environmental sustainability, have disrupted construction schedules, leading to project delays and cost overruns.

Developers are particularly impacted as they are liable to pay penalties due to the absence of any grace period provision in the RERA Act when faced with building restrictions. These penalties add financial strain and uncertainty to projects, affecting developer cash flows and overall project viability. Furthermore, the unpredictability of such bans complicates project planning and execution, deterring investor confidence and potentially stalling new project launches.



The cumulative effect of regulatory interventions and penalties underscores the need for a balanced approach to environmental management and real estate development. Collaborative efforts between developers, regulatory bodies, and environmental stakeholders are essential to mitigate these challenges while ensuring sustainable urban growth and compliance with regulatory standards. Streamlining processes, providing clearer guidelines, and exploring innovative construction technologies could potentially minimize the adverse impact of such regulatory disruptions on the real estate sector.³ To enhance air quality, blanket bans won't work in the long run.

It is necessary to explore alternate, long-term sustainable approaches since remobilizing resources to carry out building operations might become laborious after a month-long moratorium. Initiating such restrictions is necessary to stabilise AQI and prevent the region's air quality from worsening further. But the collateral effect from completion timetable delays will fall on the homebuyers.

A few of purchasers have already begun making payments on their mortgages and rent. Homebuyers' problems are only going to become worse as a result of this double whammy. Project completion may be delayed by at least two to three months due to a brief prohibition on construction work. In the event of a delay, the developers may incur additional financial obligations to clients and the lending institutions that have provided project financing.

IV. UPWARD CONSTRUCTION COST TREND

Conditions have deteriorated for ordinary purchasers since the house purchase affordability index reached its top in 2021. Regional differences and the unique difficulties encountered by homebuyers in various markets are shown by the differences in the rate of reduction in affordability between the National Capital Region and Mumbai. Concerns about the ordinary buyer's ability to join the real estate market or improve their current home owing to decreased affordability are on the rise.

According to the numbers, the average price of building a house has increased by 21% during the previous three years..⁴ With a 32% increase since the end of 2019, the cost of materials—which accounts for two-thirds of the total building cost—has also risen, pushing the cost per square foot up from 1,900 to 2,300 in November 2022. The statement notes that building expenditures are on the rise due to factors such as the higher cost of materials, labour, and logistics.

³ Harsh Kumar, 'Amid Pollution Concern, Here's How a Construction Ban Will Impact Housing Projects In Delhi-NCR' (2022), Outlook India. <https://www.outlookindia.com/business/amid-pollution-concern-here-s-how-a-constructionban-will-impact-housing-projects-in-delhi-ncr--news-230419>.

⁴ Martin Hoesli and Richard Malle, 'Commercial Real Estate Prices and Covid-19' (2021) Swiss Finance Institute Research Paper No. 21-08, Journal of European Real Estate Research, Forthcoming, SSRN.



The ever-increasing construction expenses are mostly attributable to the essential components of the building, such as steel and cement, PVC materials, windows, doors, and tiles. The structural integrity of a building depends on these materials, and changes in their costs may have a major impact on the total cost of construction. Important factors impacting building costs include labour expenses, logistical issues, transportation costs (which are influenced by fuel prices), and so on. In particular, the last three years stand out as a period when building costs have risen dramatically. This fits in with the bigger picture of the difficulties encountered by the economy and supply chains at the time. When estate agents raise prices to cover rising building costs, they risk losing purchasers if those prices rise faster than people can afford them. The total demand for housing could be affected by worries about affordability.

V. URBAN LIVING SHIFTS

The shift towards remote work during the pandemic prompted many professionals, particularly in IT, to reassess their living arrangements and make significant housing decisions. The ability to work from home provided newfound flexibility, prompting some to relocate from urban centers like Gurugram to suburbs or neighboring cities such as Noida. Factors such as cost-effectiveness played a pivotal role in these decisions, with Noida offering more affordable housing options compared to Gurugram, thereby stretching the value of their investment further.

The prolonged periods spent indoors during the pandemic also influenced housing choices towards more spacious layouts. Many individuals sought larger homes or properties with additional amenities like home offices or outdoor spaces, catering to their newfound work-from-home lifestyles. This shift towards suburban or rural areas reflects a desire for more expansive living environments away from the congestion and confines of city life.

Moreover, the allure of homeownership was heightened by historically low interest rates, making property purchases more financially feasible and attractive. This trend not only reflects pragmatic financial considerations but also underscores a broader cultural shift towards prioritizing quality of life and personal space in residential decisions.

Overall, the impact of remote work on housing preferences has been profound, shaping residential choices based on a blend of economic factors, lifestyle preferences, and career-related considerations. As remote work continues to evolve beyond the pandemic, these shifts are likely to persist, influencing urban development patterns and redefining the concept of home for many professionals in the IT sector and beyond.



VI. POST-PANDEMIC TRENDS

Buyers' expectations around the purchase of a property have also altered significantly after the pandemic, in addition to the purchasing choice. There is a lot of interest in properties that are ready to move in right now. In the aftermath of the epidemic, city life has lost its lustre. Most people looking to invest do so in less populated areas. Following the pandemic, single-family or individual residences are ideal because to the rising need for privacy, space, and control over who may visit..⁵ Homebuyers see single-family houses as offering greater versatility than other housing options. You and your loved ones are free to do as you choose in the open air. During the pandemic, the housing market saw tremendous expansion in tertiary and secondary cities rather than big urban areas..

VI. 1 HOME BUYING AN EMOTIONAL DECISION IN INDIAN SENTIMENT

Potential purchasers may be looking for an economical, low-maintenance apartment block that is conveniently located near a lot of amenities after the epidemic. Prospective homeowners may be interested in low-maintenance features, functional floor plans, and new building technology. Putting a premium on closeness to amenities suggests a need for ease of access. These days, buyers give top priority to houses that are close to services and essentials like grocery shops, hospitals, and schools.

Residents' convenience and quality of life are greatly enhanced by their proximity to these amenities. Home office space or an apartment that is suitable for remote work is another consideration for homebuyers in this age of remote work. These goals could be well-suited to flat living due to the possibility of communal living and shared facilities. Developers and sellers in the real estate industry may have to take these things into account as they shape their products and services to meet the evolving demands of consumers. In response to rising demand, developers are constructing additional complexes on the outskirts of major cities.

⁵ Ankit Sharma, 'Overall residential demand to decline about 40% in FY21: Ind-Ra' (2020) <https://realty.economicstimes.indiatimes.com/news/industry/overall-residential-demand-to-decline-about-40-in-fy21-ind-ra/79428058>.

VI. 2. GOVERNMENT'S OLIVE BRANCH TO BOTH BUYERS AND SELLERS

Because it required greater transparency throughout the home-buying process, the Real Estate (Regulation and Development) Act, 2016 (RERA) changed the game. According to the Global Real Estate Transparency Index, 2022 (GRETI), India is quickly approaching the "Transparent" category and is among the top ten most-improved countries.⁶ But things have gotten out of hand due to the increasing number of RERA cases and problems in carrying out the orders via the conventional justice. In the real estate industry, there are rising worries over the act's lack of exclusivity. In the 2010s, homebuyers had to deal with a lot of problems, such developers engaging in fraudulent activities and projects being delayed. As a result of these problems, consumers lost faith in the real estate market and the industry as a whole. In 2016, the Real Estate Regulatory Act (RERA) was introduced with the purpose of providing more accountability, transparency, and justice to the real estate market via regulatory reform.

Developers are legally mandated to adhere to stringent guidelines under RERA, which include project registration, maintaining project timelines, and protecting the rights of homebuyers. This regulatory framework aims to instill transparency and accountability in the real estate sector, addressing longstanding consumer grievances and ensuring that developers deliver on promised timelines and quality standards. By enforcing these regulations, RERA has played a crucial role in rebuilding trust among homebuyers, who now have greater confidence in the fairness and reliability of the market.

The introduction of GST in 2017 was a significant reform aimed at eliminating tax cascades and simplifying the tax regime. By replacing multiple indirect taxes with a single tax structure, GST streamlined operations for businesses, including those in real estate. This move not only reduced compliance burdens but also ushered in a more uniform and transparent taxation system across the country. For the real estate sector, GST brought about changes in pricing dynamics and operational efficiencies, contributing to a more competitive and structured market environment.

The combined impact of RERA and GST has been pivotal in reshaping the real estate landscape. These reforms have fostered a level playing field where developers are incentivized to prioritize

⁶ S. Das & R. Sharma, 'India Excerpts and Perspectives: Global Real Estate Transparency Index' (2022) JLL Research. Available at <https://www.jll.co.in/en/trends-and-insights/research/india-excerpts-and-perspectives-global-real-estate-transparency-index>.



project delivery and quality, aligning with consumer expectations. The regulatory certainty provided by RERA and the streamlined taxation under GST have bolstered investor confidence and attracted more institutional investments into the sector. As a result, the real estate market has seen improvements in project execution, customer service standards, and overall market credibility.

Looking ahead, continued adherence to RERA guidelines and further refinements in GST implementation are essential for sustaining these positive outcomes. The ongoing evolution of these regulatory frameworks will be crucial in supporting sustainable growth, enhancing market transparency, and safeguarding the interests of all stakeholders in the real estate ecosystem.

VII. RBI INTERVENTION WITH MORATORIUM RELIEF

The Indian government and its regulatory agencies worked together with the federal government to bolster the real estate industry after the epidemic wreaked havoc on the country's economy. Consumers were granted access to information, choice, redressal methods, and a voice in conflicts with the execution of "The Consumer Protection Act 2019" in July 2020, a major move that emphasised consumer rights. As an additional alternative to lengthy and expensive court processes, the Act established mediation as a means of resolving disputes. Another important player was the Reserve Bank of India (RBI), which announced a loan repayment moratorium.

During the height of the economic uncertainties, this moratorium gave borrowers some financial respite by allowing them to suspend their EMI payments for a defined time. Even though the Insolvency and Bankruptcy Code (IBC) increased the bar for starting the Corporate Insolvency Resolution Process (CIRP), the real estate market's intrinsic complexity and the impact of outside forces on property deals persisted. While these steps have helped alleviate some of the problems, the real estate industry is still facing a lot of problems.⁷

VIII. REPO RATE CHANGE EFFECT ON COST OF HOUSING

It is reported that the repo rate, the rate at which the Reserve Bank of India (RBI) loans to banks, has been hiked. Reportedly, the repo rate has increased by 2.25% since May 2022. A key tool in central banks' monetary policy arsenal, the repo rate has a direct impact on the cost of borrowing

⁷ Swati Bhatt & Nupur Anand, 'India bank gives small borrowers debt relief as COVID-19 cases spike' (2021) Reuters. Available at <https://www.reuters.com/world/india/india-cenbank-allows-fresh-moratorium-some-small-borrowers-amid-covid-19-crisis-2021-05-05/>.



money in the economy. An increase of almost 18% in the average Equated Monthly Installments (EMIs) for house loans has been caused by the latest repo rate hike. This increase demonstrates how rising interest rates have a direct impact on the borrowing expenses faced by homeowners. A house's "real cost of acquiring a home" includes not just the purchase price but also the overall expenditure throughout the life of the loan, which includes financing fees like interest payments. Homebuyers may find it more difficult to get financing and have negative effects on their financial health due to the 18% rise in EMIs, which causes affordability worries.

In addition, certain beneficial circumstances have been eliminated as a result of the state authorities' decision to end advantages and incentives that were previously put in place to promote the real estate market. There was a short-lived increase in demand due to these incentives, which included lower registration costs and stamp taxes. Homebuyers' capacity to finance a property has already been severely impacted by its expiry and the subsequent increase in mortgage interest rates, which are already reaching levels seen before the epidemic. Prospective purchasers' buying power has been diminished due to rising borrowing rates, which has further complicated matters in the real estate market.

IX. CHALLENGES AND WAY FORWARD

Unprecedented challenges have emerged in the real estate market as a result of the economic slump brought on by an unanticipated pandemic. To meet the ever-changing difficulties in real estate, legislators, regulators, and industry players must work together to craft successful solutions. In conclusion, although the COVID-19 epidemic posed significant obstacles, regulatory efforts like the Consumer Protection Act 2019 and the RBI's suspension on loan repayments were crucial in protecting consumers and offering financial assistance. Despite these measures easing some pressing concerns, the real estate market's enduring complexity calls for ever-evolving rules tailored to the industry's unique requirements.

Developers, lawmakers, and financial institutions must work together to address the economic issues affecting the affordable housing sector while also ensuring the sector's long-term viability. Based on these trends, 2023 may be a challenging year for the real estate market and purchasers alike. There will likely be increased caution and competition in the real estate market as a result of purchasers' growing worry about affordability and developers' increasing expenses. All of these

factors show how important it is to keep up with the real estate market and make adjustments as needed.

IX.1 SIGNIFICANCE OF REAL ESTATE SECTOR IN INDIAN ECONOMY

The real estate industry was expected to have substantial growth prior to the COVID-19 pandemic, according to experts. However, these forecasts have been retracted due to the uncertainties and challenges presented by the outbreak. Uncertainty generated by the outbreak has reduced the number of individuals intending to buy a property and forced many to put it off completely.

The Indian realty business is crucial to the country's economic growth and employment generation, making its rescue an urgent matter. The real estate business affects over 250 other industries via its domino effect, and it is the second largest employer overall. The market in the Delhi NCR region does not seem to be expecting a precipitous decline in the pricing of newly constructed, move-in ready homes any time soon. Alternatively, housing values that have been resold have diminished. The decline in demand in the housing market has put buyers in a difficult position. They don't know whether it's better to buy now or wait for prices to decrease..

IX.2 SUGGESTIONS TO THE GOVERNMENT FOR AN EFFECTIVE STRATEGY FOR AFFORDABLE HOUSING

The recommendation is that in the next budget, the government should offer tax incentives that are favourable to homebuyers. To make homeownership more appealing and affordable, these incentives might take the form of discounts or exemptions. State governments are also urged to think about doing away with stamp duty and registration costs as part of the plan.

To alleviate some of the financial strain that comes with purchasing a house, these waivers might be a quick and easy way to save money. In the statement, it is demanded that the selling price per square foot, which was set years ago under several affordable housing initiatives, be reviewed. This calls for a price review to bring it in line with the economy as it is now and make sure it still helps fund housing programmes for low-income families. Governments are being pushed to raise the price ceiling on affordable housing as a means of supporting the 'Housing for All' aim. More people



would be able to qualify for affordable housing subsidies if this improvement went into effect, opening the door to homeownership for more people.⁸

CONCLUSION

As the world slowly recovers from the COVID-19 pandemic, the quest for homeownership has proven to be an Herculean task fraught with unprecedented challenges. The surge in demand, coupled with a constrained supply of affordable housing, has led to a competitive marketplace where many are struggling to secure their dream homes. Financial uncertainties and a fluctuating economy have further complicated the buying process, making it a daunting endeavor for first-time and seasoned buyers alike.

Moving forward, it is imperative for both policymakers and industry stakeholders to address these issues head-on. Strategies such as increasing the inventory of affordable homes, offering incentives for first-time buyers, and ensuring that mortgage lending criteria are both fair and realistic could alleviate some of the difficulties faced by home buyers. Additionally, embracing new construction technologies and sustainable building practices could help in meeting the demand more efficiently and responsibly.

Ultimately, while the landscape of home buying post-COVID remains challenging, with collaborative effort and innovative solutions, it is possible to transform this Augean task into a manageable and even rewarding journey towards homeownership.

⁸ Reserve Bank of India. 'Financial Stability Report' (2022) 26 Reserve Bank of India. Available at https://rbidocs.rbi.org.in/rdocs//PublicationReport/Pdfs/0FSRDECEMBER2022F93A2_