



# INDIAN REAL ESTATE MARKET OUTLOOK

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## A TIME FOR REINVENTION OF REAL ESTATE STRATEGY TO COUNTER DISRUPTIVE TIME

If anything, the year 2016 has been full of disruptions. Many of the unexpected changes ushered will reverberate in the years, even decades to come. Many of these changes have interrupted long running and steady processes on to a new and anticipated trajectory. Perhaps the most influential is surely the Donald Trump win as next president of United States followed by Brexit event. In addition to India PM Modi's deeply disruptive decision to withdraw 86 percent of legal currency overnight to eliminate corruption and black money and promoting digital economy. There is a cost for these disruptions and time will tell if it was good politics or good economics.

In 2016, Indian economy had shot to the top of the list of preferred destinations with 7.6 percent GDP growth for investment. It was also the fastest-growing major economy, set for growth over 8.0 percent for next few years, but demonetization may put pressure on growth in short term.

As we are preparing for 2017, let us take a look at the major trends that defined the past 12 months and will have a significant impact on prospects of the real estate market.

The year started with hope and optimism followed by many major real estate policy changes; Amendments in Real Estate Investment Trusts (REIT), RERA (Real Estate Regulation Act), Benami transactions amendment act, Goods and service tax (GST) and demonetization which will redefine new norms of this sector.

- Local real estate market will need to reinvent their strategies in 2017 to prepare and respond to the changes due to the macroeconomic local and global environment. Market also need to factor aftereffect of Trump policy implementation as promised. India may get impacted negatively due to Fed rate increase, strong dollar, crude price surge, FII outflow, etc.

- The recent highly controversial demonetization initiative to render higher-valuation notes worthless is designed to drive cash from the “grey economy” into the mainstream. Though it is likely to knock growth temporarily, but in the long run, driving black economy into the real economy is likely another long-run driver of growth.

There are few disruptive trends which may shake up the corporate real estate marketplace:

## Office and Industrial Markets

- Demand for mix use development: Most Indian cities’ infrastructure is crumbling with unplanned growth. There is likely to be greater demand for mixed-use developments as consumers prefer to “live, work, and play” culture. Office space usage will be redefined and even rationalized. Companies should choose locations in areas that have concentrations of talent and revamp design and development teams to cater to changing consumer preferences.

- Infrastructure disruptions due to ongoing metro and road work: Companies need to be more strategic in analyzing the impact of mobility patterns and options on their long-term revenue and profitability, exploring relocation, consolidation, design changes to existing spaces, and revisiting tenant strategies.

- Co-sharing start up sector: Companies based on the collaborative economy are disrupting the way organizations lease. Companies face challenges from new competitors that are providing dynamically configurable spaces and flexible leases. Owners need to rethink their approach toward their offerings. Co-working space is fast catching up due to lower cost-effective environment by beside start up, entrepreneur, and even large ecommerce companies.

Availability of talent: A shortage of candidates with strong skills in rising urbanization and preference for an open and flexible work culture are changing the employment marketplace and will result in significant competition for talent.

Introduction of REIT: India has seen a boom in business-park development. Suburban development is creating entirely new businesses and residential neighborhoods in every city; Pune- Hinjewadi/Kharadi, Hyderabad-Hitech city, and Bengaluru-Whitefield/ORR are the best examples. Blackstone

has become the most prolific investor in Indian commercial real estate, preparing to list first Indian REIT domestically. Some other funds; Canada pension plan investment board, Brookfield, GIC, Tamasek, Qatar investments, Tishman, and Morgan Stanley are also looking for leased assets investments.

Digital economy last mile: Startup/stand up’ and ‘Make in India’ policies are driving young entrepreneurs to take risk with supporting ecosystem. Many youngsters are developing software and digital apps to bring positive technological disruption to solve the problem of masses in smaller towns with speed, efficiency, and transparency at a much lower cost. Few online real estate portals are also active in B to C segment at nascent stage. There are still challenges because of lower internet penetration and usage of smart phone in rural areas.

Office market demand will remain robust. Bengaluru and Mumbai remain the top-ranked cities for prospects in terms of both investment and development, according to the 2017 version of Emerging Trends in Real Estate Asia Pacific, put out by the Urban Land Institute. Out of about 38 million square feet of office absorption, Bengaluru continues to lead pack among all key cities. New supply was not able to cope up with increased demand and resulted in increased rental in most micro markets.

- RBI is expected to continue with aggressive interest rate cuts which may revive demand and growth.

- Institutional investors are now searching for higher yield, something they are struggling to find in developed economies/cities leading them to explore higher growth oriented markets like India. It may encourage foreign investors to invest into office and industrial parks.

- Some local Institutional fund; Primal Enterprises, India bulls etc., are also

aggressive in funding mix use projects of reputed developers.

- Besides structural policy reform, there is an intent to digitize land records, land pooling, change in arbitration norms, setting up of committee for strategic sale government assets. These are considered to be game changers for the industry.

- Price may be more affordable after impact of recent policy implementation.

## Retail/Ecommerce Market

Ecommerce and digital economy: The government push for digital economy will boost online retailing. Innovations in speed and mode of delivery are disrupting the retail and its supported logistic markets. While retail owners can try different store formats and enhance end-customer experience, logistics should potentially focus on smaller and more flexible spaces within cities to enable faster delivery.

Offline well managed large format of shopping malls will continue to offer innovative sales promotions discounts to pull customers to their stores. Many of them may have mix of both offline and online reach to customers.

2017 Outlook: Technology driven office and industrial markets such as Bengaluru, Hyderabad, Pune, Chennai, NCR, and New Mumbai properties may continue to be in demand by MNCs/ Corporate where rentals are around \$1-1.25 square feet per month or \$12 to \$15 per square feet/annum. Consolidation and expansion of space is in demand. Co-sharing office space may grow much faster in Tier I & Tier II cities preferred by the startup industry.

Combined Online/offline (B to B & B to C) retail shopping and ecommerce market may grow rapidly as India remains a domestic consumption story with over 1.30 billion people. ♥

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