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Top News

JLL: A Guide to investing in Prime Commercial Property

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At the best of times, investing in commercial real estate requires forethought, research and planning. When tracking down the ideal commercial property for business operations or for investment, various factors such as soundness of location, the health of the local job market, current and future infrastructure initiatives in an area and migration patterns into a city play important roles. While the broad guidelines above hold true for any commercial property investment, prime commercial properties require even greater insight and investigation.

Obviously, investing in a commercial property in a prime location can have multiple benefits:

It is easier to find tenants for properties in prime locations than in low-demand locations. Finding tenants quickly is important, since it plays a role in yield calculations. Leaving a commercial property vacant for extended periods will result in loss of income.

Banks are more willing to give loans to commercial projects in prime locations, since there is very low likelihood of capital loss

It is easier for employees to travel to work every day - a major factor, considering that employee retention ranks very high on employers' list of priorities today

A prime office space purchased for self-use is arguably the soundest business decision any firm can make. Apart from the fact that such a property is extremely convenient to commute to, a commercial office in a prime location increases a firm's visibility and reputation. It is a visible demonstration of your firm's commercial worth to your clients, partners and other businesses. Also, the capital appreciation of a prime office property reflects very favourably on a company's balance sheet.

Prime Locations

Both in terms of business potential and returns on investment, the highest value lies in prime office spaces. Invariably, the 'prime' value in commercial real estate is vested in the location, which leads to the question how does one define a 'prime location'?

The factors that make a location prime are a function of its overall accessibility within the city, the quality of infrastructure that supports it, the saturation of high-profile companies represented there and the overall quality of buildings in the submarket. To determine if a location is prime, investors need to examine the following parameters:

Can the office property be reached easily via all modes of transport?

Is the office property close to major commercial hubs?

What is the demand-supply gap?

What is the tenant profile of the location? Which industries prefer it and what are their growth potential?

Does the location have good social infrastructure such as restaurants, malls, shopping centres etc.?

Is the location well-planned (e.g. Bandra Kurla Complex in Mumbai or has it grown with increased requirements (e.g. Nariman Point, which was reclaimed from the sea?

Are there a lot of **commercial** space **transactions** happening in this location?

Do the buildings have a modern look and feel (e.g. glass faades)?

If the answers to most of these questions are positive, then the location is a prime one

What Still needs to Be done for Affordable Housing

Narendra Modi's government has made massive forward strides within a short period. The progress in such a short period is remarkable, considering that the government is still hamstrung by a disproportionate fiscal deficit and its ability to induce further growth through public investment.

It is evident that the Modi Government cannot leave any stone unturned in order to bring about an environment that is attractive as easy to navigate for private investors. But judging from what we have seen so far, the real **estate** industry in India is definitely back on track in 2014. Still, there are complex challenges that remain. Two of these are inflation and, despite the demonstrated good intention, affordable housing.

On the inflation front, the RBI and the Modi government have taken a determined stand. From a larger perspective, inflation obviously impacts the overall borrowing cost in the economy and as a result is a major stumbling block for faster economic growth. But the effect of inflation on real **estate** as an industry is quite pronounced because it acts as a deterrent to spending by consumers and increases the financial burden of home loan borrowing. In such an environment, home **purchase** sentiment will remain subdued.

But inflation also has a grievous effect on the construction sector. The Indian construction industry is very dependent on raw materials like steel and cement. The higher the cost of constructing a **residential** project, the higher will be the cost of flats. Indian developers are seriously challenged by the constantly increasing cost of construction. The rise in this cost has been no less than 18% every year for the last four years. It is surprising and extremely worrying that the recent Union Budget did not make any provisions to bring the cost of construction down.

Inflation should not be tackled only by keeping borrowing rates high. Another way to bring it down which is very pertinent to the real **estate** construction industry is to fast-track the development of roads and highways so that goods can be transported more quickly and efficiently. Raw materials for construction are constantly sourced from all over the country. At the same time, the method in which tax is levied on such goods as they cross state borders must be simplified. In other words, the introduction of GST (Goods and Services Tax) system is very important at this stage.

When it comes to affordable housing as a segment, many of the measures that were pending for a long time materialized in the recent Union Budget. The affordable housing segment was finally given priority by granting the benefits of infrastructure status. The RBI also increased the limit for home loans availed for purchasing budget homes. Previously, the limit was a mere Rs. 25 lakh and this has now been raised to Rs 65 lakhs in the primary Indian cities and Rs. 50 lakh in tier 2 and tier 3 cities and towns.

News Infocus

Innovative construction techniques and materials in **Residential** Projects: Amit Enterprises Housing

The paradigm for Indian real **estate** has changed drastically over the last decade. What was before a fairly straightforward- if lacklustre- equation has now transformed into a dynamic and self-sustaining landscape that brings its own unique opportunities and challenges with it. The questions being asked today by end-users, investors and even conscientious developers are very different from those of a decade ago.

Some of these questions are- what drives the Indian real **estate** market? Who are its primary influencers? Who are the real beneficiaries? It all boils down to a simple question- is the Indian real **estate** market growing rationally and holistically?

Inclusive growth in context with the Indian real **estate** market must necessarily mean that the benefits of growth in the sector must be spread over a wider palette. It is already happening, in the sense that the Indian Government's heavy investments into infrastructure have created a much larger job market, which includes a wider variety of skilled and unskilled individuals. Today, a whole swath of industries are directly or indirectly involved in the India real **estate** story, with business being generated insurance, finance, transportation, construction and information technology.

However, even today, there are many hurdles to the real **estate** sector's growth. Archaic and counterproductive land laws prevent our cities from growing logically, and lack of awareness about the benefits of creative and environmentally friendly real **estate** development is still rampant. In a country reeling under an acute shortage of affordable housing, it makes sense to adopt methods that allow the supply pipeline to be augmented while simultaneously reduce the amount of waste created in the construction process by reducing, recycling and reusing materials.

The clarion call for change has not gone unheard. Some of the leading developers in India are now engaged on a quest for innovative methods of delivering quality homes while reducing the environmental impact of the construction process. This involves finding and implementing new methods of cost-effective, eco-friendly, high-grade construction.

Domestic News

43% of office space **purchases** in India were by MNCs since 2012: Cushman & Wakefield

Global Real **Estate** Consultancy, Cushman & Wakefields recent report revealed that multinational companies are increasingly investing through purchasing offices in India with Rs2,470 crores worth office **transactions** in the last 2 years. There is a seismic shift in the traditional approach of leasing space that such companies have had for years while considering overseas investment. MNCs in the BFSI, ITES, FMCG & Pharmaceutical sectors are among the **lead commercial** office buyers in these markets.

According to the C&W report, in 2010, foreign MNCs contributed negligible to the sales of **commercial** office space, however, the report indicated that in 2012, 2013 and during the1st quarter of 2014 foreign MNCs contributed 43% to the total sales value of **commercial** offices.

Explains Sanjay Dutt, Executive Managing Director, South Asia, Cushman & Wakefield, Companies that have established **operations** in India and are confident of their projections and potentials in the country are now tailoring their real **estate** requirement so that they can be more cost-effective. Companies in specific sectors such as Pharmaceuticals and IT & ITes are looking to consolidate their research and development divisions with their front-end divisions in a single set-up and are looking for assets to **purchase** as it proves to be a cost effective strategy for companies.

However, there are other factors too, namely the tax implications for US based companies. Another factor compelling especially the US-based companies to switch from Leasing strategy to Buying strategy is that corporate profits earned outside the US are not subject to federal taxes unless they are brought back to US shores. This makes these companies cash rich and they are able to re-deploying hefty profits earned back in the emerging markets rather than loose the earnings to taxes added Dutt.

Knight Frank **Residential**, Douglas Elliman Real **Estate** launches **residential** real **estate** alliance

Two of the biggest names in **residential property**, Douglas Elliman Real **Estate** and Knight Frank **Residential**, have today announced the launch of a new **residential** real **estate** alliance.

The firms combined network will now include 400 offices across 52 countries, and nearly 20,000 agents. Douglas Elliman and Knight Frank **Residential** will jointly market more than $38 **billion** of prime and super-prime properties priced at $1.5 **million** or more.

Douglas Elliman and Knight Frank **Residential** are the fourth largest **residential** brokerage in the United States and the largest independent **residential** brokerage in the United Kingdom, respectively.

The alliance will include co-branded offices, select top tier agents, and shared marketing of fine luxury properties, resulting in the largest interactive and connected network for prime and super prime properties in the world.

It will share marketing resources for domestic and international properties of at least $1.5 **million** through co-branding seven offices across New York City, South Florida, and Los Angeles, which cover the key high net worth markets in the US.

Lord Andrew Hay, Global Head of Knight Frank **Residential**, said: The **property** market has become increasingly global as the mobility of buyers increases; accordingly, there is now a wider selection of both investor origins and investment destinations. For agents, this trend dictates that it is essential to be best in class in both New York and London in order to provide high net worth clients with the most comprehensive service and access to the best properties globally.

The strategic alliance between Knight Frank Residential and Douglas Elliman brings together the two leading agencies in the worlds two most important markets. The aim of the alliance is to provide a single market view, consistent expert advice and exceptional service whether it be in Park Lane or Park Avenue."

Hay goes on to say: " What makes the alliance so powerful for both our clients and our brokers, are the deeply etched hallmarks that can only be found in independent property agencies: a 'client first' focus, professionalism, a brand that adds value, market leading websites and a shared ethos of building long term relationships.

Parsvnath Developers plans to sell non-core assets to reduce debt: reports

Parsvnath Developers is reportedly planning to raise up to Rs 1,000 crore through private placement of nonconvertible debentures, says report.

Report stated that the company is planning to look at non-core assets to reduce debt.

The company has called an Annual General Meeting on September 23 to seek shareholders approval on a special resolution related to the private placement of NonConvertible Debentures.

In the companys annual report, Parsvnath Developers Chairman Pradeep Jain reportedly said that the company has laid out a clear set of priorities for the next 1224 months to improve profitability.

Sahara Group in talks to sell over 100 acres in Bangalore: reports

The Sahara Group is reportedly in talks with Pacifica Group and a high networth individual to sell two land parcels in Bangalore for about Rs 400 crore, says report.

Pacifica Group denied any such plans, says report.

Report also stated that the company has an option to swap these properties with the list of land parcels it is allowed to sell to raise the money.

International News

Australian prime RMBS delinquencies remain stable in Q2 2014: Moody's

Moody's Investors Service says that the 30-day plus delinquency rate for Australian prime residential mortgage-backed securities (RMBS) remained stable at 1.4% in June 2014, unchanged from previous months.

On a year-on-year basis, this figure improved from the 1.6% recorded in June 2013.

"The delinquency performance varied across issuers. The delinquency rate for the major banks was 1.2% in June 2014, and 1.0% for other authorised deposit-taking institutions (ADIs)," says Alena Chen, a Moody's Assistant Vice President and Analyst.

Chen was speaking on the release of Moody's quarterly Australian RMBS Indices: Q2 2014.Meanwhile, the delinquency rate for regional ADIs was higher at 1.9%, and was the highest for non-ADIs at 2.9%.

China Railway Construction's rating unaffected by its increased leverage in 1H 2014: Moody's

Moody's Investors Service says that China Railway Construction Corporation Limited's (CRCC) moderate increase in financial leverage in 1H 2014 has no impact on its A3 issuer rating or stable rating outlook.

"CRCC's leverage increased moderately in 1H 2014 due to higher real estate inventory and greater capital expenditure," says Chenyi Lu, a Moody's Vice President and Senior Analyst.

"Nevertheless, this increase in financial leverage was largely in line with our expectation, and we expect its financial leverage to improve over the next 12-18 months on the back of strong EBITDA growth, and lower inventory growth and capital expenditure," adds Lu.

CRCC's adjusted debt/EBITDA rose to 5.2x for the 12 months to 30 June 2014 from 4.8x in 2013, mainly because its adjusted debt grew to RMB166 billion at end-June 2014 from RMB144 billion at end-2013.

Moody's expects CRCC's adjusted debt/EBITDA to fall to 4.5-5.0x over the next 12-18 months. This level of leverage will be in line with its A3 rating.

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