

# INVESTMENT MARKETBEAT

## Moderate Activity in PE Investments

### INDIA Q1 2016

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#### FOREIGN DIRECT INVESTMENT (FDI) INFLOWS

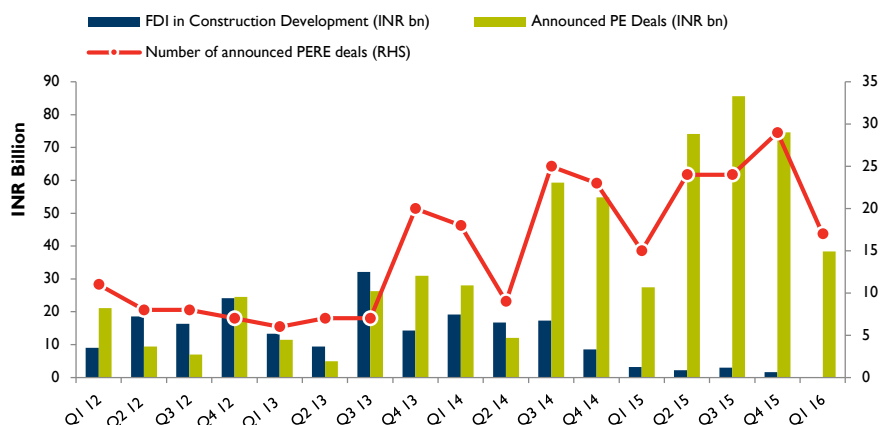
During the fourth quarter (October-December) of 2015 India witnessed second highest quarterly FDI inflows since 2008, as total inflows were noted at INR 844 bn (USD 12.8 bn). This has pushed the total FDI inflows for the full year 2015 to INR 2,526 bn (USD 39.2 bn), which is the highest annual FDI inflows India has attracted since 2008. On cumulative basis, Computer Software & Hardware sector attracted majority (17%) share of the FDI inflows during 2015, closely followed by the services sector (16.4%).

FDI inflows in the construction development sector in the fourth quarter of 2015 declined significantly by about 48% from the previous quarter to mere INR 1.6 bn (USD 24.0 mn). As a result, the total annual FDI inflows in construction development sector during 2015 fell to the lowest since 2008 at INR 9.9 bn (USD 154.0 mn) (Figure 1). The annual share of construction development sector too dropped to the lowest since 2008 at meagre 0.4%, amongst the top 10 contributors in FDI inflows. This was despite further liberalisation of FDI policy in November 2015, pertaining to construction development sector with complete removal of minimum built up area and capital requirement. Nonetheless, despite low FDI inflows for past more than one year, the construction development sector remained the second highest contributor with 9% share on cumulative basis (2000 – 2015) with cumulative inflows of INR 1.1 tn (USD 24.2 bn).

It is anticipated that going forward, the recent policy initiatives on FDI coupled with passage of Real Estate (Regulation & Development) Bill, 2015 in the Parliament would bode well for the real estate industry and attract higher investments into the sector in India.

Figure 1

#### INVESTMENT VOLUME



Source: DIPP, Cushman & Wakefield Research

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## Private Equity Investment in Real Estate (PERE)

### Investment Volume

#### Decline in quarterly investment

The private equity investment activity in the real estate sector during the first quarter (January-March) of 2016 was noted at INR 38.4 billion (USD 577.0 million). After three consecutive quarters of robust investment activity, the investment volume declined by nearly half (48.5%) in Q1 2016 from the preceding quarter. However, this was higher by about 40% over the corresponding quarter of the previous year.

The total number of deals closed during the quarter declined by 42% to 17 from 29 in the quarter ago. However, the quantum of decline in average deal size was less - falling by 12% from the preceding quarter to INR 2.3 bn (USD 34.0 mn). Domestic funds continued to close more number of deals, making investments across 11 deals in Q1 2016, compared to their foreign counterparts who closed 6 deals. However, foreign funds continued to have majority share in the total investment volume in Q1 2016, with nearly 58% share at INR 22.1 bn (USD 332.0 mn) worth of investments, compared to domestic funds which accounted for 42% share at INR 16.3 bn (USD 245.0 mn) owing to large ticket size deals.

The share of foreign funds investing into India comprised of Singapore-based funds from APAC region accounting for 29% of investments into India, followed by USA and Canada from North American region, which together formed the equivalent share (29%) of total investment volume during the quarter.

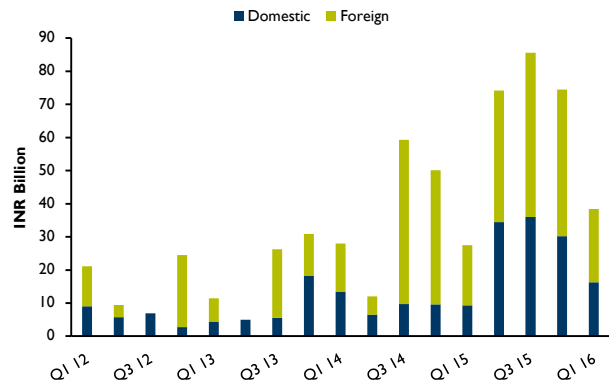
### Investment Type

#### SPV level deals remained in trend

Special Purpose Vehicle (SPV) route continued to be the most preferred by domestic as well as foreign funds to make majority of the investments. Approximately INR 30.8 bn (USD 464.0 mn) worth of investments made during Q1 2016 were through SPV route, accounting for nearly 80% of the total investments during the period. This is primarily due to the nature of this route which provides more security to the investment through collateral and offer fixed returns. While domestic funds deployed nearly 90% of the capital in real estate sector during Q1 2016 through SPV route, foreign funds have made over 73% of investment through this route. Entity level deals followed SPV level deals with nearly 14% share, while the remaining capital was deployed through platform level deals.

Figure 2

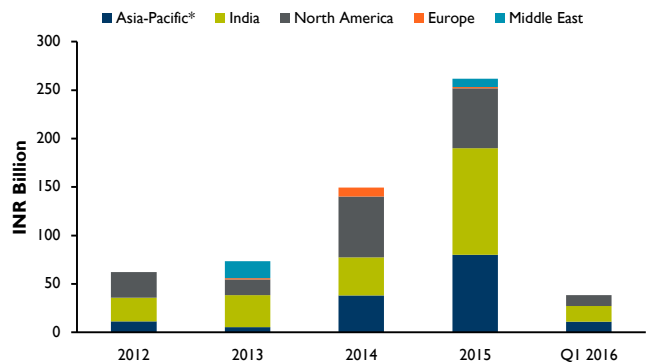
### PE Investment Volume - Domestic or Foreign Fund



Source: RCA, VCCircle, Cushman & Wakefield Research

Figure 3

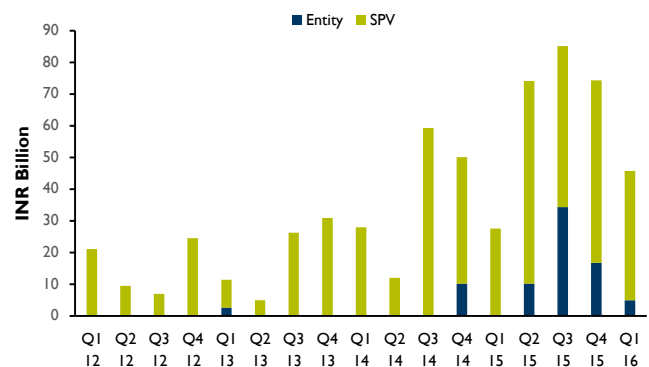
### PE Investment Volume - Region-wise



Source: RCA, VCCircle, Cushman & Wakefield Research

Figure 4

### Nature of PE Investment



Source: RCA, VCCircle, Cushman & Wakefield Research

### City-wise and Asset-wise announced PERE

Mumbai continued to remain at the centre of investment activity consecutively for the fourth quarter with highest share. It received over 45% share of the total PE investment volume (INR 17.1 bn / USD 258.0 mn) during the quarter. This was followed by Hyderabad which outpaced other preferred markets like Delhi-NCR and Bengaluru during the quarter. Hyderabad recorded about INR 7.2 bn (USD 108.0 mn) of investments, garnering 19% share in total investment volume in Q1 2016. Also, Hyderabad was the only city which witnessed investment in office asset class during the quarter. Delhi-NCR recorded third highest share (12.5%) with PE investment of INR 4.8 bn (USD 72.0 mn).

Barring Chennai and Mumbai, which witnessed PE investments increasing by five-folds and over 1.02 times respectively from the previous quarter, all other cities reported a decline in investment volume.

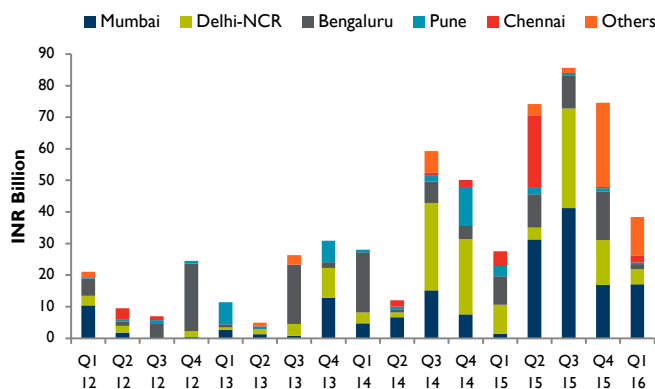
The residential asset class continued to be on investors' radar especially amongst domestic investors who invested nearly 96% of the capital deployed during Q1 2016 in residential assets. This was done primarily for providing funds to developers for working capital / construction finance and refinancing of existing loans, amidst cash flow crunch due to slow sales velocity. This in turn has provided exits to funds who have invested in these projects in previous years. As a result, residential sector garnered nearly half (49%) share at (INR 18.7 bn / USD 281.0 mn) in total investment volume during the quarter under review.

The retail asset class has noted second highest share (26%) in total investment volume during Q1 2016, with investment amounting to INR 10.0 bn (USD 150.0 mn). Interestingly, this is the second highest investment in retail assets in a quarter since 2008 and the highest investment done at SPV level in a single retail asset. The spurt in investment in retail asset class can be attributed to foreign funds diversifying their investment portfolio across various asset classes in real estate sector in order to mitigate risk of investing in just one asset class. Also, the competition has increased fiercely in the retail sector due to rapid expansion by e-commerce / e-retailers coupled with long gestation period have been forcing few developers to put their projects on sale.

Commercial office asset class garnered nearly 12% share at INR 4.7 bn (USD 70.7 mn) in total PE investment volume during the quarter. This was a significant decline of over 75% from the previous quarter, as only one deal was concluded during the quarter. However, PE investment in commercial office sector is anticipated to increase in coming quarters as some of the prominent real estate developers have been exploring options to sell either part or full stakes in some of the pre-leased office assets to prominent foreign PE funds in order to raise capital.

Figure 5

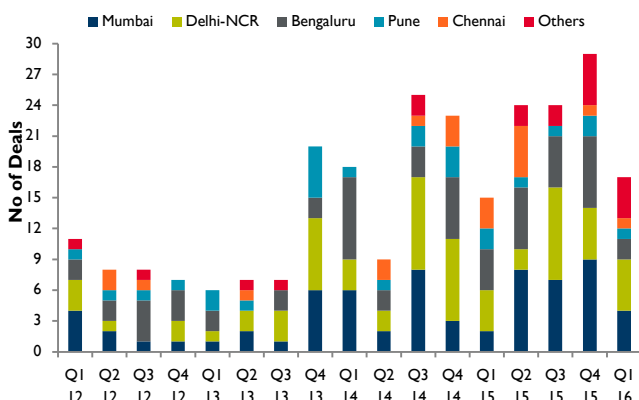
#### PE Investment Volume – City Wise



Source: RCA, VCCircle, Cushman & Wakefield Research

Figure 6

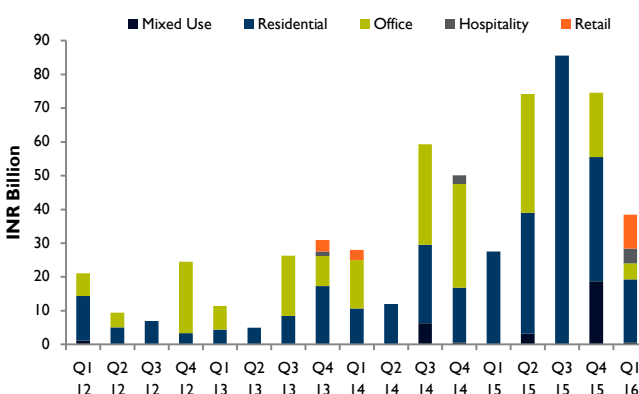
#### Announced PE deals – City-wise (No. of deals)



Source: RCA, VCCircle, Cushman & Wakefield Research

Figure 7

#### PE Investment Volume – Asset-wise



Source: RCA, VCCircle, Cushman & Wakefield Research

Table 1

**Significant PERE Deals in Q1 2016**

| INVESTEES / SELLER         | INVESTOR / ACQUIRER                  | SECTOR      | CITY       | PRICE (INR BN) | NATURE OF DEAL | PERIOD  |
|----------------------------|--------------------------------------|-------------|------------|----------------|----------------|---------|
| Sheth Developer            | GIC (Govt of Singapore)              | Retail      | Mumbai     | 10.0           | SPV            | Q1 2016 |
| Aristo Realtors            | IIFL                                 | Residential | Mumbai     | 5.0            | SPV            | Q1 2016 |
| Salarpuria Sattva Group    | Blackstone                           | Office      | Hyderabad  | 4.7            | SPV            | Q1 2016 |
| SAMHI Hotels               | Goldman Sachs                        | Hospitality | Multi-city | 4.4            | Entity         | Q1 2016 |
| IDB Group JV Elco Holdings | Penninsula Brookfield JV Incor Group | Residential | Hyderabad  | 2.5            | SPV            | Q1 2016 |

Source: RCA, VCCircle, Cushman & Wakefield Research

**Corporate Transactions in Real Estate Sector**

The first quarter of 2016 witnessed healthy pick-up in corporate transaction activity which was recorded at INR 58.4 bn (USD 878.0 mn). This was a significant five-fold increase of over the previous quarter (Figure 8).

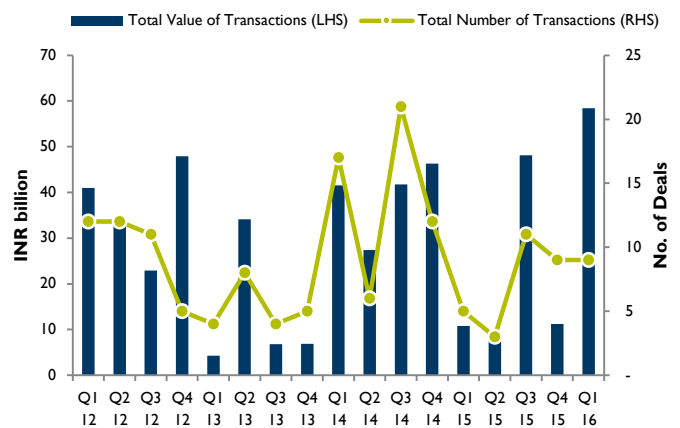
Although the total number of deals remained same as that noted in the previous quarter, the average deal size increased by over 5.2 times to INR 6.5 bn (USD 97.5 mn).

Delhi-NCR saw the highest share of total corporate transaction volume during Q1 2016, accounting for more than half (55%) of the share at INR 32.0 bn / USD 481.0 mn). Majority of the transaction volume in Delhi-NCR was driven by development sites with over 72% share, as few corporates monetised their land parcels to raise funds amidst high debt levels and subdued demand in residential sector. Mumbai followed Delhi-NCR and attracted 44% share of the total transaction volume with INR 25.6 bn (USD 385.0 mn) worth of investments.

Commercial office sector recorded the highest share (45%) with total investments of INR 26.4 bn / USD 396.0 mn). This was spread across Mumbai and Chennai with majority (97%) share concentrated in Mumbai. The quarter witnessed one of India's largest commercial office deal with a ticket size of INR 24.0 bn (USD 361.0 mn). This was on the back of healthy pick-up in demand of office space over the past couple of quarters, resulting in growing interest amongst investors and developers to acquire leased office assets. Development sites accounted for second highest share at 39% (INR 23.0 bn / USD 346.0 mn) in total transaction volume during the quarter, amidst prolonged slowdown in residential sales which has forced some of the developers to liquidate assets to generate funds.

Figure 8

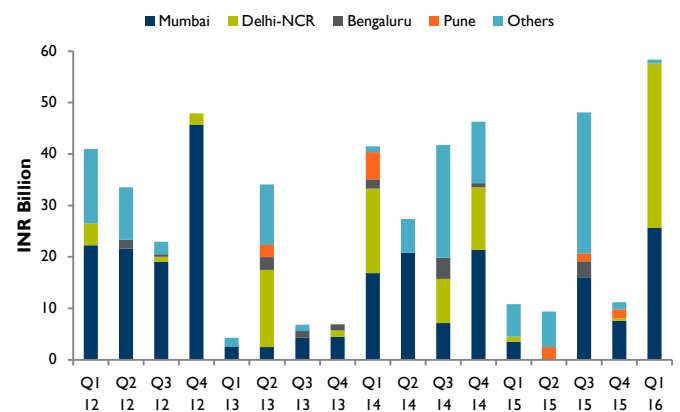
**Corporate Transactions Volume**



Source: RCA, VCCircle, Cushman & Wakefield Research

Figure 9

**Announced Corporate Transaction – City-wise**



Source: RCA, VCCircle, Cushman & Wakefield Research

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