ANAROCK

VALUES OVER VALUE

anarock.com

Private Equity in
INDIAN REAL ESTATE

Foreword

The Indian real estate sector - the pivotal cog of the country's economic growth - has witnessed a paradigm shift over the last decade. FDI policy relaxations coupled with landmark reforms (such as RERA, GST, Insolvency and Bankruptcy Code, adoption of REITs, etc.) are altering the sector from being an unorganized one-man driven family business to an organized, structured and corporatized one with financial discipline. As we stand in 2019, it is appropriate to take a quick glimpse of what happened in the Indian Realty sector during a highly tumultuous 2018 as far as PE investment was concerned. Given RBI's alternatingly cautious and proactive stance towards managing the overall economy along with the NBFC crisis, it remains to be seen if 2019 will get any more surprises for the real estate sector.

Private equity investment in real estate during 2018 accumulated to more than USD 4 Bn, as compared to USD 4.5 Bn in its preceding year. It emerged as a strong period for the commercial sector with 69% investment flowing into these assets, followed by merely 7% in the residential sector. GST rationalization, and the growth of e-commerce have driven demand for large-scale warehouses in various locations. With India's logistic industry being accorded infrastructure status in late 2017, the sector witnessed four-fold increase in its investments. Alternate asset classes namely student housing and senior citizen living, barely mentioned or considered in previous years, drew meaningful interest not only from the industry but also institutional funds.

With continued demand for good quality office spaces across top cities such as Bengaluru, Hyderabad and Mumbai coupled with increasing investor interest due to the REIT listing in India, office assets remained a hot favourite amongst the realty investors.

NBFC crisis coupled with other challenges such as land scarcity, teething issues of reformatory changes, high project funding cost, execution delays, inadequate PE participation in the residential segment affected the real estate growth in 2018.

At this stage, the question that arises is – **"Will PE investment ever return to its full glory to the Indian real estate sector?"** The answer is pretty simple - current real estate slowdown will definitely not last forever as corrective actions are already being taken to uptick the cycle and, hence, an upswing is inevitable. With strong growth drivers and on-going reforms, the medium-term perspective across asset classes looks healthy. While the upswing will surely not occur overnight, we are confident that the long-term story of the burgeoning Indian real estate sector remains intact.

This PE report by ANAROCK highlights the overall inflows, key statistics and major trends of institutional private equity investments in the Indian real estate sector. The report categorically excludes debt fundings by NBFCs & HFCs which otherwise blurs the real picture of PE investments in Indian real estate.

I would like to thank everyone involved in preparing this report, and I hope you find it insightful.

SHOBHIT AGARWAL
MD & CEO
ANAROCK Capital

Table of Contents

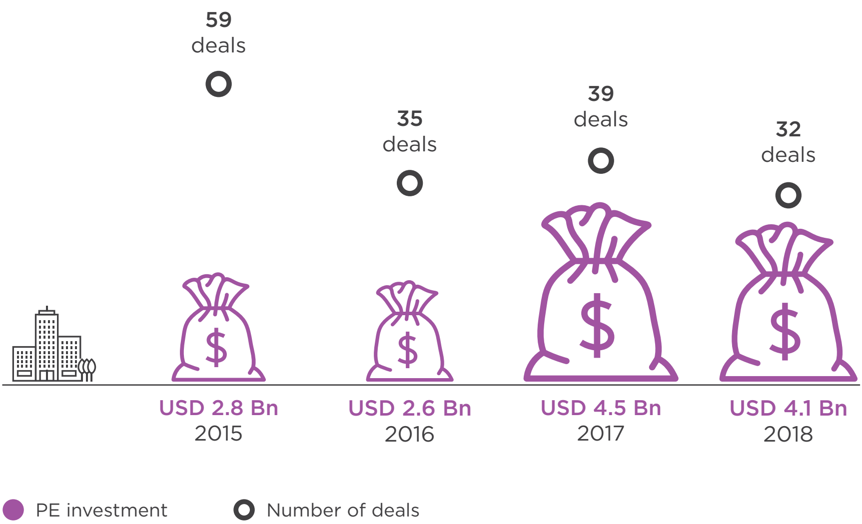
Trends in PE funding

PE firms infuse more than USD 4 Bn into realty sector in 2018

Between 2015 and 2018, Indian real estate witnessed a total inflow of USD 14 Bn worth PE investments. While 2015 and 2016 together saw investments of USD 5.4 Bn, the real momentum was seen in the last two years when investments grew to USD 8.6 Bn collectively. Growth in investments can be attributed to the various reformatory changes in Indian real estate that helped increase transparency and thereby boosted investor confidence.

Interestingly, the number of deals reduced during the period amidst a substantial increase in the average deal size - from USD 47 Mn in 2015 to USD 128 Mn in 2018. It is noteworthy that the top 5 deals in 2018 contributed almost 50% of the total investment during the year. This suggests that PE investors are moving more cautiously and, unlike earlier, they are now more selective in associating with developers. But once confident, they are making larger investments.

PE inflow trends & number of deals (2015 to 2018)



Source: Venture Intelligence & ANAROCK Research

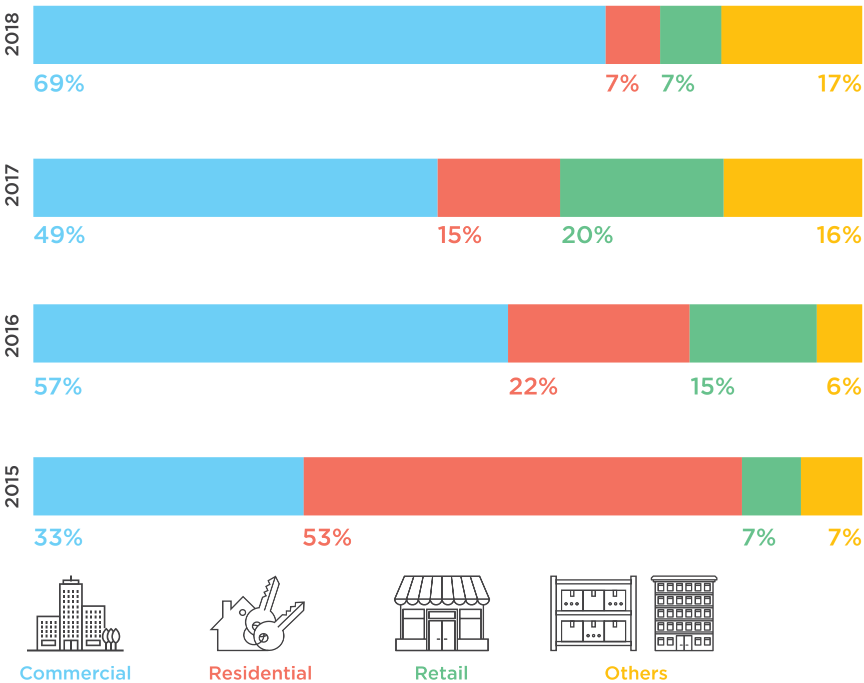
Over the past four years, commercial assets became the top preference of PE investors comprising more than 70% of the overall investment share in 2018 compared to just 33% in 2015. In contrast, residential space lost its numero uno position with its share declining from 53% in 2015 to as low as 7% in 2018.

Less than a dollar per sq. ft. rent coupled with high demand and availability of exit option in the form of REITs boosted focus on commercial. Whereas, weaker demand, high-quoted capital values and construction delays deterred investors from residential segment.

Retail, backed by healthy economy and liberalization in policies has shown glimpses of becoming one of the preferred choices for PE investors. Warehousing is another sector showcasing good investment prospects.

The year 2018 witnessed the largest PE exit in Indian real estate when RMZ bought back 45% shares of the holding company RMZ Infotech from QIA and Baring Private Equity Partners for approx. USD 1 Bn.

Break-up of investments by asset class in % (2018)



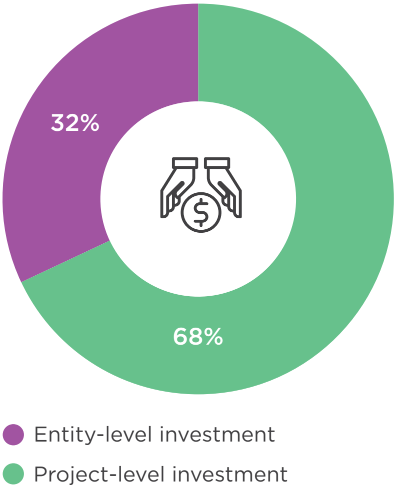
Source: Venture Intelligence & ANAROCK Research

Portfolio-level investments gaining momentum

Over the years, PE investments largely remained focused at the project level compared to entity level considering the higher complexity involved in the latter as compared to the former. The 2015 to 2018 period was also inline with this wherein 2/3rd of the investments were at the project level. However, a deep dive into data reveals that the focus on portfolio and hence, entity level investments picked momentum in the later half of this overall period i.e. in 2017 and 2018 when the entity level almost tripled compared to the previous two years.

Investors used a combination of plain vanilla equity and structured equity for investments into projects but preferred to stay with vanilla equity while investing at entity level considering the longer term focus at entity coupled with availability of limited structural options while investing at the entity level.

Distribution of investments (2015 to 2018)



Source: ANAROCK Research

Split between Entity-level & Project-level investments

Source: Venture Intelligence & ANAROCK Research

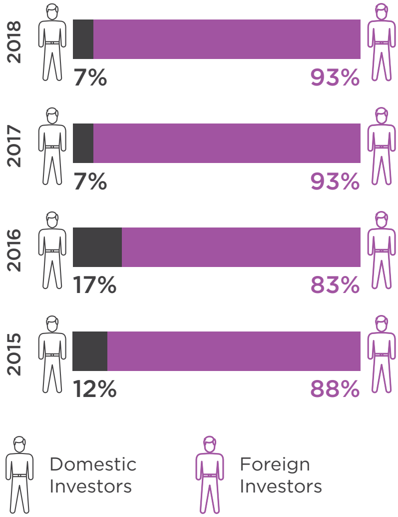
Foreign funds continue to dominate

Between 2015 and 2018, the share of foreign PE investors increased from 88% to 93%. This is reflective of the rising foreign PE investor confidence in Indian real estate which is gradually becoming more transparent and efficient owing to the new reformatory changes. Investors like Blackstone & Brookfield have created a healthy asset pool and others are following the same path.

While REIT is a new concept in India, it is a successful model in many developed countries. Knowing the advantages of REIT through their international experience, various PE investors have been strengthening their commercial and retail portfolio. The keen interest in commercial assets is evident from the fact that in 2018 more than 70% of investment in commercial space was by foreign PE investors.

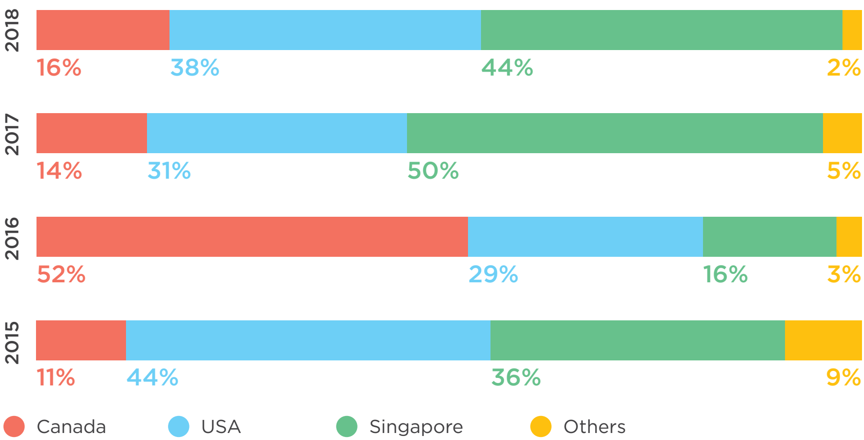
Among foreign PE investors, those based out of USA, Canada and Singapore have been highly active in Indian RE market, contributing as high as 98% of the total foreign PE investments in 2018. Besides these, investors from UK, UAE, Japan, Netherlands, Hong Kong and Malaysia have also started showing their interest in Indian RE space.

Share of domestic & foreign equity investors (2015 to 2018)



Source: Venture Intelligence & ANAROCK Research

Share of investment inflow by origin of foreign investors



Source: Venture Intelligence & ANAROCK Research

Asset class-wise funding

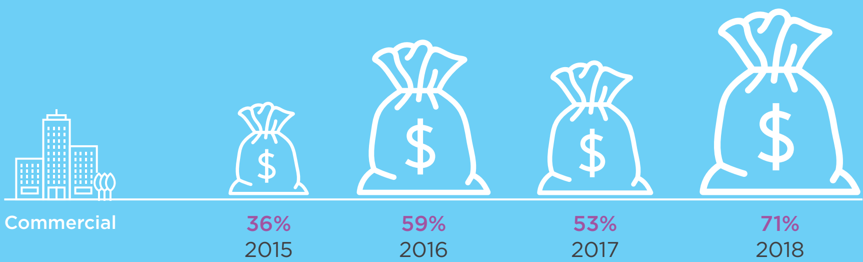
Commercial office: The first love of PE investors

High occupancy levels, less than a dollar rentals, quality Grade A assets and high quality tenants are the key reasons for commercial space to enjoy more than 70% share of the total PE equity investments in 2018. Fund exits have been relatively easier in this space considering high demand and with REITs proposed to be launched quite soon, it will improve even further.

As Blackstone-backed Embassy Office Parks receives final nod from Securities and Exchange Board of India (SEBI), India will see its first REIT launch within the first half of 2019. Even while REITs awaits its listing in the country, investors are hoping to cash on this new avenue for generous ROI. However, its success will set the tone for future REITs in India and vice versa. And this will, to a certain extent, decide the direction of PE investment in the space going forward.

Interestingly, 2018 witnessed a significant trend in PE investments in commercial space in South India as a region. In previous years - 2016 and 2017 – the southern cities cumulatively saw just 10% and 13% of the total investments in office space respectively. However, this share increased to 56% through a series of investments in 2018.

Share of equity investments in commercial sector (2015 to 2018)



Source: Venture Intelligence & ANAROCK Research

Major platforms created since 2015 in commercial sector

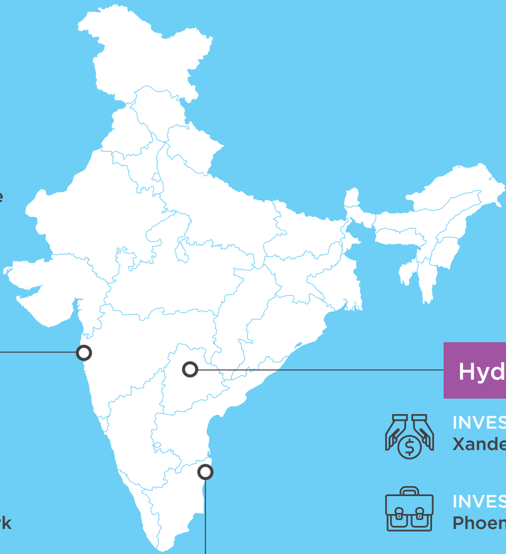
Commercial

INVESTOR PARTNER				
QIA	Allianz	Taurus Investment Holdings	Standard Chartered (PE)	IFC
DEVELOPER PARTNER				
RMZ Corporation	Shapoorji Pallonji Group	Embassy Group	Tata Realty & Infrastructure	Xander
USD 600 Mn	USD 500 Mn	USD 300 Mn	USD 300 Mn	USD 90 Mn

Note: Commercial sector includes office, IT, SEZ, IT parks and hotels.

Top investment deals in commercial sector (2018)

Source: Venture Intelligence & ANAROCK Research



Mumbai

INVESTOR
Blackstone

INVESTEE
Indiabulls Real Estate

USD **730** Mn
in Mar 2018

INVESTOR
Brookfield

INVESTEE
Equinox Business Park

USD **390** Mn
in Jan 2018

Hyderabad

INVESTOR
Xander

INVESTEE
Phoenix Group

USD **350** Mn
in Oct 2018

Chennai

INVESTOR
Mapletree Investments

INVESTEE
Shapoorji Pallonji Group

USD **350** Mn
in Nov 2018

	Commercial + Retail	Commercial + Residential
INVESTOR PARTNER	Goldman Sachs	Sun Group
DEVELOPER PARTNER	Nitesh Estates	Vista Spaces
	USD **300** Mn	USD **100** Mn

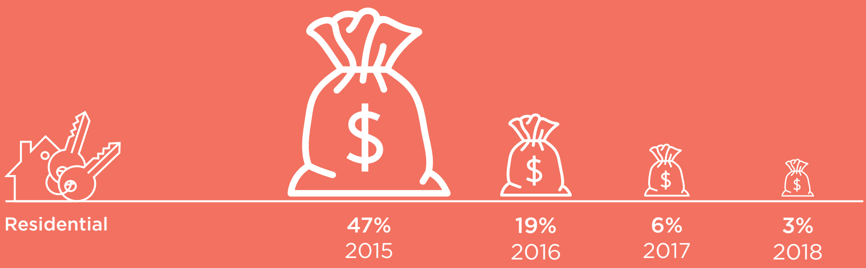
Residential segment: Affordable housing ready to gain traction

Grappling with multiple issues like stalled/delayed projects, liquidity crunch, high property values coupled with weaker demand and low sales, the residential space has been gradually loosing PE investor's interest over the years. Between 2015 and 2018, the equity investments in the sector came down from 47% to just 3%. With banks slowing funding due to regulatory hurdles, NBFCs and HFCs were the other best alternative. But the NBFC crisis in fag end of 2018 further exacerbated the liquidity woes of developers. PE is the next alternative. However, we believe that the declining performance of past two-years is likely to change its course and with affordable segment gaining momentum investors will try to grab a pie of it.

Although, affordable housing 'the flavour of the season,' is yet to receive any meaningful equity investments, Government's nod of Infrastructure status to affordable housing, extension of benefits under PMAY, CLSS (Credit Linked Saving Scheme) and tax holiday for affordable housing will result in the tailwind for this sector.

Notably, HDFC has created two platforms, close to USD 700 Mn in 2018 (with Prestige Group and ATS Group), with an objective to provide long-term, equity and mezzanine capital to marquee developers at the land and pre-approval stage for the development of affordable and mid-income housing in India.

Share of equity investments in residential sector (2015 to 2018)



Source: Venture Intelligence & ANAROCK Research

Major platforms created since 2015 in residential sector

Residential

INVESTOR PARTNER				
HDFC Venture	HDFC Venture	APG	CDPQ	Standard Chartered (PE), IFC, ADB
DEVELOPER PARTNER				
Prestige Group	ATS Group	Godrej Properties	Piramal Enterprises	Shapoorji Pallonji Group
USD 390 Mn	USD 300 Mn	USD 270 Mn	USD 250 Mn	USD 200 Mn

Note: Residential deals comprises of Affordable, Mid-segment, Townships and Luxury housing deals.

Alternative sectors like co-living & student housing getting attention

Sequoia Capital invested USD 10 Mn in a New Delhi-based student accommodation platform Stanza Living. Goldman Sachs and HDFC too have been key contributors to student housing this year solidifying interest of global investors in this new and upcoming segment.

Warburg Pincus, a global Private Equity fund and mid-market chain Lemon Tree Hotels have set up a JV in Dec 2018 to create the first co-living platform focusing on the development of affordable and conveniently located spaces for students and young working professionals across major educational clusters and key office markets in India.

	Residential	Residential + Commercial	Co-living
INVESTOR PARTNER	ASK Group	Sun Group	Warburg Pincus
DEVELOPER PARTNER	Shriram Properties	Vista Spaces	Lemon Tree Hotels
	USD 160 Mn	USD 100 Mn	USD 420 Mn

Warehousing, Industrial & Logistics (WIL): The sunrise sector

Infrastructure status, multi-modal logistic park policy coupled with the implementation of GST, has changed the way India looked at this space earlier. The sector has already started upgrading itself from being unorganized to be organized. The shift is visible in conversion of various small Grade B & C warehouses to large Grade A warehouses with modern facilities. The shift has attracted a lot of foreign players – developers and investors, towards this sector.

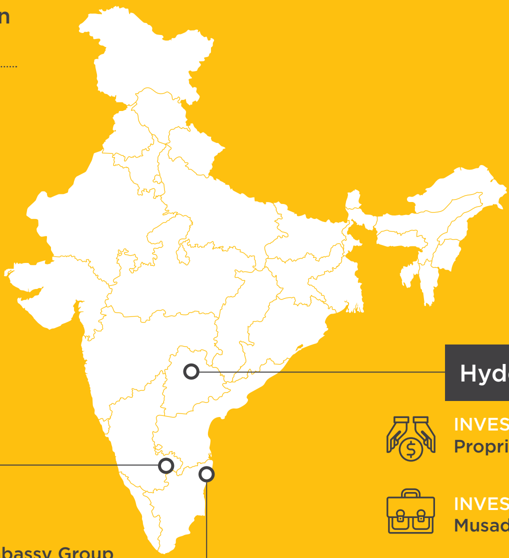
Demand for logistics facilities in India is driven by favorable government policy, economic expansion and the growth in organized retail and e-commerce businesses.

IndoSpace - India's leading developer of industrial real estate and warehousing facilities takes its total commitment in the country to well above USD 3.2 Bn to further strengthen the market leadership position. This successful fund raise of ILP (Indospace Logistics Parks) reflects the increasing confidence of private equity investors within the segment.

Major platforms created since 2015 in WIL sector

INVESTOR PARTNER	Allianz	CPPIB	Ascendas	CDPQ	Warburg Pincus
DEVELOPER PARTNER	ESR	Indospace	Firstspace	LOGOS India	Embassy
	USD 1,000 Mn	USD 800 Mn	USD 600 Mn	USD 400 Mn	USD 250 Mn

Top investment deals in WIL sector (2018)



Hyderabad

INVESTOR
Proprium Capital

INVESTEE
Musaddilal

USD **100** Mn
in May 2018

Bengaluru

INVESTOR
Warburg Pincus - Embassy Group

Land
Acquisition

USD **170** Mn
in Jun 2018

Chennai

INVESTOR
Ascendas - Firstspace

Land
Acquisition

USD **120** Mn
in Dec 2018

Source: Venture Intelligence & ANAROCK Research

In November 2018, Asia-Pacific focused logistics developer ESR entered into a joint venture with Allianz Real Estate to invest USD 1 Bn in WIL sector. This will catapult the sector to new highs.

Retail: Riding high on growing consumerism

Unlike commercial office sector, retail is to some extent geography agnostic because its success depends on the spending power of its target audience. As a result, retail malls in Tier 2 & 3 cities have performed equally well, if not bettered, against its counterparts in Tier 1 cities. This led to increase in rentals and profitability and forced PE investors to start considering investment options outside their preferred geographies. Interestingly, 46% investments in retail space between 2015 and 2018 have been made in non-metro cities of India like Bhubaneshwar, Chandigarh, Indore, Amritsar, Ahmedabad etc.

With government allowing 100% FDI in single brand retail through the automatic route compared to 49% earlier, more FDI investments are likely to come into the retail business which will attract more foreign PE investors over the next few years.

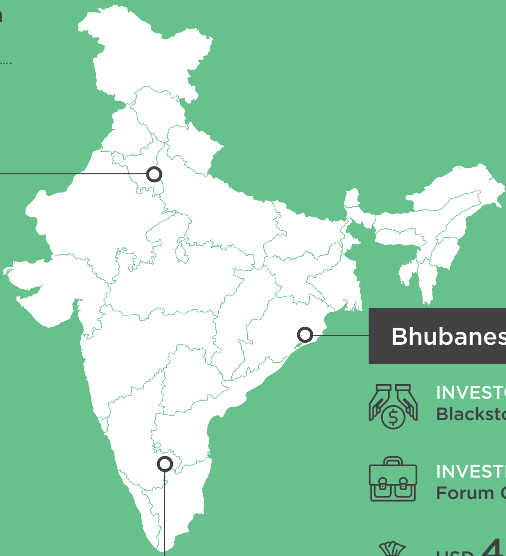
In past few years, India witnessed various equity platforms, aggregating to USD 2.1 Bn, getting created with a focus to invest in retail space – core or greenfield. Deployment of funds from such platforms will boost the retail space and increase its share in the investment pie.

Major platforms created since 2015 in retail sector

Retail

INVESTOR PARTNER Warburg Pincas	APG	APG
DEVELOPER PARTNER Runwal Group	Virtuous Retail South Asia	Virtuous Retail South Asia
USD **1,000** Mn	USD **450** Mn	USD **170** Mn

Top retail deals in India (2018)



Delhi

INVESTOR
Virtuous Retail South Asia

INVESTEE
North Delhi Metro Mall Pvt. Ltd.

USD **120** Mn
in Apr 2018

Bhubaneshwar

INVESTOR
Blackstone

INVESTEE
Forum Group

USD **40** Mn
in Jan 2018

Bengaluru

INVESTOR
CPPIB & Phoenix

INVESTEE
L&T Construction

USD **100** Mn
in Apr 2018

Source: Venture Intelligence & ANAROCK Research

Retail + Commercial

INVESTOR PARTNER		
CPPIB	CPPIB	Goldman Sachs
DEVELOPER PARTNER		
Phoenix Mills	Phoenix Mills	Nitesh Estates
USD **140** Mn	USD **110** Mn	USD **300** Mn

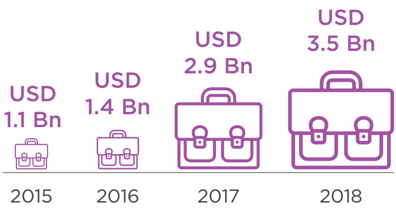
Big getting bigger

Platform-level deals gain traction

Since 2015, Indian real estate saw 25 platforms getting created aggregating to USD 8.8 Bn by global investors like Warburg Pincus, Goldman Sachs, CPPIB, Allianz, Ascendas, Xander, CDPQ, APG, etc. Key purpose of these platform creation was to create a pool that can be invested if the criteria are met without spending longer time for approval before each investments. Majorly, these deals are sector focused and created with an aim to build long term partnership with the other partner – mostly a developer.

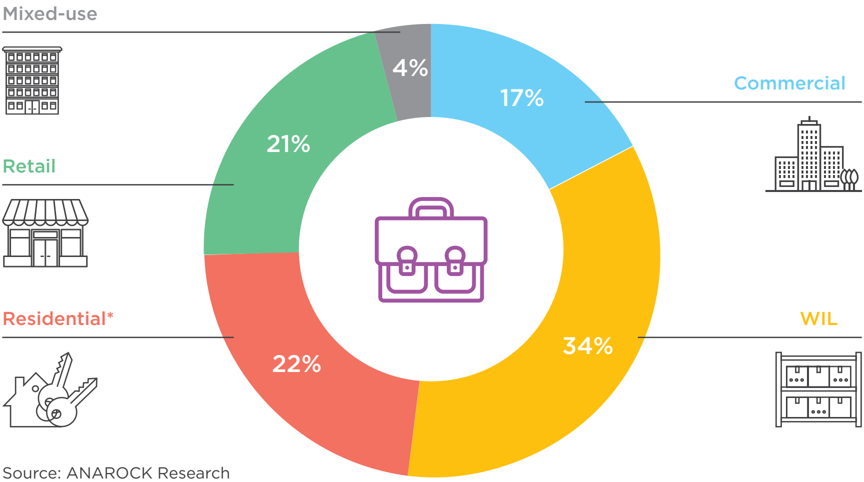
Of the total funding available, 1/3rd is dedicated to logistics and warehousing followed by residential and retail. While these sectors have so far not received enough funding from PE investors, the magnitude of platforms show the presence of investor interest that has due to some reasons not got converted into deals. Understandably, platforms for commercial space is 17% as a lot of equity deals have already happened or are happening at project level.

Platforms created (2015 to 2018)



The largest real estate platform concluded in 2018 was of ESR Group, an Asian logistics real estate developer backed by private equity firm Warburg Pincus, and Germany's Allianz setting up a USD 1 Bn investment platform to invest in India's logistics sector.

Asset class-wise share of platforms created since 2015



Source: ANAROCK Research

* Residential includes co-living platforms

Giant deals from 2015 to 2018

2015

MAY 2015
Blackstone
HCC Realty
Commercial
Mumbai
USD 160 Mn

JUL 2015
Warburg Pincus
Piramal Realty
Entity
Mumbai
USD 280 Mn

CPPIB Shapoorji
Faery Estate Pvt. Ltd.
Commercial
Chennai
USD 220 Mn

SEP 2015
GIC
DLF
Residential
Delhi
USD 300 Mn

OCT 2015
Blackstone
Alpha G: Corp Dev.
Retail
Amritsar | Ahmedabad
USD 150 Mn

2016

MAR 2016
GIC
Sheth Developers
Retail
Mumbai
USD 150 Mn

APR 2016
Blackstone
L&T Realty
Retail
Navi Mumbai
USD 220 Mn

OCT 2016
Brookfield
Hiranandani Group
Commercial
Mumbai
USD 1 Bn

GIC K Raheja
Siemens
Commercial
Mumbai
USD 90 Mn

DEC 2016
Blackstone
IAPL
Commercial
Mumbai
USD 140 Mn

Key PE exits

Blackstone
IL&FS
247 Park, Mumbai
USD 123 Mn

Embassy
HIREF
Embassy Springs, Bengaluru
USD 73 Mn

2017

FEB 2017
Blackstone
K Raheja Corp
Commercial
Mumbai
USD 300 Mn

MAR 2017
GIC
DLF Cyber City Developers
Commercial
Gurgaon
USD 1.4 Bn

MAY 2017
CPPIB
Indospace
WIL
Pan India
USD 500 Mn

Xander
Shriram Properties
Commercial
Chennai
USD 190 Mn

JUL 2017
Blackstone
Carnival Group
Retail
Chandigarh
USD 340 Mn

2018

JAN 2018
Brookfield
Equinox Business Park
Commercial
Mumbai
USD 390 Mn

MAR 2018
Blackstone
Indiabulls Real Estate
Commercial
Mumbai
USD 730 Mn

JUL 2018
Ascendas
Phoenix Group
Commercial
Hyderabad
USD 200 Mn

OCT 2018
Xander
Phoenix Group
Commercial
Hyderabad
USD 350 Mn

NOV 2018
Mapletree Investments
Shapoorji Pallonji Group
Commercial
Chennai
USD 350 Mn

2019

Xander
IL&FS
Express Trade Tower, NCR
USD 45 Mn

RMZ Infotech
QIA & Baring Private Equity
Entity (RIPL), Bengaluru
USD 1,000 Mn

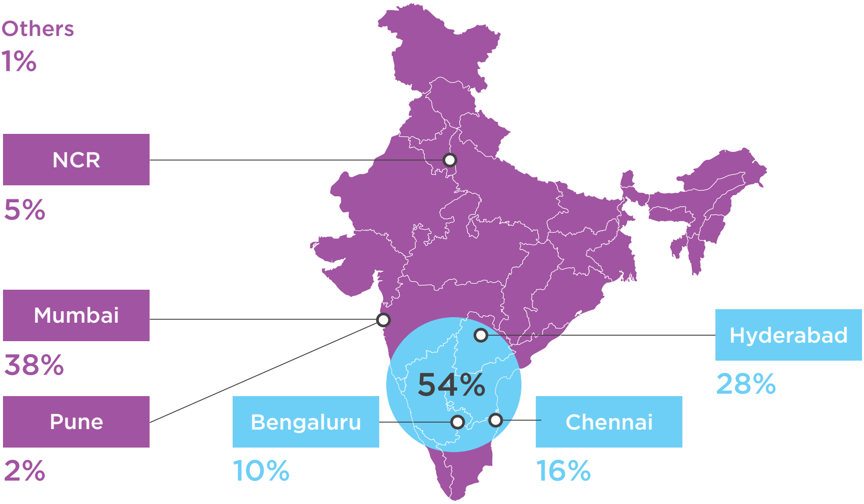
Source: Venture Intelligence & ANAROCK Research

Geographical distribution of funds

Investment Inflows turn towards South India

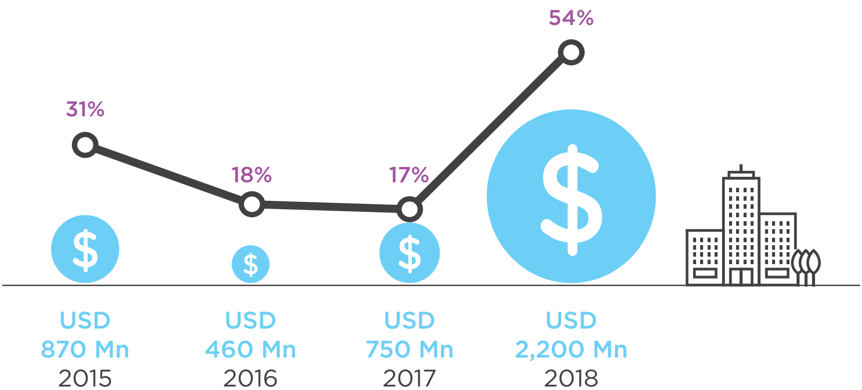
Steady demand environment along with increased absorption of office space has prompted South region to gain momentum this year wherein the overall investments almost tripled.

While Mumbai continued to be the most preferred destination for investments with 38% of the total capital inflow, Hyderabad witnessed a sudden burst in investments in 2018, contributing more than half of investments received by Southern India.



Source: Venture Intelligence & ANAROCK Research

Investment inflow in South Region (2015 to 2018)



Hyderabad – is it a one-hit wonder or ready for the big league?

Hyderabad, the thickly-populated major IT/ITeS hub of India, is fast transforming into a mega-city with high liveability index. Furthermore, the city enjoys the benefit of a circular development due to the outer ring road which helps in multi-directional growth.

Surprisingly in 2018, the city became the second highest attractive location for PE investors after Mumbai, receiving more than three-fold investments compared to the collective previous three-year period. The growth was largely led by commercial space where Phoenix group received PE money through multiple deals. In doing so, it surpassed other two major cities in South India – Bengaluru and Chennai. While the city is poised for growth and can continue to attract PE investments in coming years, it will be interesting to see if this intensity continues or dries down in the coming years.

Share of Hyderabad in realty sector (2018)

2015	2016	2017	2018
USD 120 Mn	USD 170 Mn	USD 30 Mn	USD 1,100 Mn

Top investment in Hyderabad (2018)

MAY 2018
Ascendas | Phoenix Group
Commercial
USD 200 Mn

JUL 2018
Ascendas | Phoenix Group
Commercial
USD 200 Mn

OCT 2018
Xander | Phoenix Group
Commercial
USD 350 Mn

Source: Venture Intelligence & ANAROCK Research

Hyderabad toppled Bengaluru to become the 2nd most preferred investment destination in the realty sector attracting more than USD 1.1 Bn.

Outlook

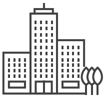
The Outlook

Indian real estate presents a favourable picture in 2019 with the government seen to be laser-focused in attracting both consumers and investors. A slew of sops offered in just the first two months of 2019 are indicative of the government's positive intentions. That said, the investors will watch with bated breath for the final outcome of the impending elections. Also, the health of the overall macroeconomic environment in the coming quarters will decide the future course of action for PE investors.

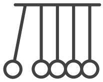
While we expect PE investors to continue eyeing the Indian markets, a lot will also depend on how the current NBFC crisis gets resolved. The lowering of the GST rates in the housing market most recently will boost buyer sentiments and thereby increase housing sales, further enlightening the housing sector.

4 significant trends to watch out for:

1. **Commercial sector** attracted considerable private equity investments in 2018 and this trend will continue in 2019. India's first REIT listings is a sure-fire draw for liquidity infusions into the office segment. In fact, this will prompt commercial property players to set up more bandwidth and funds into the commercial sector.



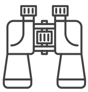
2. **Reduction in the GST** for under construction projects in both premium and affordable segments will trigger demand and thus increase housing sales. This move will give a major fillip to under construction properties whose demand was substantially low for last many quarters. IT will also help developers reduce their massive unsold stock comprising 6.73 lakh units across the top 7 cities. Meanwhile, in a bid to capture substantial market potential of affordable housing, many PE funds and developers will seek to upgrade their participation in it.



3. NBFC's cautious approach in lending criteria presents an opportunity for non-banks and offshore lenders to enter the market. As a result, 2019 will see a **spike in investment activity from global investors** providing flexible forms of either debt or equity on selected projects. Likewise, PE investors are also expanding their footprint into real estate structured equity / mezzanine funding.

4. India is gearing up for the **forthcoming 2019 general elections** that will definitely play a pivotal role in deciding the future course of action. If there is a change in government, there is a possibility that it may announce new schemes and policies which may impact the attractiveness of real estate investments or vice versa. However, only a stable government at the Centre can positively impact the Indian real estate market in the future.

   That said, the election period will see many investors defer their market plays in India and rather adopt a wait-and-watch mode. Post clarity on the political dominance, they will resume their action for the next term. Nevertheless, the large PE investors have already begun to shape their path towards the fast-evolving trends as mentioned in this report.



About ANAROCK:

ANAROCK is the leading real estate agent in India, and is mandated on 100 residential projects across the country, having successfully completed 300 exclusive mandates since June 2017. The Firm has diversified interests across the real estate value chain and employs its proprietary technology platform to accelerate marketing and sales. The chairman, Anuj Puri, is a highly-respected industry veteran and India's most prominent real estate thought leader. ANAROCK's services include Residential Broking and Technology, Retail, Hospitality (via HVS ANAROCK), Land Services, Investment Banking, Warehousing, Industrial and Logistics, Investment Management, Research, and Strategic Consulting. ANAROCK's team of over 1800 qualified and experienced real estate professionals operate across all major Indian markets, as well as the Middle East. ANAROCK also manages over 80,000 fully-vetted channel partners to ensure global business coverage. Our core assurance of consistent ethical dealings with clients and partners reflects our motto - Values Over Value.

Please visit www.anarock.com

OUR AUTHORS:

Akshit Shah SVP, Research & Investment Advisory
Ragini Agrawal AVP, Research
Aakash Belwadkar Asst. Manager, Research

OUR EDITOR:

Priyanka Kapoor AVP, Research

For Research services, contact:

Prashant Kumar Thakur
Head of Research
prashant.thakur@anarock.com

For Investment Banking services, contact:

Shobhit Agarwal
MD & CEO, ANAROCK Capital
shobhit.agarwal@anarock.com

ANAROCK Capital Advisors Pvt. Ltd.
1002, 10th Floor, B Wing
ONE BKC, Plot No. C-66, G Block
Bandra Kurla Complex
Bandra East, Mumbai 400 051

ANAROCK
VALUES OVER VALUE