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A NEW SEGMENT TO THEIR 'INVESTMENT LIST'

With the residential segment showing no clear signs of revival until recently, there was a distinct shift of well-heeled NRI investors' focus towards commercial properties



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The Indian real estate sector evokes a lot of interest from NRI investors. This interest is driven by long-term fundamentals such as emotional connect, safeguarding retirement plans, better returns and yield on investments, and depreciation in the rupee's value. While there are around 30 million NRIs across different countries, investment into Indian real estate is led by NRIs from UAE, USA and Saudi Arabia.

According to Anuj Puri, chairman, Anarock Property Consultants, from 2000 to 2014, NRI investments in Indian real estate reached substantial levels ranging between 10-18 per cent annually. However, when the residential market began to slow down in 2015, the NRI investment fervour into this asset class began to cool off a bit. To top it off, there was a slew of reforms and policy changes such as demonetisation, RERA and GST, the combined effect of these being a decrease in NRIs' investment in the sector." Hence, the highest impact was in the residential real estate market, which for a long time was the primary focus of NRI investors with their interest skewing towards apartments and villas, followed by plots and other property typologies. "NRIs have predominantly been inclined towards investment in high-end, luxury residential properties in India but this trend has undergone a change over the past few years due to the slowdown in real estate market, especially in the residential segment," says Vineet Nanda, president - sales, marketing & customer experience, Central Park, adding, "the slowdown has considerably affected the return on investment (ROI) from

residential segment which has prompted NRIs to shift their focus towards commercial properties as they offer better rental yield."

With the residential real estate sector showing no clear signs of revival until recently, there was a distinct shift of well-heeled NRI investors' focus towards commercial properties as this sector now delivers very satisfactory yields. "The year 2017 saw office space demand of 41.6 million sq.ft. across the top seven cities in the country, up from 23.2 million sq.ft. of absorption in 2009. Today, there are takers for all types of commercial property, right from small units to large stand-alone buildings. With steady economic growth, it can be safely inferred that demand for commercial units would continue to increase in the forthcoming years. Also, commercial spaces offer the advantage of longer leases, assuring a steady income. A residential property is usually rented out for one to two years and once this period lapses, the owner has to look for another tenant," says Shrinivas Rao, CEO-APAC, Vestian.

Puri further informs that in 2012, NRI investments in Indian residential real estate were around USD7.5 billion, which reached approximately USD5.25 billion by the end of 2017. This decrease in residential investments is due to the slowdown and steady fall in new launches across all the major cities. Stagnant property price movement is not the best incentive for ROI-oriented NRI investors, whose focus will remain on commercial properties for about six to eight quarters. Also agrees Vineet Taing, president, Vatika Business Centre, that there has been a boost in the demand from corporates, therefore; commercial office space vacancy has reduced by 50 per cent over the past few years. Office space absorption is very strong and pre-leasing too is at an all-time high today which guarantees higher returns. This indicates sustained demand and occupiers' interest in commercial spaces.

A number of factors support the transformation. The experts say that the rental yield from commercial properties is much higher than residential properties. "While the rental yield from commercial properties starts at 7 per cent in key markets, the residential yield remains around 2-3 per cent," updates Aditya Yamsanwar, director, partner and strategist, Team One Architects.

Besides rentals, according to experts, capital appreciation is dependent on multiple factors, primarily being the demand. So, the higher the demand, the higher will be the capital appreciation. "The demand is generated by few factors, top of them being location, the kind of property you are working with, the services which are being provided and who your neighbours are. In that aspect, if we look at it, the capital appreciation tends to be more in commercial property viz-a-viz a residential property," says Ashish Arora, director, Viridian Red.

In fact, the launch of Real Estate Investment Trust (REIT) is expected to further attract investments in commercial properties. "The inception of REITs is likely to push more investments into commercial properties in near future," adds Puri. However, according to him, commercial real estate, especially Grade A properties which promise the best long-term rental yields, are not an investment class that every NRI is financially equipped for. "While REITs will open up the possibility of investing in commercial properties at much more affordable entry points, this investment platform will only find wide acceptance once the first formal REIT listings happen in India," further says Puri.

As global investment trends change, the Indian real estate offerings for an NRI have diversified. The earlier asset class of choice was luxury residential segment, which according to Niranjan Hiranandani, president, National Real Estate Development Council (NAREDCO) still remains a favourite of NRIs. "At Indian real estate

exhibitions in locations like Dubai and London, we have been including commercial property options at our pavilion - and the demand exists. NRIs have not moved out of the luxury residential segment. I would definitely say that they are adding commercial properties as a new segment to their 'shopping list' of asset classes to invest in," says Hiranandani adding, "this change is in sync with the sentiment of the Indian market, apart from transparency and accountability as a result of RERA, there is a positive sentiment when it comes to real estate investment. When a segment enjoys high demand, it definitely becomes attractive to the smart investor, and NRIs definitely are smart investors.

Even then, there will always be investors who prefer tangible single properties to a 'mutual funds' approach to real estate investment. Also, we have only discussed NRI investors so far. That still leaves end-users, and almost every real estate market in India is now primarily end-user driven. In fact, interest in residential properties from NRIs whose focus is not so much on investment growth as on owning a home for themselves and their families back home continues unabated. The fact that residential property prices in India have bottomed, with developers are rolling out highly attractive offers, has worked very well for such buyers. "At an industry level, we are seeing a massive sea-change which will cause a consistent reworking of the existing investment formulae as they take firmer hold," adds Puri.

Not surprisingly, investment inquiries from the NRI community about the best projects in this category of housing are beginning to pour in. It is only a matter of time before the residential asset class catches up with commercial properties on the NRI property investment radar. And from here onward, the resurgence will be policy-driven and very sustainable, as opposed to the knee-jerk spurts of speculative activity seen in previous years.