Strata sales attracting investors

The continuing downturn in residential realty has made commercial attractive

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At a time when residential real estate is facing a downturn, commercial real estate, particularly the office segment, has emerged as a favoured asset class for many domestic investors, including high net worth individuals (HNIs) and retail investors. The segment offers the potential for handsome rental returns along with capital appreciation.

Myriad opportunities: In the past, investment in office real estate was monopolised by large investors and HNIs as it involves large investment. But today investment opportunities are opening up for small retail investors as well with a pick-up in office strata sale and the launch of real estate investment trusts (REITs). According to Anarock Commercial, 25 per cent of the total office stock of ₹2.5 lakh crore is available for strata sale. Fund-starved developers are offering 25-40 per cent of their office property for strata sale to generate cash flows. Recently, Prestige Estates offered 25 per cent of its office inventory for strata sale. All this has opened up a huge opportunity for retail investors. Says Ajay Rakheja, head, commercial, 360 Realtors: "Depending on the city and the location, today non-lockable office spaces are available for as low as ₹20 lakh and lockable office properties for ₹30 lakh." He adds that there is unprecedented demand today in the 300-5,000 sq. ft. range. Investors also have the option to go for under-construction property or ready and pre-leased office property.

More REITs could be launched: REITs allow investors to enter with an amount as low as ₹50,000. The first REIT was launched in India by Embassy-Blackstone group. More REITs are expected to be listed on the stock market this year. Says Ramesh Nair, chief executive officer (CEO), India, JLL: "Office space worth $35 billion is eligible to be listed under REITs, which provides both transparency and easy exit."

HYDERABAD MARKET RISING FASTEST

City	Key sub-markets	Weighted average rent (₹/sq ft/month)	Y-O-Y growth (%)	Capital value (₹/sq ft)	Y-O-Y growth %
Mumbai	CBD	200-220	0	32,000-35,000	0
	BKC	220-260	1-2	37,000-43,000	2-3
	Lower Parel	140-170	0-1	23,000-28,000	4-5
	Andheri - Kurla	100-120	4-5	17,000-20,000	5-6
Delhi NCR	MG Road	90-130	9-10	17,000 - 25,000	0
	Sohna Road	45-60	0-1	7,000-11,000	0
	Golf Course Ext. Road	50-75	0-1	8,000-12,000	0
Bengaluru	CBD/Off CBD	120-140	7-10	19,000-24,000	5-7
	Suburban South	75-85	5-7	11,500-14,000	5-7
Hyderabad	Madhapur	70-78	10-13	11,000-12,500	11-14
	Gachibowli	60-62	12-15	9,500-11,500	13-15
Pune	CBD	90-120	10-12	16,000 - 20,000	5-6
	SBD East	80-100	5-6	13,000-17,000	4-5
	SBD West	70-90	7-8	11,000-14,000	5-6
Chennai	CBD	65-80	3-4	14,000-17,000	1-2
	Off CBD	70-75	2-3	14,000 - 16,000	5-6
	South-West	65-75	5-7	11,500-13,000	1-2

Source: Cushman & Wakefield India

Attractive return potential: Depending on the location and the facilities, the rental yield ranges from 7-9 per cent for Grade A properties and 9-10 per cent for non-Grade A spaces. Investing in pre-leased properties is a safer option as the rent starts from day one. Capital returns from office property can go as high as 14-15 per cent. For better yields, go for properties in prime locations and smaller unit sizes of 3,000-5,000 sq. ft. Integrated, mixed-use developments with office, retail, hospitality and service apartments also offer better yield.

Location is critical. Though office spaces in central business districts are ideal, investments in well-connected suburban areas can be equally rewarding, as they allow entry at a lower ticket size and yet hold the potential to offer good returns. Properties with proper parking facility, air-conditioning and security fetch good rentals. "For income-producing office assets, consider factors like vacancy levels, maintenance expenses, property taxes and potential for long-term capital appreciation. The developer's credential and potential scope for infrastructure upgrade in that area should also be factored in," says Anuj Puri, chairman, ANAROCK Property Consultants..

Potential for higher rental return: Rental return from office properties can be three times or more higher than residential property. Unlike residential real estate, which requires considerable investment, one can now enter the office space with quite a small amount due to the new trend of smaller offices and strata sale. Investment in an office property can also help the investor diversify his investment portfolio.

Stringent loan conditions: Investors entering this segment for the first time should not overlook the downside. Invest in office property is not as simple as investing in residential real estate and one may need to seek expert advice. If you buy an unleased property, then finding tenants could prove to be a challenge. According to Puri, on the loan front, office property does not compare well with residential property. The loan-to-value (LTV) ratio allowed by lenders in office property is much lower (55 per cent) than in residential property (75-90 per cent). The loan processing fee (1 per cent of property value) is also much higher in case of office property. The rate of interest for this loan is also a couple of percentage points higher, and at 10 years the loan tenure allowed is three times less.

Despite these pros and cons, investors remain upbeat about office property. According to a recent survey by Colliers International, about 63 per cent of the investors who responded said that an investment in office property would be their top preference over the next one year. About 72 per cent investors expect a rate of return of more than 16 per cent from under-construction property. The survey listed Bangalore, Mumbai, the National Capital Region (NCR), Pune and Hyderabad as the favoured investment destinations.