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# 'Five reasons why investment in office space is a high-scoring option'

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In the real estate world, 'safe investment' would sound more like an oxymoron – but keeping the pun away, there are numerous benefits of investing in the commercial asset class. Investing across asset classes helps diversify one's portfolio and this has been the way commercial investments actually caught the investors' eye.

Some of the factors that make commercial investment an attractive venture are as follows:

**1. A long-term proposition:** A commercial building attracts large clientele intending to run their business from this asset. From the investor perspective, this implies steady cash flows over longer lease tenures, better commitment from the tenants (unlike residential tenancy) and structured and systematic escalation on base rents. Obligations such as 'lock in' by the tenant make it all the more secure for the investor. Therefore, returns and capital appreciation are the key factors that make investing in commercial real estate an excellent proposition.

**2. Demand for quality space:** With market dynamics changing by the day, the need for

physical infrastructure that actually compliments business is more like 'need of the hour'. At this point in time, when most robust office markets in the country are witnessing very low vacancy percentages (with some markets almost witnessing single digit percentages), efficient and superior workspace is on every potential tenant's mind.

Large corporations have understood the wisdom behind not being penny wise and pound foolish when it comes to choosing their office space.

This trend will continue to push the bar, thereby making it inevitable for developers to deliver world class facilities for their clients. This would certainly come at a slightly higher premium, which end users do not mind paying as the benefits override the cost.

**3. Hard asset:** This is very evident that real estate is tangible and irrespective of the amount of shares an investor may have in the equity market i.e. the office building can be seen, felt and touched.

If all the boxes get ticked (location, infrastructure, diverse client portfolio etc.), the value proposition of the commercial asset gets better over time.

**4. Easier valuation:** Consid-

## VALUATION OF COMMERCIAL REAL-ESTATE IS EASIER AS RENT ROLLS, PREVAILING RATES, COMPARABLE TRANSACTIONS ARE READILY AVAILABLE

ering commercial real estate always (or mostly) works sans the emotional influence, valuations become a lot easier due to rent rolls, prevailing rates, comparable transactions, etc. being readily available.

Based on the historic data and fair judgment over the short-to-medium term makes the investor better informed and prepared on the investment cycle that could be anticipated.

**5. Diverse tenant profile:** A commercial property would have multiple clients across business domains (this does not include buildings or areas earmarked as IT parks, SEZs, and the like).

From an owner perspective, it is a diverse portfolio not dependent on one type of tenant. If the tenant vacates, the impact is far less vis-à-vis losing on stock that is fully owned by the company, if

the share price crashes.

With policies such as RERA being implemented, doing real estate business is expected to become more transparent. The next big wave that is awaited with bated breath by a larger segment of investors is Real Estate Investment Trust (REIT). REIT, which is comparable to a mutual fund would make it possible for investments of any size, thereby opening up a large investor base.

As commercial investment is usually large scale and the sheer size rather intimidating; REITs will come to the rescue by opening up opportunities to acquire ownership in real estate ventures and make dividends over time.

The pros of investing in commercial property outweigh both the obvious and perceived cons, in the current market scenario.

With new age workspace philosophies, co-working spaces, etc beginning to show dominance, the industry is going through a paradigm shift and with the implementation of RERA and REITs, it very clearly points to the direction that it would be prudent to have commercial real estate as one of the key assets in an investor's portfolio.

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