

INVESTMENT MARKETBEAT
**Rising optimism led to
higher PE investments**
INDIA Q4 2015
Contents

Foreign Direct Investment	1
Private Equity Investments in real estate	2
➤ Investment Volume	2
➤ Investment Type	2
➤ City and Asset Wise Investment	3
Corporate Transactions in real estate	4

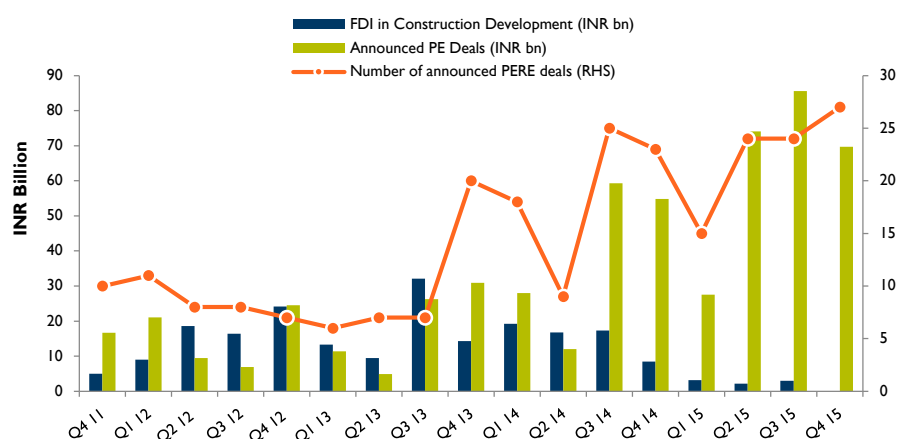
FOREIGN DIRECT INVESTMENT (FDI) INFLOWS

The year 2015 started with the second highest quarterly foreign direct investment (FDI) inflows into India since 2008 and it remained robust in subsequent quarters too. This was the result of several reforms and structural changes which the central government along with Reserve Bank of India (RBI) has been making over the past 18 months which is changing the investor's perception towards India and has helped to attract investments across sectors. As a result, India witnessed a total of INR 1,682 billion (USD 25.8 bn) worth of FDI during the first three quarters (January-September) of 2015. Computer Software & Hardware sector attracted majority (16%) of the FDI inflows, followed by the automobile sector (9%).

During the third quarter of 2015, the construction development sector though recorded a 36% increase in FDI inflows from the previous quarter. However, it witnessed total FDI inflow of INR 8.3 billion (USD 128 million) during the first three quarters of 2015, a significant decline of 84% compared to corresponding period of the previous year (Figure 1). This is the lowest FDI inflows which the construction development sector has recorded since 2008. The share was also the lowest amongst the top 10 contributors in FDI inflows. This was despite several policy measures such as reduction in minimum built up area and capital requirement for FDI in construction development sector amongst several others announced by the central government. However, inflows are expected to improve in the coming years as the government has recently in November 2015 removed the two major conditions of minimum built up area as well as capital requirement.

Nonetheless, despite low FDI inflows for the past four quarters in a row, the construction development sector remained the second highest contributor with 9% share on cumulative basis (2000 – Q3 2015) with cumulative inflows of INR 1.1 tn (USD 24.2 bn).

Figure 1

INVESTMENT VOLUME


Source: DIPP, Cushman & Wakefield Research

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Private Equity Investment in Real Estate (PERE)

Investment Volume

Record investments led by foreign funds

During the fourth quarter (October-December) of 2015, private equity investment activity in the real estate sector though moderated by 19% from the previous quarter. However, total investments during the year (January-December) were recorded at INR 256.8 billion (USD 4.0 billion), nearly 72% higher than the previous year. This was the highest ever annual investments recorded in rupee terms since 2008 and even 47% higher than the total investment volume during 2008 which was the previous highest.

The healthy momentum was seen in total number of deals closed during the year too, which increased from the previous year by 20% to 90. This was also the highest ever number of deals closed in any year since 2008. In Addition, the average deal size during the year was noted at INR 2.9 bn (USD 44.0 mn), an increase of nearly 43% on year-on-year (y-o-y) basis.

Like previous year, the year 2015 too saw domestic funds taking the lead in terms of more number of deals closure (65) compared to foreign funds (25). However, foreign funds continue to dominate the total investment volume, with nearly 57% share at INR 146.8 bn (USD 2.3 bn) worth of investments, compared to domestic funds which garnered 43% share at INR 110.0 bn (USD 1.7 bn). Interesting to note that while investments made by foreign funds during the year grew by only 34% from the previous year, the same by domestic funds grew significantly by nearly three-folds.

Region wise, India based funds dominated the investments made during the year with nearly 43% share compared to last year when North America based funds had taken the lead with 42% share. Investors from Asia-Pacific* (APAC) region (ex-India) were the second most active (after India) in making investments in real estate sector in India with 31% share during 2015. This was nearly double to that of the previous year and primarily led by Singapore based sovereign wealth funds.

Investment Type

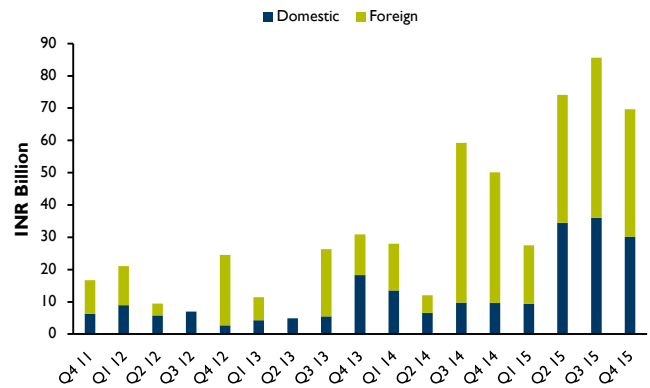
Investment activity driven by SPV level deals

Both domestic and foreign funds continue to prefer special purpose vehicle (SPV) route for making majority of the investments. Nearly three-fourth (76%) of the total investments, INR 194.8 bn (USD 3.0 bn) made during 2015 were through this route, since this is often secured through collateral and offer fixed returns. While domestic funds have done nearly 87% of their total investments at SPV level, foreign funds have pumped in 68% of the investment through this route.

Entity level deals also picked up lately and comprised of nearly 24% (INR 61.3 bn / USD 0.9 bn) of the total funds deployed during 2015. This was the second highest (highest being in 2008) investment made in absolute terms through this route, primarily driven by foreign funds.

Figure 2

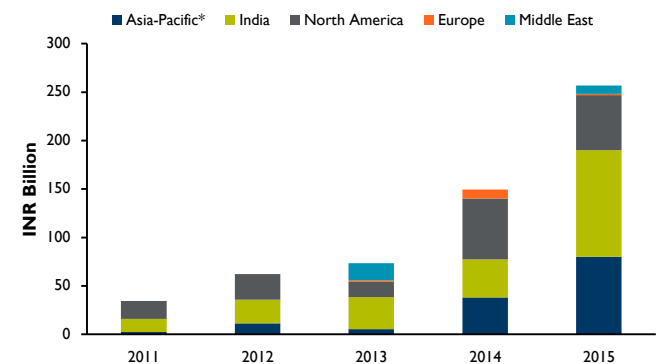
PE Investment Volume - Domestic or Foreign Fund



Source: RCA, VCCircle, Cushman & Wakefield Research

Figure 3

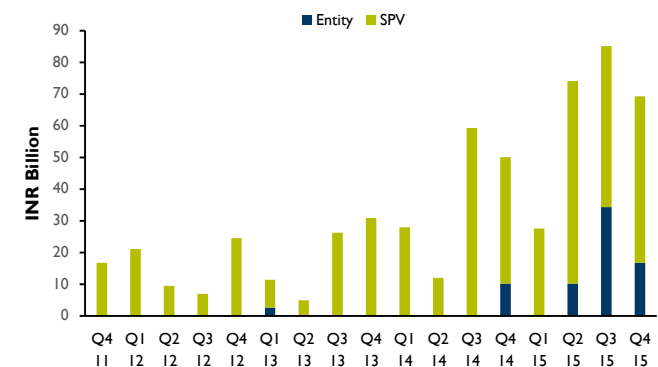
PE Investment Volume - Region-wise



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

Cities such as Mumbai, Delhi-NCR and Bengaluru remained the most preferred destinations of investment in 2015 by both domestic as well as foreign funds (Figure 5). Mumbai attracted over one-third (34%) share of the total PE investment volume (INR 88.3 bn / USD 1.4 bn) during the year. Delhi-NCR followed Mumbai and garnered about 23% share of total PE investments which stood at (INR 58.8 bn / USD 0.9 bn). Bengaluru recorded third highest share (16.7%) with PE investment of INR 42.8 bn (USD 663.0 mn).

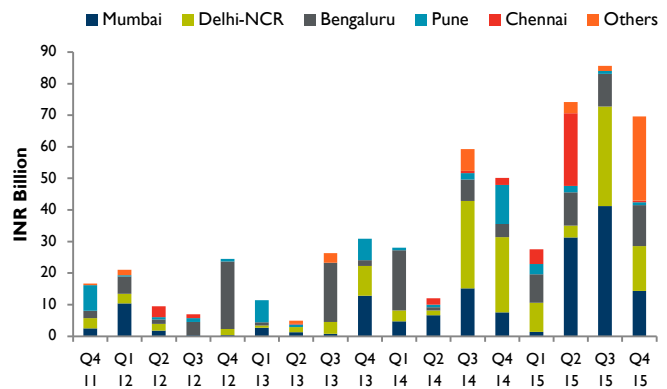
The PE investments in Mumbai and Delhi-NCR were the highest during 2015 and grew by 158% and 4% respectively from the previous year. Also, Chennai recorded the highest increase in PE investment volume, which grew nearly six-folds from the preceding year and were noted at INR 28.1 bn (USD 447.0 mn). The significant increase in investment volume in Chennai was primarily on account of a single deal, wherein one of the leading pension fund of Canada acquired 100% stake in one of the largest and prime IT Park through its Singapore based entity. Also, all four cities (Mumbai, Delhi-NCR, Bengaluru and Chennai) recorded highest ever annual PE investments since 2008.

The residential asset class remained in focus throughout 2015 and garnered major chunk of the PE investment volume with over 70% share (INR 180.7 bn / USD 2.8 bn). (Figure 7). Most of the deals were to refinance the existing obligations of the developers with cheaper funds to complete their ongoing residential projects.

The commercial asset class garnered nearly 21% share at INR 54.2 bn (USD 845.0 mn) in total PE investment volume during the year. This was a decline of nearly 28% from the previous year which witnessed highest ever investment in office sector. However, PE investment in commercial office sector is anticipated to increase in coming year 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

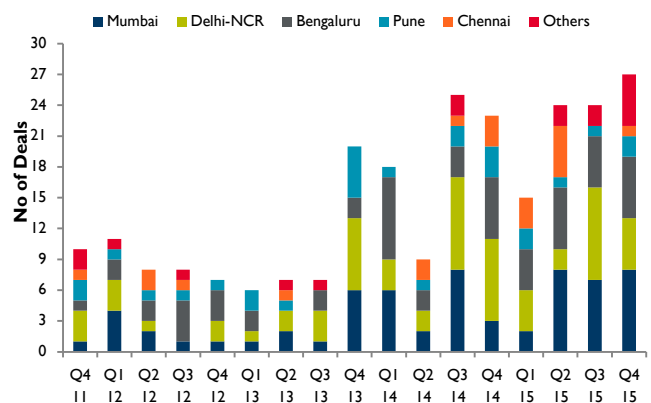
PE Investment Volume – City Wise



Source: RCA, VCCircle, Cushman & Wakefield Research

Figure 6

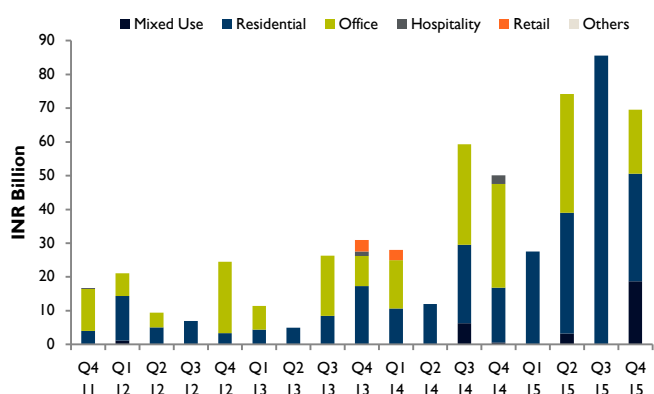
Announced PE deals – City-wise (No. of deals)



Source: RCA, VCCircle, Cushman & Wakefield Research

Figure 7

PE Investment Volume – Asset-wise



Source: RCA, VCCircle, Cushman & Wakefield Research

Table 1

Significant PERE Deals, 2015

INVESTEES / SELLER	INVESTOR / ACQUIRER	SECTOR	CITY	PRICE (INR BN)	NATURE OF DEAL	PERIOD
DLF	GIC (Govt of Singapore)	Residential	Delhi-NCR	19.9	SPV	Q3 2015
Piramal Realty	Warburg Pincus	Residential	Mumbai	18.0	Entity	Q3 2015
Faery Estates Private Limited	SPREP Pte. Ltd.	Office	Chennai	14.0	SPV	Q2 2015
Tishman Speyer	GIC (Govt of Singapore)	Office	Hyderabad	10.0	SPV	Q4 2015
BPTP	RMZ Corp backed by QIA	Office	Delhi-NCR	8.5	SPV	Q4 2015

Source: RCA, VCCircle, Cushman & Wakefield Research

Corporate Transactions in Real Estate Sector

Corporate transaction activity in the real estate sector during 2015 was recorded at INR 79.4 bn (USD 1.2 bn). This was almost half to that of the total transaction volume from the previous year (Figure 8).

The total number of deals declined by nearly 50% from the previous year to 28 in 2015. The average deal size was recorded at INR 2.84 bn (USD 43.5 mn), which was a marginal increase of 1% over the previous year.

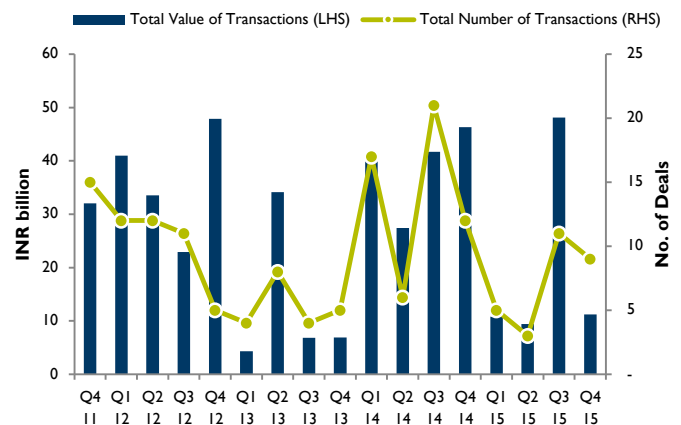
Mumbai garnered the highest share of total corporate transaction volume during 2015 with 34% share (INR 27.2 bn / USD 415.0 mn), Majority of the transaction volume in Mumbai was driven by commercial office sector with over 83% share. Chandigarh followed Mumbai and attracted over 22% share of the total transaction volume with INR 17.9 bn (USD 270.0 mn) worth of investments.

Hospitality sector garnered the highest share (31%) with total investments of INR 24.8 bn / USD 381.0 mn). The highest number of transactions (9) too were witnessed in the hospitality sector amidst consolidation seen across tier-I, II and III cities, primarily in tourist hotspots and IT destinations.

The office sector closely followed the hospitality sector and garnered the second highest share (29%) in total corporate transaction volume during 2015 with INR 23.4 bn (USD 355.0 mn) worth of investments. Nearly 75% of this were concentrated in Mumbai, which is the financial capital of India.

Figure 8

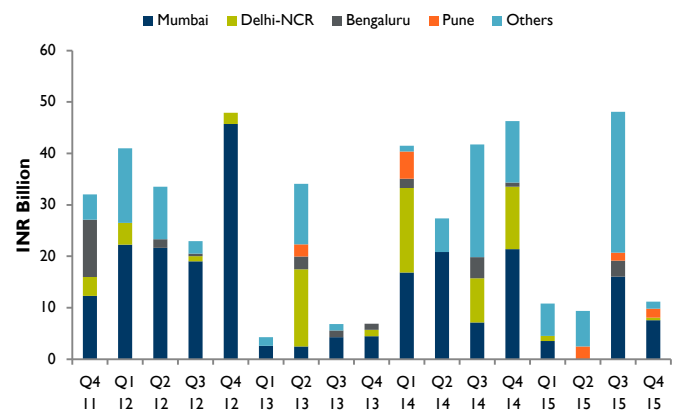
Corporate Transactions Volume



Source: RCA, VCCircle, Cushman & Wakefield Research

Figure 9

Announced Corporate Transaction – City-wise



Source: RCA, VCCircle, Cushman & Wakefield Research

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