

# Investments Turbocharged with Focus on Alternate Assets Classes

Investment update H1 2021

## Insights & Recommendations

Over the next three years, we expect more capital to be deployed in build-to-core mixed-use, office and logistics assets as more investment platforms are formed between global private equity funds and local developers.

We recommend that investors look at last-mile funding in the residential sector, which is witnessing some latent demand.

We expect momentum to build around logistics assets, life sciences labs and data centers as investors diversify away from traditional office investments. Within logistics, we recommend that investors explore partnerships with third-party logistics players to develop multi-purpose cold storage facilities, offering solutions for a range of sectors.

We estimate total inflows in 2021 will reach USD5 billion (INR36,500 crore).



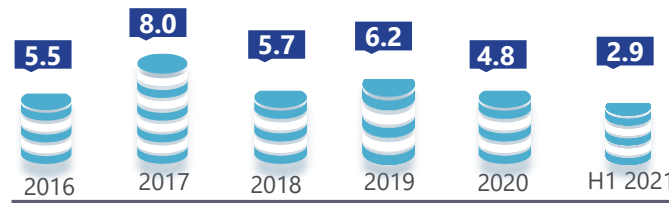
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Investment in the Indian real estate sector was USD2.9 billion (INR21,170 crore) in H1 2021, more than a two-fold increase from H1 2020. Investors continue to have a healthy appetite for office assets, which accounted for 35% of the total investments in H1 2021. In H1 2021, the industrial and warehousing sector saw USD775 million (INR5,657 crore) of the investments, the highest in any year since 2016. Investors are viewing the current scenario as an opportunity to snap up properties at attractive valuations.

During H1 2021, India saw the listing of its third Real Estate Investment Trust (REIT) by Brookfield India, further deepening the secondary markets and cementing the attractiveness of office assets. Also, the Securities and Exchange Board of India (SEBI) reduced the minimum investment amount in REITs to USD136-205 (INR10,000-15,000) from USD 684 (INR50,000), a move that is likely to improve the liquidity in REITs and make them more accessible to a larger pool of investors.

The residential sector, which continues to see liquidity challenges, saw only 4% of the total investments in H1 2021, with debt deals being the dominant route of investments.

### Institutional investments in Indian real estate, 2016-2020 (USD billion)



Indian REITs	Share Performance <sup>2</sup>		Distribution Yield <sup>3</sup>
	QOQ	YOY	
Embassy Office Parks REIT	7.6%	2%	6.1%
MindSpace Business Parks REIT	-6.2%	-	7%
Brookfield India REIT	15.6%	-	-

### Economic Indicators

	2019	2020	2021F
Annual GDP Growth Rate	4.9%	-6.9%	9.1%
Inflation Rate(%)	3.7	6.6	4.6
Unemployment (%)	6.0	10.1	7.6
Repo Rate <sup>1</sup> (%)	5.2	4.0	N/A
Exchange Rate (USD to INR)	70.4	74.1	74.3

Source: Oxford Economics, The Reserve Bank of India, Bombay Stock Exchange. <sup>1</sup>The rate at which the Reserve Bank of India lends short term funds to banks. <sup>2</sup>As on 30 June 2021. <sup>3</sup>Annualized as on 30 June 2021.

### Trends for institutional investments in Indian real estate (USD billion)



#### Investments in under-construction office assets gains momentum

Office sector investments accounted for almost 35% of total investments in the first half of 2021, indicating a firm belief in the long-term resilience of the sector even as many firms look to pivot to a hybrid work model. Investors continue to scout for either land or assets in under-construction stage, as they look to build their portfolio for a future REIT listing. This is due to limited availability of quality rent-yielding assets at attractive valuations, as most of the large developers are already in partnerships with institutional investors. During H1 2021, about 86% of the total investments in the office sector were in land or projects under-construction. Bengaluru and Hyderabad drove the bulk of the office investments attracting 29% each of the total office investments.


#### Logistics players investing for capacity expansion

The increased demand from e-commerce companies for logistics space has in turn resulted in continued interest from institutional investors with inflows of about USD775 million (INR5,657 crore) in H1 2021. Investors are forming joint ventures with local developers to build mega-portfolios. Bolstered by demand for last mile logistics, logistics service providers entered deals with local developers and even raised funds to expand their present capacity. For instance, FM Logistic signed a deal with Macrotech Developers to acquire a 30-acre land parcel at Palava Industrial and Logistics Park at Thane, Mumbai. In a fresh round of funding, Holisol Logistics raised USD3 million (INR21.9 crore) in a debt deal with Northern Arc Capital to expand its portfolio of fulfillment centers and hyperlocal fulfillment centers.

#### Data Centers sees increased investor interest

In H1 2021, data centers saw investments of about USD161 million (INR1,175 crore), with corporates tying up with global data center providers. Even corporates are either expanding or entering the data centers space. In H1 2021, Adani Group entered this space forming a joint venture (JV) with US based data center firm EdgeConneX. Noida drew significant investments for land acquisition for data center development with NTT Data and Adani Enterprises investing USD137 million (INR1,000 crore) and USD333 million (INR 2,500 crore) respectively.

#### Highlights

 35% of the total inflows in H1 2021 were in the office sector

 USD500 million investment platform launched by Embassy Group and Ivanhoe Cambridge for development of office parks

 Last mile logistics gains traction with India's e-commerce sector being world's fastest<sup>4</sup> growing

<sup>4</sup>[Market-study-on-e-Commerce-in-India.pdf \(cci.gov.in\)](https://cci.gov.in/Market-study-on-e-Commerce-in-India.pdf)

## Investment platforms remain a bright spot

We note that foreign investment funds formed investment platforms worth USD2.2 billion (INR16,317 crore). For instance, Singapore's sovereign wealth fund GIC formed a partnership with Phoenix Mills Limited for a USD733 million (INR5,362 crore) investment platform for the development of retail led mixed-use projects. Ivanhoe Cambridge and Embassy Group launched a platform with a capacity of USD500 million (INR3,655 crore) focused on development of sustainable office parks.

## Opportunistic interest in retail assets remains strong

Investments in retail assets accounted for 29% of the total investments in H1 2021. Despite Covid posing a significant disruption to retail businesses and causing a major drop in rental revenues, investor appetite remained intact for exposure to stabilized retail assets as well as for investments in ground-up developments in partnership with selective developers. Apart from investments in marquee assets in key cities, investors are also considering Tier II and Tier III cities and emerging micromarkets in metros for investments focusing on new developments due to valuation gaps for existing projects.

The capital indicated on the map account for **64.0%** of the total investments in India in H1 2021. The remaining investments are multi-city deals or in Tier II cities.

### Private equity construction finance

Investment type	Investment stage	IRR
Pure equity	Land acquisition	>22%
Structured debt	Post land acquisition	18-22%

### Current yields

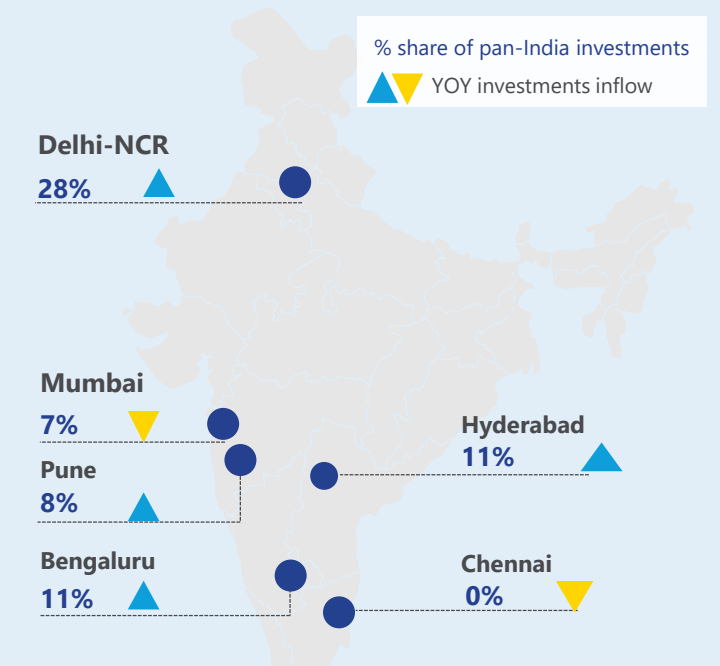
Asset class	Yield range
Completed office assets	8.5%-9.5%
Fully leased warehouses	8.5%-9.5%
Retail (Min guaranteed rental revenue)	9.5%-10%
Residential	2.5%-4%
Co-living, student housing	4-6%

### Major investment deals H1 2021, INR crore (USD Million)

Investor	Investee	Asset class	City	Amount
Blackstone	Embassy Industrial Parks	Industrial	Multiple cities	5,250 (717)
CPP Investments	RMZ	Office	Chennai and Hyderabad	1,573 (210)
CPP Investments	Phoenix Mills Limited	Retail	Kolkata	560 (77)
HDFC Capital Advisors	ATS Homekraft	Residential	Delhi NCR	400 (55)
Equinix	GPX Global Systems India	Data Centres	Mumbai	1,175 (161)

Source: Colliers

## India, investment inflow, H1 2021





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