REAL ESTATE INVESTMENT IN INDIA

A Brief Analysis

Preface

Indian Real Estate sector is in a state of nirvana with revolutionary reforms playing charm to attract investments and restore confidence in the sector. Over the last four years, the sector has been party to several radical reforms such as Real Estate (Regulation and Development) Act, Goods and Services Tax (GST), Benami Transactions (Prohibition) Amended Act and Insolvency and Bankruptcy Code, aimed at streamlining business and improving the sector's visibility at a global platform. The government's 'Housing for All' initiative has provided a new window fo developers with heightened activity in the segment.

All these reforms and initiatives together with easing of FDI norms and introduction of Real Estate Investment Trusts (REITs) have accelerated the pace of investment in the sector. From a mere USD 2.3 billion investments in 2010, the sector has seen the investment graph rise significantly with 2018 closing with USD 7.2 billion, the highest quantum of investment in a decade. In the period extending from 2010-2018, the real estate sector saw a total investments of USD 38 billion, with majority of the investments drawn during 2015-18.

FICCI and Vestian have co-created this Report on **"Real Estate Investment in India: A Brief Analysis"** that portrays the investment scenario in the real estate industry. The Report talks about the evolvement of real estate sector in the recent times and the investment scenario thereof. It shows the major shift in the investment scenario in the real estate sector where earlier bank credit was considered to be the key channel for funding requirements for the sector, today nearly 80% of the institutional investment are accounted for by private equity investors.

The release of the Report at the **FICCI Conference on Real Estate Financing** on 26th July 2019 would set the context and enrich the discussions at the conference. I am confident, the findings of the Report would be most useful not only for realtors, but also for consumers, Government, research & academic institutes and the industry. The ideas and deliberations arising out of this Report would go a long way in addressing the regulatory challenges and reflecting on the way forward.

Mr. Sanjay Dutt
Chairman, FICCI Real Estate Committee &
MD and CEO, Tata Realty and Infrastructure Ltd.

Real estate is undoubtedly one of the decisive sectors impacting the growth of a country's economy. The fact that a robust real estate sector aids in strengthening a host of other ancillary sectors holds much significance for a developing economy such as ours. Over the span of a decade, India's real estate sector has witnessed a paradigm shift in all aspects – right from a regulatory environment that has observed radical changes, to the emergence of alternative avenues of investment as well as a new era of structured finance. While there have been teething issues obstructing the implementation of various reforms, the overall verdict has been positive and what the real estate sector has lost by way of volume, it has gained through increased transparency and accountability, thereby attracting more investors into the sector. While the situation regarding non-banking finance companies (NBFCs) certainly warrants careful consideration, the recent move by the Finance Minister exhorting the RBI to regulate the housing finance companies (HFCs) would expectedly help in restoring liquidity in the NBFC sector. Thus, we believe it is only a matter of a few quarters for the tide to turn and the real estate sector is set to regain its previous buoyancy.

One of the major trends observed in the last decade has been the rise in institutional investment in real estate, particularly that of PE investment, a key factor that has kept the market confident about its revival. This increased momentum in investment is expected to continue, given the growth in a number of offshoots, such as - within commercial segment, it is co-working that is gaining the limelight, while co-living – a part of rental housing, is striving for its time under the sun. Affordable housing and warehousing & logistics are set to follow the northward course, soon, too. Additionally, the advent of REITs has come at an opportune time and it is touted to be a game changer for the real estate sector.

This report, thus, aims to provide an overview of real estate investment in the country and the various segments to look out for in the forthcoming period. It also elaborates on REITs as an investment vehicle and its potential in the Indian context. I hope this report provides you with enough food for thought regarding the investment scenario in India and that you enjoy reading it.

Dr. Shrinivas Rao, MRICS
CEO - APAC
Vestian

Institutional Investment In Indian Real Estate

Real estate in India has progressed by leaps and bounds in the past few years, perhaps not as much by volume as on the structural front. It has weathered turbulent times brought forth by several landmark reforms, ranging from the compliance-heavy Real Estate (Regulation and Development) Act and the Benami Transactions (Prohibition) Amended Act, to the rather imprecise procedures of the unified tax regime – the Goods and Services Tax (GST). Amidst the new regulatory environment build-up in the country, that inopportunely led to severe constraints in the market, there have been a few silver linings as well. A quick retrospection of the past decade leads us to observe that one of the key takeaways of the period has been the country's increasing international appeal, particularly the year 2015 onwards, resulting in considerable rise in foreign investment in Indian real estate.

Before delving into the facts and figures, it is prudent to understand the avenues of investment in the real estate industry. The Indian real estate industry attributes its capital to several sources, chiefly the domestic Scheduled Commercial Banks (SCBs) – the principal lenders in the industry, while others such as institutional investors and Non-banking Financial Institutions (NBFIs), of which the Non-banking Finance Companies (NBFCs) and Housing Finance Companies (HFCs) form prime components, are responsible behind substantial funding in the market as well. Institutional investors in the sector primarily include private equity (PE) firms, foreign firms, family offices, overseas banks' real estate investment arms, pension funds, developers' investment arms and sovereign wealth funds.

As with the changing landscape of the Indian real estate market, the investment scenario has undergone major changes, too. Presently, nearly 80% of the institutional investment in the country is accounted for by PE investors. The industry has observed a significant decline in bank credit, which, till recently, was considered to be the key channel for funding requirement. This can be attributed to factors such as rise in non-performing assets, coupled with increasing losses in the real estate industry. Besides, there has been no major IPO launched by real estate developers in recent times in order to raise funds, mainly owing to the poor credibility of the companies. The drying up of funds through these avenues, consequently, led the PE players and NBFCs to step in actively to provide finance to the real estate industry. Additionally, the relaxations of FDI rules by the government in late 2015 worked towards regaining foreign investors' interests in the sector, thereby rejuvenating the flow of institutional funding. With other reforms following, the whole gamut of real estate investment has entered an interesting phase today.

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Trends in Real Estate Investment

2010-2018: The growth trajectory

In order to comprehend the trajectory of real estate investment in India, it is imperative to take a look at its performance in the past decade. During the period 2010-2018, the Indian real estate industry observed a total institutional investment of USD 38 billion, spread across 760 deals. Significantly, majority of the investment were witnessed 2015 onwards, the period 2015-2018 alone accounting for 68% of the total investment. A host of reformatory measures during the corresponding period, such as the Real Estate (Regulation and Development) Act, the Benami Transactions (Prohibition) Amended Act, the launch of Housing for All Mission, as well as the easing of FDI rules led to increasing adoption of best practices and transparency in the real estate sector.

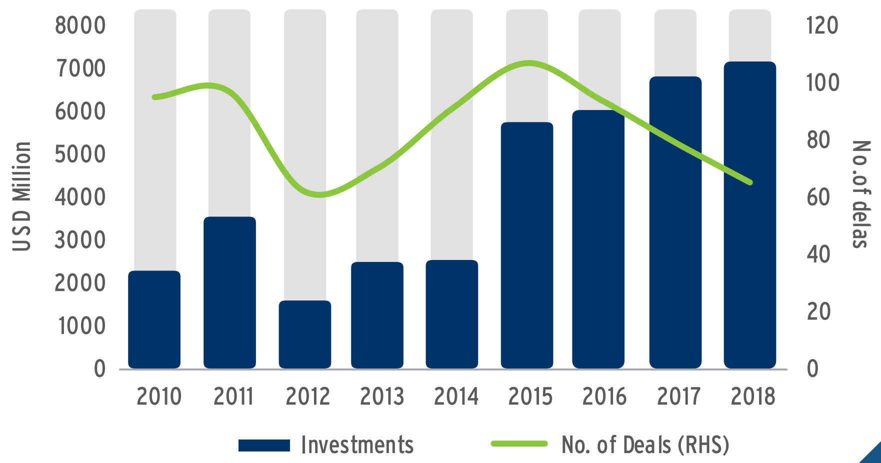
These factors, cumulatively, worked towards attracting more capital in the sector in the past 4-5 years and accelerated the pace of investment growth prominently. Thus, while 2010 had witnessed investments worth merely USD 2.3 billion, the year 2018 saw investments of USD 7.2 billion, the highest quantum of investment in a decade.

Another interesting facet regarding the investment trend during 2010-2018 has been the relatively lesser number of deals since 2016 as against a higher investment quantum in the same period, reflective of the fact that the average size of investment has increased over the years.

Figure 1

Trend in Investment Size & No. of deals (2010–2018)

Source: Vestian Research, Venture Intelligence



> "During the period 2010-2018, the Indian real estate industry observed a total institutional investment of USD 38 billion, spread across 760 deals. Significantly, majority of the investment were witnessed 2015 onwards, the period 2015-2018 alone accounting for 68% of the total investment, largely owing to a host of reformatory measures that were introduced during the period.

2015-2019: Period Of Pivotal Growth

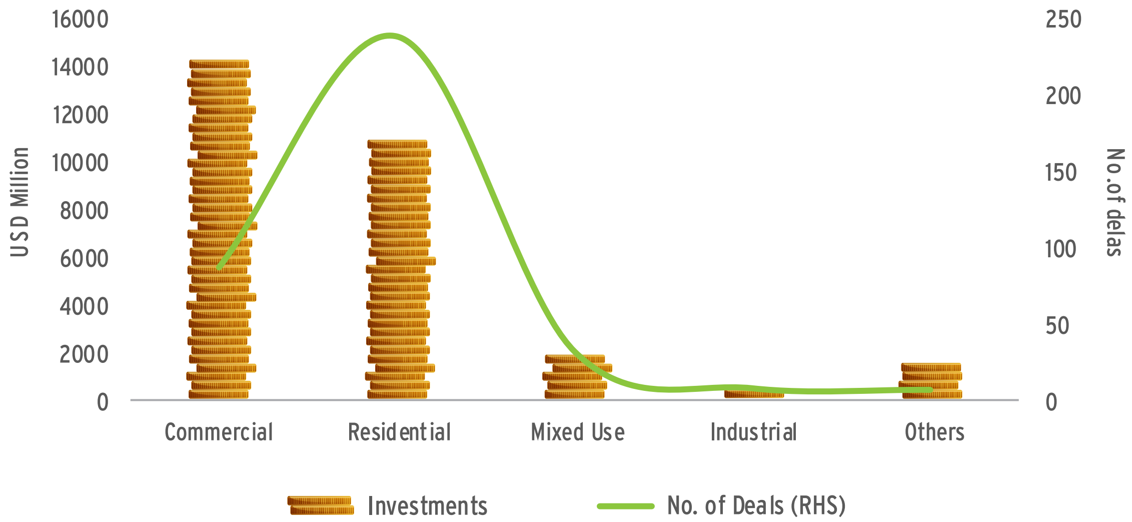
The period 2015-2018 observed the highest amount of traction in real estate investment in the country, the momentum continuing in 2019 as well. While investments worth USD 25.7 billion was recorded during the period 2015-2018, accounted for by 345 deals, the year 2019 saw approximately USD 2.7 billion till the month of June. Thus, altogether, the period 2015 to the first half of 2019 (H1 2019) recorded real estate investment of USD 28.4 billion in the country.

Figure 2

Investment Size and No. of Deals by Asset Class (2015–2019*)

*Data recorded till June 2019

Source: Vestian Research, Venture Intelligence



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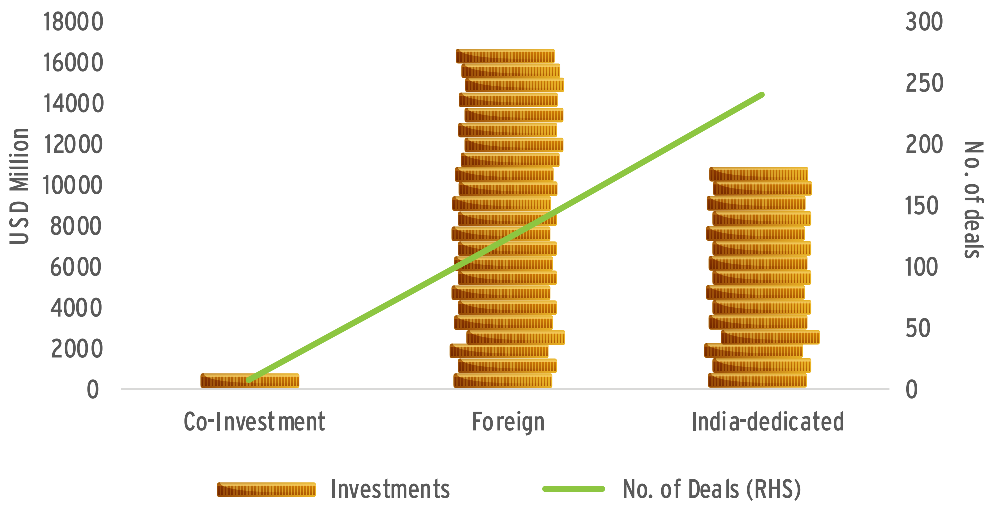
- Commercial assets, comprising office and retail projects, observed the highest amount of real estate investments during the period 2015-2019 (recorded till June), to the tune of 50% of the total investment value. The investment value in the segment was recorded at USD 14.2 billion, depicting several large-scale deals.
- Amongst the notable deals transacted in commercial assets, a slew of deals were signed between US-based firm Blackstone and Indiabulls in 2018. In March, Blackstone bought a 50% stake in Indiabulls' flagship office properties in central Mumbai–One Indiabulls Centre and Indiabulls Finance Centre–for USD 730 million. Later, it entered into definitive agreements with Indiabulls to buy up to 50% stake in two commercial properties in Gurugram.
- On the other hand, the highest number of deals were witnessed in the residential segment, albeit the investment size on a smaller scale than observed in the commercial segment.
- Mixed-use and other segments comprising hospitality saw relatively lower quantum of investment during the period.
- Despite occupying the least share, investment in industrial assets - mainly comprising warehousing and logistics sector, has observed considerable interest in 2018 and 2019. Factors such as GST, 'Make in India' initiative and the growth of e-commerce have led to rising interest in the sector. Among major deals in the sector, mention can be made of LOGOS India investing nearly USD 100 million in Casagrand Distripark in Chennai and Embassy Industrial Parks investing around USD 50 million into DRA Projects in Bengaluru.

Figure 3

Investment Size and No. of Deals by Fund Type (2015–2019*)

*Data recorded till June 2019

Source: Vestian Research, Venture Intelligence



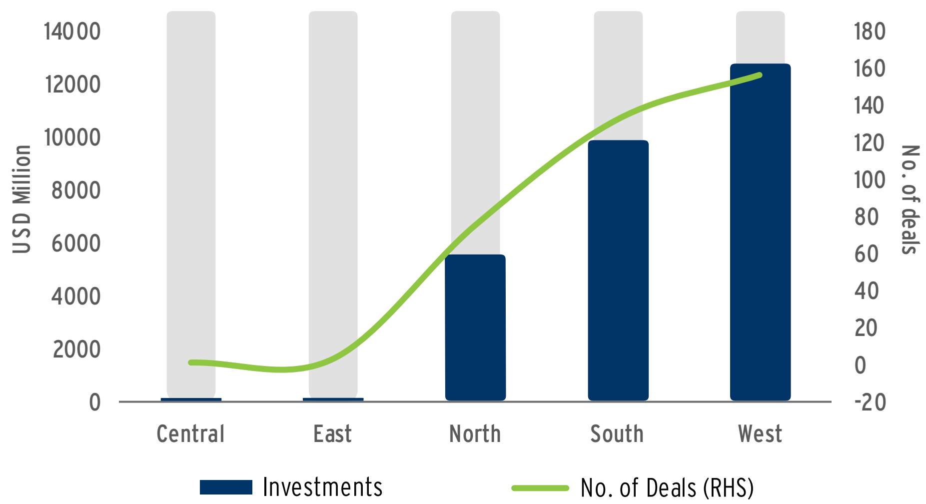
- Foreign funds (funds without an India-dedicated corpus) with USD 16.7 billion worth of investments accounted for a lion's share of 59% of the total real estate investment value during the period 2015-2019.
- While funds with India-dedicated corpus came second with investments worth USD 10.9 billion, comprising 38% of the total investment, they accounted for the highest number of deals surpassing the number inked by foreign funds.
- Regarding India-dedicated funds, mention could be made of Bengaluru-based real estate developer Prestige Estates Projects Ltd tying up with HDFC Capital Advisors Ltd to create an investment platform for low-cost housing projects in the country.
- Co-investments, an arrangement where minority investments in a company are made by investors alongside a private equity fund manager or venture capital firm, formed a mere 3% of the total investments in real estate during the period.
- Real estate firms based in the western region of India attracted USD 12.9 billion, accounting for the highest share of 45% of the investment pie during 2015-2019.
- The southern region followed with 35% share, recording investments of USD 9.9 billion.
- North India occupied the third position with the region's real estate companies attracting investments worth USD 5.5 billion, while the east and the central region observed minimal investment activity.
- Interestingly, the number of deals followed the same pattern as the size of investment observed in the regions, with the west accounting for the highest number of deals and the central with the least number.

Figure 4

Investment Size & No. of Deals Region-wise (2015-2019*)

*Data recorded till June 2019

Source: Vestian Research, Venture Intelligence



“While foreign funds accounted for a lion’s share of 59% of the total real estate investment value during the period 2015-2019, funds with India-dedicated corpus accounted for the highest number of deals surpassing the number inked by foreign funds.

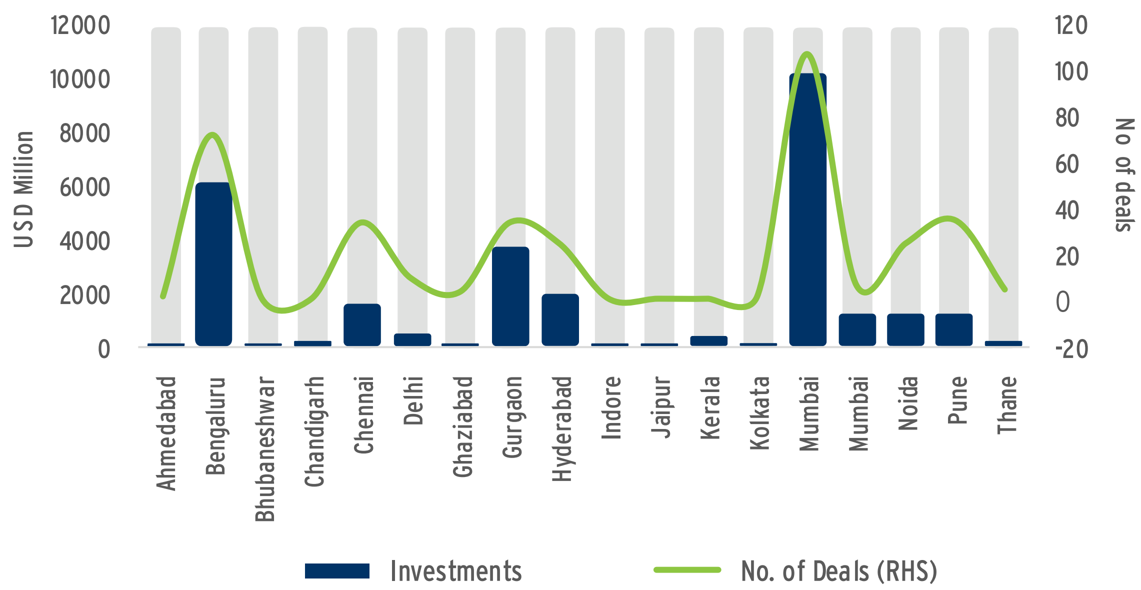
- Among the cities attracting real estate investment, Mumbai-based companies garnered the most investments, in terms of both size and number, during 2015-2019. It attracted investment worth USD 10 billion, accounting for a share of 36% of the total investment.
- Mumbai was followed by real estate firms in Bengaluru (USD 6 billion with 21% share) and Gurgaon (USD 3.6 billion with 13% share).

Figure 5

Investment Size & No. of Deals City-wise (2015-2019*)

*Data recorded till June 2019

Source: Vestian Research, Venture Intelligence



List of Select Real Estate Investments in India during 2015-2019

Investor	Developer/Partner	Sector	Location	Approx. Amount*
StanChart PE	Tata Realty & Infrastructure	Commercial	Mumbai	302
Kotak Realty	DivyaSree Developers	Commercial	Bengaluru	400
Blackstone	Radius Developers	Commercial	Mumbai	357
Xander	Phoenix Group	Commercial	Hyderabad	350
GIC	Prestige Group	Commercial	Bengaluru	400
HDFC Venture	Prestige Group	Residential	Bengaluru	388
Ascendas	Firstspace Realty	Industrial	Mumbai	600
Piramal Fund	Lodha Group	Residential	Mumbai	347

Source: Vestian Research, Venture Intelligence

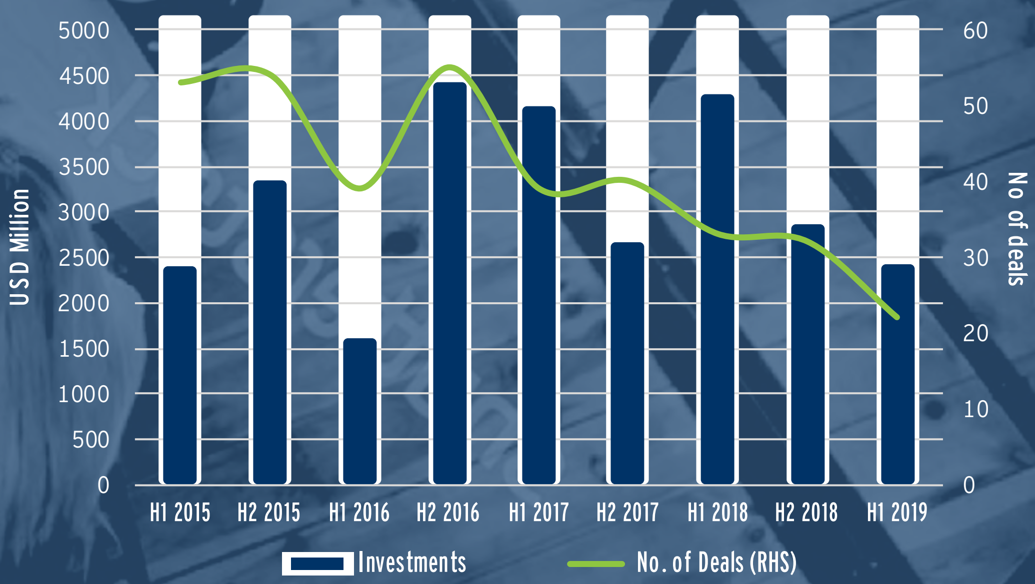
* in USD million

Delving Deeper - Half Yearly Analysis (2015-2019)

Real estate in India is a constantly evolving sector, its dynamic nature necessitating a deep dive into the investment scenario by way of analysing it on a half-yearly basis. A closer look, thus, reveals that while 2015 started out on a cautious note with the first half of the year (H1 2015) garnering USD 2.4 billion worth of real estate investments, the industry went on to see investments as high as USD 4.4 billion and USD 4.3 billion in H2 2016 and H1 2018 respectively, depicting a surge in investment activity. In sharp contrast, the number of deals have been on a gradual decline since H1 2016 while the quantum of investment continued to remain fairly stable without drastic dips, signifying the increase in large sized deals during the period. A slight constriction was observed in the investment momentum in late H2 2018 and early H1 2019 on account of the general elections that led investors to wait and deliberate over the political situation of the country.

The half-yearly analysis threw up several interesting facets when segregated even further on parameters such as asset type, fund type and by region.

Investment Size and No. of Deals



> "Foreign funds have been funnelling substantial quantum of investment into the Indian realty sector, thus depicting their increasing confidence level in the sector post the new reformatory measures. Among the foreign investors, a number of Singaporean PE firms have been observed to be remarkably active, accounting for majority of the PE investment during the period 2015-2019.

Investment by **Fund-type**

- The interest of foreign funds in Indian real estate increased significantly during the period 2015-2019, their investment recorded at USD 1.3 billion in H1 2015, which later touched USD 3.3 billion in H1 2017, signifying a growth of 155%.
- This positive development depicts the increasing level of confidence shown by foreign investors in Indian real estate, largely on account of the sector progressing towards being more structured, transparent and efficient post the new reformatory measures.
- Among the foreign investors, a number of Singapore-based PE firms such as GIC, Ascendas- Singbridge and Xander have been observed to be remarkably active in India's realty sector, particularly towards the south, accounting for majority of the PE investment during the period 2015-2019. Other firms evincing strong interest in the sector have their base in countries such as USA, Canada, Abu Dhabi, et al.
- Meanwhile, India-dedicated funds strived to maintain their momentum of investment activity, almost catching up with their foreign counterparts in H2 2017 and H2 2018, though lagging behind for most part.
- India-dedicated funds accounted for a higher number of deals as compared with foreign funds during 2015-2019, though there has been a perceptible declining trend observed since H2 2016.
- Meanwhile, foreign funds have been holding steady through 2015-2019 and were responsible for several big-ticket sized deals during the period, despite lagging behind India-dedicated funds in number.

Select list of investment deals by foreign funds during 2015–2019

Investor	Country of Origin	Developer/Partner	Approx. Amount*
GIC	Singapore	Indian Hotels Company	600
Blackstone	USA	Radius Developers	357
Temasek	Singapore	Shapoorji Pallonji Group	352
Brookfield	Canada	Equinox Business Park	386
Ascendas	Singapore	Firstspace Realty	600

Source: Vestian Research, Venture Intelligence

* in USD million

Figure 7

Investment Size by Fund Type

Source: Vestian Research, Venture Intelligence

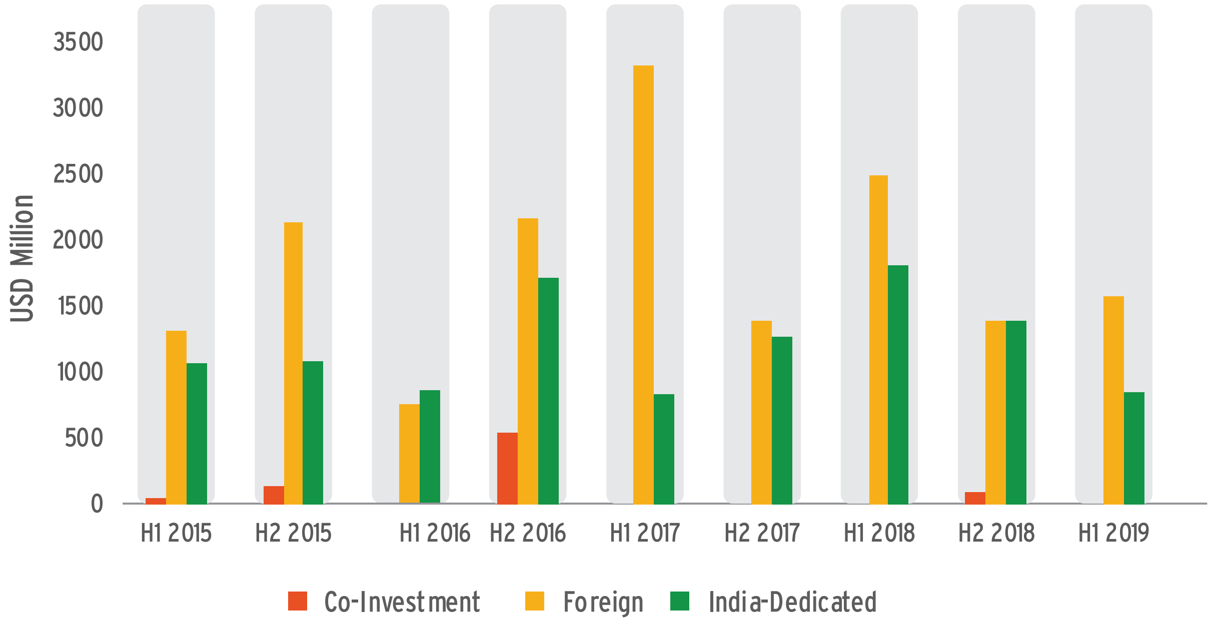
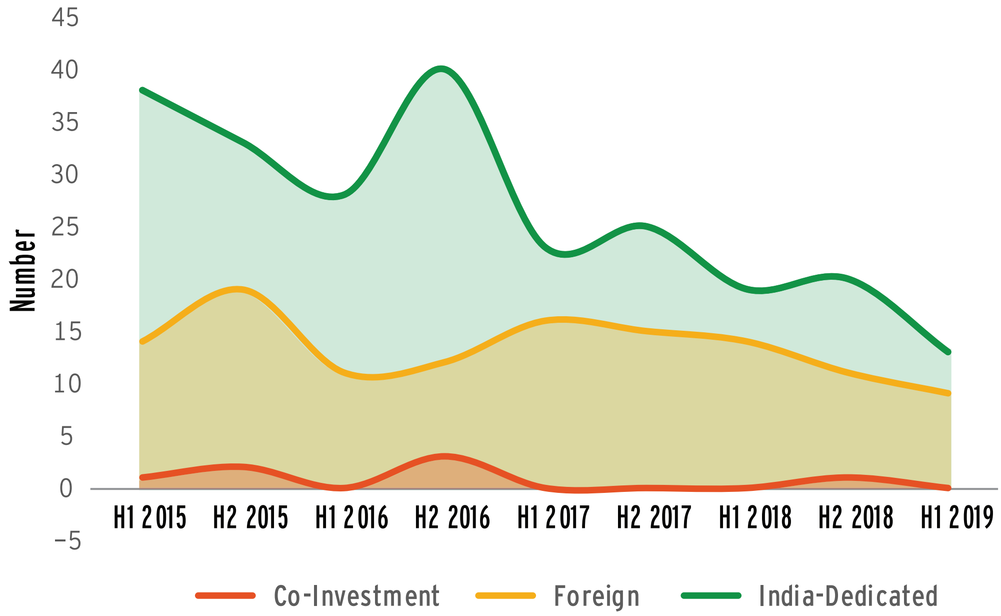


Figure 8

No. of Deals by Fund Type

Source: Vestian Research, Venture Intelligence



"Commercial segment has emerged as the most preferred segment attracting investor interest and steadily accounting for the maximum amount of real estate investment in the country since H2 2016. In sharp contrast, the residential segment has been on a declining trend, attributed primarily to the slowdown in the residential market owing to several stringent factors, particularly relating to the reformatory measures and issues such as liquidity crunch, delayed projects and reduced buyer interest, thereby resulting in slackened investor interest.

Investment by **Asset Class**

- One of the major trends observed during the period 2015-2019 has been the emergence of the commercial assets segment as the most preferred segment to attract investor interest. The segment has been steadily accounting for the maximum amount of real estate investment since surpassing the residential segment in H2 2016.
- Factors such as availability of Grade A commercial space, fairly reasonable rentals coupled with lower vacancy levels have led the commercial segment to emerge as the investors' favourite asset class in recent times.
- In sharp contrast, the residential segment has been on a declining trend, which can be attributed to the slowdown in the residential market owing to several stringent factors, particularly relating to the reformatory measures impacting the market players. Besides, other issues such as liquidity crunch, delayed projects and reduced buyer interest have created a lull in the residential market, thereby resulting in slackened investor interest.
- There has been a slowdown observed in investment momentum in the later parts of H2 2018 and early H1 2019 on account of the general elections that led investors to wait and watch the political situation of the country.
- The number of deals pertaining to the residential segment has been spiralling downwards at an alarming rate since H2 2016. From a high of 41 deals inked in H2 2016, the segment has reduced to just 9 deals in H1 2019.
- On the other hand, the number of deals in the commercial assets segment has seen fairly consistent growth since H2 2016. Although it has seen a relatively reduced number in the past one year, one of the reasons being the general elections looming large, the forthcoming period bodes well for increment in number owing to a robust commercial market.

Select list of investment deals in the commercial segment during 2015–2019

Investor	Developer/Partner	Location	Approx. Amount*
Kotak Realty	DivyaSree Developers	Bangalore	400
Xander	Phoenix Group	Hyderabad	350
Blackstone	Indiabulls Real Estate	Mumbai	730
GIC	DLF Cyber City Developers	Gurgaon	1381
Xander, APG	Virtuous Retail South Asia	Bangalore	450

Source: Vestian Research, Venture Intelligence

* in USD million

Figure 9

Investment Size by Asset Class

Source: Vestian Research, Venture Intelligence

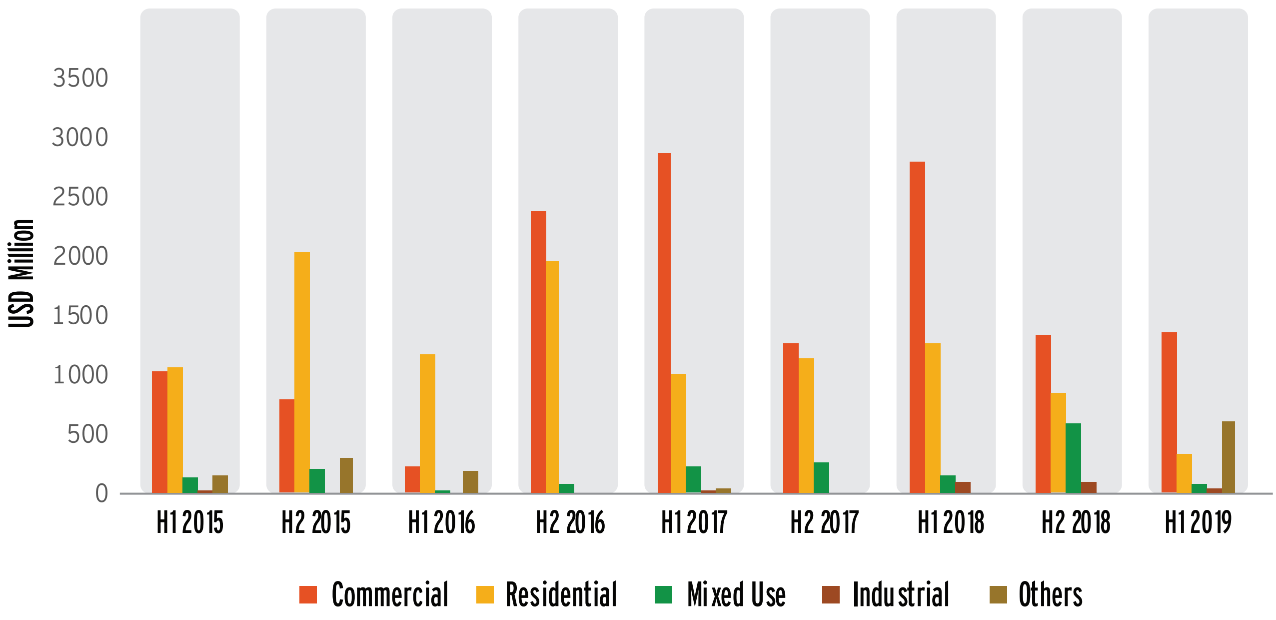
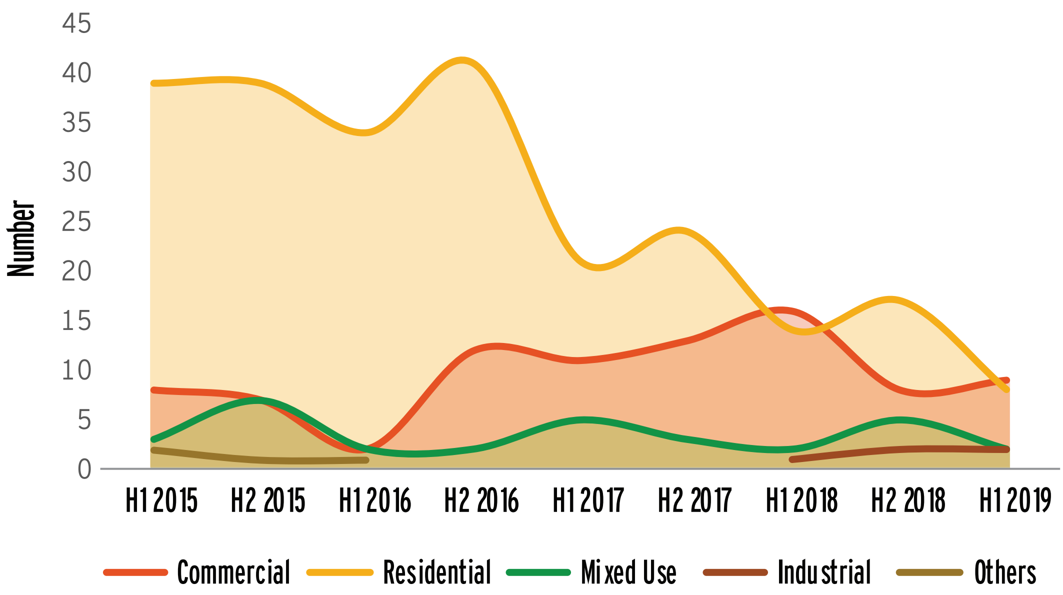


Figure 10

Number of Deals by Asset Class

Source: Vestian Research, Venture Intelligence



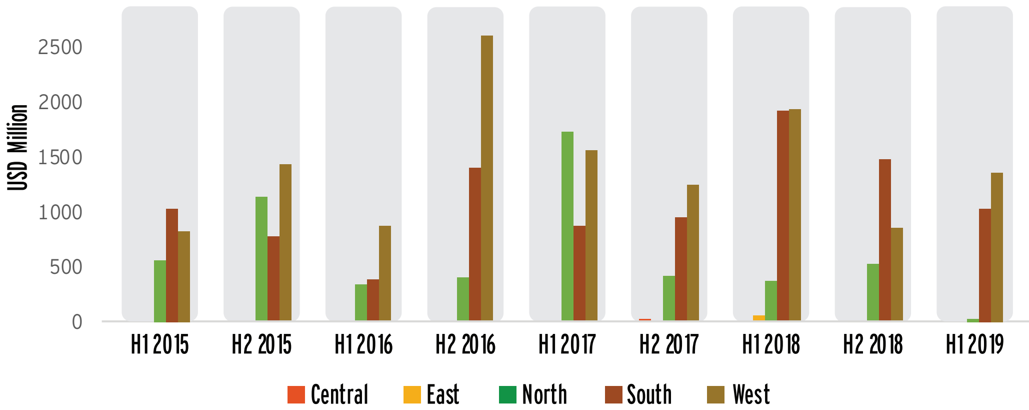
Investment by **Region**

- There has been a constant tussle observed between the southern and the western regions in the half-yearly periods during 2015-2019 for the position of the region with the maximum quantum of real estate investment.
- While the south led the way in real estate investment in H1 2015 and H2 2018 owing to a few large sized deals in Bengaluru and Hyderabad, given the robust office markets in these markets, the western region led by companies in Mumbai garnered a whopping USD 2.6 billion in H2 2016.
- During the period 2015-2019, Mumbai garnered a whopping USD 10.1 bn of investment, comprising 107 deals. In H1 2019, it alone accounted for 52% of the total investment in the country.
- The northern region, comprising mainly of real estate companies in Gurgaon, surfaced intermittently in H2 2015 and H1 2017 to lead the investments.

Figure 11

Investment Size by Region

Source: Vestian Research, Venture Intelligence

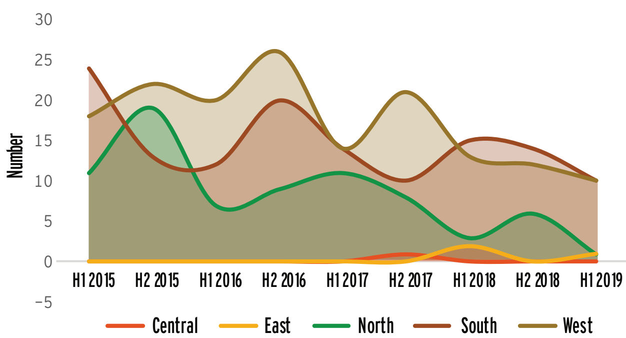


- The western region had consistently led the numbers on the deals front, before being upstaged by the south H1 2018 onwards. In H2 2016 the west had witnessed 26 deals, though of late the numbers have tapered down.
- The southern region has performed quite well in terms of number of deals in recent periods, primarily owing to increased interest towards the office markets in Bengaluru and Hyderabad.
- The north, on the other hand, has seen a decline in number of deals since its brief upsurge in H2 2015.

Figure 12

No. of Deals by Region

Source: Vestian Research, Venture Intelligence



Select list of investment deals in Mumbai during 2015-2019

Investor	Developer/Partner	Sector	Approx. Amount*
Blackstone	Indiabulls Real Estate	Commercial	730
Brookfield	Hiranandani Group	Commercial	1000
StanChart PE	Tata Realty & Infrastructure	Commercial	302

Source: Vestian Research, Venture Intelligence

* in USD million

The Rising Asset Classes

- The changing face of real estate in India

Real estate, as discussed previously, is at a constant stage of evolution. Every phase offers the investors a newer avenue/avenues to invest. Of late, with the market striving to return to normalcy, a number of new asset classes have emerged in the past 2-3 years, offering immense opportunity to investors.

Co-working

The concept of co-working has brought about a sea change in the perception of a workplace today. Within the span of a few years, the segment has grown exponentially, leading the commercial real estate market to explore a new era of shared workspace in a creative environment, spurred on by a sense of community, collaboration and innovation. India has caught up with this phenomenon as well and is witnessing a proliferation of start-ups and SMEs, buoyed by the government's concerted efforts to create a sustainable eco-system for entrepreneurs in the country. This has provided a perfect platform for co-working business centres to cater to the office space needs of these start-ups seeking growth. At present, there are more than 180 co-working operators in the top eight cities. The quantum of office space demand from this segment in the key cities of the country has strengthened significantly in the past three years and it is projected that the office markets in Bengaluru, NCR and Mumbai would offer the best opportunities for this trend, followed by Hyderabad and Chennai. In 2018, several coworking deals were inked by large PE players and venture capitalists, notable amongst them being WestBridge Capital investing USD 15 million in co-working space start-up IndiQube. The co-working segment is expected to account for a larger share of the market in 2019, portending a major shift in workspace dynamics with technology, innovative space design and flexibility impacting the preferences of new age businesses.

Investment Deals in Co-working

Investor	Company	Approx. Amount*
WestBridge Capital	IndiQube	15
Sequoia Capital	Awfis	20
FreakOut	91Springboard	10.2

* in USD million

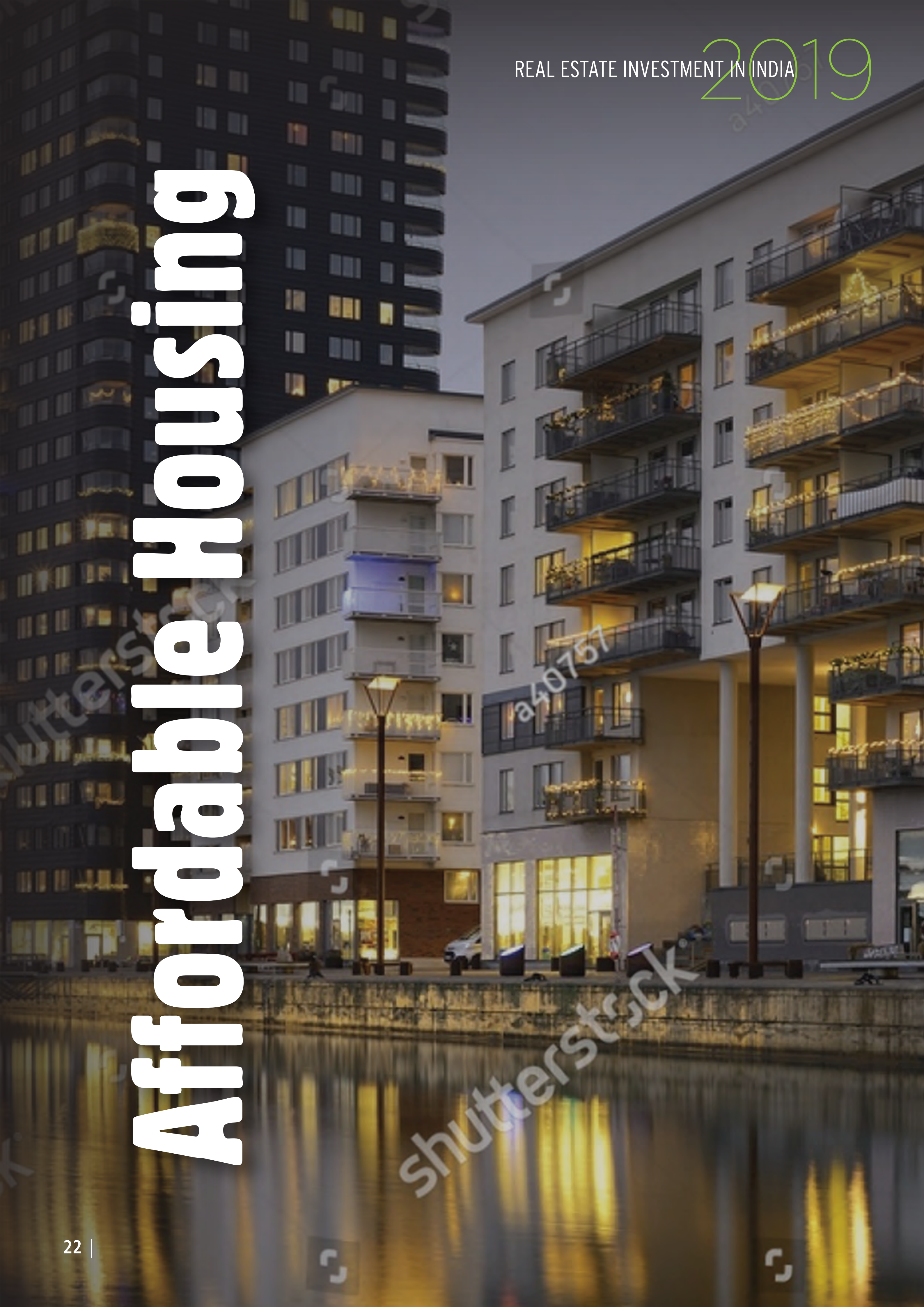
Co-living

India, currently, is witnessing a proliferation of start-ups initiated by millennials, opting for a disruptive environment that includes contemplating non-traditional living/ accommodation as well. Besides, factors such as increasing urbanization in key centres of the country, leading to creation of strong employment hubs, and the presence of quality education institutes in these cities, have resulted in significant influx of both labour force and student population. The need of this young populace for affordable and sustainable living in a metropolitan city has given rise to the viability of the co-living concept. The concept of living together in a form of shared housing where residents have the desired privacy clubbed together with events that promote common interests and lifestyles, and are professionally managed rather than informally arranged, is gradually gaining acceptance amongst the millennial population. Going forward, while the concept of co-living is still at a nascent stage in India, it holds significant potential to boost the rental housing segment in the country, given the fact that high housing prices across the tier 1 and 2 cities deter the youth community to make a purchasing decision. The inherent advantages of opting for a co-living rental arrangement, that entails a hassle free, flexible plug and play model, is expected to attract more tenants into its fold and the segment is projected to grow manifold in the forthcoming period. Already over 40 co-living start-ups have come up around the country in the past 2-3 years, the segment attracting a significant quantum in Venture Capital funding. One of the earlier start-ups, Nestaway, has been reported to have raised USD 94.2 million while Colive, offering fully managed rental homes, raised USD 9.2 million. In another big-ticket funding, student housing rental start-up Stanza Living raised USD 10 million in 2018 and is in talks to raise further capital this year.

Investment Deals in Co-living

Investor	Company	Approx. Amount*
Warburg Pincus	Lemon Tree Hotels	15
Goldman Sachs & UC-RNT Fund	NestAway	20
IDFC Alternatives, Mirae Asset & Nexus Venture	Zolo Stays	10.2

* in USD million



Affordable Housing

While the past few years proved to be a challenging period of learning for industry stakeholders, the most potent opportunity was deduced to be in the affordable housing segment and 2018 witnessed a fair revival in the residential market, primarily buoyed by new launches and sales in the affordable housing sector. Thus, the sector is projected to continue to drive the market growth in 2019, aided by the transparency in the segment and government push through various avenues such as allocation of infrastructure status, benefits under Prime Minister's Awas Yojana, Credit Linked Saving Scheme and substantial GST rate cut on housing. These factors bode well for the affordable residential market in the forthcoming year. In a recent development, HDFC Capital Advisors has decided to mentor, partner and invest in property technology companies that drive innovation and efficiencies within the affordable housing ecosystem. The initiative, known as HDFC Affordable Real Estate and Technology Program, will act as an enabler to the growth of affordable housing in the country by supporting businesses which are innovating and building technology solutions to augment the supply of affordable housing in the country. HDFC Capital Advisors has already invested over USD 1 billion over the past two years with prominent developers across the country in the affordable and mid-income housing space.

Investment Deals in Afforable Housing

Investor	Company	Approx. Amount*
National Investment and Infrastructure Fund	HDFC Capital Advisors	111
Abu Dhabi Investment Authority	HDFC Capital Advisors	550
Blackstone Group	Aadhar Housing Finance	112

* in USD million

Warehousing & Logistics

The country is poised to witness a strong growth in its warehousing and logistics sector in the forthcoming year. The sector has seen a remarkable transition in the past few years, growing from a largely unorganised sector to observing the advent of organised players, reflecting the change in the mindset of occupiers to use the services offered by organised segments. The fact that the sector is observing large-scale investments evidently emphasize the trend and this is foreseen to continue. Moreover, with infrastructure status accorded to the warehousing and logistics sector, the accessibility to longer tenure financing facilities at a reduced cost of debt will aid in the development of larger, organised logistics parks in the country. The key factors driving investors interest in the sector are strong economic fundamentals, proactive government policies such as implementation of GST and 'Make in India' policy, and sustained growth in organised retail and e-commerce. Interestingly, the southern cities Bengaluru, Chennai and Hyderabad have witnessed substantial interest from investors in recent years. Among the major deals, Warburg Pincus invested USD 180 million in Embassy Group for a project in Bengaluru, while Proprium Capital Partners invested nearly USD 100 million in Musaddilal Projects in Hyderabad.

Investment Deals in Warehousing & Logistics

Investor	Company	Approx. Amount*
Clearwater Capital, Altico Capital	Renaissance Group	88.5
Proprium Capital Partners	Musaddilal Projects	100
Canadian Pension Plan Investment Board	Indospace Ltd	500

* in USD million

REITs -
The dawn of a new era of Real Estate Investment

A Quick Introduction

Real Estate Investment Trusts (REITs) is the latest wave of action in the Indian real estate space. REITs can be floated by companies that own or finance income-producing real estate assets in a wide segment of asset classes. They allow investors to invest in the REIT through stock units (similar to equities). The REITs provide an opportunity for retail investors to own a piece of Grade A real estate and enjoy the benefits of both rental income and capital appreciation. The REIT provides developers with an alternative funding mechanism and liquidity. It also provides investors access to high value real estate and steady rental returns.

The Global Scenario

The United States of America has the most evolved and the largest listed REIT market in the world. Most of the other countries have derived regulations out of the learnings from the American market. Close to 40 countries have regulations for REITS in place and a number of other countries are in the process of formulating regulations. Markets like Singapore and United Kingdom have seen significant action in the space. India's markets opened up to REITs in the year 2014, with SEBI laying down regulations.

The Opportunity

While a REIT can have multiple asset classes (rent-yielding), majority of the REITs market revolves around commercial real estate. Growth and development potential for commercial real estate in the country is a defining factor to the success of the REIT market. A look at the Indian commercial markets in comparison to other markets globally shows the immense potential for commercial assets in the country. India has a severe shortage of office space per capita in comparison to other developed nations. The rentals are also relatively on the cheaper side.

Figure 13

Per Capita Office Stock

Source: Vestian Research

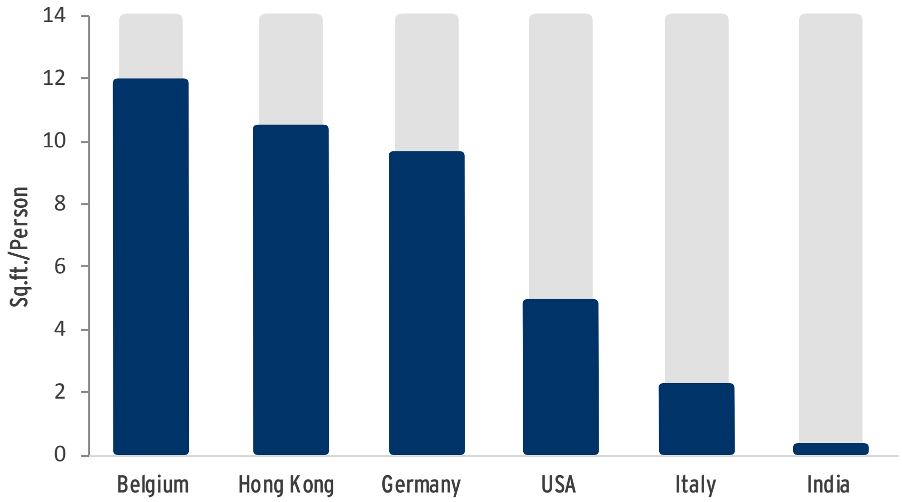
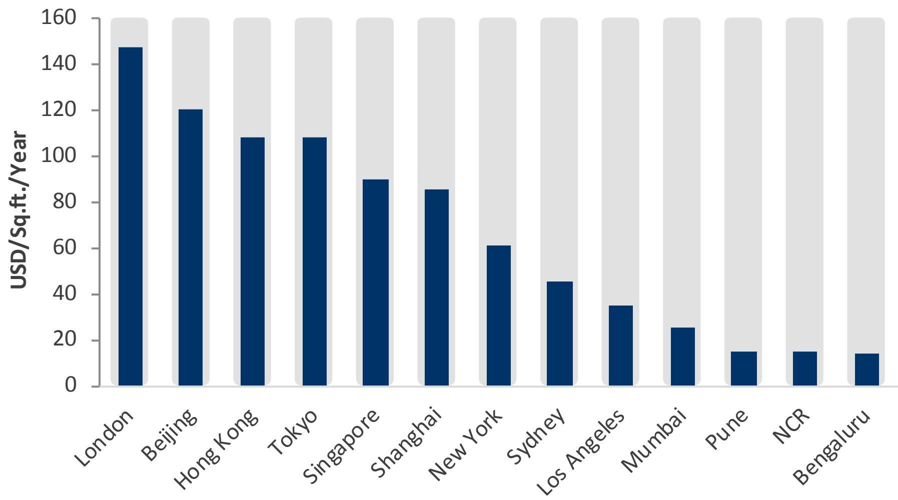


Figure 14

Rentals Across Major Cities

Source: Vestian Research



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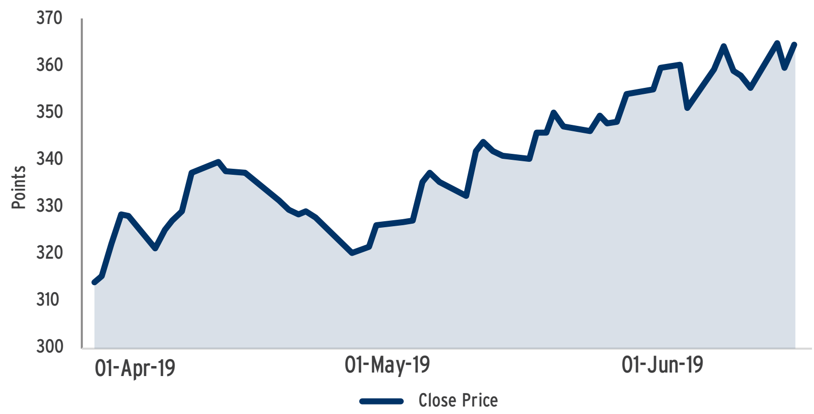
The **Indian Story** so far

India's first REIT saw the light of the day only in the first quarter of 2019. The Embassy REIT issue was opened for subscription through an IPO in mid-March 2019 and was first listed in April 2019. The REIT issue managed to raise a total of INR 4,750 crores from both institutional and retail investors. As on date, the REIT has risen 24% from its issue price, beating indices that track REITs in other countries by a significant margin. In comparison, the broader indices moved just above 2% in the same time period. The strong portfolio of assets listed under the REIT in combination with the downward trajectory of interest rates have contributed to its strong performances.

Figure 15

Performance of the Embassy REIT

Source: www.bseindia.com



The **future of REITs** in India

The benefits of REITs are multi-fold. They provide retail investors access to high value properties, while also providing institutional investors with greater liquidity and lower transaction costs. On the other hand, the format would ensure the commercial real estate sector grows towards a transparent system, also improving the quality of assets. The Embassy REIT is surely a directional trigger for the Indian commercial real estate sector. India has a significant pool of REIT-able grade A assets spread across major cities. Going forward, the REIT market in India is expected to touch nearly USD 10 billion in the country with marquee names such as RMZ, Brookefield, Godrej Properties, Panchshil Realty and K Raheja Corp. contemplating the REIT route. The persistent interest from developers towards the commercial real estate sector, coupled with a rising demand from occupiers are poised to be major drivers.

A close observation reveals, the most developed REIT market in the world (USA) has underperformed the S&P 500 index. However, the APAC REIT market has consistently outperformed the US REIT market. Though volume of trade in the Indian REIT markets is currently low, future evolution of market would stimulate the growth.

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Industry Speak

The experience

"It's been a roller-coaster ride. Real estate investments tend to follow the vagaries of the property cycle. The industry was at a tremendous high in 2005. Since then, we have seen a high, a low, a bit of a dead-cat-bounce, and now we seem to be bottoming out.

There's been a paradigm shift in how the industry functioned all those years ago and how it works now. Development is now more corporatized, more systemized - more of a business, less of a shot-at-putting-up-a-building. The industry has a long way to go in this regard, but the signs are encouraging, particularly amongst second generation entrepreneurs. It's good news for the sector as a whole because formal systems bring scalability. When a business scales up, it can raise more funds, deliver more projects, keep expanding. In 2005, investors were happy to write large cheques for equity investments in large projects because the general perception was prices could only go up. Today, that era of excel-sheet optimism seems to be over. Investors are underwriting deals with far more realistic assumptions.

Over the years, the markets, and developers that make up that market, have matured significantly and that transition, from rawness to maturity, that is the professionalization of the industry that we're seeing now."

The advent of REITs

"REITs are a fantastic opportunity. It's been a big gamechanger. With REITs we now have an institutional exit for commercial projects. Going forward, REITs would be more of a norm for a corporatized way of exiting a commercial project, rather than stake sales or strata sales. From an investment perspective, it allows retail investors a relatively safer, moderate risk avenue to participate in real estate investments. With REITs, industry cycle of Indian real estate, from land acquisition to exits, is now completed."

Future perspective

"The future of real estate in India is very bright. It's a growth industry, secular in demand and it's a business where margins will typically always be high because it's a complex business. So, fair and equitable risk adjusted margins will ideally have to be on the higher side to correctly compensate the developer. As long as it's a growth industry that offers good margins, we can tailor products around it.

All signs indicate that we can expect a real estate renaissance in the coming quarters, which is very encouraging because real estate is a sector that can pick up the whole economy. It is estimated that real estate has linkages to 250 ancillary industries. So, when real estate does well, conceivably, the whole economy does well and vice versa."

– Balaji Rao,
Managing Partner - Real Estate, Axis Asset Management Company

"Residential has been and will continue to be, the major draw for investment in Indian real estate, especially in the post-RERA the scenario where transparency of the process and accountability of the real estate developer has been enhanced, as also safety for the investor/ buyer. Segments other than residential are growing as alternative investment options.

There are new asset classes coming up in an industry which is working on a totally different paradigm than in the past. As digitization increases across the economy and transparency get enhanced, the future of real estate investment in India will be even better."

– Niranjan Hiranandani,
Co–founder & MD, Hiranandani Group

"Going forward, in the short term, income generating assets namely commercial, IT and retail would generate primary interest along with ready-to-move-in residential apartment units, while secondary interest would be in brownfield commercial, affordable/aspirational brownfield residential and Logistics projects. Local institutional long-term funds such as insurance, provident funds, national pension scheme, etc. along with foreign institutional investors will be investing in all the realty sectors (including residential) due to the changing landscape of the returns expectation, similar to scenario in the other BRIC and advanced countries.

Improvement in infrastructure, roads, metros coupled with the increased speed of technology implementation (eg. 5G) will be impactful game changers for the sectors and will further improve the investor interest in the sector."

– Sanjay Dutt,

MD CEO, Tata Realty and Infrastructure Ltd

The experience

"Investing in real estate in India has been a superlative experience over the past ten years. The ability to be part of the development of key infrastructure and growth of urban locations through smart capital allocation has been satisfying. Our investments have been spread across commercial and residential asset classes both of which are the twin engines for national economic growth. In deploying nearly Rs.950 Cr of investments from various fund pools over the past few years, it has helped understand and leverage on several socio- economic, demographic, financial and social drivers.

This sector also allows for thought leadership, engagement in federal and state regulatory and fiscal frameworks, influence asset creation and value unlocking strategies while driving resource efficiencies and cost economics. The evolution of the sector over the past ten years mandates investors to be active participants and brings strategic and tactical skills to the investee companies to yield better results. Active engagement to achieve intended outcomes brings excitement, sharpens skills and provides value addition to the investors and the investee entities versus passive investment classes."

The advent of REITs

"The advent of REITs and its recent success bodes well for the institutionalisation, globalisation and distribution of assets and returns for India real estate over the long term. It is a much-needed product whose propagation, incentivisation and encouragement within institutional and retail investors is needed. REITS are the most tax efficient and transparent way of monetising and generating returns from real estate. It hence is fair and uniform for all stake holders including developers, asset owners, managers, investors, regulators etc.

REITS have the unique ability to provide fixed income plus equity kicker making it suitable for India markets given the upside potential and growth. Stacks up well in risk averse investors' allocation including pension, insurance and sovereign capital. The Indian regulations for REITs are robust and best in global standards allowing easy access to quality assets for all investors."

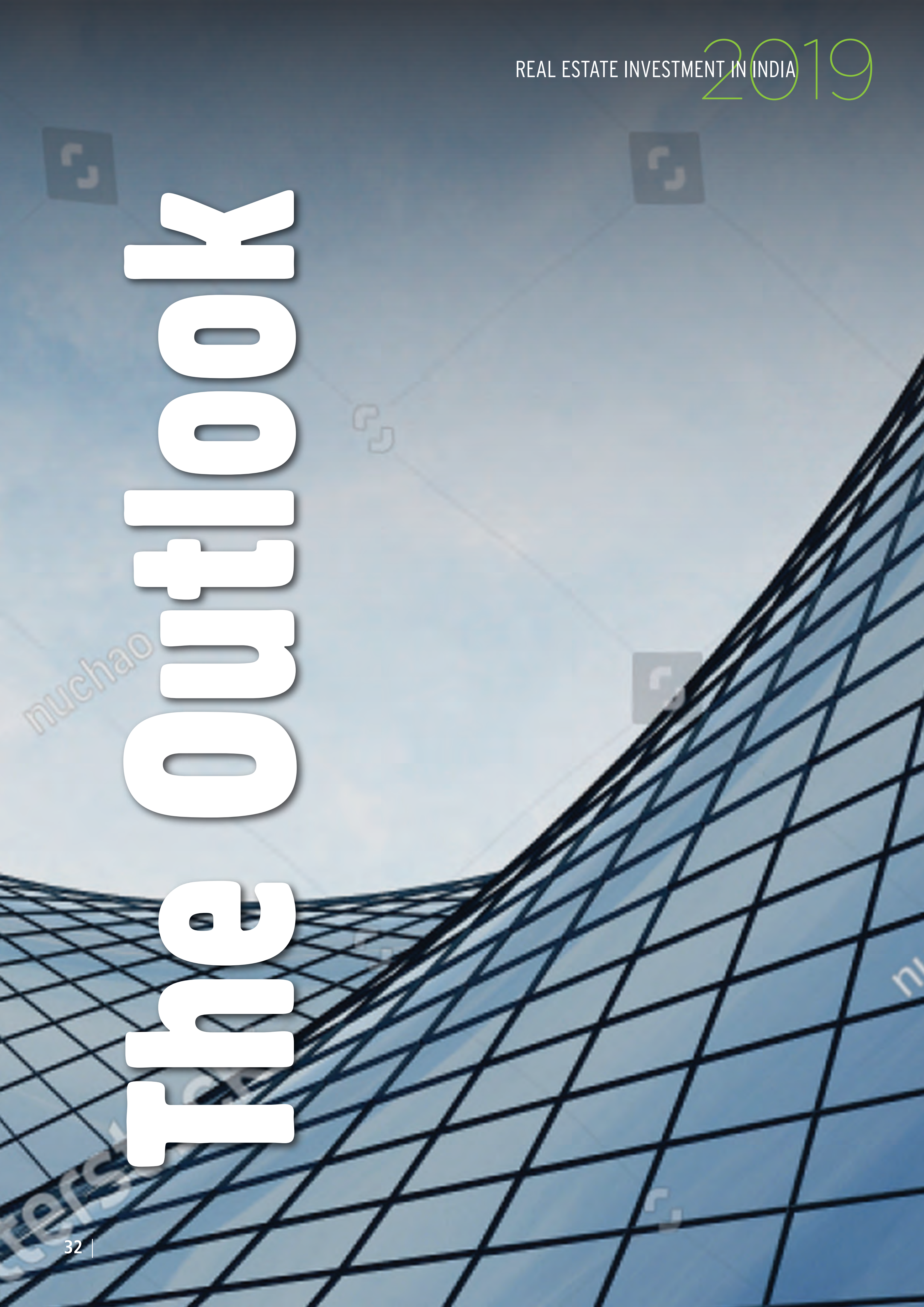
Future perspective

"There is greater maturity, cautious optimism and risk gradients in place going forward for real estate investments in India. The consolidation of the sector is seeing emergence of capital worthy players, gravity of markets to consumer asset classes and value proposition buying. Being a buyer's sector, investments are focussing on consumer behaviour and preferences, efficiency in developments and capital churn and creating sustainable business models that can weather time, regulatory and behavioural shocks. Fringe/ non-core players across all stakeholders including investment groups, developers, intermediaries are consolidating or weathering away in favour of more sustainable, focussed and strategic participants.

The sector is poised for huge rebound and growth and larger capital allocation through global majors has already begun. Capital is being spread across asset classes including residential, commercial, industrial, hospitality, retail etc making the outlook very vibrant for the sector. Investment Returns will be normalized, sustainable and long term as is compared to other investment classes and geographies. Scenarios of short term opportunistic extra ordinary gains or losses will start to diminish or vanish."

– Amit Goenka,

MD & CFO, Nisus Finance Services Co Private Limited



The Outlook

The period 2015 onwards, altogether, observed an accelerated pace of real estate investment in India, signifying a gradually maturing real estate landscape in the country. This has come as a heartening development in present times when real estate is endeavouring to limp towards normalcy, as interest shown by both foreign and domestic funds indicates healthy investor appetite and their disposition to participate in the India opportunity story. Foreign firms are now scouting around to buy assets at attractive valuations with regulatory changes and a proactive monetary policy outlook auguring well for the sector. While the situation regarding non-banking finance companies (NBFCs) certainly warrants careful consideration, the recent move by the Finance Minister exhorting the RBI to regulate the housing finance companies (HFCs) would expectedly help in restoring liquidity in the NBFC sector.

Going forward, with extensive impetus being given to affordable housing, India's cash-starved residential real estate market is set to witness significant boost from foreign and domestic private equity firms who are sensing a big opportunity in this segment. On the commercial asset front, factors such as improving macro fundamentals of the country coupled with dearth in good quality office space supply are fuelling investor anticipation of witnessing increase in demand from occupiers and a subsequent rise in rental growth for office space in India. With ready rent- yielding assets becoming increasingly constricted, some players are even willing to take risks and enter the sector at project development phase. This can be attributed to the fact that valuations are possibly more attractive today than they were a few years ago.

Additionally, the flavour of the season being co-working and co-living, a lot is expected of these two segments. Investors have already evinced significant interest as well as committed capital towards several start-ups across the country and this trend is only expected to strengthen in the immediate future.

Another segment that is expected to gain substantial investor interest in the forthcoming period is the warehousing and logistics sector. It is important to note that real estate investors generally have a shorter investment horizon of around less than 10 years and need to exit their investments within the specified time. With warehousing assets requiring a shorter gestation time, which could be even less than 18 months, it offers funds the ease of investing in greenfield projects.

The new year 2019 has started on a positive note with approximately USD 2.7 billion of real estate investments recorded in the first half of the year in various asset classes across the country. Furthermore, with the scope of growth in several segments, including warehousing and logistics, affordable housing, co-working and co-living, India is poised to see a considerable amount of investments in the forthcoming period as well.

The launch of India's first Real Estate Investment Trust (REIT), backed by private equity giant Blackstone Group LP and Bengaluru-based developer Embassy Property Developments, has come as a positive move for the Indian real estate sector. Remarkably, the IPO that was opened for subscription in March ended up oversubscribed by institutional and retail investors alike, dispelling concerns regarding it being the first event of its kind in India. This bullish sentiment is expected to help build further confidence amongst global real estate investors to invest in India, besides laying the path for more REITs to follow.

About **Vestian**

Vestian, is a contemporary workplace solutions firm that specializes in providing occupier-focused solutions for commercial, residential, industrial, retail and hospitality sectors. Our service portfolio includes Integrated Service Delivery, Project Services, Investment & Consultancy Services, Transaction Advisory Services, Retail Business Solutions & Integrated Facilities Management Services.

We align and measure our key deliverables based on clients' strategic business goals. Our commitment to achieve excellence and consistency in our service delivery models has helped us attain high standards of quality and raise the bar for the industry. Our experienced team has the required expertise and exposure in different sectors. Combining global best practices and local knowledge, the team provides an integrated solution for all real estate requirements. Moreover, the belief in our corporate philosophy - Delivering Measurable Results - helps us to provide solutions, in keeping with global delivery standards.

Vestian is certified in both quality management systems and environmental health & safety standards - ISO 9001, ISO 14001 and OHSAS 18001. We are also a member of the Indian Green Building Council.

Investment & Consultancy Services (ICS) is the Research, Consultancy and Investment solutions arm of Vestian. We provide value-added end-to-end investment advisory and consultancy services. Our clients include multinational and Indian corporations, investors, private equity (PE) funds, global and national financial institutions, government organizations, international, national and local real estate developers and landlords in tier I, II and III cities across the country.

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About **FICCI**

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialisation, and its emergence as one of the most rapidly growing global economies. A 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 250,000 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.

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