

**42.66** Investment Volume (INR BN) in Q1 2020

**72.6%** Foreign Investors' Share In PERE (Q1 2020)

**48.8%** Office Sector's Share In PERE (Q1 2020)

### KEY TAKEAWAYS

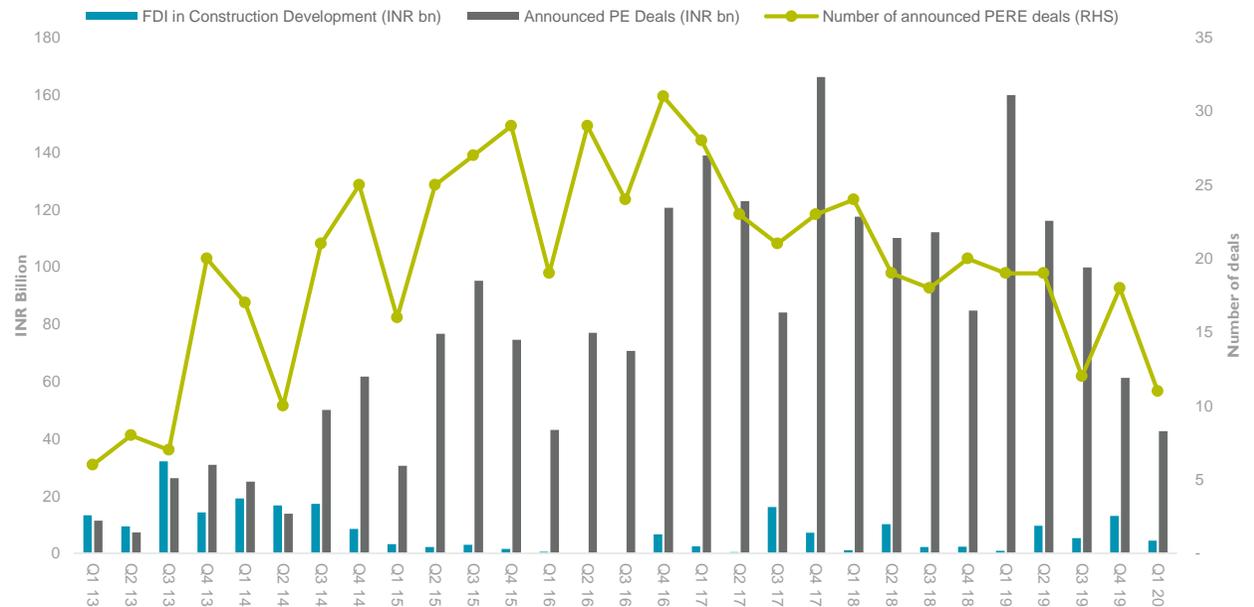
- Private Equity investments at INR 42.66 bn in Q1 2020; q-o-q decline of 30.3%.
- Office segment accounted for a 48.8% share in investment flows.
- Foreign investors most active with a 72.6% share in Q1 2020 investment volumes; platform creation targeting office assets continues.

### FOREIGN DIRECT INVESTMENT INFLOWS

Foreign Direct Investment (FDI) inflows in the construction development sector were INR 4.39 bn during October - December 2019, according to statistics released by the Department of Industrial Policy & Promotion. The total FDI inflows for the sector during January - December 2019 were twice the investments for the corresponding period of 2018, indicating the continued high levels of interest in Indian real estate from global investors, with reforms and attractive investment opportunities aiding investment flows.

The continued momentum in private equity investments was broken with Q1 2020 recording a decline in inflows at INR 42.66 bn. Investments are bound to remain slow for some quarters with the COVID pandemic putting most countries in shutdown mode and investors going in a wait-and-watch mode. They are likely to adopt a cautious approach till they can estimate the lingering effects of the health crisis. However, most of them will retain long-term interest and the timing of India's resumption of normalcy and return of occupier activity across segments shall be leading indicators for investors to follow suit. In the meantime, ongoing transactions remain under active discussion stage though a sluggishness in closures and disbursals is likely over the next few quarters.

### INVESTMENT VOLUME



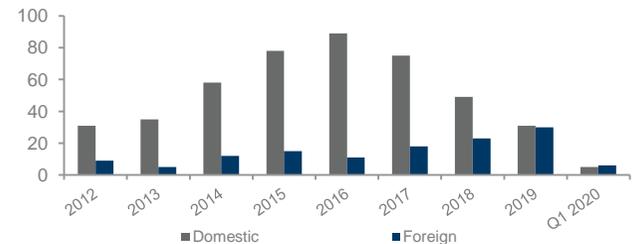
Source: Source: DIPP, Cushman & Wakefield Research  
 Note: FDI in construction development in Q1 20 corresponds to October – December 2019

## DOMESTIC VS FOREIGN INVESTMENTS (INR BN)



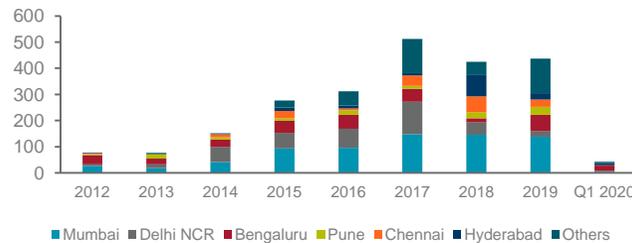
Source: VCCircle, Cushman & Wakefield Research

## 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 dip with COVID-19 putting deals in abeyance

The first quarter of 2020 recorded investment volumes of INR 42.66 bn (USD 0.57 bn), a q-o-q decline of 30.3%. This was the lowest first quarter number in five years. The COVID pandemic put a lot of countries on lockdown mode and some ongoing deals and those in advanced stages went on hold due to investment decisions being delayed or final contracts not yet signed. While the residential segment investments remained muted due to a general lack of activity among most domestic lenders and the funding squeeze due to NBFCs struggling with their liquidity issues, the office sector investments also slowed down during the quarter. The delays in deal finalization and investment opportunities being put on temporary hold were major reasons for slowing activity in the office sector. Private equity inflows in Q1 2020 were highlighted by investments in the hospitality sector, which saw institutional interest after a gap of a year.

Equity flows held a 59% share of the total investment inflows during the quarter, indicating strong investor confidence despite the decline in investment volume. Debt and debt-equity deals constituted 41% share of the investments.

Foreign investors maintained a majority share, accounting for 72.6% of the overall investments infusing INR 30.96 bn (USD 0.41 bn). Domestic investors (including the NBFC arms of private equity funds) contributed INR 11.7 bn (USD 0.16 bn) during the quarter.

Among the major transactions in Q1, Goldman Sachs invested INR 6.1 bn worth of debt in Vatika Group in the latter's office (ongoing project) and hospitality segments. In the first transaction by a private equity fund under the country's Insolvency and Bankruptcy Code, Blackstone Group got the approval from National Company Law Tribunal to acquire Trident Hotels in Hyderabad for INR 5.85 bn. Japan's Marubeni Corporation made inroads into the Mumbai residential market with an INR 2 bn investment in Wadhwa Group's project in Mulund while Blackstone diversified its asset portfolio by acquiring a majority stake in Allcargo Logistics in a phased transaction to be concluded over the year. Blackstone had earlier also formed an investment platform with the Hiranandani Group to expand its footprint in the logistics sector.

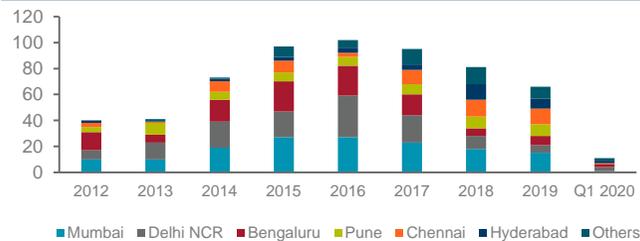
Creation of platforms also slowed in comparison to the previous year with one such partnership formed during the quarter. Mitsui Fudosan and RMZ Corp. came together to create a USD 1 bn JV. The JV also marked its first investment in RMZ Ecoworld 30 in Bengaluru under this partnership with plans for expansion to other cities in the future.

In an entity level investment through the public markets, Singapore's sovereign fund GIC through a subsidiary bought preferential equity shares in the publicly listed Prestige Estates, increasing its stake in the parent developer entity.

## COVID-19 TO PUT A BREAK ON EXPECTED REITs

The increasingly challenging economic environment in the wake of COVID-19 has disrupted business cycles and strategies at a global level. With uncertainty of forecasts and new scenarios being built, the investment climate also looks testing with fund-raising ventures also likely to be put off for some time. As institutional investors get a grip on what will constitute the 'new normal', investment plans will undergo a relook and result in delayed decision-making. Fund raising plans for REITs will also be altered as the pandemic is likely to defer upcoming listings till the investment sentiment gets a restart and business normalcy is restored.

## 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

Bengaluru garnered the majority share of the quarter's investment volume at 45%, followed by Hyderabad at 20%. Delhi NCR had a 16% share in the overall investments for Q1 2020. Mumbai and Chennai constituted respective shares of 5% and 4% of the private equity investment volumes in Q1 2020.

## ASSET-WISE INVESTMENTS

The commercial office sector maintained its lead with a 48.8% share in Q1 with investment volumes of INR 20.8 bn (USD 0.27 bn). Mitsui Fudosan, GIC, Goldman Sachs and New York Life Insurance were the active investors in this category during the quarter. A few investment deals in this segment were in final stages of closure or under active discussion but the COVID-19 outbreak and the subsequent lockdown caused such deals to slip during the quarter. These very much remain active with investors keen on core and core plus assets in key office markets and are likely to achieve closure over the subsequent months.

Hospitality segment attracted INR 9.5 bn (USD 0.13 bn) in institutional capital, accounting for a 22.3% share of total investments in Q1 2020. This was highlighted by Blackstone's acquisition of a hospitality asset under the Insolvency and Bankruptcy Code resolution in Hyderabad, which was the first of its kind by a global investment fund. In Delhi NCR, Goldman Sachs made a debt investment in the hospitality arm of Vatika Group. This segment has seen strategic portfolio investments in the past with focus of institutional investors on operating assets in key commercial markets with valuations being extremely attractive. The hospitality sector has been hard-hit by the COVID-19 outbreak and there is likelihood of ongoing pain as a long recovery period is anticipated for inbound tourism from both global as well as domestic travelers across business and leisure categories.

The residential segment followed with a 17.8% share in investments in Q1 2020 with inflows of INR 7.6 bn (USD 0.09 bn). Japan's Marubeni Corporation marked its maiden entry in India and was the only foreign investor in this asset class. Domestic investors active during the quarter included L&T Finance and TATA Capital. The residential sector already under financial stress due to low liquidity has now been subjected to a halt in construction activity due to the COVID-19 induced lockdown. This will further exacerbate the working capital challenges, even though some relief is on the cards from monetary measures announced by the RBI, including a 3-month moratorium on loan payments, lowest repo rate in two decades and a push for banks to lend more with some liquidity support for NBFCs/HFCs.

The retail segment did not see any investment activity during the quarter. Changes to retailer-landlord commercial agreements will now play a big role when retail assets are valued going forward. Warehousing assets continued to find favor from large private equity funds with Blackstone venturing into this domain by acquiring a stake in Allcargo Logistics and Ascendas further strengthening its foothold with yet another asset acquisition from Arshiya Group in a location close to Noida in NCR. The warehousing/logistics segment held a 11.1% share in investments during the quarter with inflows of INR 4.75 bn.

## CORPORATE TRANSACTIONS IN REAL ESTATE

Transaction volumes increased by 6.5 times q-o-q at INR 7.8 bn (USD 0.1 bn), largely on the back of a significantly large transaction in Pune which constituted 63% of the total recorded volumes during the quarter. Mumbai and Delhi NCR followed with respective shares of 19% and 17% during the quarter.

## OUTLOOK

The COVID-19 pandemic and the global economic disruption and uncertainty is likely to have a withering effect on the investment climate as well. All real estate asset classes have seen a material yet uneven effect and the changes that come about in commercial agreements and consumption patterns will have a bearing on asset performance and asset values. Some investors will take a break as they focus first on asset management of existing investments while those who were in the midst of intense negotiations or deal closures are just waiting for the lockdown to end with some semblance of normal business operations restart to execute those transactions. Resumption of economic activity and recovery shall have a bearing on the overall investment climate. Expectations of a sharp rebound in sentiment by end of the year or even early next year could be a huge factor in investment activity picking up pace. However, restrictions on travel coupled with a severe impact on many of the countries from where the money originates is bound to translate into a slowdown in investments. During these times, investors will scout for strategic and opportunistic distress deals while keeping a focus on core assets. A revival in occupier activity shall be the precursor to investment activity to return. This period shall be used for firming up long-term strategies. Re-alignment of investment plans and objectives will lead to disbursements coming in a staggered manner, once business activity resumes.

While the office sector will continue to remain attractive for core and core plus assets, there will be delays in decision making and transaction closures despite the availability of adequate dry powder cashing commercial assets in the country. Investments in warehousing/logistics are likely to be the silver lining, as a rise in e-commerce traffic, last mile deliveries and consumption patterns will undergo a massive shift. This will be backed by the continued robust demand in e-commerce sector generating the need for modern warehouses. Going forward, consumption led asset classes including data centres are likely to be key elements of investment strategy in the long term. Healthcare shall gain more ground in a post-COVID world while attractive opportunities may exist in the hospitality space as well.

### SIGNIFICANT INVESTMENT TRANSACTIONS IN Q1 2020

INVESTOR	INVESTE	TRANSACTION TYPE	CITY	INVESTMENT (INR BN)
Goldman Sachs	Vatika Group	Hospitality, Office	Delhi NCR	6.10
Blackstone Group	Golden Jubilee Hotels	Hospitality	Hyderabad	5.85
Marubeni Corporation	Wadhwa Group	Residential	Mumbai	2.00
Ascendas India Trust	Arshiya Group	Industrial	Khurja	0.95
New York Life Insurance	Max Group	Office	Delhi NCR	0.86

### DEPLOYMENT UNDER PLATFORM TRANSACTIONS IN Q1 2020

INVESTOR	TRANSACTION TYPE	CITY	INVESTMENT (INR BN)
Mitsui Fudosan	Office	Bengaluru	17.50
Blackstone Group	Industrial	Multiple	3.80

### SIGNIFICANT CORPORATE TRANSACTIONS IN Q1 2020

BUYER	BUYER SECTOR	TRANSACTION TYPE	CITY	INVESTMENT (INR MN)
Poonawalla Group	Conglomerate	Office	Pune	4750.00
Anand Rathi Wealth Services	Professional Services	Office	Mumbai	610.00
Frankfinn Institute of Air Hostess Training	Professional Services	Office	Delhi NCR	~470.25

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.

#### Rohan Sharma

Director, Research, India

+91 124 4695555 / [rohan.sharma1@cushwake.com](mailto:rohan.sharma1@cushwake.com)

#### Saurabh Shatdal

Managing Director, Land & Investment Sales

+91 22 6771 5555 / [saurabh.shatdal@cushwake.com](mailto:saurabh.shatdal@cushwake.com)

#### Somy Thomas

Managing Director, Valuation & Advisory Services

+91 80 4046 5555 / [somy.thomas@ap.cushwake.com](mailto:somy.thomas@ap.cushwake.com)

#### 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.

©2020 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.