

Growth of commercial real estate in India

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Considered amongst the foremost indicators of industrial growth, the Real Estate sector is hardwired to be the foundation as well as the pinnacle of industrial growth, in a very ironic manner.

Commercial real estate market in India

From US \$120 billion in 2017, Indian real estate market is expected to grow to US \$1 trillion by 2030 (IBEF). Over the next five years, the industry will contribute more than an eighth of the country's GDP! The secret sauce here, is the co-related growth of retail, hospitality and commercial infrastructure sector, which is driving the real estate needs of the urban population in India.

It's no secret that a steady growth in IT and ITeS, consulting and e-commerce sectors have also been the catalyst for the increasing demand for commercial real estate be it offices, malls and even co-working spaces. Today, India is sitting on a stockpile of over 600 million sq ft of office spaces, of which almost 100 million sqft will be in the top eight cities alone- by 2020. During the past one year, there has been a rapid increase in co-working spaces - from 1.11 million sqft in Sept 2017 to almost 3.44 m sqft. in Sept 2018 (IBEF). There is a massive rise in Private Equity and Venture Capital investments in the sector. It touched US\$ 1.47 billion between Jan-Mar 2019 (IBEF).

Decoding the sector today

Rapid urbanization and population growth in major cities of the country have led to an increase in jobs, which in turn has increased demand for commercial real estate. Indian government policies such as relaxation of foreign direct investment, Make in India project and implementation of GST have contributed to the growth of commercial real estate. Innovation has also been instrumental in changing the industry, and advanced technology has set a new benchmark.

Flexible and co-working space has increased in the recent past along with A-grade offices in India, especially in metropolitan cities. The demand for well-resourced commercial spaces has also increased in Tier II cities and peripheral areas. The demand for flexible and co-working spaces is expected to increase over the next three years, fuelled by start-ups and large corporations. In the coming years, e-commerce is another segment that's expected to leave a large footprint in the industry.

The best is yet to come, though. In a recent move, the Securities and Exchange Board of India (SEBI) has approved the setting up of a Real Estate Investment Trust (REIT) platform. This is expected to attract funds to the tune of US \$19.65 billion (Rs 1.25 trillion) in the Indian market.

Driven by this growth, the sector sees a strong base today. There is a healthy demand and supply balance, which is driving growth in 2019, and beyond. With almost 10 million sqft. of retail space to be added to the market, and almost 60 million sqft. of new space that will add up to the bulk by 2020, things look good for the sector. Government initiatives will be driving changes in the product mix of real estate brands, and with ITeS and IT on a steady growth path, 2020 and onwards will be years to look forward to.

The key growth factors

With increased confidence shown by investors, commercial properties have become more attractive for real estate investments and funds, in 2019. The residential market has improved in the recent past and is expected to continue. At the same time, increasing disposable incomes and changing market outlook, even smaller and medium sized investors are getting a foothold in development funding investments. Of course, the fact that commercial spaces are easier to rent and invest with, also helps in their being more lucrative at this point.

The growth of E-commerce and ITeS sector also has been responsible for the fast development of office spaces and other commercial properties. E-commerce has created huge demand for warehousing, also commercial in their own right. With global giants like Amazon entering the Indian market, there is no scarcity of investors in these spaces. As E-commerce sector sees rapid growth, warehousing has become one of the biggest modules of commercial real estate in cities like Bengaluru, Mumbai, NCR and Hyderabad.

Besides these market drivers, government initiatives like 'Make in India', GST and RERA are also driving the growth of commercial real estate. Another important factor is the opening up of the capital markets for real estate- specially through investment vehicles, such as REITs, and REOCs in the stock market. The new add-on innovative products like commercial mortgage-backed securities, have given the commercial sector a proverbial shot in the arm.

The role of technology in a Glitzier City line

Bolstering all market forces, technology has been one of the biggest game changers in real estate sector in India. Developers on digital platforms have contributed to the agility of market transactions. Increased leverage of smart sensor technology, cloud-based mobile applications and networking platforms have also contributed to the growth of this sector. Emerging technologies like Virtual Reality and 3D Imaging, are increasingly playing a significant role in the industry.

Way forward

Over the next few years, the commercial real sector is all set to flourish. With developers going in for Real Estate Investment Trust (REIT), investors will have access to the Indian real estate market like never before. Over the next few years, the opportunities that can be created in the real estate industry, are expected to amount to USD \$19.65 million (IBEF). Technology resources add value, as developers look at multiple locations in the same city to invest in. Centralised knowledge, material sourcing databases, and a localised base of qualified professionals in areas like project management, architecture and engineering will contribute to the overall development of the company.

The industry is looking at becoming energy and eco efficient. Over the next few years, all buildings are looking to meet sustainability compliances - based on measurable ratings. With careful handling of the fragile ecosystem that we have created, and leveraging technology to meet changing needs, the sector would definitely see even better days soon.

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