Commercial realty's current demand recovery more sustainable than seen in 2011: JLL India: The ET Realty

The recovery in demand for commercial real estate being witnessed across the country since 2015 more sustainable and long-term in comparison with the one witnessed in 2011 as the office space absorption has now been growing on the back of combination of lower rents and a positive economic outlook, said a JLL India report.

This is unlike the previous commercial real estate demand recovery phase of 2010-11, post its crash owing to global financial crisis, where many occupiers had indulged in opportunistic buying and therefore proved to be short-lived, said the JLL report released at the CII Real Estate Conclave 2016.

After witnessing sub-30 million sq ft of net absorption for three years in a row from 2012 to 2014, the year 2015 saw absorption rise significantly to above 35 million sq ft.

According to JLL, an aggressive expansion strategy adopted by many companies, particularly after going through a slow phase in the immediate preceding years, along with rising prominence of newer players in the ecommerce, healthcare and technology space led to the recent jump in occupancy.

Given that the uncertainty surrounding the general election of May 2014 was behind, and that India's macroeconomic outlook remained resilient, the entry of foreign firms and expansion of existing firms was imminent and justifiable.

"Since 2014, there has been a positive turnaround in the proportion of Indian companies (or domestic companies) leasing space. Both in 2014 and 2015, share of leasing by domestic firms has pipped that of US companies and stands above 40%. Prior to that, the largest share of leasing was done by companies headquartered in the US. This gives credence to the fact that a proactive government that pushes growth results in a positive manner has had an impact on Indian real estate," said Anuj Puri, Country Head, JLL India.

The European Union continues to maintain its share in office leasing in the range of 12-15%, thereby giving us some comfort that if Brexit were to directly affect real estate, the adversities are likely to be limited at best.

A gradual fall in vacancy, which is currently at its seven year-low level of 15.9%, in tandem with the rise in absorption, has led to faster rise of rents. The growth of office rents had mostly remained marginal across all markets until recent times. Following that, the rise has particularly been fast in lower vacancy markets such as Pune, Bengaluru and Hyderabad, and apparently these markets are more preferred by the leasing giants within IT-ITES sector. Few other sub-markets such as Mumbai suburbs, Gurgaon and Chennai SBDs have also been witnessing moderately higher increase in rents. Ends

Pre-commitment levels, according to JLL India, have also risen significantly, as the limited supply of quality office space forced many occupiers to make advance reservations. For instance, the upcoming supply in 2016, across major office markets enjoy pre-commitments ranging from 15-50%, depending upon the city-level vacancies and project-level attributes.

For the full year 2016, it is anticipated that only around 60-65% of the completed and upcoming projects put together will qualify as relevant assets - assets that are worth investing or occupying owing to better amenities, modern design, suitable location and good connectivity. It is this aspect of relevancy which will keep office markets healthy and the outlook positive, the report said.

Information Technology-IT-enabled Services sector has continued to remain the top in terms of share of office occupancy across major Indian cities. The sector continues to maintain its lead with a 35-40% share in office occupancy. Given the rising role of information technology in the context of global and domestic business transactions, we could assume that this dominance might sustain for a few more years. However, there are a few things worth highlighting in the occupancy share.

With the increasing push which has been given to manufacturing sector (through initiatives such as Make in India, relaxed FDI norms into defense manufacturing, gradual progress towards a uniform taxation across all states through GST, Skill India, etc.), JLL India expects to see the share of manufacturing rise in the medium term, from the meagre 15% share it occupies currently.

Ecommerce has played a vital role in changing the shape of retail real estate in India, and its stellar growth rate of more than 50-51% has helped increase its share in office leasing. From being non-existent as an office tenant until 2011-12, the sector now contributes around 4.0% to overall occupancy, which is a considerable growth, the report added.