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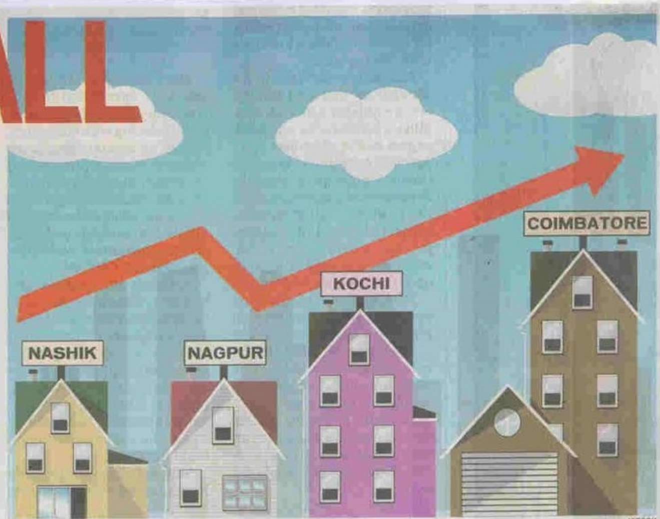
BET SMALL



ISTOCK

Investing in property? Tier-II cities such as Pune, Nashik and Lucknow are likely to beat the real-estate slowdown sooner than saturated Mumbai, say experts

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As homes in Mumbai extend further out of investors' reach, and reel under the uncertainty of the full impact of demonetisation, experts suggest an alternate route: think small.

India has more than 40 Tier-II cities with million-plus populations, some of which are growing as fast as their Tier-I counterparts, says data from realty consultancy JLL India. These cities, with accelerated development, are likely to beat the realty slowdown sooner than saturated metros.

"Demand for realty in Mumbai has always been high, especially from a fairly large investor market," says Deep Kantawala, head, ICS Real Estate Partners, a diversified real-estate and financial services company. "However, Mumbai is now plagued with issues arising from rapid urbanisation and a significant build-up of unsold inventory has resulted in stagnation or muted growth in real-estate prices."

In contrast, Tier-II cities such as Nagpur, Nashik, Chandigarh, Lucknow, Kanpur and Pondicherry are generating better demand for homes, Kantawala adds.

According to government estimates, by 2050, more than 800 million Indians are likely to be living in cities, 100 million of whom will move in the next decade alone, says a report by the Indian Council for Research on International Economic Relations. Metro cities are already struggling to find new land to develop, which bodes well for Tier-II cities.

"Tier-II cities are likely to lead the real-estate recovery cycle, as they are more affordable and have better project delivery records," says Saurabh Mehrotra, national director-advisory, of realty consultancy Knight Frank India. Additionally, many of these regions have been earmarked for the government's ambitious Smart Cities Mission, and are expected to see rapid planned development.

Most industrial sectors such as biotechnology and automobiles are finding it unviable to operate out of metros and are shifting to Tier-II cities, adds Mehrotra. "The pace of job creation is likely to be higher in these cities, which drives demand for real-estate."

Now might be a good time, say experts, to invest in non-residential real-estate — property that is not in the city you live in.

"The understandable tendency of most Indian investors is to focus on cities that they actually live in, but the trend is changing with people seeking help from realty-driven websites and apps," says Kishor Pate, CMD, Amit Enterprises Housing Ltd, a construction firm.

"The scenario is changing also with high net-worth individuals who have so far only considered metros," says Manju Yagnik, vice-chairperson of construction firm, Nahar Group.

WORK IN PROGRESS

Tier-II cities lack IT infrastructure, hospitality options and international connectivity. According to JLL India, barely 10 out of every 100 professionals currently emerge from these towns, and about 40% of the talent migrates to Tier-I cities for better opportunities.

"The scenario is likely to change by 2020-22 as the government's flagship programmes — Smart Cities Mission, Digital India, Skill India and Housing For All 2022 — bear fruit," says Shajai Jacob, head-marketing, JLL India & Sri Lanka.

Many of these cities are already working towards tackling poor infrastructure and connectivity, and developing skilled manpower and IT-friendly policies. By 2020, 25 out of every 100 IT professionals will hail from these cities, according to JLL India estimates.

Office rentals in Delhi and Mumbai are anything between 4 to 10 times higher than in Tier-II cities, and housing is 2-3 times more expensive than in some of them. "However, there are advantages beyond the lower costs in both wages and land. For example, the attrition rate in Tier-II cities is slightly more than 11% compared to about 35% in Tier-I cities because of limited opportunities and the increasing preference to work in hometowns," says Jacob.

Real-estate investors should pick their destinations intelligently, experts say. Research the city's 'growth magnets' before making a decision — what is making it attractive to job-seekers? "In Pune, the growth magnets are its proximity to Mumbai, a solid interest from the IT industry, considerable infrastructure development and a steady influx of migrants from towns and villages around," says Shailesh Puranik, managing director of construction company Puranik Group. "Consider the brand of the property you will invest in, its features, and the track record of the developer."

HOT POCKETS

Cities that have been chosen into the notified list of 'Smart Cities', or those that are in the vicinity of planned development such as the Delhi-Mumbai Industrial Corridor, freight corridors or new expressways, are likely to yield better returns.

"In particular, cities that show good promise are Ahmedabad, Jaipur, Chandigarh, Surat, Kochi, Vishakapatnam, Lucknow, Vadodara, Coimbatore and Ludhiana," says Kantawala.

In Maharashtra, Nashik and Nagpur can be considered good bets, says Parth Mehta, managing director of development firm Paradigm Realty. The Mumbai-Nashik highway has made the city more accessible to Mumbai, and the outskirts of Nashik, such as the Pathardi area, are seeing luxury projects coming up in the range of Rs 45 lakh to Rs 50 lakh for 2-3BHK units. "Cheap land prices here have attracted many manufacturing plants and IT industry players," adds Mehta.

In Nagpur, an abundance of educational institutes, industrial parks and cargo hubs has generated real-estate demand. Additionally, the expected Nagpur Metro, Nagpur-Bilaspur and Nagpur-Secunderabad high-speed trains and a multi-modal international hub airport will add to the city's progress indices. The first Indian Institute of Management (IIM) in the state is planned here too.

"Kochi, Nagpur, Jaipur and Hyderabad have the advantage of relatively cheap land prices and a well-educated workforce," adds Dharmesh Jain, chairman and MD of construction firm, Nirmal Lifestyle. Amit Wadhwani, managing director, Sai Estate Consultants says that the circle rates (the minimum rate at which a property can be sold) are conducive in these locations for development at lower costs. Approvals are easy to obtain. "These factors will fuel on-time delivery," he adds.