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Investors queue up for hotel, office projects as economy rebounds

Institutional investments in office, hotel and warehouse projects have more than doubled in value this year as companies added more space to keep pace with a fast-growing economy.

The re-emergence of India's real estate sector has hinged on robust home sales but non-residential development has been picking up as well, though less visibly, and property analysts see stronger demand ahead.

The hospitality sector is expected to attract \$11 billion (`50,000 crore) in investments in two-three years and pan-India demand for office space would touch 240 million sq.ft. by 2014, estimates Cushman and Wakefield (C&W), a property advisory.

In the commercial or office real estate space, realty funds are mostly eyeing investments in pre-leased, city-centric properties. And in hospitality, an influx of high-end, niche hotel chains in large cities and mid-market brands in smaller towns have lifted a dreary market.

"The pattern of investments this year has clearly been towards more foreign direct investment (FDI) compliant projects, which are in key locations and are cashflow-generating so that the risk can be shared," said Manish Aggarwal, executive director-investment services India, C&W. "Though residential investments have propelled growth, it can't sustain on its own and it's crucial that other sectors also contribute towards balanced growth of the realty sector."

Between January and September, there were 13 private equity (PE) deals worth \$766 million in non-residential developments, compared with eight deals worth \$318 million in the same period last year, according to Venture Intelligence, which tracks venture capital (VC) and PE deals.

Overall, there were 32 PE deals worth \$1.28 billion in the real estate sector in the first nine months of this year, compared with 28 deals worth \$853 million in the same period last year. Most of the deals this year were in residential projects.

"Commercial projects with longer gestation periods need stronger financial commitment from the developer, who raises funds to cover its basic input costs such as land and ongoing costs," said Prakrut Mehta, national director-office and industrial agency, Knight Frank India, a property advisory.

A new `250-crore rental yield fund, with an option for raising another `100 crore, being raised by Anand Rathi Financial Services and Knight Frank India is investing `110 crore in two office projects in the Bandra

Kurla Complex and Andheri suburb in Mumbai, with expected average returns of 11.5%, said Amit Goenka, national director-capital transactions, Knight Frank India.

Archana Hingorani, chief executive, IL&FS Investment Managers Ltd (IIML) strikes a note of caution. "While negative sentiment for the office space segment has made prices attractive in various micro markets from a buyer's perspective, there is an over-supply risk making it difficult to lease or sell space subsequently."

IIML, along with Milestone Capital Advisors, invested `574 crore in a Mumbai office building of Hindustan Construction Co. Ltd (HCC) earlier this year.

For the hospitality segment, C&W in its October report forecasts an average 10% year-on-year growth in demand in the country's top eight cities for the next five years. The National Capital Region (NCR) that includes Delhi and its surroundings leads with an estimated 18% growth.

Real estate developers Assotech Ltd and Amrapali Group have lined up investments of `600 crore and `1,000 crore respectively to develop a string of hotels over the next few years.

Zuri Group Global, a hotel chain, plans to set up 10-12 properties in the next five years, many of these in India, with an initial investment of `1,200 crore, a spokesperson said. Another UK-based hotel chain, Premier Inn, plans to invest `165 crore in three hotel properties in India by March 2012.

"We are looking to buy five-six sites in Mumbai, Chennai, Noida and Gurgaon, after which we also intend to look at tier II markets going forward," said Aly Shariff, managing director, Premier Inn.

In the warehousing sector, the annual demand is for 25-30 million sq.ft. in India, according to Jones Lang La Salle, a property advisory.

Ramesh Nair, managing director-warehousing and logistics solutions, Jones Lang La Salle, said many logistics firms are expanding and actively seeking investments. Nair said his firm is pursuing three warehousing deals but refused to give details.