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Office space top draw for investment!

Delhi/NCR

Office properties in well-located Grade A buildings, IT parks, and even in logistics centres are generating steady and dependable returns, the kind which investors previously sought in the residential asset class.

In the past, the return on investment (ROI) on housing assets was quite satisfactory and, in some cases, even spectacular, depending on the choice in terms of location, configuration, amenities, and builder's brand.

While rental yields for residential assets in India have historically been low, capital appreciation alone was a sufficiently dynamic prospect for most real estate investors.

However, the hype around residential property investment has fizzled out over the last 2-3 years, with a prolonged slowdown severely affecting capital appreciation.

"As of now, investors with the financial wherewithal and understanding of the commercial real estate space find office assets far more attractive, and for good reason." In the first place, office properties in the right location and project can yield very good rental returns over prolonged periods, and the capital appreciation can also be considerable for the right office assets.

"Demand for office assets, for which there is a ever increasing requirement due to rapid employment generation and the possibility of the first REIT listings, is therefore quite high among investors," Anuj Puri, Chairman of ANAROCK Property Consultants, said.

In fact, office properties in well-located Grade A buildings, IT parks, and even in logistics centres are generating the kind of steady and dependable ROI that investors previously sought in the residential asset class.

"The commercial office space saw a bracing upsurge of private equity inflows in 2017, and this trend is likely to continue throughout 2018. With the first listings likely to happen in Indian REITs this year, we will see further infusions of liquidity into the commercial property asset class, and this will go a long way in amplifying the ability and willingness of developers focused on the commercial office segment to deploy more assets," Puri says.

Meanwhile, the continuing sluggishness on the residential property market, coupled with the associated re-investment cycle risks, will also play a significant role in driving more investments towards various categories of commercial real estate.

Whatever be the case, the fact is that demand for the office space is growing faster than the demand for residential space in current times.

Vineet Taing, president of Vatika Business Centre, says: "After RERA and GST came into force, the residential market saw a slowdown with limited new launches and tepid sales. However, the commercial realty has remained robust with sustained demand. There is an increasing demand for office spaces which has led to the growth of business centres, virtual offices, as well as co-working spaces. In the Delhi NCR, the New Gurugram region and Dwarka Expressway are set to get a boost both in terms of office spaces as well as retail."

Developers say that sales of commercial properties like shops, malls, and offices and storage facilities have grown in recent years – one reason being higher rental returns.

"The rental returns in the commercial real estate are higher than those in the residential sector, especially in places like the NCR, which is inviting more and more investors in this sector. The Indian commercial real estate is also attracting realty players from all over the world. This has increased competition in this sector, as a result of which buyers are getting the best," Ravish Kapoor, Director of Elan Group, said.

Pushpender Singh, Managing Director of JMS Buildtech, says: "From the investment perspective also, commercial space is currently a better option than residential. In India, the rental yields in the commercial real estate – which hover in the range of 8-10% currently – are one of the highest. Residential sector is giving yields of 3-4% only. We can safely say that with the rise of India as an ideal business destination, the commercial realty space will remain an attractive option for investors."