



Colliers
INTERNATIONAL

RICS Leadership Forum on Corporate Real Estate and Facility Management

Translating Challenges into Opportunities



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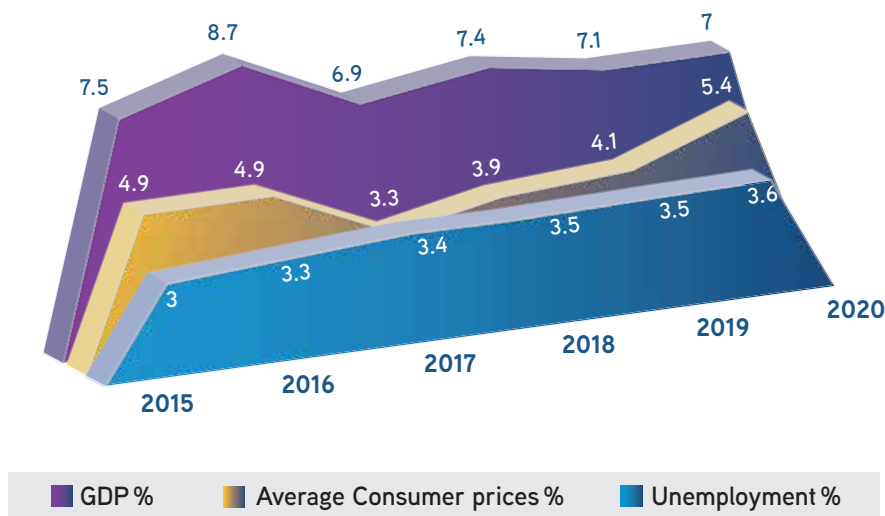


This paper provides an overview of the current landscape in Corporate Real Estate and Facilities Management, and the factors that influence the real estate sector. These aspects were discussed at the Royal Institution of Chartered Surveyors (RICS) leadership conference held in Mumbai on 29th May 2019. The paper discusses the concerns in the industry, and key recommendations that were discussed by the leadership group at the conference. First, we outline the current situation in the market, identify key challenges, and discuss how the concerns can be turned into opportunities, paving the way for future success.

REGULATORY

The Indian economy has witnessed strong growth over the last five years, marked by a revival in business confidence, along with FDI friendly government initiatives. The World Bank has retained its forecast of 7.5% growth for India's economy in the current financial year (FY 2019-2020) propelled by growth in private consumption and investments with controlled inflation.

Indian Economic Fundamentals



Source: Oxford Economics

Over the last five years, a robust business environment has encouraged business expansion in India. The government has taken steps to liberalize the economy by easing Foreign Direct Investment (FDI) norms across sectors, providing single-window clearances. In the real estate sector, the government has initiated reforms for the housing sector, offering incentives for developers in the affordable housing segment, and financial stimulus for homebuyers. Enforcement of the Real Estate Regulatory Authority, introduction of the Goods and Services Tax (GST) and liberalization of the real estate sector through easing FDI norms are acting as catalysts for growth in the commercial sector, bringing much-needed professionalism to this sector.

While real estate is moving towards institutionalization, there is a need for an enabling legislative environment, which will pave the way for a more structured sector. The sector requires the implementation of enforceable and actionable building control norms and standards for fire safety, parking, accessibility. While some of these regulations already exist, they need to be reviewed and updated, keeping in mind current processes, and streamlined better to ensure that developers' operations and finances across the spectrum are not adversely impacted.



Stakeholder views

- › As the sector moves towards transparency brought about by professional management, necessary disclosure and reporting norms need to be adopted across the sector.
- › Project sanctions through single-window clearances and regulations must go hand in hand, in a view to promote the sector. A single-window clearance facilitates business approvals and sanctions under a single authority. Delays in approvals are currently causing huge costs to developers. In such an environment, 'deemed approval' should be used as an enabler rather than taking an opaque approach towards its implementation, wherein a project that does not receive approval from the government within the stipulated period, is deemed to be approved.
- › Single-window clearances have been enforced in Mumbai and Delhi and also in some states like Telangana. The government needs to make this a priority across state lines to enhance business confidence.
- › There is an urgent need to make policies and regulations in the industry more accessible to the public as well as industry professionals, as they are often convoluted.

INVESTMENTS

Investment in real estate has been increasing over the last few years, as a result of improved investor confidence led by the aforementioned reforms. We estimate that capital inflows into Indian real estate have surpassed USD53 billion (INR326,020 crore) since 2008. Interestingly, investment during 2014-Q1 2019 accounted for 59% of the total inflows into the real estate sector since 2008. The residential segment had been the favoured asset class, especially for domestic investors. However, led by sustained demand in the commercial office market, rising rents, and the potential to include such assets in Real Estate Investment Trusts (REITs), institutional investors increasingly favour commercial office assets. As noted in Colliers' [Investors in India Look to Office, Data Centres report 02 April 2019](#), 63% of institutional investors in India prefer the office sector over the next 12 months.

Private equity investments in real estate in India



Source: Colliers International

¹ Other includes hospitality and mixed-use developments

Stakeholder views

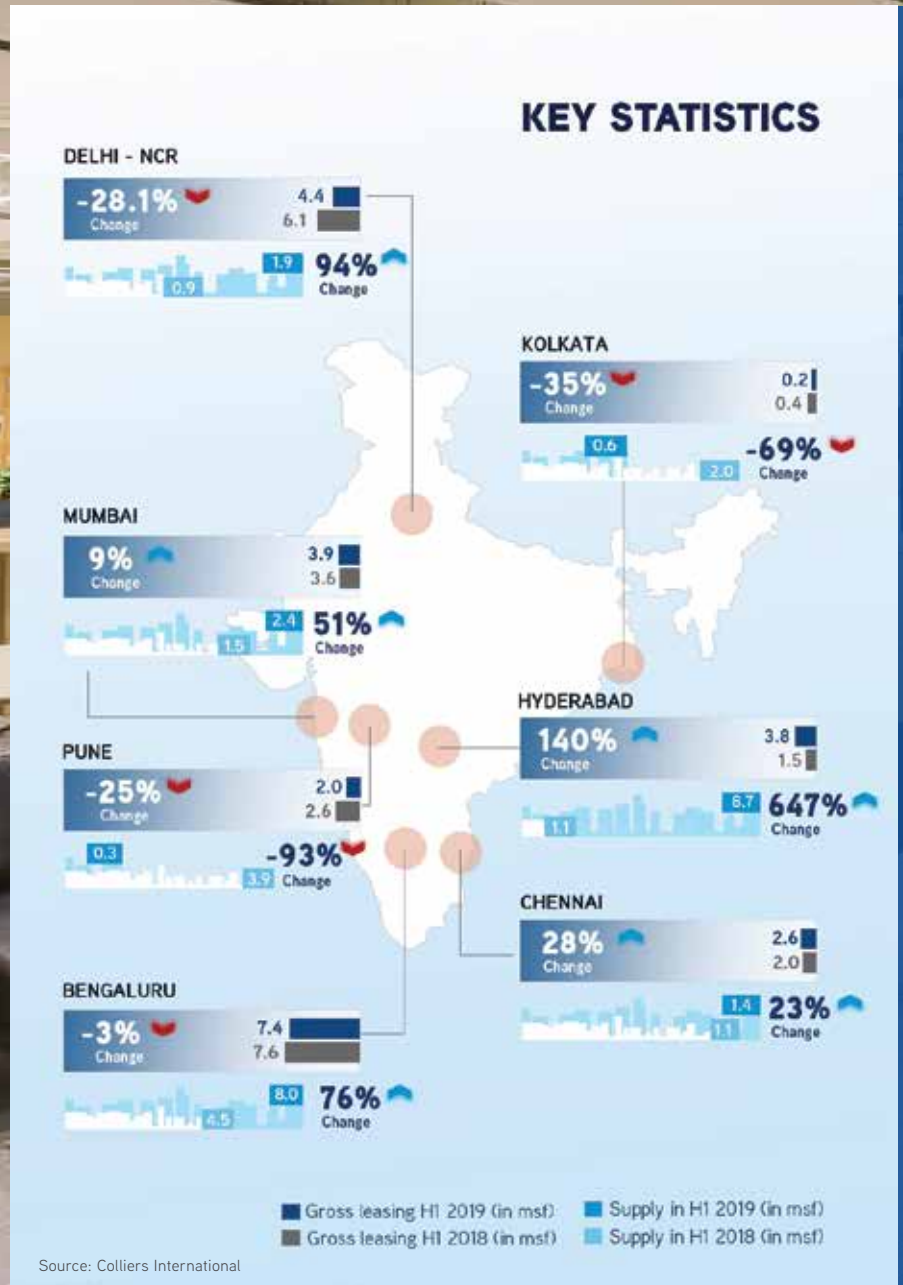
- › At a time when India's first REIT has been successful, with more listings on the way, professional management and international standards-based valuation of properties (International Valuation Standards (IVS) / RICS Red Book) need to be adopted, along with necessary disclosure and reporting norms.
- › A common property measurement standard such as IPMS (International Property Measurement Standards) will also help in removing inconsistencies in the way property is measured from one market to another, thereby improving property market data and market transparency.
- › Organizations and professionals need to be encouraged to adopt these international standards to boost confidence in the sector.
- › The importance of asset management should not be undermined, as it contributes to the investment potential of commercial buildings. There has to be a strong correlation between facilities management and management of commercial real estate assets. This will provide necessary impetus for smart city developments by all stakeholders.



OFFICE FUNDAMENTALS

The strong macro-economic environment, and FDI-friendly government initiatives have propelled the commercial office sector. We noted 2018 to be the best year for office demand with gross leasing activity of 50 mn sq ft (4.6 mn sq m). The market is recording high preleasing activity as occupiers plan ahead, suggesting robust absorption and therefore continued market growth over the next couple of years.

From 2019 to 2021, we expect commercial demand to remain healthy, with average annual gross absorption of 49 mn sq ft (4.6 mn sq m) till 2021. Upcoming annual average supply of 66 mn sq ft (6.1 mn sq m) till 2021, competitive rent levels, and developing infrastructure in cities are likely to work in India's favour.



RANK BASIS GROSS LEASING

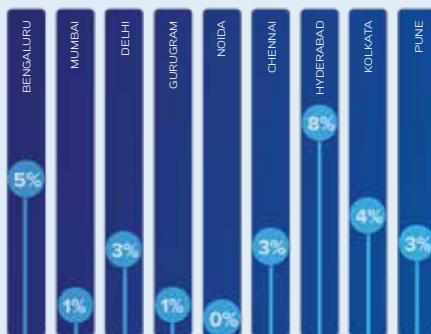
(in H1 2019)



Source: Colliers International

AVERAGE RENTAL GROWTH

2018 (YoY)



Source: Colliers International

Stakeholder views

- › Flexible workplace use is likely to continue to be a large demand driver. We expect enterprise activity in flexible workplace centres remain healthy.
- › Global in-house centres are likely to take up large tracts of office space in top cities, with increased focus on innovation through technology.
- › The government must consider extending the direct tax benefit provided by Special Economic Zones (SEZs) beyond the sunset clause in 2020.
- › Sustainable building elements need to be promoted so that they form a significant part of upcoming supply. Stakeholders need to consider the long-term benefits of green buildings, from an energy savings perspective.


TALENT IN CRE

The commercial real estate (CRE) market in India is growing at a rapid pace and it is increasingly important to have the right people for the right role. However, finding appropriate talent in CRE remains a challenge, as there is limited awareness about the profession. By the year 2026, 65% of India's population is estimated to be of working age. It is estimated² that by 2025, millennials will represent 75% of the global workforce. In such a scenario, companies need to make CRE an attractive career option for millennials who value innovation, flexibility and creativity. CRE needs to be viewed as a credible career option for professionals, enabling the sector to adopt global best practices.





Stakeholder views

- › Established companies need to give priority to developing and nurturing talent, and thereby emerge as brand ambassadors of the sector. Mentorship programmes should be implemented across companies.
 - › As the sector matures, there needs to be an impetus on reskilling and upskilling of professionals.
 - › While formalized education in CRE is just emerging in India, it still has a long way to go to match mature markets. There is a big opportunity to form alliances to set up such institutes that provide formal training in CRE. RICS is one organization that is currently providing formal education in the CRE and FM fields, where the programmes are competency-based and lead to a chartered qualification considered to be a differentiating factor amongst professionals in the sector.
 - › The brand image for the real estate sector should focus on its dynamism, emphasizing the use of technology in the sector.
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TECH IN CRE

Technology is becoming an important facet in CRE, as developers and occupiers understand the importance of technology in operations. Developers are beginning to consider investing in smart buildings that use automated processes to control building operations. Such buildings enable seamless operations in a sustainable manner, such as controlling heating, air conditioning and security in an efficient way and matching energy use to occupancy patterns.

Facets like temperature-controlled sensors, motion sensors and electronic whiteboards are just some examples of occupiers integrating technology in workplaces. Technology can also help in reducing costs and increased efficiency. Furthermore, efficient collation and analysis of data can help organizations streamline their operations to ensure compliance to environmental obligations such as energy conservation. Understanding this, facilities management firms are making data analytics an integral component of their service offering. Building Management Systems (BMS) are a major step forward in introducing automation in buildings, but this opportunity still has room to grow and improve as the implementation of BMS, so far, has not been optimized, given lack of knowledge of its complete implementation and usage by professionals.





Stakeholder views

- › Data analytics is likely to be critical for energy savings, reduction of total lifecycle costs, business efficiency and sustainability.
- › The importance of the Internet of Things (IoT) and Artificial Intelligence (AI) needs to be well-understood among stakeholders. Developers and occupiers need to analyse and understand the benefits (better efficiency, lower operating expenses) from technology, and sustainable buildings.
- › Facilities management must incorporate technology to eliminate mundane tasks, and to increase efficiency.





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RICS offers a wide range of executive education & training solutions for real estate and construction professionals as well as employers. We also offer specialized undergraduate and postgraduate education to aspiring professionals through RICS School of Built Environment, Amity University and have campuses in Noida and Mumbai.

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