



Commercial versus Residential: Which will do better in 2019?

Year 2018 belonged to commercial space. But, will residential segment do better in 2019?

The commercial office real estate segment emerged as a winner in 2018. **The availability of high-quality office spaces at attractive valuations, the possibility of REIT listings in 2019, and ever-increasing demand from occupiers led to increased activity in this segment.**

However, while residential real estate was still shaking off the aftermaths of policy changes and structural reforms, this sector too saw the first green shoots of recovery.

"Buyer sentiments improved on the back of rapid policy reforms and a revamped business environment, and 2018 concluded with an annual increase in housing sales of 2,45,500 units, 16% rise over the previous year. Although developers restricted new supply addition and focused on completing their projects under construction, fresh housing supply was estimated at 1,93,600 units in 2018, which was a yearly increase of 32%. In other words, 2018 reflected the positive impact of serious policy changes and regulatory reforms by the government in the last two years," **Anuj Puri**, chairman of ANAROCK Property Consultants, said.

Thus, both commercial and residential segments are likely to do well this year. In

fact, four of the prime factors that will boost the residential segment in 2019 are:

GST reduction: The government is considering a reduction in GST on projects under construction from the current 12% to 5%. Once this happens, it will have a positive impact on housing sales.

Good supply of ready-to-move homes: As of the third quarter of 2018, of the overall 6.87 lakh stock of pent-up supply in the Top 7 cities, 93,400 are ready-to-move (RTM) houses. In the last few years, there has been an uptick in the demand for RTM houses, which shelters buyers from execution delays. Also, provided that the projects have been given completion certificates, such houses do not attract GST. On top of this, 1,43,500 unsold units are likely to be completed within the next 12 months (from the stock of 6.87 lakh) across the Top 7 cities. Thus, there will be no dearth of supply and buyers will have more options.

Affordable housing plays redeemer: Nearly 40% of the overall housing project launches between 2013 and the third quarter of 2018 were in the affordable category (units priced under Rs 40 lakh). This will boost the supply of affordable homes.

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Bottom-fishing opportunities: Prices across the Top 7 cities of the country have largely remained range-bound in the last 3 years. Again, good news for buyers. Yes, the NBFC crisis is a concern, but once it is resolved, the residential seg-

ment will do better.

Shobhit Agarwal, MD and CEO of ANAROCK Capital, says: "While the situation certainly seems to be improving, a word of caution — with the recent NBFC crisis, projects in nascent stages of construction may see a short-term financial

crunch. NBFCs and HFCs are collectively sitting on \$34 billion of mutual fund debt, which matures between October 2018 and March 2019. This leads to a short-term wait-and-watch situation until the end of the first quarter of 2019. However, if the ship sails smoothly out of it, then 2019 is

likely to be a good year for the residential real estate segment."

Developers are also bullish on this. Many of them say that after the revival of the sector through a series of initiatives by the government, the confidence of homebuyers has increased with a clear understanding of the market.

"In 2018, the government's proactive policies and thriving start-up culture in the country led the commercial space become the best-performing real estate asset class. In 2019, however, ready-to-move

housing will take centre stage in Tier II and Tier III cities, and affordable housing will be the key driving force in the residential segment," **Ssumit Berry**, MD of BDI Group, said.

Ashish Sarin, director and CEO of AlphaCorp, says: "Progressive initiatives like DDJAY and PMAY are propelling the realty sector by reviving the confidence of homebuyers. Such initiatives will help increase the cash flow in the Indian real estate sector in 2019."

— Mamta Sinha