Print

- Posted: Mon, Nov 2 2009. 9:46 PM IST

Builders revive stalled commercial projects on early signs of recovery

Analysts say unlike the housing market, the commercial and retail segments may be far from a turnaround

Madhurima Nandy

Bangalore: Realty firms, encouraged by early signs of a revival in the market, are dusting off shelved or deferred projects and testing their financial viability to gauge which of these can be resurrected.

Solid foundation: A commercial complex under construction at DLF Cybercity, Gurgaon. Developers who had shifted focus from commercial projects to residential sales during the slowdown are restarting them. Rajkumar / Mint

DLF Ltd and Unitech Ltd, India's top two developers by market value, which had suspended most of their commercial projects earlier this year, said they are in the process of redeveloping them because of a return in demand.

Unitech, which is more upbeat about the potential of commercial development, said on Monday that it has started developing many projects which had been suspended before. DLF, however, plans to remain cautious and wants to launch only in selective markets such as New Delhi and Hyderabad that it thinks have revived faster than others, a senior DLF official said on condition of anonymity.

Large developers such as Housing Development and Infrastructure Ltd (HDIL), Orbit Corp. Ltd, **Ozonegroup** and Prestige Estates Projects Pvt. Ltd are also launching or firming up plans to build offices and shopping malls.

"This is a good time because most of us have repaired balance sheets and can afford to start construction and can hold on if needed," said Hari Pandey, vice-president of finance and investor relations at HDIL. "We are also observing a rise in interest from healthcare, financial services and IT (information technology) companies."

HDIL, the country's third largest developer by market value, in September and October launched 3.5 million sq. ft of commercial and retail development projects in two Mumbai suburbs that were initially scheduled for a 2010 launch. HDIL's capital outlay for these projects is Rs600-700 crore over the next four years.

Improved cash flows from sales and a rise in the so-called transfer of development rights (TDR) rates, too, propelled the company's decision to start building these projects. Slum TDR is a tradable paper issued by state governments in exchange for free development of slums by builders. They, in turn, use the paper to develop other sites.

Analysts, however, remain sceptical and say the commercial and retail segments, unlike residential housing, may be far from a turnaround. Real estate consultancy **Cushman and Wakefield** said in a 27 October report that the estimated absorption of office space in the first three quarters of 2009 was 4 million sq. ft and is expected to be 5 million sq. ft for the entire year—a 50% drop from the 10.36 million sq. ft sold in 2008.

Developers had shifted their focus from commercial, retail and hospitality projects to residential sales during the slowdown. DLF and Unitech led the way, saying they would concentrate on mid-income homes, and suspended other projects. While a Unitech official said on condition of anonymity that the company has changed its stand and gotten back to commercial development, DLF is also developing about 2.5-3 million sq. ft of commercial space.

Overall, DLF is trying to clean up whatever commercial space was launched by beginning construction as well as delivering what was promised, said a DLF official, who also did not want to be identified.

“The revival of the commercial sector will be a slow process, and the initial trends emerging after the lull include the gradual return of demand from non-IT companies as well as from investors,” said Anshuman Magazine, managing director at property advisory CB Richard Ellis.

Bangalore-based Ozonegroup is back at the drawing board, deliberating the format of its Urbana project—a 162-acre sprawl in Bangalore. The company, which had earlier considered building an IT special economic zone (SEZ) here, may instead build a large IT park with retail spaces.

Similarly, Orbit, after turning its premium commercial projects into residential formats, plans to launch two commercial projects in the coming months in the Bandra-Kurla Complex and Andheri, both Mumbai suburbs.

“The launches are in anticipation of demand picking up as companies begin to expand again,” said Pujit Aggarwal, managing director of Orbit.

India’s retail property market has recorded the highest correction in the world, according to a 22 September report by Cushman and Wakefield. The biggest fall in rentals globally was in Colaba Causeway, a high street in Mumbai, where rentals fell by 63.5%.

In the past couple of months, many mall developers have restarted projects they had given up on.

A Bangalore-based developer, requesting anonymity, said he is redesigning a 2 million sq. ft mall off Bellary Road in north Bangalore, which he had shelved late last year. “We had even dissolved our entire retail team but now we are again at it, though we have to rethink our mix of retailers, etc.,” he said.

From the complete silence that reigned in the retail sector in the past two quarters, sign-ups have started though retailers are more demanding this time, said two retail analysts.

“The current set of mall developers are long-term players and are more cautious because retailers want to see that construction has begun, unlike earlier,” said Susil Dungarwal, founder of Beyond Squarefeet Advisory Pvt. Ltd, a mall advisory.

Retail investors, too, are hopeful of seeing more movement in an otherwise dull sector. **Ivanhoe Cambridge Investment Advisory (India) Pvt. Ltd**, a Canadian retail-focused fund, is close to signing a joint venture with a leading developer, almost a year-and-a-half after it announced its India plans.

“We see India as a long-term strategy, and the recent economic downturn has not impacted our interest in investing in quality shopping centre projects with competent local partners,” said Phil McArthur, senior vice-president, India, Ivanhoe Cambridge.