**Commercial Properties – what type to invest in?**



Real Estate has, since times immemorial, been a large part of our investment portfolio. It not only provides a feeling of safety of having a roof over your head but in many cases you own multiple properties which give capital appreciation and rental income. In these sluggish times prices fail to shoot up as fast as they did in the beginning of the early 2000s except for in those odd few places which were yet to see price growth. Many people are left wondering whether to invest in a residential or commercial property.

Given the current scenario for various reasons investing in a commercial property makes more sense since it would not just provide capital appreciation but also provide a higher rental yield as compared to a residential property along with lower vacancy levels. Out of the seven major office markets in India, cities like Bengaluru, Pune and Hyderabad are seeing very low vacancy levels at 3% (all-time low), 6% and 9% respectively. Vacancy levels are higher in Chennai (12%), Kolkata and Mumbai (19%), and Delhi-NCR (32%). However the higher vacancy levels in these cities is about to change given the anticipated increase in job creation and builder’s push to clear out existing inventories.

Let’s take a look at what types of commercial properties in which one can invest:

1. Shops

Shops could act as an entry point for a new investor. One can invest in a shop in a market of a densely populated area such as near residential housing complexes, high street areas or inside a mall. The returns earned are usually around 9-10% per annum, or even 12-13% if the shop is in location with very high footfall. Such kind of properties can also be let out as ATMs or Franchisees, and for a stable income should be let out to professionals such as chartered accountants and doctors.

1. Offices

Any companies that are in an expansion mode and small enterprises which are setting up offices in business hubs would be ready to grab that new office space available in the market at a fairly decent rate. According to an external report by real estate consultancy CBRE the demand for corporate office space in India’s leading cities had firmed up in Q2 FY15 by more than 8 million sq. ft. of commercial office space which was taken up across all seven leading cities. This number translated to a Q-o-Q increase of around 70%. While this may seem like an attractive number, one has to have deep pockets to be able to afford such good office spaces which are ideally in the range of 2,000 – 20,000 sq. ft.

1. Land held for commercial purpose

Land, the limited resource, is capable of providing the highest capital appreciation if the investor has chosen the location and plot size appropriately, has done the necessary due diligence and has the ability to wait for long periods. Empty land parcels within city have almost been exhausted and the remaining ones are very expensive, but one only needs to look at suburbs of metro cities for further expansion. Typically, these plots are not sold by established developers since they are the ones developing it themselves either alone or vie a Joint Venture. This leaves you with the option to approach development authorities or small plot developers for the remaining land parcels. Going through real estate agents can be risky and expensive.

1. Private equity funds

Private Equity funds are some of the most prominent forms of real estate investments abroad and are picking up steam in India as well. PE funds typically buy ownership stakes in residential or commercial projects, by tying up with developers, usually at the initial stage of a project. They exit once the project takes off and prices appreciate. In India PE funds exist mainly for high net worth individuals as one has to invest at least a few crores. Motilal Oswal Real Estate, HDFC Real Estate Fund, ICICI Venture, ASK Property Investment Advisors, Kotak Realty Fund, Piramal Fund Management, and IndiaReit Fund Advisors are some PE funds through which one can invest in both domestic and foreign properties. Although the fund manager fees are typically high (sometimes as high as 5% through direct and indirect charges), however the fund is able to generate enough returns to keep the investors happy.