

437.04 INVESTMENT VOLUME (INR BN) IN 2019

31.7% MUMBAI'S SHARE IN PERE (2019)

50.1% OFFICE SECTOR'S SHARE IN PERE (2019)

KEY TAKEAWAYS

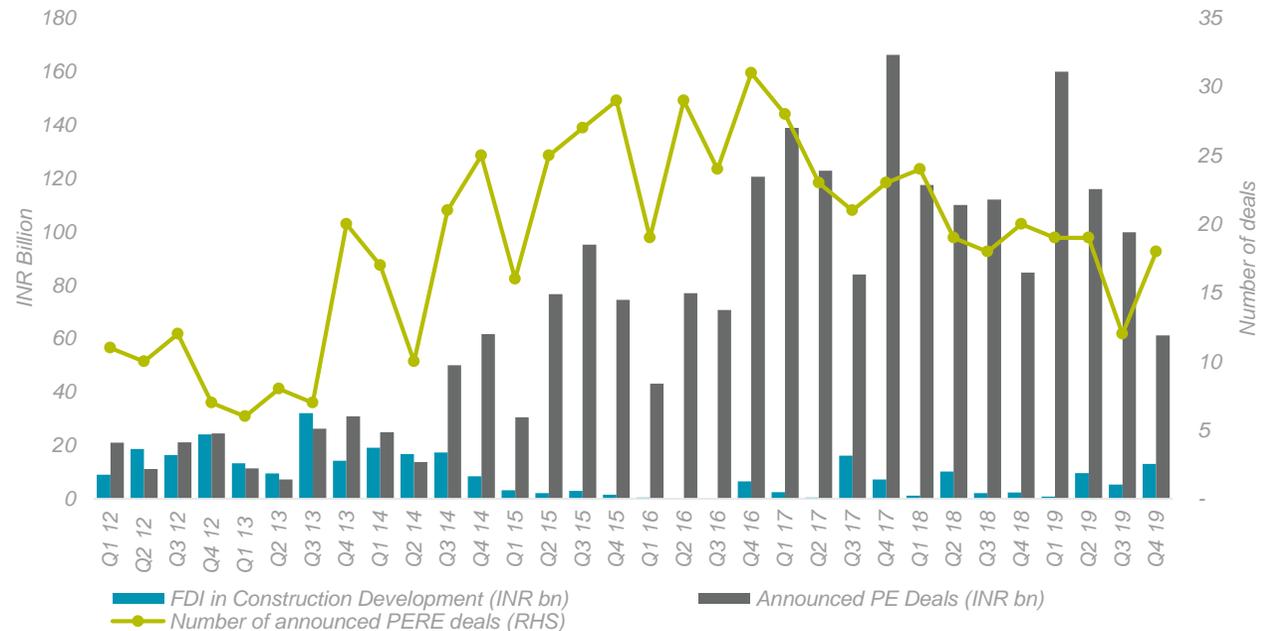
- **Private Equity investments at INR 437 bn in 2019, increase of 3% y-o-y.**
- **Office segment accounted for a 50.1% share in investment flows; Mumbai attracts the highest PE inflows with a 31.7% share.**
- **Foreign investors held close to 73% share in investment volumes in 2019; large platforms targeting development of office and industrial assets continue to be formed.**

FOREIGN DIRECT INVESTMENT INFLOWS

Foreign Direct Investment (FDI) inflows in the construction development sector were INR 13.04 bn during July-September 2019, according to statistics released by the Department of Industrial Policy & Promotion. The total FDI inflows for the same sector in January - September 2019 were close to twice the investments for the corresponding period of 2018, indicating the high appetite for Indian real estate among foreign investors amid the strong regulatory reforms supporting the investment flow.

The momentum in PE funding continued, with 2019 recording investment inflows of INR 437.04 bn, a 3% y-o-y rise. A sustained investor interest in commercial assets and a strong interest in alternative asset classes has kept investments on a strong footing, despite the residential sector struggling to attract substantial funding amid a liquidity squeeze. Platforms / joint ventures between foreign investors and domestic entities remain a bright spot indicating long-term and patient capital being invested into the sector. Such long-term partnerships aimed at greenfield / brownfield developments especially in the commercial (office and retail) and industrial segments is a sign of increasing institutionalization in the real estate sector.

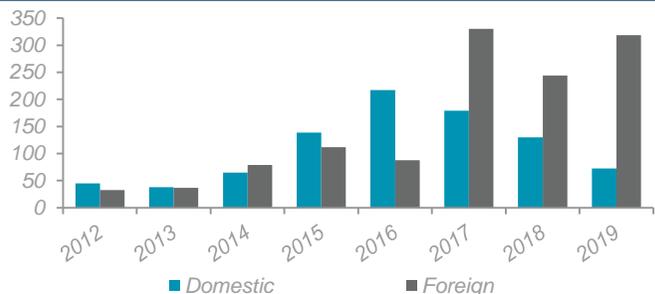
INVESTMENT VOLUME



Source: Source: DIPP, Cushman & Wakefield Research
 Note: FDI in construction development in Q4 19 corresponds to July - September 2019

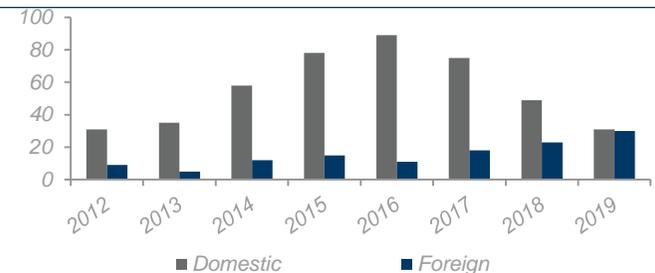
Investment Q4 2019

DOMESTIC VS FOREIGN INVESTMENTS (INR BN)



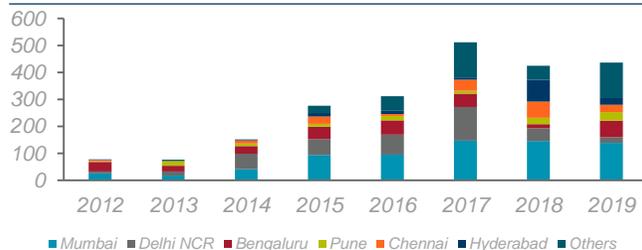
Source: VCCircle, Cushman & Wakefield Research

DOMESTIC VS FOREIGN INVESTMENTS (NUMBER)



Source: VCCircle, Cushman & Wakefield Research

PE TRANSACTIONS – CITY-WISE (INR BN)



Source: VCCircle, Cushman & Wakefield Research

PRIVATE EQUITY INVESTMENT IN REAL ESTATE (PERE)

Investment Volumes

The year 2019 came to an end with private equity investment volumes being recorded at healthy levels of INR 437.04 bn (USD 6.2 bn), a marginal 3% y-o-y increase. This despite the fact that domestic sources of capital, particularly in the residential segment continue to remain adversely impacted by the liquidity squeeze in the wake of the still ongoing NBFC liquidity crunch. Interestingly, the absolute number of investment deals were lower by 17% y-o-y, pointing towards an increase in ticket-size per deal and a spike in large-sized transactions (more than INR 10 bn) during the year. Office sector investments dominated investment activity in 2019, similar to the previous year. PE inflows in Q4 were lower by 38.7% q-o-q at INR 61.22 bn (USD 0.9 bn).

The continuing stress in the domestic PE market saw investments in residential segment decline for the third consecutive year, to stand at INR 74.57 bn (USD 1.1 bn) for 2019, marking a 22.3% y-o-y decline.

Confirming the solid confidence of institutional investors in the Indian real estate market, equity capital infusion formed 80.5% of the total investment inflows during 2019, up from a 64% share in 2018. The relative increase in the share of equity investments is also attributable to the sluggishness in the debt financing segment.

Foreign investors led overall investments with a significant share of 72.9% in inflows during 2019, infusing INR 318.41 bn (USD 4.5 bn). This was a 30.5% y-o-y increase in absolute terms for investments by foreign investors during the year. Domestic investors (including the NBFC arms of private equity funds) contributed a relatively smaller volume albeit a comparable number of investment transactions to the overall inflows during the year.

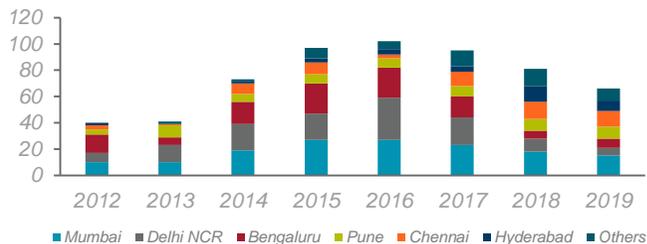
Among major transactions in Q4, Varde Partners completed the acquisition of Lodha Excelus as part of Lodha's New Cuffe Parade project in Wadala, Mumbai. Godrej Fund Management acquired a stake in Century Real Estate Holdings' office property in Hebbal, Bengaluru in another notable transaction during the quarter. Xander's acquisition of retail assets in Amritsar and Nagpur from TRIL and Blackstone's buyout of an Indiabulls Real Estate subsidiary, bringing in an office asset and land parcel in Delhi NCR and Mumbai, respectively in the portfolio were the other large transactions in the quarter. PE majors Blackstone, Brookfield Asset Management and Xander Group were the largest investors in 2019 with a combined share of 48% in the annual investment volumes.

The quarter also was notable for the creation of a few platforms with Blackstone partnering with Hiranandani Group to foray into the warehousing / logistics segment with an investment commitment of INR 25 bn across multiple cities. Blackstone has also partnered with Allcargo Logistics to invest INR 3.8 bn with plans for further investment in existing as well as development of new assets. In another transaction, HDFC Capital Advisors partnered with Arvind SmartSpaces Ltd for developing affordable and mid-segment projects with an investment commitment of INR 2.5 bn.

OFFICE SEGMENT GARNERS THE HIGHEST INVESTMENTS, INDUSTRIAL ON INVESTORS' RADAR

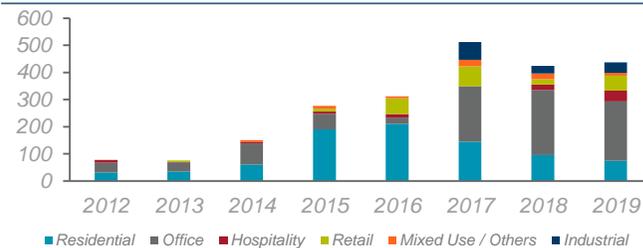
With demand for office space reaching new peak levels and showing signs of sustained robustness, investor interest in this asset class continues to remain strong. In fact, the sector has received more than twice the investments in the last 3 years (2017-19) compared to the investments in the previous 9 years (2008-16). Potential REIT listings by K Raheja-Blackstone and Brookfield among others, following a successful one by Embassy-Blackstone is also creating a push towards investments in core and core plus assets along with greenfield developments.

PE TRANSACTIONS – CITY-WISE (NUMBER)



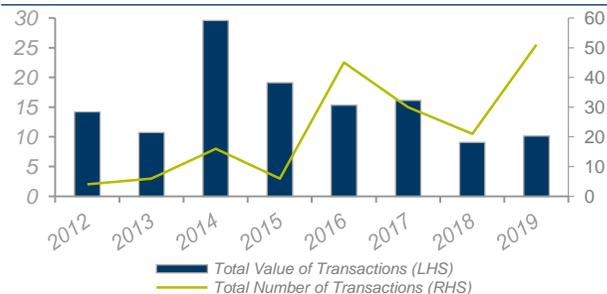
Source: VCCircle, Cushman & Wakefield Research

PE INVESTMENT VOLUME – ASSET-WISE (INR BN)



Source: VCCircle, Cushman & Wakefield Research

CORPORATE TRANSACTIONS VOLUME – (INR BN)



Source: VCCircle, Cushman & Wakefield Research

CITY-WISE INVESTMENTS

Mumbai led the annual investment volume with a 32% share, followed by Bengaluru at 14%. Pune had a 7% share in the overall investments for 2019, followed by Hyderabad and Chennai at 6% each. Multi-city investments which also included Tier-II & III cities like Amritsar, Nagpur, Udaipur and Agra along with Tier-I cities held a 30% share in the annual investment figures. Q4 2019 exhibited a similar trend with Mumbai leading the quarter's fund inflows with a 30% share, followed by Bengaluru at 15.5%. Hyderabad, Chennai and Pune contributed 5 - 6% each, while multi-city investments held a 34.5% share in the quarter's inflows.

ASSET-WISE INVESTMENTS

In Q4 2019, the office segment constituted 50% of the quarterly investments, followed by residential and industrial segments with respective shares of 20% and 19%. The retail segment had an 11% share in the quarter's PE inflows. Varde Partners, Godrej Fund Management and Blackstone were the largest investors during the fourth quarter with investments in office assets. Xander Group was a major investor in both industrial and retail assets during the quarter.

The office segment has attracted INR 218.9 bn (USD 3.1 bn) from institutional investors in 2019, accounting for a 50.1% share of total investments in 2019. Close to 90% of this investment was equity based, signaling the strong momentum driven by institutional investors in this asset class. The key transactions in 2019 in this segment included Blackstone's stake acquisition of office assets of Indiabulls in Mumbai and Gurugram along with acquisition of One BKC (A-Wing) in two separate transactions. Japan's Sumitomo Corporation buying a 3-acre land parcel in Bandra Kurla Complex for development of an office complex was another notable office segment transaction.

The residential segment accounted for a 17.1% share in 2019, even though the investment inflows in this segment at INR 74.57 bn (USD 1.06 bn) were lower on a y-o-y basis in absolute terms. Hines, Keppel Land, Fosun Group, CDPQ and ADIA (in a platform with HDFC) were among the foreign investors active in this asset class in 2019 apart from some limited action by domestic NBFCs. Investments in residential sector may see some push with the setting up of the Special Window for Funding Stalled Affordable and Mid-Income Housing Projects (SWAMIH) approved by the Union Cabinet. The fund with a corpus of INR 250 bn will provide last-mile funding for stalled projects which are net-worth positive and meet certain qualifying criteria including the projects being RERA registered, close to completion and net-worth positive (including those classified as NPAs and projects undergoing NCLT proceedings). This is likely to open up opportunities in funding for distressed projects.

Investments in the retail segment increased by a multiple of 2.8X with recorded investments of INR 55 bn (USD 0.8 bn) in 2019. The segment received significant interest primarily from two investors, Xander Group's Virtuous Retail and ADIA-backed Lake Shore India Advisory. While completed retail assets were on the radar of investors, a higher share of investments were in greenfield/brownfield projects. Healthy consumption demand and favorable demographics are major drivers of investments in this asset class in both Tier-I & II cities.

The warehousing/logistics segment accounted for an 8.7% share in 2019 annual investments, with INR 38.1 bn (USD 0.5 bn) invested during the year. Investors including ESR, Logos, Xander Group, Morgan Stanley, Ascendas deploying funds across multiple cities were the highlights for investments in this asset class. This segment is seeing a high traction in investment activity as well as creation of platforms since 2017. This segment is in the midst of a significant evolution with entry of organized players and rising institutionalization from being highly fragmented and unorganized in the past.

CORPORATE TRANSACTIONS IN REAL ESTATE

Transaction volumes increased by 11.7% y-o-y to INR 10.11 bn (USD 0.14 bn), largely led by corporate demand in Mumbai and Pune, with respective shares of 49% and 34% of the total activity during the year. However, the fourth quarter noted a significant q-o-q drop in such transactions due to lack of any large sized transactions in comparison to the previous quarter.

OUTLOOK

We expect investment volumes to remain robust with expected deployment of fund commitments made as part of various platforms and expected and ongoing deals, particularly in the office and warehousing/logistics segments. While core assets remain the most preferred, with lack of such assets, focus has shifted to brownfield/greenfield developments in key office markets, especially where vacancy levels are tight and demand has remained upbeat. Forward purchase transaction structured with a mix of equity and construction finance based around construction milestones are also gaining ground by funds including Ascendas and Xander. The industrial and logistics sector has particularly benefitted from favorable regulations including GST and grant of infrastructure status with marquee investors like Blackstone, Xander and Warburg Pincus placing their bets on this asset class. The upcoming quarters are expected to see office and warehousing/logistics transactions by large funds including GIC, CPPIB – Mitsui Fudosan, Ascendas India Trust and Blackstone among others. The interest by large sovereign and pension funds in the Indian real estate space is testimony to the strong fundamentals of this space and long-term, patient capital being deployed in the real estate sector.

Going forward, strategic investments in alternative segments like co-living/student housing, co-working and data centres are also likely to garner active interest from institutional investors. Indian corporates like Adani Group, Hiranandani Group and Reliance Jio (in partnership with Microsoft) have already announced plans to set up hyperscale data centres across multiple geographies with large investment commitments. This is a precursor to institutional investments in this asset class as well. The residential sector likely to see an ongoing period of strife, though the government's support for NBFCs through partial credit guarantee and other measures is likely to yield fruit by bringing in some liquidity back into the system. With SWAMIH, stalled project funding issues are likely to be eased, albeit this shall be along-drawn process. This fund could potentially provide an opportunity for investors to participate in financing stressed projects and secure nearing completion residential projects.

SIGNIFICANT INVESTMENT TRANSACTIONS IN Q4 2019

INVESTOR	INVESTEES	TRANSACTION TYPE	CITY	INVESTMENT (INR BN)
Varde Partners	Lodha Group	Office	Mumbai	10.55
Virtuous Retail	Tata Realty & Infrastructure Ltd	Retail	Amritsar, Nagpur	7.00
Xander Group		Industrial	Mumbai, Chennai	6.00
Keppel Land	Rustomjee Group	Residential	Mumbai	4.10
ESR	GMR	Industrial	Hyderabad	3.85
Mapletree Investments	Ajanta Enterprises	Office	Pune	1.70

DEPLOYMENT UNDER PLATFORM TRANSACTIONS IN Q4 2019

INVESTOR	TRANSACTION TYPE	CITY	INVESTMENT (INR BN)
Godrej Fund Management	Office	Bengaluru	8.50
HDFC - ADIA	Residential	Mumbai	0.82

SIGNIFICANT CORPORATE TRANSACTIONS IN Q4 2019

BUYER	BUYER SECTOR	TRANSACTION TYPE	CITY	INVESTMENT (INR MN)
Red Brick IT Support Services LLP	IT-BPM	Office	Mumbai	304.00
Grand View Research	Professional Services	Office	Pune	224.00
Atyeti IT Services Pvt Ltd	IT-BPM	Office	Hyderabad	213.00

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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