MARKETBEAT

INDIA

Investment Q2 2020

CUSHMAN & WAKEFIELD

	YoY Change	12-Month Forecast
INR 16.9 Bn Investment Volume Q2 20	▼	▲
80.5% Foreign investors' share Q2 20	▲	▬
50.9% Share of Residential Q2 20	▲	▬
29.0% Share of Office Q2 20	▼	▲
46.7% Share of Equity Investments Q2 20	▼	▬

ECONOMIC INDICATORS Q2 2020

	YoY Change	12-Month Forecast
(3.0%) GDP Growth	▼	▲
4.1% CPI Growth	▲	▲
(0.5%) Consumer Spending	▼	▲
12.8% Govt. Final Expenditure Growth	▼	▼

Source: Oxford Economics

ECONOMIC OVERVIEW: Economic disruption to continue in short to medium term

Indian economy expanded by 3.1% in Q1 FY 2020, slower than the 4.7% expansion recorded in the previous quarter. Weak domestic demand, lower private investments and anemic external trade conditions affected economic activity. Moreover, the COVID-19 outbreak and imposition of a strict lockdown had an adverse impact on economic activity in general and construction and real estate in particular. Construction sector contracted by 2.2%, thereby witnessing the second straight quarter of decline. Foreign Direct Investment (FDI) inflows in the construction development sector were recorded at INR 43.5 bn during the FY 2019-20, a massive 3X growth on an annual basis. FDI inflows are likely to decline significantly in the short term due to COVID-19 disruption but the long-term growth prospects remain intact on the back of liberal FDI policies, continued sectoral reforms and growing investor interest in Indian real estate.

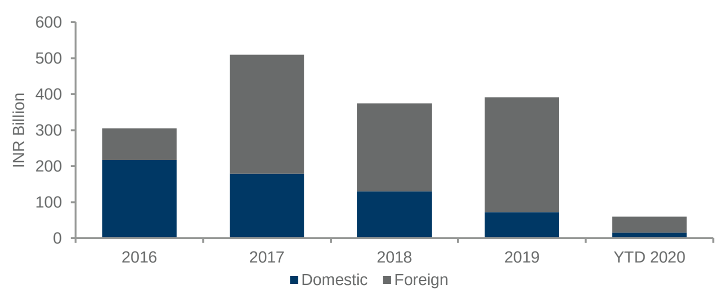
INVESTMENT OVERVIEW: COVID-induced lockdown puts the brakes on investment activity

The capital inflows in real estate declined sequentially for the fifth quarter in a row to be at INR 16.9 bn (USD 0.22 bn) in Q2 2020. The q-o-q decline of 60%, largely due to an uncertain business environment was also in part due to the lockdown in the wake of the COVID pandemic, which brought all investment activity to a standstill. The decline was also the steepest in a decade, indicating the pervasive effect of a never-seen global health crisis causing economic dislocations and carrying larger ramifications for the investment climate in the immediate term. Infact, the H1 Private Equity investments of INR 59.6 bn (USD 0.79 bn) were the lowest in last 6 years compared to similar H1 periods. During Q2, several ongoing deals were deferred and those in advanced stages were put on hold in the short term as investors wait to assess the economic impact and revisit their portfolio investment strategies. Even as the COVID situation continues to unfold, investors are exploring value investment opportunities while looking to reprice ongoing deals.

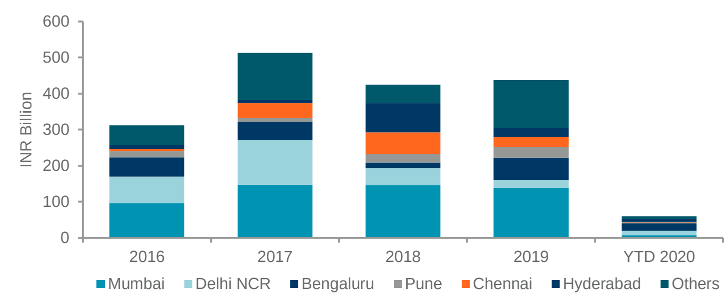
Foreign investors with a share of 80.5% in the quarterly inflows infused INR 13.6 bn (USD 0.18 bn), signaling their strong interest in Indian real estate, though the volumes were quite low amid the global economic headwinds. Additionally, equity deals accounted for a 47% share of Q2 investments, an indicator of robust investor confidence in the long-term fundamentals of the real estate sector.

The office sector that has garnered huge interest from institutional investors over the last few years was impacted by the inactivity and uncertainty amidst the ongoing pandemic with the quarterly inflows at INR 4.9 bn (USD 0.06 bn), a decline of 76% q-o-q. Despite the disrupted business cycles and new scenarios being discussed on office demand impact, investors are going ahead with their planned REITs. Mindspace Business Parks REIT, backed by K Raheja Corp and Blackstone Group opened for subscription with the total issue size of INR 45 bn, even as other upcoming REITs continue to do the groundwork. Residential segment which is constrained by a liquidity squeeze, recorded debt & structured debt deals totaling to INR 8.6 bn (USD 0.11 bn), a 13% rise in inflows on a quarterly basis. The segment which predominantly sees interest by domestic investors and NBFCs saw a large transaction with US alternative investment firm, Oaktree Capital Management, making a debt investment in M3M.

DOMESTIC VS FOREIGN INVESTMENTS



INVESTMENT VOLUME – CITY-WISE



Source: VCCircle, Cushman & Wakefield Research

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Investors continued to favour the industrial and logistics segment, which has emerged as a defensive asset class in this period, with Mapletree making a forward purchase transaction to acquire KSH Infra's upcoming logistics park in Pune. This asset class has tremendous growth potential and continues to hold firm even during the pandemic with India's domestic consumption and a rise in online demand during the lockdown giving it a big leg up and pushing the demand for warehousing spaces across both Tier-I & II cities. Quite like the previous quarter, the retail segment did not record any investment activity as investors continued to take a conservative and cautious approach towards this asset class. The retail sector which is in for some more pain due to the pandemic has a longer road to recovery compared to other asset classes, and hence active investment decisions have been put on hold for the time being. As alternative assets continue to remain on the investors' radar, the co-living segment saw an investment of INR 0.4 bn by JM Financial in Coimbatore-based Isthara Parks. Student housing start-up Oxfordcaps formed a joint venture with Cerestra Advisors to invest USD 125 mn to own and operate student housing facilities, signaling the increasing investor appetite for newer asset classes.

On a city-wise comparison, Delhi NCR led with the maximum share of 34% in the investment inflows in Q2. It was followed by Mumbai and Pune with respective shares of 29% and 18%.

Stressed Real Estate – Investment opportunities in times of distress

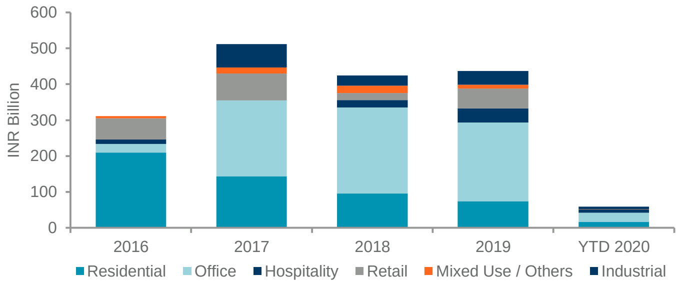
Several institutional investors, seeing the merit in distressed asset investments at current attractive valuations, are getting active in special opportunities funds. Patient capital by such funds, especially in the residential segment, will greatly help address the liquidity constraints of developers. While the government sponsored, SWAMIH Fund continues to provide last-mile funding to stalled projects, private players like Kotak Realty Fund and HDFC are also interested in exploring such opportunities. The real estate-focused alternative investment fund of Dalmia Group and Nisus Finance Services also aim to provide last mile funding to viable affordable and mid-segment residential projects, eyeing the investment opportunities in the stressed assets segment including the NCLT space.

Recently, Indiabulls Housing Finance has monetized some of its real estate loans and raised INR 20 bn from Oaktree Capital, a global stressed assets investor. The NBFC arm of Edelweiss Group also raised INR 40 bn by selling developer loans to global asset buyers.

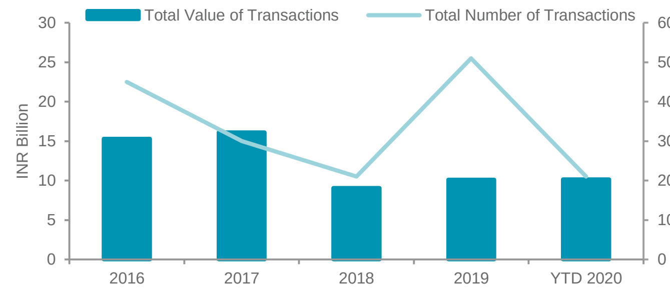
Corporate Transactions in Real Estate

Transaction volumes fell to less than a third on a q-o-q basis, to INR 2.3 bn (USD 0.03 bn). Delhi NCR constituted the highest share of 38% of the total recorded volumes during the quarter. Mumbai and Pune followed with respective shares of 32% and 31% during the quarter. H1 2020 is still already higher than 2019 full-year volumes.

INVESTMENT VOLUME – ASSET-WISE



CORPORATE TRANSACTIONS VOLUME



Outlook

The economic and investment uncertainty in the wake of COVID-19, is likely to persist in the short to medium term as the pandemic situation is still evolving with more economic disruption likely in the coming quarters. However, once the 'new normal' business activity resumes, investors are likely to come back stronger even as they still continue to evaluate opportunistic investment opportunities while chasing income-yielding investments. Though the office sector saw a temporary blip, the capital inflows in core and core plus assets are certain to return as the long-term confidence in this sector remains intact. The solid response to the two REIT listings so far corroborates this even as more such listings are in the pipeline. However, there is likelihood of asset yield repricing as risk assessment models undergo a shift in the wake of the evolving 'new normal'. The industrial and logistics sector will continue to present good investment opportunities as the sector has the potential to be recession-proof even as the shifts in consumption patterns and India's push towards manufacturing creates stable asset performance with investors remaining upbeat on this asset class. Data centres are also likely to feature strongly on the list of new asset classes with investors are already sensing the sturdy long-term growth story as the data explosion in India's economy will demand such asset creation, spurring operators and new entrants in the segment and attracting more investments.

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SIGNIFICANT INVESTMENT TRANSACTIONS – Q2 2020

INVESTOR	INVESTEE	TRANSACTION TYPE	CITY	INVESTMENT (INR BILLION)
Oaktree Capital Management	M3M	Residential	Delhi NCR	5.7
Mapletree Investments	KSH Infra	Industrial	Pune	3.0
HDFC Capital	Ambuja Neotia	Residential	Kolkata	2.0
Sundaram Alternate Assets	Habitat Ventures Ltd.	Residential	Bengaluru	0.9
JM Financial	Isthara Parks	Co-living	Multiple	0.4

SIGNIFICANT CORPORATE TRANSACTIONS – Q2 2020

BUYER	BUYER'S SECTOR	TRANSACTION TYPE	CITY	INVESTMENT (INR MILLION)
Go Digit General Insurance	BFSI	Office	Pune	724.4
The Hans Foundation	Others	Office	Delhi NCR	570.0
Spey Health	Healthcare & Pharma	Office	Delhi NCR	307.5
Guardian Real Estate Advisory	Professional Services	Office	Mumbai	300.0

SIGNIFICANT FUND RAISE – Q2 2020

INVESTOR	FUND	INVESTMENT FOCUS	INVESTMENT (INR BILLION)
Motilal Oswal Real Estate	India Realty Excellence Fund IV	Residential and Commercial projects across top six cities	11.5
Nisus Finance Services and Dalmia Group	Real Estate Credit Opportunities Fund I	Last mile capital for affordable and mid-income residential projects in major cities	2.5

Sources: VCCircle, Cushman & Wakefield Research

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