

Foreign investments in Indian real estate turn a corner

March 2022



In 2021, India, like most other nations, quelled the 'pandemic panic' and adjusted to the new normal across all business dispensations including the real estate sector. Significantly, investments in this asset class in the first 9 months of 2021 touched \$3.5billion, 75% of that in 2020, 36% in the residential, industrial and warehousing sectors, and the balance spread across the office and infrastructure space. Interestingly, given the advent of remote working protocols and rapid infrastructure advancements, the demand for homes in tier 2 and 3 cities burgeoned. This predicates a wealth of new opportunities over the foreseeable future, most especially in the domains of affordable housing, and commercial spaces purposed for new-age businesses like ecommerce and fintech that have seen exponential growth consequent to their location-agnostic digital operating formats/systems.. Moreover, with citizens becoming less big-city centric, demand for commercial spaces in tier 2 and 3 towns is expected to burgeon.

Additionally, pragmatic government policies of recent years have helped advance the sector - several states have reduced stamp duties to encourage investment, interest rates for home buyers are at all-time lows, and home buyers have been incentivized by tax exemptions. And importantly, as transactional transparency is assured by the RERA Act of 2016 and the laws permit 100% FDI in construction, there have been significant inflows of cross-border funding.



Raj Menda

Joint Chairman, FICCI Real Estate Committee &
Corporate Chairman, RMZ Corp

Investments across Real Estate asset classes are also being driven by policies advocating modern infrastructure, low interest rates and holistic growth, this, besides India's economic resurgence and improving revenue visibility. Investment has been particularly robust in the warehousing, logistics and data center spaces, largely factored by the snowballing need for committed local warehouses by ecommerce entities for last mile delivery, and an increasing demand from fintech, education, media and content companies. As a case in point, the Indian data centres currently host 445MW IT capacity; 290MW are expected to be added in 2022. REITS have now been established as an alternate financing platform to raise funds in the real estate sector.

There has been a sea change in Real Estate across the board. While affordability, as ever, remains a priority, today there are other, pressing compulsions. Sustainability is no longer just a catchphrase but an existential imperative. New developments must strive for carbon neutrality, be it through use of sustainable materials for construction, optimally using on-site natural resources like sunlight and wind for power generation or greening the area under development. And given the challenges surfaced by the pandemic, RE developers would do well to ensure infallible ventilation and sanitation systems in all projects underway.

FICCI and Colliers have co-created this Report on "Foreign Investments in Indian Real Estate turn a corner for the year 2022" that portrays the new way that global investors are approaching the India real estate market and the emergence of new models of global investment in the sector.

I am confident, the findings of the Report would be useful to the industry and will provide a blueprint to reflect on the way forward.



India's economy is likely to emerge as the world's third largest economy by 2031, and the real estate has a critical role to play in this journey. Over the last five years, there has been a huge shift in the way the world is seeing the Indian real estate sector. What was considered to be a fragmented sector is now seen as highly investible. This is clear in the way global investors are approaching the Indian market, with Blackstone holding the largest commercial office and industrial and logistics portfolio in India. Investors like Brookfield, CPPIB, GIC are some of the largest investors in the country's real estate. Total investments in real estate touched USD49.4 bn between 2012-2021, out of which 64% have been led by foreign investors. Investors are seeing opportunities in India not just in traditional assets such as commercial offices, residential and retail segments, but also in alternative asset classes such as data centers, coliving etc. Foreign investors are more entrenched in the Indian real estate sector, forming investments platforms across sectors.

India has ample opportunities for investments in real estate sector. The last five years saw a significant increase in foreign investments propelled by the impact of Real Estate Regulatory Authority (RERA) and Goods and Services Tax (GST), amongst others. These reforms infused the sector with greater transparency and accountability instilling higher confidence amongst investors.

We are coming to a point, where ESG and sustainability are becoming integral to investors, developers, and occupiers alike. This will bring about changes in investors' strategies, with green financing becoming more prominent. Overall, improving ease of doing business and removing red tapism is of utmost importance to boost investors' confidence over the coming years.



Ramesh Nair
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2021 APAC investments see strength in logistics and data centers



The investment landscape in the APAC region continues to hold up despite the pandemic. Deal activity in commercial real estate remained strong in 2021, with real estate investments touching a new high. This was steered by long-term confidence in the region and avenues for diversification. The total investments in APAC real estate touched USD 870.5 bn which includes income-yielding assets¹ and development sites. Investments in income-yielding assets touched record levels in 2021, at USD205.4 bn, accounting for almost 24% share in total investments.

Office sector continued to be the most preferred asset class in 2021 with **42%** share in income-yielding assets, although the share has significantly reduced from pre-pandemic levels.



Underpinning the rebound in investments, is the growth of new economy assets which includes logistics and warehouses, data centres and business parks.



Investments in industrial and logistics sector almost doubled to **USD56.4 bn (27%** share in income-yielding assets) in 2021 as the sector sees a spurt in demand from logistics players.



Investments in retail accounted for **USD40.3 bn (20% share)** in income-yielding during 2021, up from 17% share in 2020. The surge of investment in retail is backed by an appetite for bigger shopping malls.



Overall, the share of income-yielding properties has increased to **24%** in 2021 from 18% 2020, whereas investments in development sites declined in the region.



Total Real Estate investments touch **USD 870.5 bn** in 2021

24%

Investments in income-yielding assets in APAC touched **USD205.4 bn** in 2021, an all-time high

76%

Development sites account for **USD 665.1 bn** share in 2021

Investments in top three income-yielding assets in 2021



Office
42%

USD86.7bn



Industrial
27%

USD56.4bn



Retail
20%

USD40.3bn



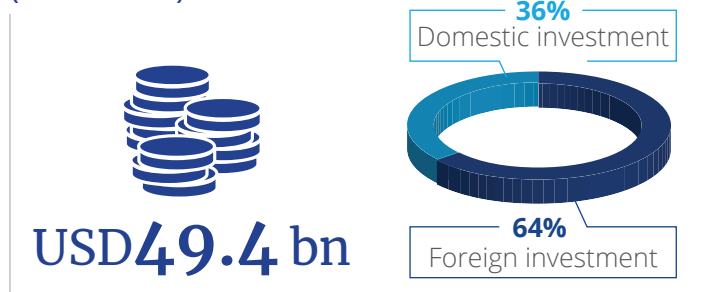
1- Income-yielding assets include Office, Industrial, Retail, Hotel, Apartments, Senior Housing & Care assets
Percentage indicates share of asset wise investment in total investments in income producing assets
Source: Real Capital Analytics, Colliers

India investment landscape



Over the last ten years, global funds' participation in the Indian real estate sector has been on the rise. The year 2016 was a watershed year in terms of reforms for the Indian real estate sector. Regulatory reforms such as implementation of Real Estate Regulatory Authority (RERA) and Goods & Services Tax (GST), a push for affordable housing and amendment of Real Estate Investment Trust (REIT) regulations in 2016 steered investors' confidence and gave a fillip to foreign investments. As seen below, during 2017-2021, foreign capital flows in real estate jumped 3 times to USD24.0 bn compared to preceding five-year period. Foreign capital flows are calculated basis the origin of investors in the overall capital flows, as recorded by Colliers.

Total investments in Indian real estate (2012-2021)

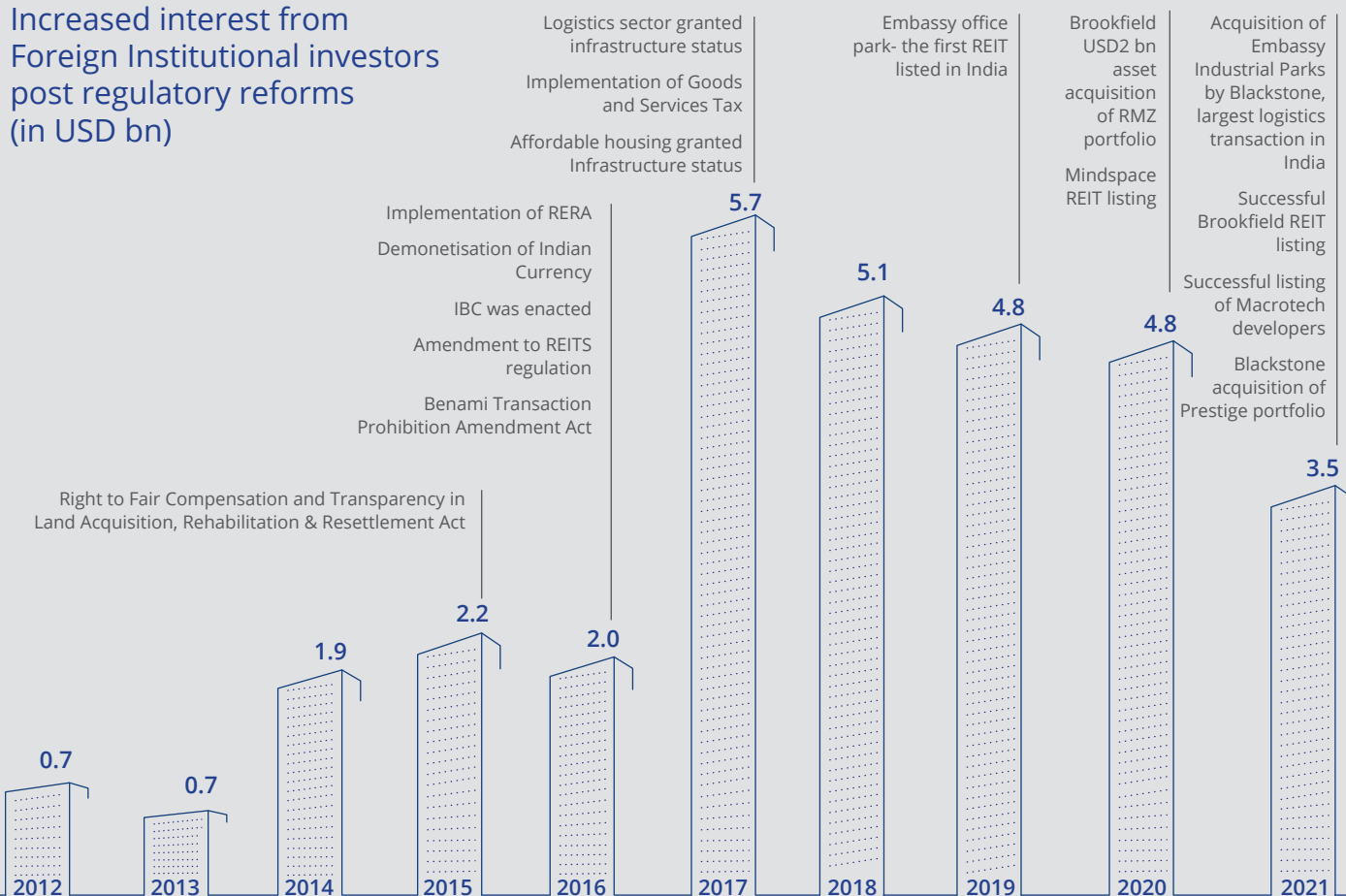


Source: Colliers

Strong investor interest



Increased interest from Foreign Institutional investors post regulatory reforms (in USD bn)



Source: Colliers

Opportunities and challenges in real estate investments in India



Opportunities

- India likely to become world's third-largest economy by 2031, with average annual GDP growth of 6% ²
- As per World Bank, India's ranking in ease of doing business index improved 14 notches to rank 63 in 2019
- Amendment of SEZ Act for creation of new enterprises and hubs
- Infrastructure status for logistics, data centres and affordable housing

² Report by Bank of America (BoFA) Securities



Challenges

- Limited investible Grade A completed office stock in key cities
- Delays in projects and poor construction quality dampening investment sentiment
- Lack of land records, ownership title
- Lack of uniform labour laws
- High stamp duty and GST charges in overall transaction costs

USA and Canada dominate investment share

Foreign investors, who had previously refrained from investing in the Indian real estate market due to the lack of transparency, started investing into the country with greater optimism from 2017. The share of foreign institutional investors in total investments has consistently been above 70% each year since 2017, following regulatory reforms. Despite pandemic-induced headwinds, investor interest remains resilient for capital deployment in core assets as well as for development of under construction assets and creation of new platforms.

The share of investments from the USA and Canada together has been more than 60% in foreign investments each of the years since 2017. Despite the challenges posed by the pandemic in 2020, investments from USA and Canada continued to hold up. Funds continue to actively explore the industrial segment, apart from the office and mixed-use assets.





India back on Asian investors' radar

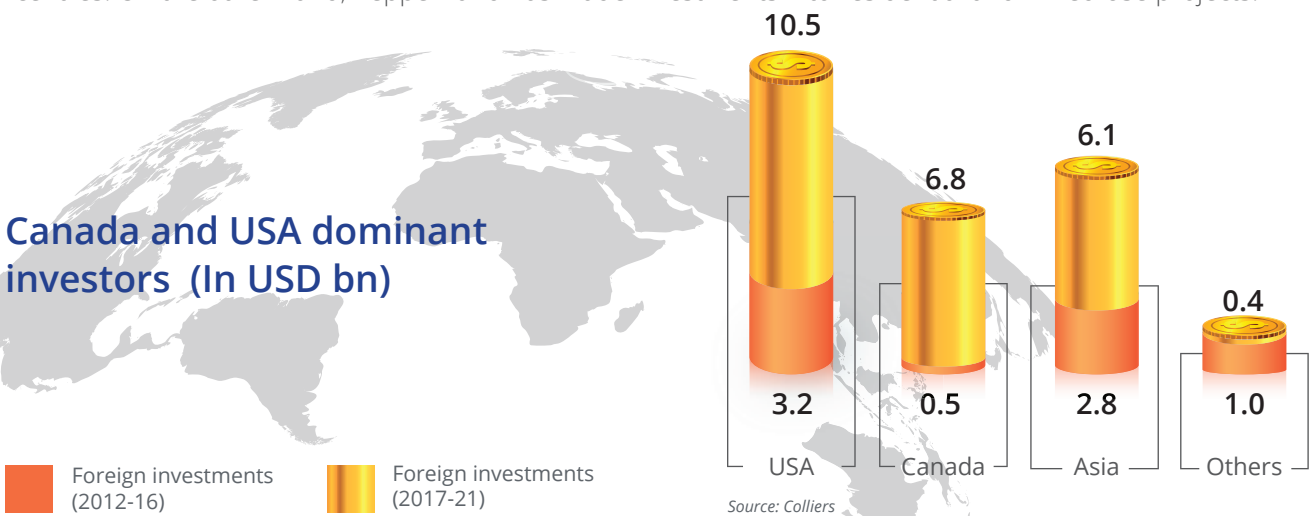


Investments from Asian countries, which had started to increase exposure towards India, saw some decline during the pandemic. Investments from Asian investors saw a decline in 2020. However, share of Asian institutional investments bounced back to pre-pandemic levels in 2021. Majority of capital from Asia came in from Singapore, targeted towards office and industrial and logistics assets.

Apart from Private Equity (PE) funds, there has also been considerable capital commitments from Asian corporates. In last five years. Corporates such as Mertz of Korea, Sumitomo Corporation, Japan and Marubeni Corporation, Japan have made capital allocations for the first time in Indian real estate through various routes such as direct investments into projects, Foreign Direct Investment (FDI) route and providing capital to dedicated real estate funds in India. The capital deployed has been majorly into office and residential assets.

Investors based out of Singapore such as CapitalLand and Keppel Land have also invested in Indian real estate in past five years. Majority of the capital deployed by CapitalLand has been into office, industrial & Logistics and data centres. On the other hand, Keppel Land has made investments into residential and mixed-use projects.

Canada and USA dominant investors (In USD bn)



Top investors in Global investment flows

USA

Office, Industrial & Logistics, Retail

Kohlberg Kravis Roberts

Office, Residential

Canada

Office, Residential, Hospitality

Office, Industrial & Logistics, Retail

Office & Industrial & Logistics, Alternatives

Asia

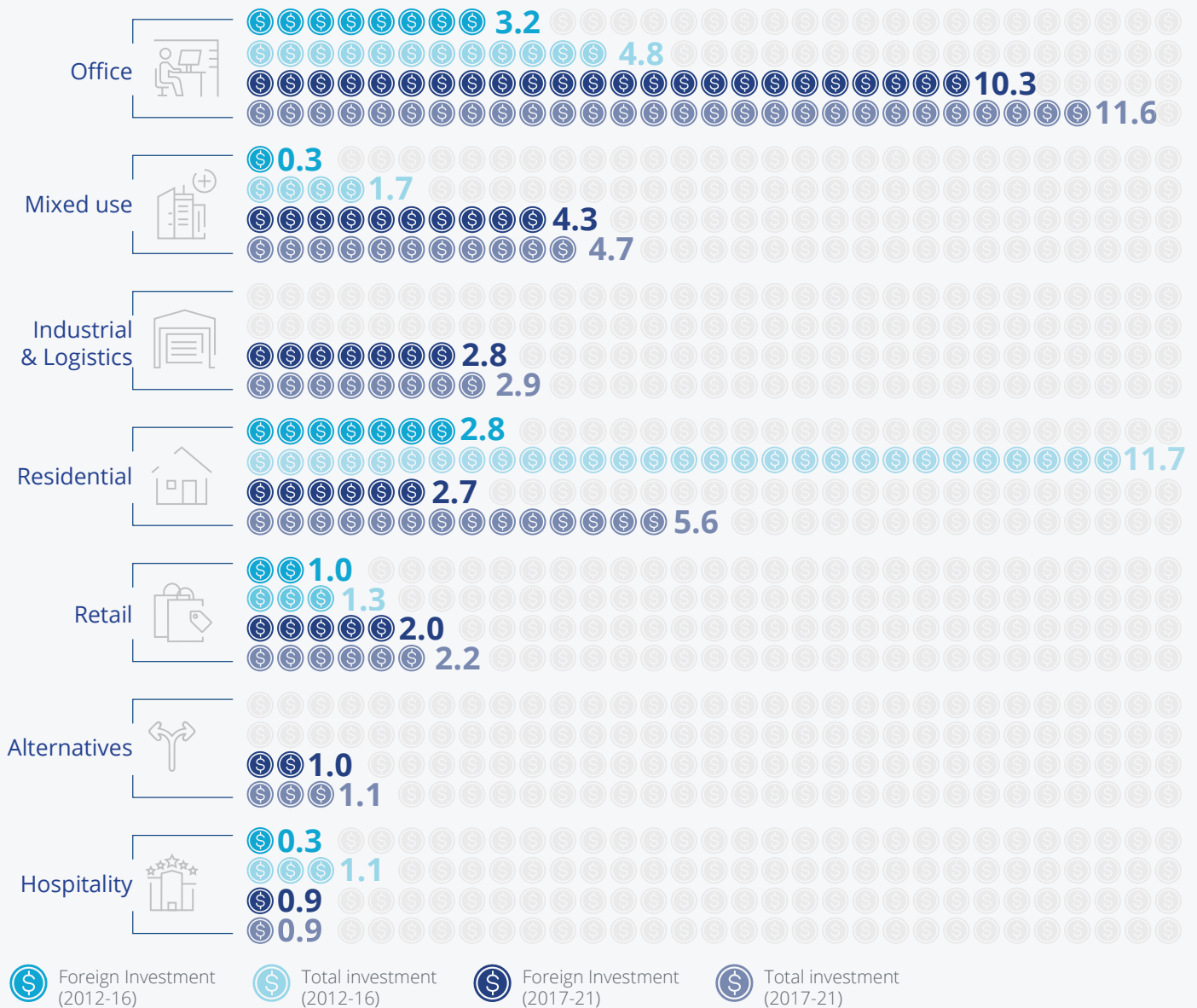
Office, Logistics, Data centres

Office, Residential Retail, Logistics

Retail, Office, Residential



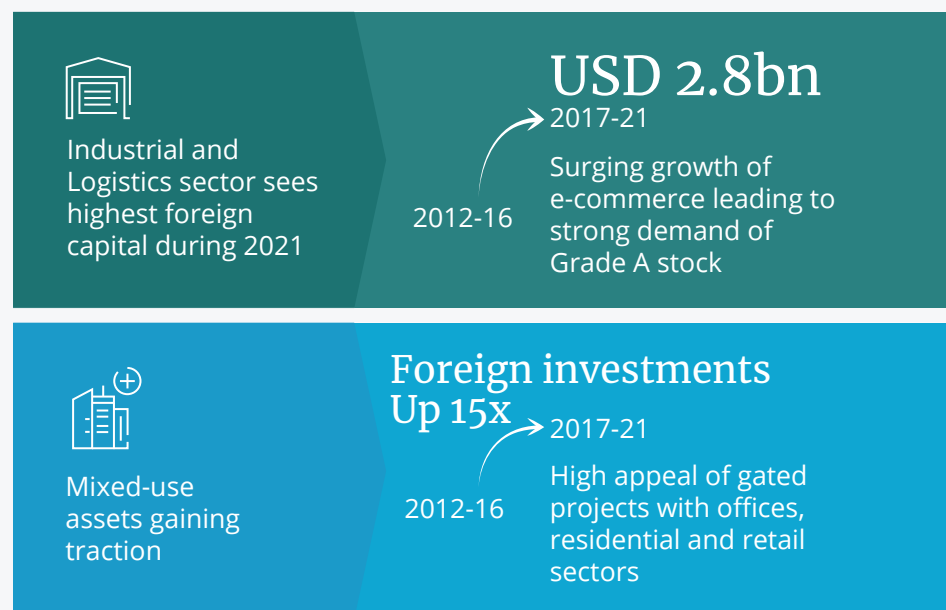
Office sector dominant post 2016; Industrial and Logistics leads in 2021 (in USD bn)



Source: Colliers

The total share of foreign investments in office sector during 2017-2021 has almost remained in line with the preceding five-year accounting for almost 43% share in total foreign investments. On the residential side, the share of residential in foreign investments has more than halved during 2017-2021 compared to preceding five years.

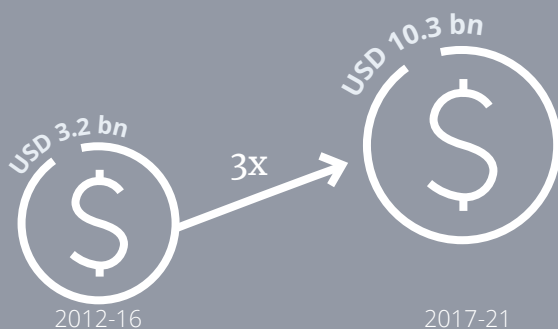
Investor activity in alternatives including data centres, student housing, co living, life sciences has grown, attracting almost USD1 bn of investments in last five years.



Source: Colliers

Foreign investments in office grows 3X to USD10.3 bn in 2017-2021

Office sector saw a significant uptick in foreign capital flows post regulatory reforms in 2016, as enhanced transparency, robust demand for Grade A office space and exit avenues like REITs bolstered investments. Foreign investments in office sector has consistently reached USD2.0 bn in each year since 2017 except in 2021, where quantum of investments in office sector almost halved.



Source: Colliers

The pandemic prompted investors to diversify their portfolios and explore emerging asset classes. While office investments from across the regions have intensified, investments from Canada have seen the highest rise during 2017-2021 period. Brookfield Asset Management has the maximum share in Canada based investments in India.

The pandemic has accelerated a shift towards higher quality assets with high sustainability ratings. Lack of completed projects in key cities at attractive valuations has pushed investors towards creation of new platforms and joint ventures (JVs) for development of new projects. In 2021, about 90% of the foreign investments in the office sector were in under construction projects.

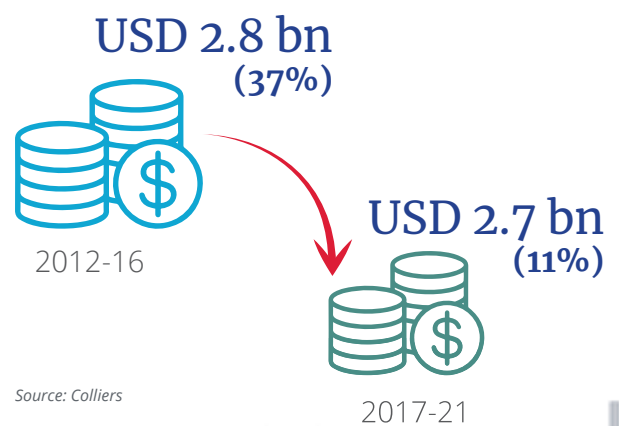
Residential activity picking up in 2021 after two years of subdued activity



Foreign funds in residential sector during 2017-2021 was about USD2.7 bn almost in line with the preceding five-year period. The share of residential assets in total foreign investments has reduced to 11% in 2017-2021, from 37% in preceding five-year period. This was led by increased investments in other segments. Moreover, the Non-Banking Financial Company (NBFC) crisis and subdued residential sales made foreign investors cautious about the sector in 2019 and 2020.

During 2021, the residential again saw a rebound in investments. This was led by a revival in residential sales during the pandemic steered by low home loan rates, stable prices and a higher inclination to own a home. This is an opportune time for investors and developers to put in capital in the residential sector and launch projects in accordance with the needs of homebuyers.

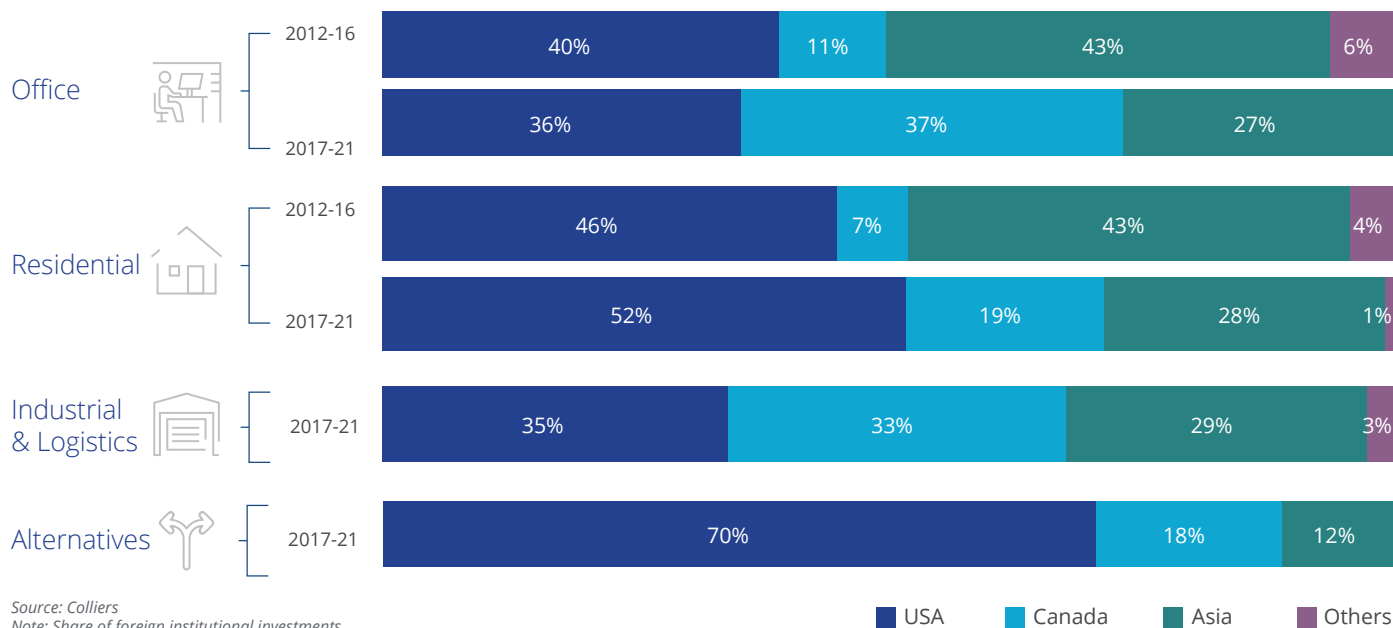
Foreign investment in residential assets (In USD bn and % share in foreign investments)



Source: Colliers



US and Canadian investors hone focus on Industrial and logistics space



Industrial and logistics sector emerges as top choice in 2021

Key trends in industrial and logistics segment

Momentum in Industrial and logistics assets in India has picked up only in the last five years driven by robust demand from E-commerce and 3PL firms for modern warehousing facilities. In 2021, Industrial and logistics assets emerged as the top choice for foreign institutional investors, garnering a third of total foreign investments (USD1.1 bn) surpassing office sector. This can be attributed to the acquisition of Embassy Industrial Parks by Blackstone Real Estate at a deal value of USD717 mn, India's largest logistics transaction.



Tier II cities in spotlight

Lack of ready Grade A industrial and logistics parks across tier I and II locations amid high demand scenario has pushed investors to create platforms for development of modern warehousing facilities. Investors and leading developers such as GIC-ESR Cayman, Blackstone Horizon Industrial Parks, Indospace – KSH Infra JV, formed new alliances in the past two years to expand their logistics portfolios through asset acquisition and greenfield development in tier I and II locations.

Alternatives seeing strong investor interest

With the pandemic raging from 2020, there has been a broader shift in investment strategy with foreign investors looking to diversify their portfolios, by venturing into alternative assets. Investments in alternative assets such as data centers, flex workspaces, co-living and life sciences in India has surged only in the past five years. This indicates emergence of this asset class as potential investment opportunity. Investments in alternatives touched USD1 bn in the last five years. While the inflows are comparatively lower than core assets, there is ample opportunity in specific alternative assets.



Data centers garnered maximum share of foreign investments in alternatives at 52% in last five years



In the past five years, capital commitments equating USD13.5 bn by global data center operators, corporates and investors have been made for development of data centers in India. Global data management companies, data center operators and investors have either entered strategic partnerships with local data centers operators or are still on the look-out for such deals. Data center development platforms such as Web Werks-Iron Mountain, Brookfield Digital Realty, Everstone-Yondr, Adani-EdgeConnex have been created in the past one year to expand, own and operate data centers in India.

Potential for Data Centers



Internet users³
825 mn
2021



Digital transactions
Up 88%
from FY 2019 to FY 2021



Data center capacity⁴ per user



1.2
MW



19.1
MW

3. Telecom Regulatory Authority of India, Government estimates

4. India has an abnormally low data centre capacity: Sunil Gupta, Yotta (dqindia.com) Ministry of Finance

Government policy for data localisation and infrastructure status received for data centres recently are likely to give a boost to establishment of new data centers in the country.

The unique market dynamics of these assets and paucity of ready built assets will further drive investors to seek out dedicated local platforms to access new opportunities.

Key capital commitments in data centres

Platform Name	Investment
Brookfield Digital Realty	2 bn
Everstone-Yondr	1 bn
Bharti Airtel-Nxtra Data	0.7 bn

Source: Colliers

REITs increasingly becoming a popular asset class

REITs have now been established as a strong alternate financial platform to raise funds in the real estate sector. Over the last five years, the real estate sector has become more transparent and corporatized. The introduction of the first REIT in 2019 is changing the way commercial real estate operates. Since 2019, two more REITs have been listed on the Indian bourses, with more entities exploring the option.

The government has recently approved foreign portfolio investors to invest in 'debt securities' issues by REITs which is likely to expand funding source and will reduce the cost of debt financing for REITs. It will also make REITs in India more attractive to large foreign investors and improve investors' confidence in the office sector.

Going forward, as commercial office sector bounces back, low volatility and stable income despite hybrid work models, will make REITs a lucrative option for investors. Securities and Exchange Board of India (SEBI) has reduced the minimum application value of REITs that provide an attractive opportunity for retail investors. We expect new REIT listings across property types to deepen capital flows as the sector attains maturity.

India's REIT statistics



Completed area
71.7 msf



No. of properties including
business parks and
standalone buildings
27+



Annualized distribution yield
5.5% – 6.5%

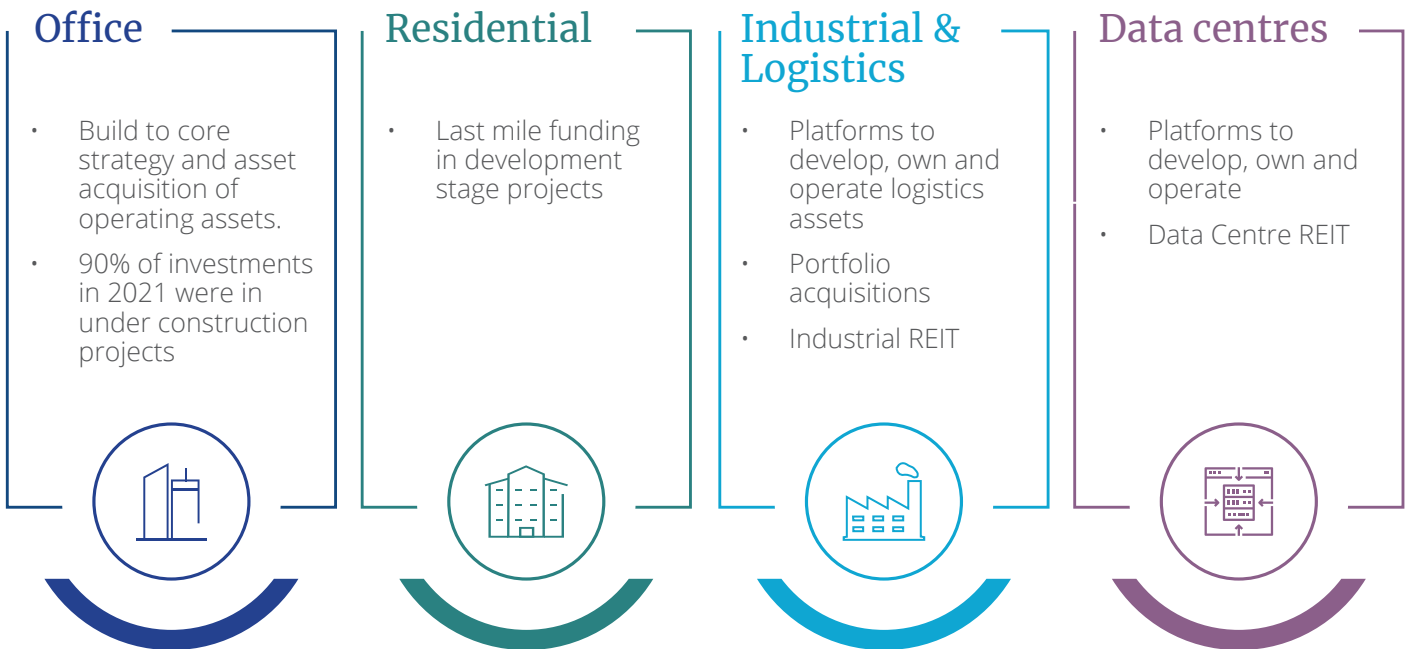
Source: Listed REITs Investor presentations, Colliers

Overall, global investors are exploring alternate asset classes with potential for stable returns. Over the next few years, we anticipate fund houses aggressively pooling in assets in a bid to list them as REITs. We also see investors' interest in REITs for industrial and logistics and retail assets, as these sectors get corporatized.



Opportunities – Asset wise

The pandemic has altered trend in real estate investments. Going forward, we expect more platforms to be created for development of office, industrial and logistics assets and data centres in key tier I and tier II locations. Interest in residential assets will remain strong as the segment has seen a strong rebound in 2021.



New models emerging in real estate investment landscape

New models are emerging in the investment landscape in Indian real estate as asset owners, and investors explore new investment models. We take a look at the emerging investment models in the sector.



Fractional ownership gaining traction in India

Fractional ownership/crowd funding has been gaining traction in India in the past 2-3 years as it provides a unique opportunity to retail investors. Typically, these entail smaller investment in the range of INR10-25 lakhs to buy real estate assets in prime locations. Such investments can provide a high rental yield and capital appreciation on exit.



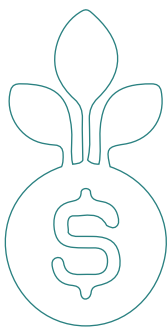
Alternative Investment Funds broaden scope

Alternative Investment Funds (AIFs) refer to privately pooled investment funds which raise capital from global and domestic investors and are registered with SEBI. Leading real estate fund managers continue to broaden focus on new asset classes such as education and healthcare, under construction office assets, early stage and last-mile financing in residential projects by raising fresh capital from global and domestic investors. AIFs also provide unique opportunity for global investors to seek opportunities in high yield projects through managed funds. Overall the last few years, Edelweiss Asset Management, Axis AMC, Sundaram Alternates, ASK Group have been active in raising capital.

Online fractional ownership platforms in India

Green Financing to gain prominence

We foresee green financing to gain prominence over the next few years. Green financing, which refers to the capital flows from public and private financial institutional targeted towards sustainable development, is likely to be a key driver in investments decisions. This comes at a time when climate consciousness and Environmental, Social and Governance (ESG) principles are becoming integral to the investors and developers' strategies. The concept of green financing in real estate is yet to gain wider acceptance in India.



Total investment opportunity in the green building sector in India until 2030 almost equals **USD1.4 trillion⁵** which can translate into huge opportunity for green financing.

5 Climate Investment Opportunities in South Asia – An IFC Analysis

In 2020, CapitalLand secured three green loans in India for development of green certified Tech parks in key cities in India. Developers in India are acknowledging the urgency of climate smart roadmap and some of them have committed to green their portfolios over the next few years.

Over the next few years, we see sustainability-linked loans to take off in India. Under such loans, while the loans are used for general corporate purpose, the interest rates are in accordance with the company's ESG performance.



In 2021, **USD700 bn** of sustainable and green debt was issued globally, up from USD250 million in 2018

Source: Bloomberg



India has only 4% green buildings which translates into immense opportunity facilitating investment in green buildings

Industrial & Logistics sector provides immense opportunities for deepening of green finance market

Many developers, global data center operators have already made headway into development of green data centers deploying renewable energy sources. Government's thrust on development of data sectors in India and granting of infrastructure status will give a fillip to data center investments in the country and in creation of green digital infrastructure.

Green financing can take off in India provided there is a concerted effort by all stakeholders. Some countries in APAC require sustainability reporting in stock exchanges so that sustainability goals are incentivized. This can go a long way in creating a framework for sustainability in the country.





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A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 2,50,000 companies.

FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.
