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Omicron will delay planned return to office timelines by around 3 months: Colliers CEO Ramesh Nair

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| Updated on December 31, 2021



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In an interview to BusinessLine, Ramesh Nair talks about the overall real estate sector, investment trends, and emerging asset classes.

Omicron could delay returning to offices by three to six months, but it is unlikely to impact institutional investor interest as they increasingly explore new asset classes like warehouse, data centre, and even life sciences, says Ramesh Nair, CEO, India, and Managing Director, Market Development, Asia, Colliers.



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In an interview to *BusinessLine*, he also talks about the overall real estate sector, investment trends, emerging asset classes, and home sales. Excerpts:

How does the institutional investment segment in real estate shape up for 2022?

Investments in office spaces will continue to remain dominant. Investments in residential and industrial sectors are likely to strengthen and will be led by global investors.

Most investments in the residential sector will be led by southern or western Indian companies and listed entities, primarily because of better corporate governance across such organizations.

Compared to this, companies based out of north India are still witnessing some governance issues internally and there are factors like clearances for land or other government-led clearance issues which may not interest institutional investors immediately. [Open in App \(https://thehindubusinessline.page.link/DddWWzJBWGVtx7Z16\)](https://thehindubusinessline.page.link/DddWWzJBWGVtx7Z16)

We are also expecting to see more investments in India from Japanese and Korean sources. There would be more opportunities for forward purchase at a greenfield and brownfield stage in office and industrial assets. Opportunistic capital will continue to find favour in the next 12 to 18 months.

Are alternate asset classes gaining traction too?

Investments in data centres are set to increase as global data management firms, developers and alternative asset managers are forming joint ventures or platforms to develop and operate data centres here. There will be many new entrants and many existing operators will enter partnerships. With governments pushing for stricter data protection policies, demand will skyrocket.

Many hyper-scalers would also get into a land-banking strategy and there would be more built-to-suit leasing based on a yield-cost model.

Capital to be deployed in build-to-core mixed-use, office and warehouse assets is higher. Therefore, more investment platforms between global private equity funds and local developers are likely to emerge.

Under-construction assets will gain significance due to lack of ready investable assets. A significant amount of investments are also flowing towards land or projects under-construction.

In warehousing and data centre investments, are you expecting big ticket movements in 2022?

Industrial and warehousing segment emerged as a major beneficiary during the pandemic. Investors and developers are focusing on built-to-suit Grade-A assets near high consumption centres.

The e-commerce sector is the largest demand driver. During the lockdown period, the consumer base of e-commerce doubled to 42 per cent of urban active internet users in India. India's Tier-II cities saw increased growth of integrated warehousing facilities. The e-commerce volume share of smaller cities is about 46 per cent to the total.

Pharma and health companies will also fuel demand for warehouses, especially on the cold storage front. We forecast the cold storage sector revenue to grow at 14 per cent CAGR by 2023.

Moreover, the private equity (PE) investors are exploring data centres and logistics as they provide stable returns over a longer horizon ranging 20-30 years.

Global digital infrastructure companies, developers and alternative asset managers including Digital Realty, Yondr, Equinix have formed strategic joint ventures /platforms to develop and operate data centres in India.

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Investors will also focus on building Edge data centres which are small data centres closer to users and devices.

Will Omicron be a disruptor?

There is some uncertainty, but the market will see a clearer picture Q2 2022 (April to June) onwards. Omicron will delay planned return to office timelines by around 3 months. Occupiers who were planning to return to work in January could postpone their plans. Overall, the impact on office sector leasing activity would be mild as the pandemic has underscored the importance of offices and its role in attracting and retaining top talent. Occupiers are realising that offices are essential for employee engagement, learning and development, innovation, team productivity and cross departmental collaboration. Also, negotiations, relationship building, on-boarding, job training, critical decisions and critical conversations are better in person.

Residential developers will focus on launching projects that are driven by deeper market studies and home-buyers' needs. Projects from Grade A developers, larger-sized units and integrated townships will continue to be in demand.

Any numbers on commercial real estate post factoring in Omicron?

In the commercial real estate space, Grade-A gross absorption was around 30-32 million square feet in 2021. We expect that the gross absorption in 2022 should be about 15-20 per cent higher (over 2021), as occupier confidence is back in the market. Technology and IT-BPM companies will lead demand for office space, adding 3.75 lakh jobs between April 2021 and March 2022.

Global in-house centres (GICs) are growing at a CAGR of 11.7 per cent. 90 per cent of the GIC headcount is based out of Tier-1 cities. The Tier-2 cities will witness steady growth.

Large RFPs and active demand in the market will keep the leasing momentum strong in the next 2-3 years.

Will flex spaces remain popular?

Flex spaces are likely to have a 16-18 per cent share in total leasing this year. Total flex stock in metro cities is likely to have risen by 17 per cent to about 40 million square feet in 2021. Tier-2 cities are witnessing increased growth of flex spaces. We predict that by 2023, total flex space in metro and non-metro locations will touch 60 million square feet assuming lower rates of Covid, steady economic activity and no large-scale restrictions.

There will be an emphasis on greater adoption of technology for space management including data-driven expansion plans, security, wellness monitoring, project management, etc to improve occupier experience.

To appeal to the millennial and Gen Z workforce, flex operators will also focus on adding amenities like single day work passes, fitness centres, coffee shops, hangout spaces, gaming zones, concierge services, etc.

Published on December 31, 2021

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