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IN DEMAND

Commercial office market a bright spot for realty sector

BY MADHURIMA NANDY & BIDYA SAPAM

BENGALURU/MUMBAI

Steady lease rentals, high absorption levels, inadequate supply and global investor interest have breathed life into India's commercial real estate sector, even as the country's residential property market continues to be in a slump.

Unlike the fragmented market for residential properties, a few leading developers, backed by large investors, are building Grade A (top quality) office space in key cities.

Around 38.4 million sq. ft of Grade A space is expected to be built in 2016, of which around 33 million sq. ft is likely to be taken up on lease. Around 36.2 million sq. ft was absorbed last year, while the highest office space absorption was 37 million sq. ft in 2011. In 2017, around 40.9 million sq. ft is expected to be constructed, according to property advisory JLL India.

"While demand for good quality office space remains high, absorption will be lower this year because there isn't adequate supply in the market. Also, demand is high but relevant supply, which depends on location and other advantages, is

TOP FIVE LEASING TRANSACTIONS IN 2015

Company	Building name	Area (sq. ft)	City
Wells Fargo	Embassy Tech Village	860,000	Bengaluru
Shell	RMZ Eco World	788,000	Bengaluru
Snapdeal	ASF Tower and Center	500,000	Gurgaon
Amazon	Constellation Business Park	500,000	Bengaluru
IBM	Bhartiya City	500,000	Bengaluru

Source: Colliers International

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restricted. We expect the sector to continue to do well," said Ramesh Nair, chief operating officer of JLL India.

According to property advisory CBRE, Bengaluru has good demand and supply of office space and its office buildings have the lowest vacancy levels. In Pune, due to lack of good supply, there are many takers for Grade B buildings as well. The National Capital Region, the worst-impacted market in residential sales, grabbed 37% of the total 5 million sq. ft of corporate office space take-up or leasing during January-March.

After the economic slowdown in 2008, developers gave up capital-intensive office projects and shifted focus to the residential

market, which seemed a safe bet at the time. A number of large apartment projects came up in the next few years, resulting in a glut in the market and another slowdown in 2012-13.

Among top developers building office projects are Embassy Group, RMZ Corp., Panchshil Realty and DLF Ltd, many of them backed by global investors. More than 80% of commercial office space absorption or supply is from information technology (IT) and IT-enabled services (ITES) clients, while the rest would be for banking and financial services and of course, e-commerce firms.

Backed by Blackstone Group

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Lp, Panchshil Realty is adding 5 million sq. ft of new space in Pune across three projects. Nearly ₹2,500 crore will be invested in the project, including both equity and debt. "We lease around 1.5 million sq. ft. office space every year, so we just have to keep building because the demand is high," said Panchshil Realty chairman Atul Chordia.

DLF may not have any residential launch planned this year, but the country's largest developer by market value plans to add two-three million sq. ft of office space every year to its rental portfolio as it seeks to replicate its success in building a nearly 30 million sq. ft commercial office portfolio over the last decade.

This year, DLF has started work on a two million sq. ft office project in Gurgaon and will add one million sq. ft to its IT park in Chennai. Lease rates at DLF Cybercity in Gurgaon have risen to ₹100-105 per sq. foot from ₹60-65 per sq. foot three years ago.

"While residential prices are seeing a downward pressure due to the oversupply situation, rentals are steadily moving up. Good supply is limited and there is tremendous interest from institutional investors to buy space and from corporates, many of whom are in consolidation mode and looking to lease or buy space for their own use," said Rajeev Bairathi, executive director (capital transaction group and north India), at property advisory Knight Frank India.

Mumbai-based K. Raheja Corp. is planning to invest around ₹2,000 crore in acquiring land and building six million sq. ft of commercial space in Navi Mumbai.

"Growth and consolidation, particularly in the IT and ITES sectors, are driving the demand for big commercial office spaces. Demand for commercial real estate is growing at 20-22% on a year-on-year basis," said Vinod Rohira, managing director and chief executive, commercial real estate and Reit, K. Raheja Corp.

2016 is likely to witness two of the biggest private equity investments in the commercial office sector. DLF is in the process of selling a 40% stake in its rental assets arm to raise about \$2 billion and Brookfield Asset Management Inc. is close to investing \$1 billion to buy out the office and retail assets of Hiranandani Developers Pvt. Ltd in suburban Mumbai.

MAJOR OFFICE SALE TRANSACTIONS IN 2015-16



Source: Colliers International

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With top quality assets becoming fewer, investors such as Blackstone have moved from buying out completed, lease-generating assets to brownfield, under-construction developments to more greenfield, early-stage projects today.

"From a rental stream perspective, the investor community always got into fully developed projects in the initial years, but now after building a relationship with the developer partner, they are now willing to go ahead and invest in a new project," said Ram Chandnani, managing director, advisory and transaction services, CBRE.

Just like developers shifted focus to the residential market after the 2008 financial crisis, commercial office is regaining favour, with some realigning their portfolios to build more commercial space.

Bengaluru-based Salarpuria Sattva Group, which started as an office developer and then built its residential portfolio, is planning to focus a little more on the office space again. It will start three new projects in Bengaluru, a total of 3.5 million sq. ft. Earlier this year, Salarpuria raised ₹470 crore from Blackstone to fund a 6.6 million sq ft under-construction and partly leased project in Hyderabad, in what also marked the fund's first investment in the city.

"While entry barriers are low in residential and there are too many developers, office development is not easy and as a result, we have a few serious developers building good projects," said Bijay Agarwal, managing director of Salarpuria Sattva Group.

madhurima.n@livemint.com