

# Commercial Property: Investment & Yield

Last Sunday I got a surprise call from a college friend of mine and in a hurried voice he asked me "where can I invest proceeds from sell of my property". The word "Where" is not a one dimensional parameter but involves many factors at least as many as alphabets the word "where" has Security, Return, Yield, Time Period, Tax impact and marketability. I narrated this to him and my smart friend got fixed at the term "yield" and so I thought I will also try to fix this issue to the best of our ability in this newsletter.

I recalled an article I read last Sunday stating "Fixed Deposits have been considered as the safest investment for decades as returns are assured, most PSU Banks offer interest rate of 6.25% for 365 days deposit".

First question that came to my mind was what is this 6.25%? is it return and growth of money? and second question was, is putting money in fix deposit an investment, or is it keeping our saving safe? I would say it is later one because in last five years average inflation is 4.62% per annum and return of 6.25% is just beating the inflation.

So where can he invest this money? Question still stands still and that's when two other options came to my mind Stock market and Real Estate. I did a bit of surfing and found that stock market trend shows an average annual yield of 8.0% to 12.0% in five years. Nifty Realty index shows 9.62% per annual yield of last 5 years.

where to invest  
money?

Investing in stock market is risky, if we invest for long term then risk moderates and yield is good enough but still how much? 12% annual yield is maximum on higher side. In above two investments, capital remains same while returns are only in the form of interest gained or yield, the principal amount remains the same. In stock market we get dividend but there are few stock we can expect more than 6% dividend.

While investing in a Real Estate, scenario is quite different. It gives double whammy benefits- one from rentals received on regular basis and secondly annual appreciation in the price of a property. Hence conceptually, here the capital also gets apprecia-  
ted in addition to rental income generated by the property meaning return as well as yield.

## Real Estate can be considered more secured and less volatile

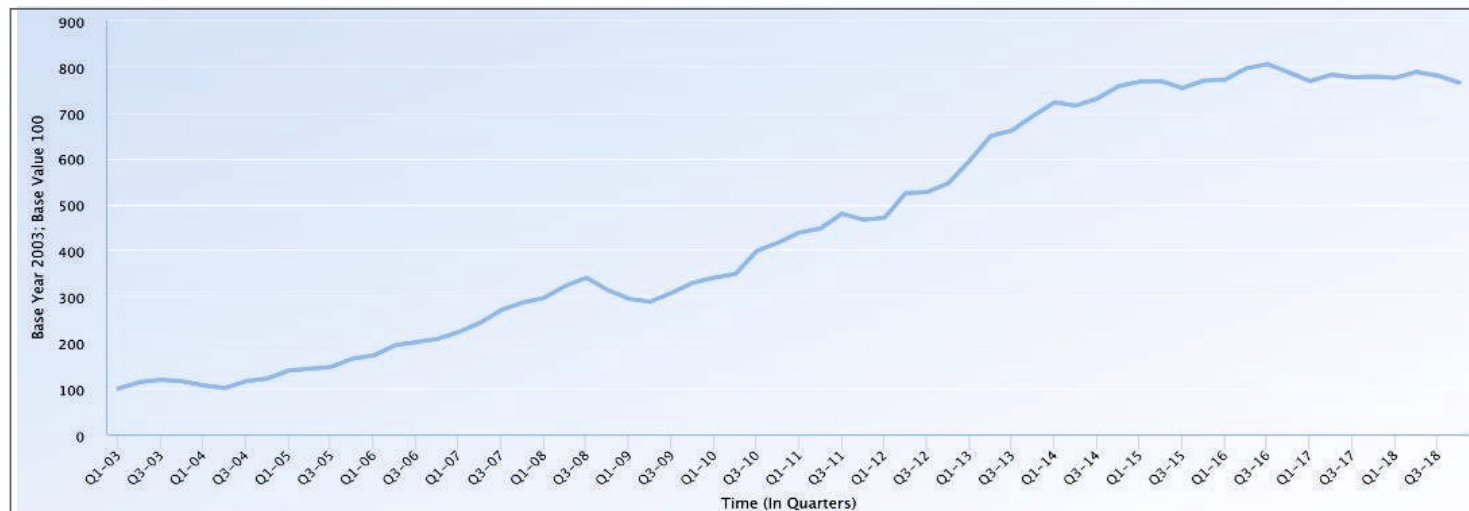
It can be concluded that While investing in any real investment in Real Estate property, yield & returns can be considered more secured and less volatile than other two investments. from the property is always taken into consideration with respect to the capital investment. Returns from The only challenge for investment in Real estate is high capital requirement in form of rentals as well as disposal. price appreciation.

## Return VS Yield

Return is the financial gain or loss on an investment and is typically referred to total return and expresses what an investor earned from an investment during a certain period, it includes interest, dividends, and capital gain such as an increase in the share price. In other words, a return is retrospective, or backward-looking.

Yield is the income returned on an investment, such as the interest received from holding a security. The yield is usually expressed as an annual percentage rate based on the investment's cost. Yield is forward-looking. Furthermore, it measures the income, such as interest and dividends, that an investment earns and ignores capital gains.

Next question is what type of property can be preferred for real estate investment and to answer this we have to considered both returns as well as investment. We, as a Real Estate research and analysis firm have developed property price index for MMR region with base year 2003 showing returns on investment. The average return is 1.5 times in last five years and 2.5 times in last 10 years. We can see return in various pockets of Mumbai and compare.



Courtesy : PropNdex

In last five years, market is almost stagnant & returns are not very good but in last 10 year returns have been 2.5 times

Yield from residential property is very low, generally ranges between 1.75% to 2.75% annually so investment in residential property is not a wise decision anyway.

Commercial (Office Spaces) premises are meant to fetch income directly or indirectly. Direct source of income are direct earnings in form of rentals and indirect form is income generated by business or any activities carried out in the property.

Considering Mumbai's Real Estate Market, a commercial property fetches rental yield of around 7.64% on average across all locations. In recent years Mumbai has experienced a lot of market changes in terms of commercial growth.

South Mumbai was one of the major commercial hubs previously but now various other locations have emerged and been developed for commercial activities. For example BKC has become a CBD after Nariman point. Belapur planned to be a CBD has not been successful to serve its purpose where Vashi and Sanpada came out to be actual CBD in that region. Similarly locations like Andheri East in Mumbai Suburb and Lower Parel in Mumbai are one of the most preferred location for commercial activities.

A good rental income is an important considerations while choosing an asset to assess the actual investment gains from the property for investment purpose.

On the basis of market data on rentals, We tried to figure out yield for commercial office premises of various locations across Mumbai, Navi Mumbai and Suburbs.



It is an important factor for property buyers to understand how good the property can be if they want good returns and also earn an income from their investment. Market trend depending on various factors such as demand and supply, potential to produce income, infrastructure, availability of resources, ease of commutation decide the rental rates/yield of a location.



Rental yield in Nariman Point being around 7.10% is surprising less compared to other Central Business Districts like Vashi & Sanpada having a yield of 8.05% and maximum in Bandra East i.e. 8.09%. Nariman Point being one of the prime locations for commercial activities is fetching a lower yield because of shift of market activities to other CBDs. Yield seems to be gradually increasing ahead of South Mumbai increasing gradually from Mumbai Central uptill Mahim including locations like Dadar, Sewri, Parel. Yield in Mumbai Central & Mahalaxmi is around 7.48% and is seen increasing till 7.62% upto Mahim. Khar and Bandra fetch highest yield across all locations because of the different charm of that location. Link road connecting many prime locations has been helpful for the increase in rent in those locations. Many high class offices are found in that location including offices of film stars, developers etc. this location fetches a yield of 8.19%. Bandra East is a CBD wherein the yield is found to be 8.09%. This location consists of BKC where major MNC's have set up their offices and is experiencing growth every year. There is drop seen in the yield towards north of Bandra in locations such as Santacruz, Vile Parle and Andheri fetching a yield of 7.44%.

Again Andheri East being a commercial hub experiences an increase in yield rather than Andheri West which goes upto a mark of 7.75%. Rental yield between Jogeshwari to Dahisar which is growing for its commercial activities is still fetching good yield of 7.34%. Naigaon to Palghar on an average shockingly have yield of 7.54% more than that upto Dahisar. Comparitively, Vashi and Sanpada across all locations are fetching yield of 8.05% more than many famous commercial locations showing a rise in commercial activities throughout years. Yield graph is again declining ahead of Vashi reducing upto 7.78% and remains constant upto Kharghar. Graph is seen falling again ahead of Kharghar in locations such as Panvel, Kamothe, Kalamboli fetching yield of 7.14% including Trans Harbour locations. Locations from Sion to Mulund have a yield of around 7.78%. Mixed commercial offices are found in these locations. These can be considered as good commercial locations.

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