

MARKETBEAT

99.83

INVESTMENT VOLUME
(INR BN) IN Q3 2019

24.0%

MUMBAI'S SHARE
IN PERE (Q3 2019)

65.6%

OFFICE SECTOR'S SHARE
IN PERE (Q3 2019)



WHAT'S NEXT

KEY TAKEAWAYS

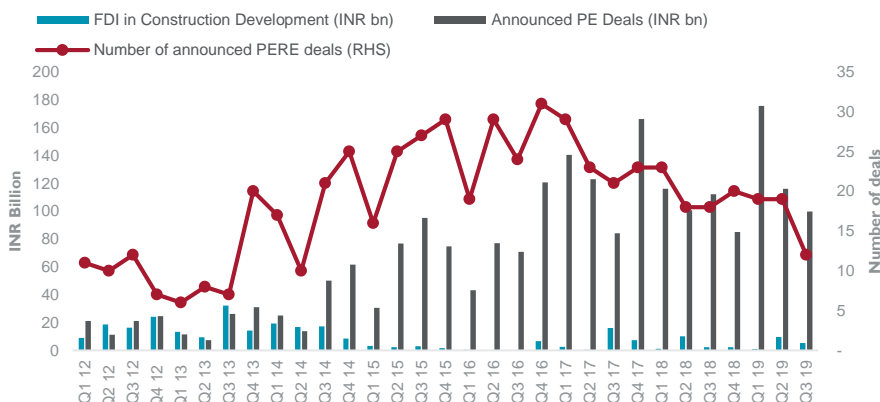
- PE investments down by 14% q-o-q. However, YTD 2019 remains stronger than corresponding period of 2018.
- Commercial office accounted for a 65.6% share in investment flows; Mumbai remains the top-performing city in terms of attracting PE inflows in Q3 2019.
- With domestic investors struggling, foreign investors held an 80.5% share in Q3 recorded investment volumes; JV/platforms continue to gather steam as core asset portfolios remain limited.

FOREIGN DIRECT INVESTMENT INFLOWS

Foreign Direct Investment (FDI) inflows in the construction development sector amounted to INR 5.3 bn during Apr – Jun 2019, according to statistics released by the Department of Industrial Policy & Promotion. The total investment flows in H1 2019 are 20% higher than the same in H1 2018, signaling the continued strong interest in Indian real estate especially with a policy framework that has made investment flows more conducive.

Private equity flows remained on a strong footing for YTD 2019 in the first three quarters, despite a q-o-q decline in investments in Q3. Indian real estate continues to remain a bright spot for institutional investors across key asset classes including office, retail and industrial owing to the robust fundamentals and a still strong consumption demand. The sector is also seeing growing interest in the newer / alternative asset classes with institutions looking to leverage an early start in these promising areas. The first successful REIT listing and creation of several platforms between foreign funds and domestic entities remain the highlights of the year so far.

INVESTMENT VOLUME



Source: Source: DIPP, Cushman & Wakefield Research
Note: FDI in construction development in Q3 19 corresponds to Apr – Jun 2019



PRIVATE EQUITY INVESTMENT IN REAL ESTATE (PERE)

Investment volumes

The ongoing stress in the domestic lenders' market continues to impact the liquidity flow. This sluggishness saw private equity investments decline by 14% q-o-q to stand at INR 99.83 bn (USD 1.4 bn) in the third quarter of 2019. The reduced investment flows in the residential sector continued to further decline, recording over a 60% q-o-q drop in Q3.

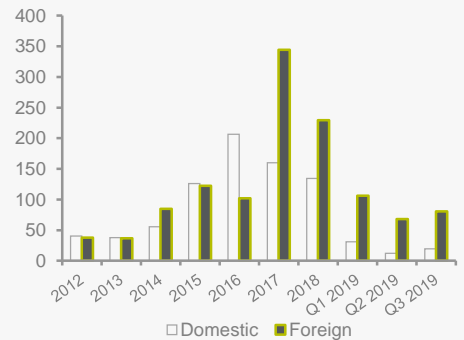
With real estate lending numbers slowing down due to the domestic NBFC stress, 83.5% of quarter's inflows were in the form of equity capital infusion. This is also indicative of the fact that institutional investor interest continues to remain strong in the Indian real estate space.

Foreign investors continued to dominate with a significant share of 80.5% in the inflows during Q3. The limited active, domestic investors (including the NBFC arms of private equity funds) remained watchful in Q3. The quarter recorded a platform-led transaction with ESR India Investments Holdings and Future Market Networks tying up for the development of industrial and warehousing parks in Nagpur (Maharashtra) and Jhajjar (Haryana).

Among major transactions in Q3, Blackstone Group entered into an agreement to buy the remaining 50% stake in the office asset portfolio of Indiabulls Real Estate, comprising assets in Mumbai and Delhi NCR, having bought a 50% stake earlier in 2018. Virtuous Retail (the Xander-APG retail platform) announced an investment of INR 24 bn for acquisition of a land parcel in Thane, Mumbai for development of a retail project as part of a greenfield mixed-use project. Xander Investment Management acquired Weikfield IT Info Park in Pune from New Vernon Capital in yet another key office transaction during Q3.

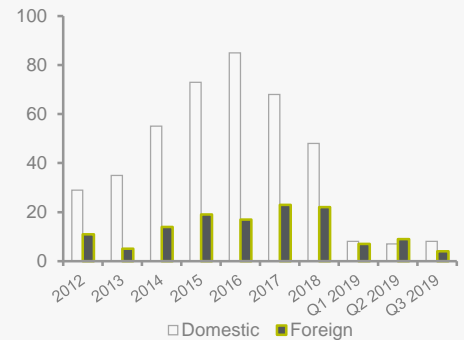
Some key platforms were created during the quarter with the China based Fosun Group partnering with Ahuja Constructions for residential projects with an aim to expand to other asset classes. Xander Investment Management announced a USD 0.25 bn industrial platform for its existing and new investments in this asset class. An additional USD 0.15 bn was committed by Allianz Real Estate to its existing, office-led platform with Godrej Properties.

DOMESTIC VS FOREIGN INVESTMENTS (INR BN)



Source: VCCircle, Cushman & Wakefield Research

DOMESTIC VS FOREIGN INVESTMENT DEALS (NUMBER)



Source: VCCircle, Cushman & Wakefield Research

A Cushman & Wakefield Research Publication

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of \$8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

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OFFICE SEGMENT REMAINS THE FAVOURED ASSET CLASS, EXPECTATION OF FURTHER TRACTION IN NEAR TERM

Institutional interest in rent-yielding office assets continues to be backed by strong occupier demand with 2019 slated to surpass 2018's leasing numbers for a new historic peak. With low vacancies and strong demand in key office markets, investor interest in this asset class continues unabated. The successful REIT listing of Embassy-Blackstone platform with the scrip performing well post the listing is leading to further potential REIT listings. K Raheja-Blackstone is the next in line with others like RMZ and Godrej Properties also contemplating future listings. Select core and core plus assets along with brownfield / greenfield developments shall remain on the investor radar as bigger portfolios remain extremely limited.

CITY-WISE INVESTMENTS

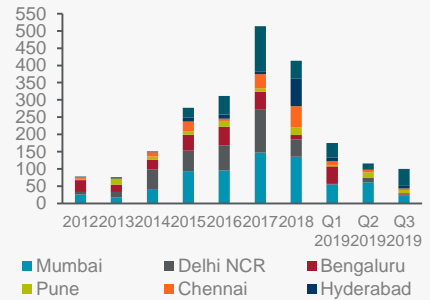
Mumbai led the Q3 investments at a city-level, with a 24% share, followed by Hyderabad and Pune with shares of 9.3% and 9.0%, respectively in fund inflows. Infact, Hyderabad saw the sharpest quarterly increase among all cities with investment inflows increasing by a multiple of 5.6X q-o-q. Multi-city investments (across Maharashtra and Haryana) had a 47.3% share in the quarter's fund inflows with two notable transactions in the office and industrial segments.

ASSET-WISE INVESTMENTS

The office segment attracted INR 65.50 bn (USD 0.9 bn) from institutional investors, accounting for a 65.6% share of total investments in Q3 2019. Retail segment followed with a 24% share headlined by the Virtuous Retail investment in Mumbai.

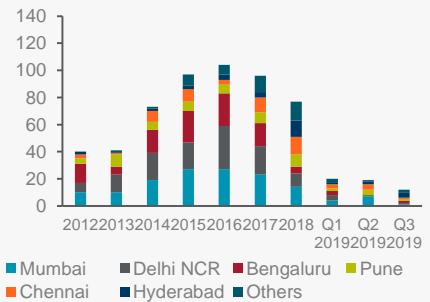
The residential segment's share in overall inflows dropped further to 7.3% from 16.5% in the previous quarter. The segment received INR 7.3 bn (USD 0.1 bn) in Q3, a q-o-q drop of 61.6%, as lenders faced with their own liquidity challenges, were largely absent from the investment activity. Only a few domestic NBFCs were active during the quarter along with participation by US-based Hines in the development of two phases of a residential project in Bengaluru.

PE INVESTMENT VOLUME - CITY WISE (INR BN)



Source: VCCircle, Cushman & Wakefield Research

PE TRANSACTIONS - CITY-WISE (NUMBER)



Source: VCCircle, Cushman & Wakefield Research

PE INVESTMENT VOLUME - ASSET-WISE (INR BN)



Source: VCCircle, Cushman & Wakefield Research

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The current crisis of liquidity among domestic lenders coupled with developer defaults and delinquencies presents an opportunity to funds like CPPIB to venture into structured lending otherwise done by NBFCs, albeit with financially sound players. Also, corporate-backed NBFCs are planning to raise new funds, but invest selectively with better care and diligence in their investment decisions. Tribeca Developers is also raising a distress fund to acquire projects under the joint venture / development management models, primarily in the MMR and NCR areas.

Warehousing/logistics segment held a 3% share in the quarter's investments.

CORPORATE TRANSACTIONS IN REAL ESTATE

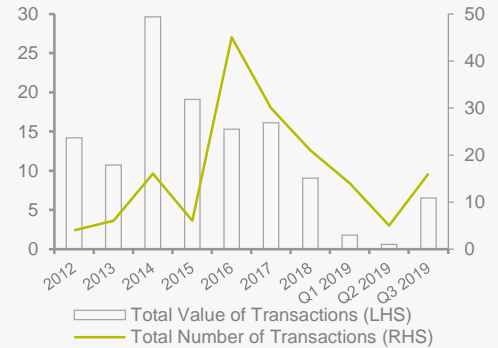
Transaction volumes were strong at INR 6.5 bn (USD 0.09 bn), led largely by corporate demand in Mumbai and Pune, both of which accounted for respective shares of 54% and 46% of the total activity in Q3 2019.

OUTLOOK

The outlook on investment flows remains robust with the anticipated deployment of fund commitments made as part of multiple platforms across asset classes that have been set up over the last three-four years. These funds are chasing a mix of core and core plus assets along with strategic brownfield / greenfield opportunities, with most focus around the office, retail and warehousing / logistics segments. Fresh REIT listings shall add further depth to the market and attract more investments, particularly in the office sector. The warehousing / logistics sector is also expected to see further capital being invested or deployed as consumption-led demand is adding a significant fillip to space requirements in this segment. While, we expect the liquidity issue to sustain and in turn keep conditions adverse for the residential sector, the creation of a stressed fund by the government may aid a section of developers struggling for funds.

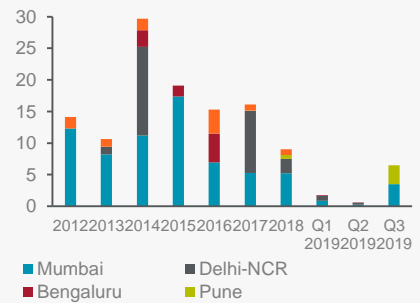
Going forward, strategic opportunities in project re-planning (conversion of residential to office or retail), hospitality and select alternative segments like data centres and co-living / student housing are also likely to see interest from institutional funds.

CORPORATE TRANSACTIONS VOLUME - (INR BN)



Source: VCCircle, Cushman & Wakefield Research

CITY-WISE CORPORATE TRANSACTIONS VOLUME (INR BN)



Source: VCCircle, Cushman & Wakefield Research

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SIGNIFICANT INVESTMENT TRANSACTIONS IN Q3 2019

INVESTOR	INVESTEES	TRANSACTION TYPE	CITY	INVESTMENT (INR BN)
Blackstone Group	Indiabulls Real Estate	Office	Mumbai, Delhi NCR	44.20
Virtuous Retail South Asia	Raymond Ltd	Retail	Mumbai	24.00
Xander Investment Management	New Vernon Capital	Office	Pune	9.00
L&T Finance	Phoenix Group	Office	Hyderabad	6.50
Goldman Sachs	Ozone Group	Office	Chennai	5.00
Hines	Shapoorji Pallonji Real Estate	Residential	Bengaluru	3.18
ASK Property Investment Advisors	Gulshan Homz	Residential	Delhi NCR	1.50
Axis Asset Management Company	Adarsh Developers	Residential	Bengaluru	0.65

DEPLOYMENT UNDER PLATFORM TRANSACTIONS IN Q3 2019

INVESTOR	TRANSACTION TYPE	CITY	INVESTMENT (INR BN)
ESR India Investments Holdings - Future Market Networks	Industrial	Nagpur, Jhajjar	3.00

SIGNIFICANT CORPORATE TRANSACTIONS IN Q3 2019

BUYER	BUYER SECTOR	TRANSACTION TYPE	CITY	INVESTMENT (INR MN)
Dassault Systems	Technology	Office	Pune	3000.00
Pharma Access Pvt Ltd	Pharma & Healthcare	Office	Mumbai	280.00

Note: Data has been recalibrated historically to account for cancelled deals, reduction in deal sizes and actual fund deployment under and by platforms with fund commitments without deployment not considered.



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