Back in action

SANJAY BORADE

Investors are taking their position in the real estate market with re-aligned strategies

After being passive for over three-four years, investors are coming back to the Indian real estate sector. The testimony to this is the fact that private equity funds have almost tripled their investments in the country's real estate sector in the first six months of 2015, even as the market is yet to show a steady trend. These players, both foreign and domestic funds, invested around ₹11,200 crore in commercial as well as residential real estate during the period, as compared to about ₹4,000 crore in the same period last year, according to consultancy firm Cushman & Wakefield.

In fact, this inflow for the January-June period is the highest since 2008. However, this time round, the investors are adopting a much prudent approach. Their expectations are much more realistic, even as they are trying to strike deals quite diligently. The redeeming factor is that many of these investors are those who had completely shunned the market after burning their fingers badly in their initial sojourn. It may be noted that after the opening of the market in 2005 for foreign investors, a large number of funds entered the Indian real estate sector. But they suffer heavily due to their lack of understanding of the market.

Interestingly, the residential segment which continues to move slowly as against its commercial counterpart, has attracted majority of these funds, with 56 per cent share. The commercial segment which has shown a great deal of revival in the last 12-16 months managed to get 41 per cent of this capital, whereas mixed use developments shared the remaining portion. While domestic funds have shown their penchant for residential assets, foreign PE funds have mainly been active in leased office assets such as IT parks and IT-SEZs, during the period.

"The market is gradually gaining the desired momentum. In fact, India is a big market for global investors and they cannot ignore it for long. Indian real estate assets have always been prolific in terms of returns in the long run. Moreover, the market is quite attractively placed at present," says Amit Oberoi, head, valuation & advisory, Colliers India.

Change is visible

"While PE investments in the real estate sector have been rising steadily, funds are taking longer time and taking calculated risks, and mainly investing in projects where there is proper clarity on cash flows. This investment trend is likely to continue upwards owing to improved macro-economic factors," says Sanjay Dutt, executive managing director, South Asia, Cushman & Wakefield.

"There is definitely a change in the investment climate. The sentiment has improved. But the investors are cautiously optimistic and trying to tread carefully this time. Realigning their strategy, the investors are looking to actively participate in the whole investment process rather than being passive. They are forming alliances and platforms towards

Residential Property Prices
(₹sq ft)

Mumbai	Grade A	15,000-65,000
	Grade B	8,000-17,000
Bangalore	Grade A	6,500-16,500
	Grade B	4,500-6,500
Delhi (NCR)	Grade A	10,000-45,000
	Grade B	4,000-11,000
Chennai	Grade A	6,500-15,000
	Grade B	3,500-7,500
Hyderabad	Grade A	4,000-6,500
	Grade B	2,500-4,000
Pune	Grade A	6,000-16,000
	Grade B	3,500-6,000
Kolkata	Grade A	5,000-9,000
	Grade B	2,500-4,500

Sources: Cresa Partners

this end," states K.G. Krishnamurthy, managing director and CEO, HDFC Property Ventures, which is planning to float a new fund by the middle of the next year. The company is in the process of returning the investments made in the initial offshore fund of $800 million. It has already returned $120 million, while another tranche of $350 million will be returned by March 2016 and the rest by 2017.

In the second offshore fund of $320 million raised last year, about $280 million has been committed, while $140 million has already been invested by the HDFC fund. There are also two onshore funds with a combined corpus of ₹1,500 crore. The company has almost retuned the investment except about ₹200 crore. HDFC Ventures' commitments and investments include transactions with Paranjape group in Pune, Mahagun group in Noida, Kalpataru and Lodha in Mumbai, True Value Homes in Chennai and Hiland group in Kolkata.

Growth strategy

Enthused by the investor response, ASK group is planning to raise about $1 billion (about ₹6,000 crore) across asset classes (including real estate) from offshore markets in the next three years. ASK, which currently manages about $3 billion worth of assets under management and advisory, will raise the fresh money for a real estate fund, a private equity fund and a long-only equities fund in the country. The group, which had aimed to raise a $200 million real estate fund in 2013, but paused after raising $50 million, now wants to increase the fund corpus to as much as $350 million.

In order to implement its growth strategy, the group has recently appointed Evan Gallagher as CEO and executive director of its Singapore-based subsidiary ASK Capital Management Pvt Ltd. Gallagher has an experience of over 17 years in the financial services space. Prior to joining ASK group, Gallagher was with IDFC Capital (Singapore) Pte Ltd as CEO. At the same time, he created and led the Investor Management group for IDFC Alternatives, the largest home-grown PE firm by assets under management.

Krishnamurthy: sentiment has improved

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Rohokale: investors are positive

"Investors are today much more positive as compared with the past two years in allocation of capital to Asia's third-largest economy. International money probably has started looking at India given the limited options in other emerging markets and having known issues of China as well," says Sunil Rohokale, managing director & CEO, ASK group, which has recently raised ₹1,500 crore under its third domestic fund, ASK Real Estate Special Opportunities Fund II, through its real estate private equity arm ASK Property Investment Advisors. With this, the assets managed by the ASK group through its real estate business stand over ₹3,500 crore in India. ASK is looking to deploy about ₹1,000 crore in the real estate market during the current fiscal year. .

"Investors are seriously looking for track record. We have demonstrated our exit track record of over ₹1,000 crore with returns of 2.25-2.50 times and this performance has helped us in receiving a good response for the new fund as well. Our investors, who have invested through us as preferred partners in Indian real estate, appreciated the differentiated approach of equity over mezzanine or debt investments," adds Rohokale.

However, experts say that pure equity deals are very rare in the given market condition. Most of the deals are structured ones (debt or mezzanine) as investors/funds are trying to mitigate risks and preferring secured returns as part of their re-aligned strategy. In fact, they have moderated their return expectations to 16-20 per cent as against 25-30 per cent earlier. There are concerted attempts to deal in stabilised projects where there is clear visibility of cash flows. Besides, track record of developers is finding significance.

Indiabulls Asset Management Co a subsidiary of private housing finance company Indiabulls Housing Finance, is also all set to launch a series of smaller funds to tap the investment opportunities in the

Rental rates
(₹ per sq ft per month)

Commercial office		
Mumbai	Grade A	220-300
	Grade B	100-175
Bangalore	Grade A	70-125
	Grade B	40-70
Delhi (NCR)	Grade A	150-300
	Grade B	50-125
Chennai	Grade A	50-75
	Grade B	35-55
Hyderabad	Grade A	50-70
	Grade B	35-50
Pune	Grade A	65-110
	Grade B	35-55

Sources: Cresa Partners

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Maheswari: short tenure funds are useful

Dutt: startups will fuel growth

market. Its recently-launched maiden ₹500-crore fund has generated overwhelming response. Backed by HNIs, family offices and institutions, this pure debt fund has already witnessed deployment of over ₹300 crore across three projects -- Vatika group's Gurgaon housing project; Supertech, Noida and a project in Mumbai.

"We have decided to launch three to four smaller funds with specific focus and smaller tenure. The strategy works quite well in the given market, where it is always better to have diversified portfolio across multiple funds. Tenure of our funds will be shorter, say, 3-5 years," says Ambar Maheshwari, CEO, private equity funds, Indiabulls Asset Management, who was earlier managing director, corporate finance, at property advisory firm Jones Lang LaSalle India (JLL), and joined Indiabulls last November to spearhead its private equity business.

Having raised ₹500 crore in March this year through its second real estate fund, Motilal Oswal Real Estate, the real estate PE arm of the Motilal Oswal group is looking to raise it to ₹1,000 crore through its third real estate fund. The fund would deploy the fund in residential projects of established developers in Mumbai Metropolitan Region, National Capital Region, Bengaluru, Pune, Chennai and Hyderabad. It is looking to undertake about a dozen transactions of ₹80-120 crore each.

"The real estate sector is going through a consolidation phase and prices are expected to remain stagnant for some time. This is the correct time for investors to invest through indirect investing as we participate in the project profits rather than banking completely on the future price rise," says Sharad Mittal, director & head, real estate fund, Motilal Oswal Real Estate, which has set up the fund as an alternative investment fund or AIF category II registered with stock market regulator SEBI since it believes that given the current market scenario, direct investments may not fetch superior returns.

Good response

The company expects to achieve first closure by mid-January 2016 and conclude fund raising in the next six-nine months depending on the market conditions. Motilal Oswal's strategy is an extension of its experience with its two earlier funds wherein it invested capital, typically under mezzanine structure, in top five property markets with developers such as ATS, Shriram Properties, Godrej Properties, Rajesh Lifespaces, Ahuja and Casa Grande. The new fund will also focus on top six property markets in the country. Its second fund is in investment mode and has deployed about 80 per cent of the capital.

"The market is offering attractive valuations for investors as well as actual buyers. Good developers with right kind of products have continued to generate good response in this market which is already showing signs of some degree of revival, even as some micro markets are struggling," says Shailesh Puranik, managing director, Puranik Builders, Mumbai, which has witnessed good response for its products despite slowdown. Raised funds from Indostar and CarVal in the past, the developer with projects in Mumbai and Pune, is in talks with a couple of funds to raise about ₹600 crore.

Milestone Capital is also planning to raise ₹500-800 crore through a commercial property fund in the next few months. The private equity

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Kumar: cautious approach

player has so far raised ₹2,800 crore for investing in real estate, of which over ₹1,200 crore has been committed and deployed in commercial real estate across the country in joint venture with IL&FS Investment Managers.

Milestone has returned close to ₹1,600 crore back to investors across its seven real estate funds in the past 18 months. Milestone's strategy to focus on structured debt in line with the property market scenario has helped in realising returns (exits) averaging above 20 per cent in the last three funds launched since 2010; and 23 per cent in its residential fund, MDS III.

Gopalan: focusing on speedy sale

In the past 12-16 months, all these PE funds have raised $3-4 billion and another $4-5 billion is expected to be raised in the next 8-12 months. While funds are cautious and selective, developers are also using these funds judiciously. Developers are focusing on completing their projects. Many are also using these funds to refinance existing debt amid tepid project sales and weak cash flows. "While funds are selective and putting money in nearing-completion projects (particularly with reputed names), developers are also trying to use this money cautiously this time. More than launching new projects, developers are focusing on completing their projects quickly so that they can evoke reasonable cash flow. In case of commercial real estate, income-yielding projects are generating good response," says Ashok Kumar, managing director, Cresa Partners.

"The market is offering plenty of options. There are reasonably-priced assets available in the given situation. Besides, there are also some distressed assets which can be evaluated for good returns. However, funds are taking their own time carrying out due diligence," says Rohokale.

The total number of deals, by Cushman & Wakefield's estimate, has increased by 44 per cent to 39 during H1 2015 from 27 during the corresponding period a year ago. The average deal size nearly doubled and was noted at ₹290 crore, as against to ₹150 crore in H1 2014.

During H1 2015, residential assets recorded the highest ever PE investment since 2008 as domestic funds continue to increase their exposure to residential assets. The total investment volume in the residential sector increased significantly by 2.8 times on y-o-y basis and was recorded at ₹6,328 crore. "PE funds have started making investments in the affordable housing segment as well and realising the opportunities presented by the Central government. They have started exploring options in smaller cities also," says Shouvik Purkayastha, executive director, capital markets group, Cushman & Wakefield.

Asia-focussed investment firm Equis Funds group has invested ₹720 crore ($116 million) with Bengaluru-based real estate developer Assetz Property, which is building homes priced at ₹25-50 lakh.

Renewed activity

In the last few months, the affordable housing space has seen renewed activity on the back of the push by the government to provide housing for all by 2022. A bunch of players has announced foray into the space. In fact, most of the developers currently have affordable housing in their portfolio.

Singapore-based Private equity fund SSG Capital Management has invested ₹600 crore in real estate developer Emaar MGF to fund its projects in the National Capital Region. The fund has been raised against the security of two residential projects and one industrial park that Emaar MGF is developing in Gurgaon. The developer will use ₹300 crore for servicing its debt, whereas ₹75 crore will be used to construct two projects in Gurgaon that are in early development stage. The company will also invest ₹125 crore to develop some of its other projects. SSG Capital had also recently put ₹450 crore in a Noida project of builder Lotus Greens along with Clearwater Capital. In both the deals, investee companies have issued non-convertible debentures to the funds.

Hiranandani: multiple challenges

Bengaluru-based developer Ozone group has raised ₹575 crore from Piramal Fund Management for its 150-acre township in Bengaluru. The money has been given through a structured transaction, combining debt with an equity kicker, primarily to refinance the developer's existing loans and provide working capital. Of the total funding, ₹400 crore will go towards refinancing Ozone's bank loans and the remaining will be used as working capital. The project, Ozone Urbana, in northern Bengaluru, is under construction and will have nearly 11 million sq ft of saleable area, comprising residences, office space and a hotel as well as homes for the old.

"This deal completely de-risks the construction of a huge development like Urbana," says Srinivasan Gopalan, chief executive officer, Ozone group. "We are now focussing our energy on speedy sale and execution of projects".

In the last one year or so, Urban Infrastructure Venture Capital-backed Ozone group has raised around ₹1,000 crore. In March, it raised ₹150 crore from Aditya Birla Real Estate Fund to refinance a loan for its Metrozone project in Chennai, where the fund bought residential stock in the project in a bulk-buying deal. Earlier, global PE fund Blackstone Group had invested ₹175 crore in the residential portion of the 42-acre, mixed-use Metrozone project. Ozone group is also in the process of launching its first project in Mumbai, along with a local partner.

"In Ozone, we found a partner that was strongly focused on creating a customised financing structure that would allow it to fast-track the execution of the project," says Khushru Jijina, managing director, Piramal Fund Management, one of the most active domestic private equity investors, which has been steadily increasing the size of its deals. In March 2015, it announced that it had committed ₹1,200 crore as debt to a luxury residential development of Omkar Realtors in south Mumbai.

"In the last few months, we are seeing a good deal of activities in the market. Deal sizes have also on the rise. This is indeed a good sign for the market which is currently under transition," says Shashank Jain, partner-transaction services at PwC India.

On the commercial front, leased office assets such as IT parks and IT-SEZs have attracted significant interest from foreign investors as they continue to ramp up their portfolio, These assets accounted for more than 90 per cent share in the total investment volume in office assets during H1 2015, as per the C&W report. This was primarily due to low risk owing to high occupancy levels along with stable rental yields and significant potential for capital values appreciation. Leased office assets have also become attractive to foreign investors on account of the anticipated listing of maiden REITs in India, following the guidelines issued by Securities & Exchange Board of India. This trend is also expected to continue in the coming quarters as some of the major Indian real estate developers are exploring options to trim their balance sheets and reduce their debt piles by divesting their assets.

In one of the largest deals this year, global PE major Blackstone -- the world's largest portfolio investment manager -- invested ₹1,060 crore to buy 24x7 Park, a commercial office project in Mumbai from HCC Real Estate and IL&FS Milestone Realty Advisors. IL&FS Milestone Fund, a joint venture between Milestone

Puranik: attractive valuations

Capital and IL&FS Investment Managers, owned a majority stake of 74 per cent in the property while the rest 26 per cent was with HCC. Milestone Capital had invested in the property way back in June 2010 valuing the asset at ₹775 crore. And 24x7 Park, a 1.8 million sq ft completed and leased

Bottoming out

The domestic real estate is passing through a transition phase

The domestic residential market has continued to languish, even as the commercial market has witnessed a great deal of revival in the last few quarters. As the home buyers are going slow, sales have been adversely affected, whereas developers are restrained to launch new projects. As per the latest report by Knight Frank, during the HI2015, average sales in major cities dipped by 20 per cent, while new launched were down 40 per cent across major markets. With a combined unsold inventory of over 700,000 residential units, all these markets are struggling to clear their stocks. Mumbai and NCR are the most affected markets with unsold inventory of 194,000 units and 191,000 units, respectively. Market observers are of the view that the impasse will continue for another two-four quarters at least, if not more. But they certainly believe that worse is over and there are tepid signs of revival in the backdrop of improving commercial market.

"The residential market is currently under a lot of stress," says Pranay Vakil, chairman, Praron Consultancy. "Both demand and supply sides have been affected considerably and we don't see things looking up in hurry. In fact, overall economic indicators have failed to improve on the expected line and thus adding to the woes". Vakil believes that the expansion of this huge unsold inventory is also the result of many developers in the past not being able to provide the right kind of products in terms of size and pricing.

"The market is faced with multiple challenges," says Surendra Hiranandani, founder and managing director of House of Hiranandani. "The current situation is also reflection of our overall economic condition as also our regulatory framework which has only aggravated the market woes. The industry is struggling to cope up with the issues related to cumbersome approval process as also rising cost of construction. There is also need to radically revamp our entire urban planning structure".

"The residential market is passing through a tough time when buyers are selective in reposing faith with builders. Only reputed builders with good track records and right kind of products and pricing have been able to generate response. Sentiment has been subdued and will continue to be so in coming few quarters. Improvement in the overall economic scenario will be a decisive factor for the market," says Rohit Poddar, managing director, Poddar Developer, which is engaged in affordable housing space. The Mumbai-based developer has 10 million sq ft of space under construction, and another 15 million sq ft will be added in the next one year in the Mumbai metropolitan region. According to Poddar, even the affordable segment, which is expected to be insulated, has not been out office space in Vikhroli, Mumbai, has Siemens, Piramal group, Future group, KEC, HCC, DHL, APL and Tata group as its tenants. The property fetches an annual rental income of roughly ₹100 crore.

Last year, Blackstone had acquired a 1.5-million sq ft IT special economic zone -- Oxygen in the NCR, from realty developer 3C Group for around ₹620 crore. Blackstone has been active in the space with its joint venture partners -- Bengaluru-based Embassy group and Pune-based Panchshil Realty. Early this year, Blackstone acquired a majority stake in Mumbai's Express Towers (office space) for about ₹870 crore.

However, in the largest deal this year, SPREP Pte Ltd, a strategic alliance between Canada Pension Plan Investment Board (CPPIB) and Shapoorji Pallonji group, bought out SP Infocity IT Park in Chennai for $220 million in its first acquisition, two years after the partnership was forged. SP Infocity IT Park is located on Old Mahabalipuram Road, Chennai, and has close to 2.7 million sq ft of operational space. Its key tenants include HSBC, Amazon, Ford, Siemens, Citibank, AT&T and Hapag Lloyd.

Rohira: rental values up

The first deal under the platform has taken some time to fructify. The alliance was struck towards the end of 2013 with the mandate to acquire FDI-compliant, stabilised office buildings in the major cities in India. CPPIB had picked up 80 per cent in the venture, with an initial equity commitment of $200 million.

While the Canadian pension fund chases acquisition of commercial assets through this platform, it has a separate JV with Piramal Fund Management for residential properties in India. In February 2014, it formed an alliance with the unit of Piramal Enterprises to finance housing projects with an initial capital of $500 million from both the partners.

In the last couple of years, the Indian real estate market has seen a slew of such platforms where investors particularly sovereign wealth funds and other global institutional investors like pension and insurance funds are betting big on the Indian real estate assets. Most of these players are approaching the Indian shore with specific mandates and investing in properties in a much engaged manner.

Abu Dhabi Investment Authority (ADIA), the sovereign wealth fund of the emirate of Abu Dhabi has

spared, and here also buyers are looking for selective purchase with branded builders.

Manju Yagnik, vice-chairperson, Nahar group, is of the opinion that the market is under transition and driven primarily by the end-users who are waiting for right products at right prices. "Buyers have plenty of options and they are looking for only those projects which have reached advanced stage of construction to avoid any construction-related risks. Besides, builder's background is being given prominence," adds Yagnik, whose company (currently undertaking project in Mumbai, Pune and Chennai) has been moving slowly in launching new projects, however, it is planning to launch a couple of projects in Mumbai in the next few months in anticipation of improvement in the market sentiment.

"Developers who have positioned themselves properly in the market and shown their track record, are still doing reasonable business. Apart from products and their pricing, right location is also crucial in this market. Moreover, real estate as an asset class has always done well in India in the long term," says Gaurav Gupta, director, Omkar Realtors, which is boasting a sizeable portfolio in the redevelopment space.

Vikas Oberoi, CMD, Oberoi Realty, views that, despite all odds, the residential sector has been quite supportive to developers, who have designed their products keeping in mind the market requirement. "Besides, this is the time when reputed names with differentiating products are not only able to cope up with the market vagaries, but they are also commanding premium. The recent downturn will provide the market the much needed depth and maturity for its long term progression," adds Oberoi. Undeterred, Oberoi Realty has recently launched a multi-tower residential project 'Sky City' in Borivli, Mumbai. Spread over 25 acres, the project would consist of 10 towers of 60 storeys each, with a saleable area of over 5.5 million sq ft.

The residential market is gradually gaining its maturity amidst some tepid signs of improvement, says Navin Makhija of Wadhwa group, echoing similar sentiment. However, it would require a much needed trigger for the market to come out of its present condition. "Looking up of economy and lowering of interest rate will augur well for the market. I expect the market to gain its true momentum in the next few quarters," he adds.

"Gradually, favourable demand-supply equilibrium is being established. We have already started seeing the invested $300 million in the offshore fund of Kotak Realty. The corpus thus formed is used on behalf of ADIA to invest in residential properties across six major cities. Besides, ADIA has also formed an alliance with Hines India Real Estate, the Indian arm of American property development and management firm Hines to invest to the tune of $250 million in the Indian residential market. The fund is targeting mid market and upper mid market residential developments.

Recently, Bengaluru-based realtor Nitesh Estates tied up with financial services giant Goldman Sachs to jointly invest up to $250 million in income-generating commercial assets. Brigade group, another southern developer, has a joint venture platform with Singapore's sovereign wealth fund GIC for residential properties in southern India. The size of the platform is $247 million. Recently, a joint venture between these two entities acquired an SEZ property in Bengaluru.

Moreover, GIC and investment firm Temasek and Oman's State General Reserve Fund have committed to invest $200 million in a HDFC-run fund. Similarly, another sovereign fund Qatar Investment Authority has invested $300 million in Bengaluru-based developer RMZ Corp to acquire commercial space in Bengaluru, Hyderabad, Chennai and Pune. SCM Real Estate, an investment arm of UK's StanChart Bank has made an entry into Indian real estate by signing a joint venture with Mahindra Lifespace. Both the partners have decided to invest ₹1,000 crore in multiple projects and hold equal stakes in the JV, called Watsonia Developers.


SANJAY BORADE

Oberoi: big market for investors

Dutch pension service provider APG-led consortium in 2012 entered into a pact with Godrej Properties for ₹770 crore investment commitments. The investment reserve primarily focuses on Godrej Properties' residential developments in mid-income projects in Mumbai, NCR, Bengaluru and Chennai. Godrej Properties is the exclusive development manager of these projects, to be pursued through these equity commitments for which it will receive a development management fee.

Experts are of the view that most of these global investors are trying to actively involve themselves in the investment process as against going through private equity route, where they are at the discretion of fund managers. In association with Indian partners, these funds are creating investment platforms with specific mandates. They are devising models

signs of improvement. Learning from the past, the industry is trying to get its act together by putting up much more improved processes. With economic indicators looking up, we are likely to see the much needed improvement in the overall sentiment," says Brotin Banerjee, CEO & managing director, Tata Housing.

"We expect the demand in residential segment to pick up in the coming quarters, as interest rate reduction benefit is passed on and as developmental impact renews interest in home buying. The government's initiatives to provide housing for all in particular and to promote growth and development in general are bound to increase construction activity," says Rahul Katyal, managing director, Capacit'e Infraprojects, Mumbai, which undertakes construction for developers like Godrej, Wadhwa, Lodha, Hiranandani, Patel, Sheth and Emaar MGF in Mumbai, NCR and Bengaluru.

Meanwhile, the commercial office space market has seen a major turnaround in the last few quarters. Not only has the average vacancy level in the office space come down considerably, but the absorption volume has also been surpassing new completions consistently since H1 2013-14.

"There has been significant improvement in the office market scenario in the last few quarters with vacancies down to much more comfortable levels. The supply and demand situation has turned favourable with growth in rental values. Corporates, after holding on to their decisions, have started taking positions," says Vinod Rohira, managing director, commercial real estate and REIT, K Raheja Corp.

"The commercial office market is witnessing a good deal of activity after being subdued for a long time. In fact, there are builders which are now getting into the space with new launches to meet the growing requirement of the market. The office market space is expected to remain steady going ahead," says Lalit Kumar Jain, chairman & managing director, Kumar Urban Development, Pune, and former chairman, Confederation of Real Estate Developers' Associations of India (CREDAI).

"The turnaround in the office space market which was witnessed in 2014 has been maintained on the back of improving business sentiment and recovery in the domestic economy. The average vacancy level has also come down considerably," says Shishir Baijal, chairman & managing director, Knight Frank India, which, in its recently launched third edition of its flagship half yearly report, says that the vacancy levels across six major cities have dropped to 17 per cent in H1 2014-15 from 19 per cent a year ago. Nearly, 18 million sq ft of office space was absorbed during H1 2014-15. Leading e-commerce players are now emerging as strong drivers and have inked office space deals upwards of 1 million sq ft each in recent months.

As per a Knight Frank report, the Bengaluru office market continues to lead the way with the highest office space absorption in the country. Around 6 million sq ft of office space was transacted in

PALASHRANJAN BHAUMICK

Yagnik: buyers have more options

that can mitigate development and other country-related risks.

"In the given market, investors are trying different models to explore the market opportunities effectively. Creating such platforms is one of them to actively participate in the whole process of investment. The fact that these funds are evincing their interest in the Indian market shows that India continues to present good investment opportunities. Besides, as an asset class, Indian real estate is fundamentally quite strong in the longer term," says Kumar.

"Unlike PE players, these investors have got a much longer perspective, even as they believe in lower but secured returns. They follow well-defined mandates for a particular geography. The current market presents more investible options for investments than before and these long term investors are all set to explore these opportunities. Besides, India is a part of their global allocation," says Anshuman Magazine, chairman & managing director, CBRE South Asia.

No doubt, investors have again started showing interest in Indian real estate, even as their approach is now different. Learning from their past experience, these investors have re-aligned their strategy and looking more skilled and determined to explore the opportunities in a market which is undergoing a transition, heading for a much stabilised set-up. Infusion of these institutional capital

Gupta: track record is crucial

is much warranted in the Indian context where funding has not been that organised. These long term funds will not only help the industry regain its momentum but also provide it with much more maturity and depth for its long term progression.

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this market during H1 2014-15, followed by NCR, which clocked absorption of 3.7 million sq ft and is driven primarily by the IT/ITeS and other services sectors. Mumbai currently has the highest vacancy level at 22 per cent, followed closely by NCR (21 per cent). However, the vacancy levels have been reducing consistently in both these markets since H2 2013-14. Although market vacancy has remained high during the last few years, there is a dearth of large-size quality office space.

At 8 per cent, the vacancy level in Bengaluru is the lowest among these cities. "All these years, while other cities have stumbled, the Bengaluru office market has not only shown a great deal of resilience but also seen a sizeable volume of absorption. With companies making fresh commitments, the market will continue to move in a steady manner going ahead," says Jitu Virwani, chairman & managing director, Embassy group, Bengaluru. One of the largest players in the commercial office space in the country, it plans to build around 13-14 million sq ft of office space over the next three-four years. Recently, Flipkart has signed up to lease 2 million sq ft office space from the Embassy group in one of its office parks in Bengaluru. The developer will be delivering this space in a phased manner over a period of 8-9 years.

"The absorption trend in the first half was largely driven by the IT/ ITeS, e-commerce and outsourcing companies that are witnessing accelerated growth," says Sanjay Dutt, EMD, south Asia, Cushman & Wakefield, who believes that 2015 could be one of the best years for office absorption in recent times.

There has been a limited supply of Grade-A, ready-to-move-in options for clients over the last few quarters. The trend is expected to continue over the next couple of quarters as well," says Ram Chandnani, MD, transaction services, CBRE South Asia.

According to the Knight Frank report, during the second half of 2015, the demand for office space across six major cities is expected to be 21.2 per cent as compared to new completions of about 18.5 per cent.

"For the last four-five years, there has been a limited supply of commercial office space as developers look to residential developments for steady cash flow. In fact, this has augured well for the office market which faced a glut of space in the aftermath of financial crisis in 2008. We are now seeing a favourable demand-supply dynamics," says Vidyut Saraf, deputy managing director of Kolkata-based developer Forum group.

Going forward, the commercial office market will gain further momentum on the back of growing demand. While ITeS and other related sectors such as e-commerce and start-up ecosystem are currently leading the pack, the traditional industries will follow soon as the economy picks up. This will lead to generation of due demand in the residential sector which is on the verge of bottoming out.

◆ AG