VESTIAN



INSTITUTIONAL INVESTMENT IN INDIAN REAL ESTATE

The Rising Asset Classes

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Preface

Institutional investments in India increased dramatically as a result of the adoption of radical policy reforms and solid macroeconomic fundamentals. Despite the fact that commercial office space has traditionally been the preferred asset class for investors, alternative asset classes like data centres, warehousing, and retail have recently drawn a good number of institutional investors as well.

While investor interest remained strong, the anticipated growth in investments in 2022 was impacted due to the geopolitical environment's effects on the entire world, resulting in the investment momentum slowing down in the first half of the year. On a positive note, in spite of the volatile economic environment, Indian real estate has seen a rebound in most asset classes. The economy's fundamental strength of country's economy has contributed to keeping the momentum of growth.

Meanwhile, structural themes of REITs are anticipated to emerge, and we anticipate more retail, warehousing, and hospitality assets as part of REIT offerings in the upcoming period. This is encouraged by the operational REITs' fair performance despite the pandemic and the strengthening of portfolios across various asset classes.

FICCI and Vestian have co-created this report on **"Institutional Investment in Indian Real Estate"** which talks about real estate asset classes that are observing renewed investor interest, while focusing on alternate assets as well. With the government working towards augmenting the ease of doing business and the IT sector booming in India, institutional investment in real estate is expected to emerge stronger in the forthcoming period.

I am confident that, the findings of the report would be most useful not only for realtors, but also for consumers, Government, research & academic institutes, and the industry. The ideas and deliberations arising out of this Report would go a long way in addressing the regulatory challenges, required for the growth of the sector, and reflecting on the way forward.



Mr Sanjay Dutt
Joint Chairman, FICCI Real Estate Committee and
MD & CEO, Tata Realty & Infrastructure Ltd.

Preface

Over the span of a decade, India's real estate sector has witnessed a plethora of radical occurrences. Right from a regulatory environment that observed significant changes, to the emergence of alternative avenues of investment, and more recently, the constrictions brought forth by the COVID-19 crisis - the real estate sector of the country has gone through several upheavals. While there were teething issues in the implementation of various reforms, the overall verdict passed was positive and what the real estate sector had lost by way of volume, it gained by dint of increased transparency and accountability, thereby attracting more investors into the sector. Lately, the country's economic revival post the adverse impact of the pandemic and improving revenue outlook have played a major role in leading investments into real estate asset classes. Other pertinent factors, such as expansive infrastructure development plans and favourable interest rates, ensured steady investor activity as well.

Despite the apprehension around the future of the real estate sector in the wake of the economic turmoil, sectors such as commercial and residential assets have continued to hold favourable investment prospects in 2022. With an increasing number of employees returning to office and a robust supply in the pipeline in the forthcoming period, the office sector is expected to witness a better demand than in the previous pandemic-inflicted years, thereby opening increased investment opportunities. The pandemic situation easing, several real estate segments have come to the fore, thereby earning the sobriquet of 'the rising asset classes'- one of them being the hitherto-torpid retail sector, that presently is witnessing a resurgence in terms of consumer as well as investor interest. Affordable and luxury housing have seen substantial traction in attracting investment, too. Additionally, investment has been observed to be gaining momentum in the arena of warehousing & logistics, led largely by the increasing need of ecommerce entities for last mile delivery, with substantial quantum of investment also making gradual in-roads into the alternative asset classes, comprising data centres and life sciences R&D centres. Meanwhile, REITs have continued to evolve and, along with fractional ownership, is touted to be a game changer for the real estate sector.

This report, thus, aims to provide an overview of real estate investment in the country and the various segments to look out for in the forthcoming period. I hope this report provides you with enough food for thought regarding the investment scenario in India and that you enjoy reading it.



Dr. Shrinivas Rao, FRICS
CEO, Vestian

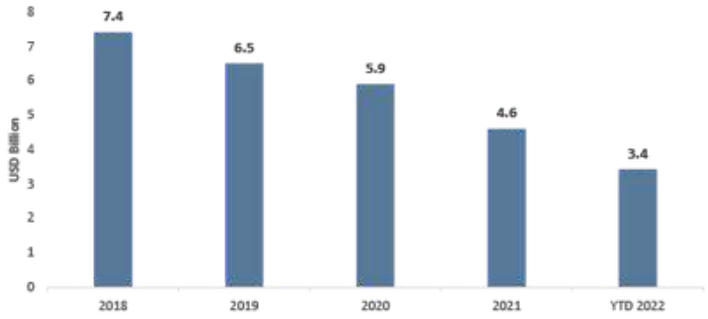


Charting the course of real estate investment: 2018 to YTD 2022

The Indian real estate industry has been playing a vital role in the growth of the country's economy and is gradually emerging out of the adversities led by the pandemic, even as predicaments emanating from global uncertainties stand to impact its growth prospects. Buoyed by strong market fundamentals and several landmark reforms ranging from introduction of Real Estate Investment Trusts (REITs) in 2014 and Real Estate (Regulation and Development) Act in 2016, to the Benami Transactions (Prohibition) Amendment Act, the sector has faced several compliance-heavy constraints yet progressed with improving transparency and. With the changing landscape of the Indian real estate market, investors perception towards market has shifted significantly in recent years, observing increased international interest towards the sector.

In recent times, with the COVID-19 crisis changing the dynamics of all businesses, investors were led to bide their time, putting a pause to deals that were at an advanced stage of negotiations. However, the situation has improved considerably, and the real estate sector has fairly withstood the turbulent times brought forth by the pandemic as well as several and structural changes. Intriguingly, the constrictions lent by the pandemic acted as a catalyst to the growth of the warehousing & logistics sector and alternate asset classes such as data centres and life sciences R&D centres, along with increased interest towards the co-working sector, thereby earning them the sobriquet of 'the rising asset classes'. Presently, with the pandemic situation easing, we take a look at the various development trends observed amongst the real estate asset classes and its sub-segments in the past years, noting their progress and the impact of the pandemic on their growth.

Real estate investment: 2018 to YTD 2022



Source: Vestian Research

Note: YTD 2022 refers to the period January to September 2022



Key observations

- Institutional investment in the country's real estate sector was recorded at a total amount of USD 27.8 billion during the period 2018 to September 2022 (YTD).
- Foreign funds have been funneling substantial quantum of investment into the Indian realty sector, thus depicting their increasing confidence level in the sector post the new reformatory measures. Among the foreign investors, a number of US-based and Singaporean PE firms have been observed to be remarkably active, accounting for majority of the PE investment during the period 2018-YTD 2022.
- While a host of reformatory measures implemented since 2014 had led investments to rise progressively, the highest quantum recorded during 2018, there has been a gradual declining trend observed in the past four years, attributable chiefly to the economy slowing down and the COVID-19 crisis that had brought most activities to a standstill.
- Given the repercussions of the pandemic second wave in 2021 and the threat of the omicron variant disrupting deal closures, the decline in investment quantum during 2021 and the early part of 2022 was sharper. In contrast, despite the advent of the pandemic, 2020 had fared better owing to the closure of a few marquee deals that were in talks for a prolonged period of time.
- Interestingly, even with restraints instigated by the COVID-19 pandemic and the resultant constricted business environment, the period encompassing 2020 till YTD 2022 saw announced investment value of nearly USD 13.9 billion in the Indian real estate sector, portending a fair amount of traction in the market.



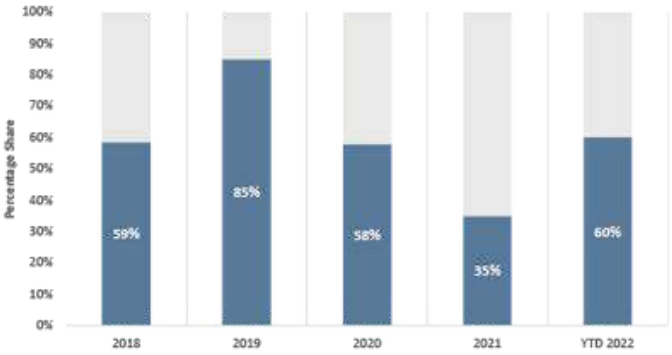
"There has been a gradual declining trend in real estate investment observed since 2018, attributable chiefly to the economy slowing down and the advent of the COVID-19 crisis in 2020, that had brought most activities to a standstill."



Investment in commercial assets

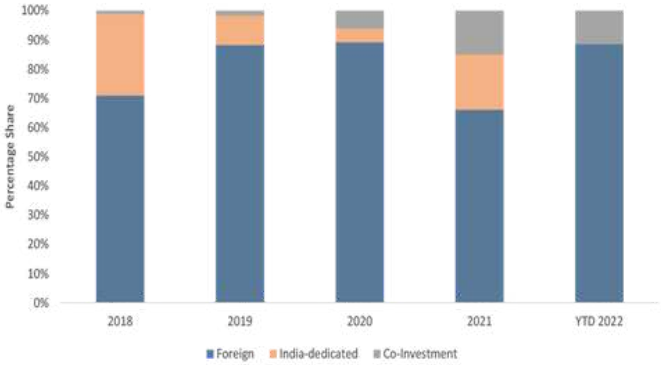
One of the major trends observed during the period 2018 to Q3 2022 (till September) has been the establishment of the commercial assets segment as the most preferred segment to attract investor interest. The segment has been steadily accounting for the maximum amount of real estate investment since the second half of 2016, surpassing the investment in the residential sector. Factors such as development of Grade A commercial space and fairly reasonable rentals, coupled with low vacancy levels, have led the commercial segment to emerge as the investors' favourite asset class in recent times.

Share of commercial assets in total real estate investment



Source: Vestian Research

Share of investment by fund-type



Source: Vestian Research

Note: Commercial assets include office, retail, co-working and hospitality projects

"Factors such as development of Grade A commercial space and fairly reasonable rentals, coupled with low vacancy levels, led the commercial segment to emerge as the investors' favourite asset class in recent times. While its share of investment declined during 2020 and 2021, it revived anew in 2022 depicting the fact that commercial real estate holds considerable appeal amongst investors owing to its strong fundamentals and resilience factor."



Key observations:

- During the period 2018 to Q3 2022 (till September), investment in the commercial segment totalled nearly USD 17 billion, thus accounting for 61% of the total investment observed in that period.
- While the commercial assets segment continued to lead the chart, its share in total investment over the years has been rather erratic. There was a perceptible increase in share in the investment during 2019, accounting for 85% share, which later declined during the pandemic-inflicted periods of 2020 and 2021, to the tune of 58% and 35% share respectively. The decline in investment could be attributed to the threat of WFH arrangements that portended a cautious office market.
- However, the commercial assets segment has shown substantial revival in 2022 (Jan-Sep), accounting for 60% share of the total investment during the year, depicting the fact that commercial real estate holds considerable appeal amongst investors owing to its strong fundamentals and resilience factor.
- While the co-working segment, a key component of the commercial real estate sector, saw a fair amount of investment in 2020, the retail sector has been striving to regain ground as well. From a minimal share of 8% in the total commercial assets investment in 2021, investment in retail has increased to 14% in YTD 2022, thus boding well for the segment.
- Another notable point that came to light was the concentration of foreign funds in commercial real estate, their share constantly eclipsing India-dedicated funds in the total investment pie.
- Majority of the investment in commercial real estate in 2022 (YTD) has been spread out amongst multiple cities, although Mumbai and Bengaluru snagged reasonable investment quantum, as well.





The Rising Asset Classes in Commercial Segment

Retail

The retail sector, that had witnessed a complete cease in activity in 2020 owing to the pandemic, is gradually making a comeback. Interestingly, the sector had lost its sheen even before the pandemic struck, given that its share of total investment in commercial assets in 2018 and 2019 was merely sector had lost its sheen even before the pandemic struck, given that its share of total investment in commercial assets in 2018 and 2019 was merely 4% and 3% respectively. In 2021, despite the onslaught of the severe second wave of the pandemic and a major drop in rental revenues, the sector accounted for a fair share of 8%, of the total investment in commercial assets during the year. With customers coming back to retail projects and business activity picking up, investors have shifted their focus towards steady retail assets while also portending interest on fresh developments in partnership with developers. Amongst the deals inked in 2021 note can be made of Mumbai-based Phoenix Mills and Canada Pension Plan Investment Board (CPPIB) forming a joint venture to develop a regional retail centre in Kolkata. The retail segment saw a large deal inked in 2022, led by Abu Dhabi Investment Authority backed Lake Shore India Advisory that bought Viviana Mall in Thane from Singapore-based GIC and realty developer Ashwin Sheth Group, thereby augmenting its share in total investment in commercial assets to a significant 14%. Going forward, the retail sector is expected to witness continued investor commitments, based on favourable growth prospects owing to pent up demand post a lengthy pandemic-induced lull.

"In 2021, despite the onslaught of the severe second wave of the pandemic, the sector accounted for a fair share of 8%, of the total investment in commercial assets, up from 3% share in pre-pandemic period of 2019. The segment further saw its share increase to 14% in 2022 (YTD), portending continued investor commitments."



Co-working

The concept of co-working has brought about a sea change in the perception of a workplace today. Within the span of a few years, the segment has grown exponentially, leading the commercial real estate market to explore a new era of shared workspace in a creative environment, spurred on by a sense of community, collaboration and innovation. The quantum of office space demand from this segment in the key cities of the country has strengthened significantly in the past five years. Despite a brief period of uncertainty clouding its growth prospects in 2020, the co-working space segment's share in total absorption has increased from 10% in 2018 to nearly 18% in 2022 (YTD),. Notably, in April 2022, flexible workspace provider IndiQube raised USD 30 million in Series B funding, focusing on its next phase of growth. In the forthcoming period, the co-working segment is expected to account for a larger share of the market, portending a major shift in workspace dynamics with technology, innovative space design and flexibility impacting the preferences of new age businesses. Post COVID-19, the co-working sector is also gaining popularity in Tier II cities as many IT companies are considering work from hometown options for their employees as well as considering the talent pool and cost optimization options that such cities offer.

Despite a brief period of uncertainty clouding its growth prospects in 2020, the co-working space segment's share in total absorption has increased from 10% in 2018 to nearly 18% in 2022 (YTD), thus portending increased investor interest in the segment.

Share of co-working segment in total office space absorption



Select real estate investment deals in commercial assets segment during 2018-YTD 2022

INVESTOR	DEVELOPER/ PARTNER	LOCATION	APPROX AMOUNT (IN USD MILLION)	YEAR
GIC	Prestige Group	Bengaluru	400	2018
Blackstone	Indiabulls Real Estate	Mumbai	615	2019
Mitsui	RMZ Corporation	Bengaluru, Mumbai and Delhi	1000	2020
Ivanhoe Cambridge	Embassy group	Chennai, Bengaluru	500	2021
Brookfield	Bharti Enterprises	Delhi, Gurugram and Ludhiana	332	2022

Source: Vestian Research

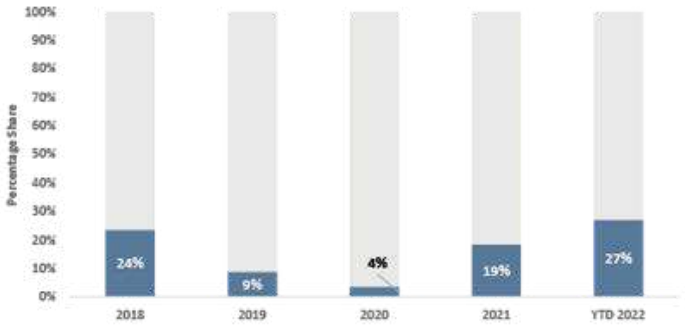
Note: YTD 2022 refers to the period January to September 2022



Investment in residential assets

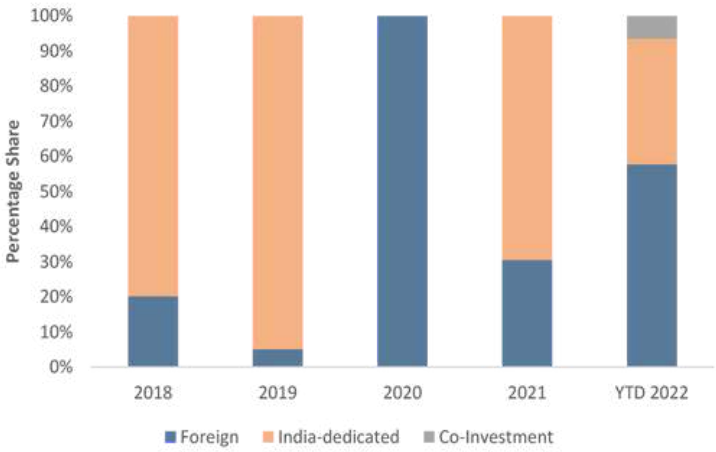
In sharp contrast to the growth trajectory of the commercial assets segment, the residential segment has been on a declining trend, which can be attributed to the slowdown in the residential market owing to several stringent factors, particularly relating to the reformatory measures impacting the market players. Besides, other issues such as liquidity crunch, delayed projects and reduced buyer interest created a lull in the residential market, thereby resulting in slackened investor interest. However, recent developments in the residential market hold positive implications for the sector.

Share of residential assets in total real estate investment



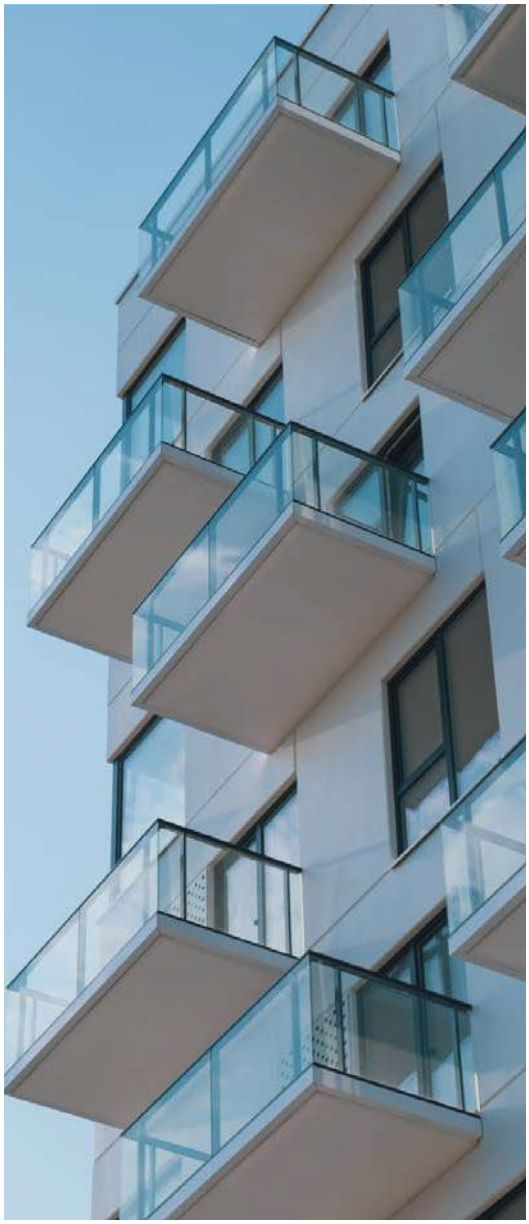
Source: Vestian Research

Share of investment by fund-type



Source: Vestian Research

Note: YTD 2022 refers to the period January to September 2022



Region-wise share in total investment (YTD 2022):



39%
Bengaluru



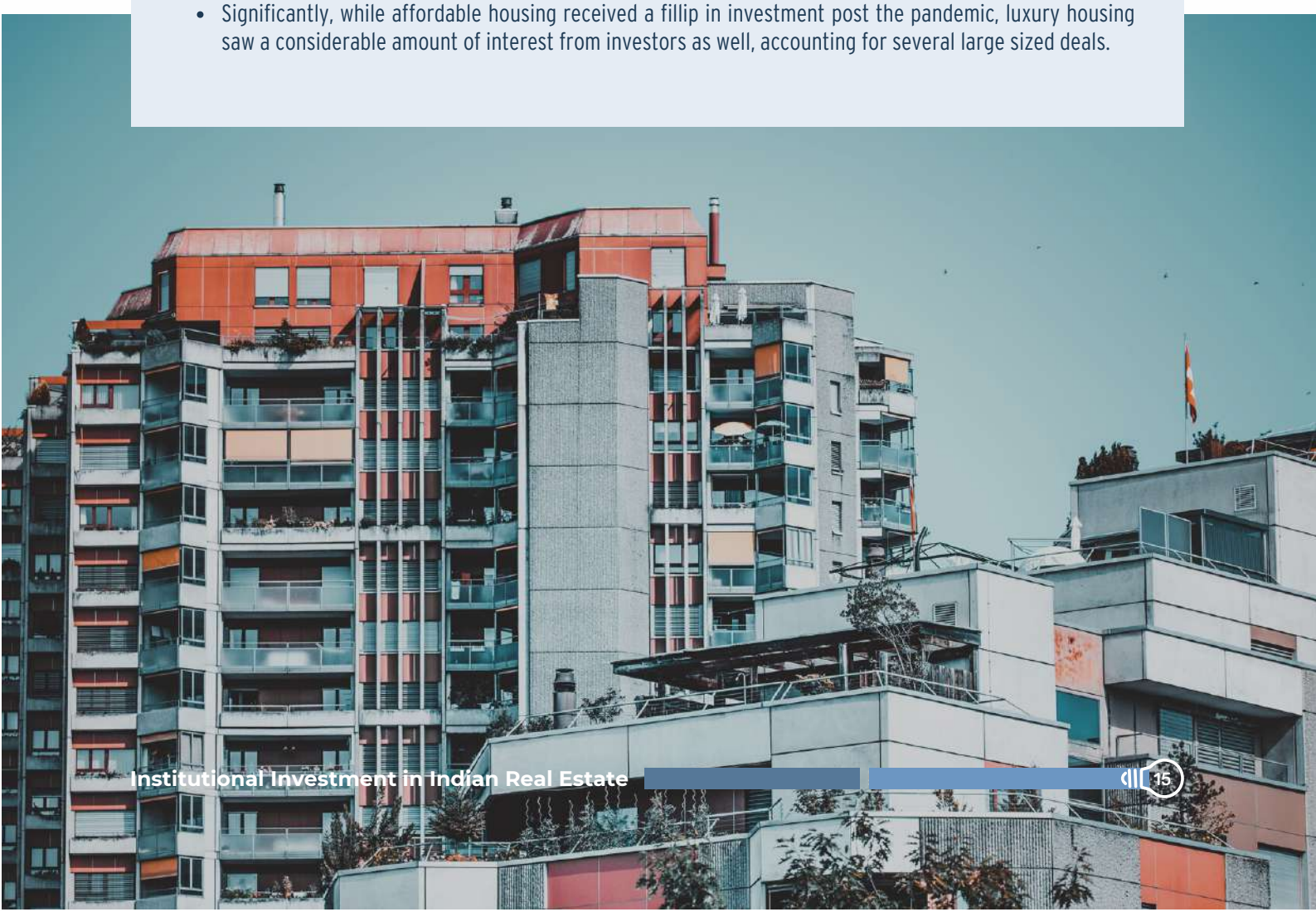
19%
NCR



16%
Mumbai

Key observations:

- Post a sharp decline witnessed in investment in residential assets, things are looking up favourably for the segment. Significantly, this turnaround could largely be attributed to the pandemic that accelerated the need for home ownership. Buoyed by all-time low interest rates, the residential market has seen considerable traction, thereby leading investors' interest back into the sector.
- The current year (YTD), particularly, has seen resurgence of the residential sector, its share rising to 27% from a mere 4% share in 2020, the investment recorded at a significant USD 926.3 million. This could largely be attributed to the positive momentum witnessed in the residential market since 2021 with key centres reporting pre-pandemic level sales and buyer enquiries.
- In sharp contrast to the commercial assets segment, India-dedicated funds accounted for a higher amount of investment in the residential segment as compared with foreign funds during the period 2018-YTD 2022.
- The share of India-dedicated funds during the period was recorded at 67% while foreign funds accounted for a lower share of 32%.
- Majority of the investment in the residential sector was observed to be aimed towards Bengaluru, the city attracting a whopping 39% share of the total investment in 2022 (YTD), followed by NCR and Mumbai with 19% and 16% share respectively.
- Significantly, while affordable housing received a fillip in investment post the pandemic, luxury housing saw a considerable amount of interest from investors as well, accounting for several large sized deals.





"Residential real estate investment has seen increased investor interest in the past two years, the turnaround largely attributed to the pandemic that accelerated the need for home ownership. Buoyed by all-time low interest rates, the residential market has seen considerable traction, thereby leading investors' interest back into the sector."

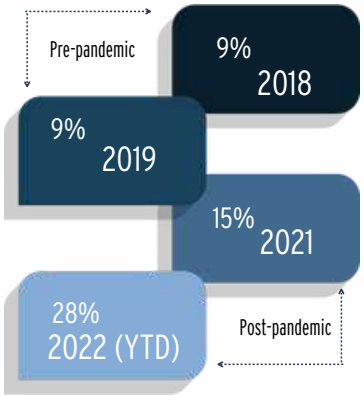
The Rising Asset Classes in Residential Segment

Affordable housing

With the government striving to provide an impetus to this segment by way of various measures, India's affordable housing sector harbours substantial funding opportunities for PE funds. Several institutional investors have entered the affordable housing segment since the introduction of reforms in the sector to cater to the housing requirement, leading to increased investments. Not surprisingly, the sector that accounted for a mere 9% share each, of the total investment in residential asset class in the pre-pandemic period of 2018 and 2019, witnessed significant investment since 2020, its share increasing to 15% in 2021 and 28% in 2022 (YTD). Amongst the deals inked in the segment, mention can be made of HDFC Capital Advisors, the private equity arm of HDFC Ltd, investing USD 51.65 million in realty developer Runwal Group's mid-income and affordable housing project in Mumbai's eastern suburb of Kanjur Marg. While presently there are only a handful of PE funds that are dedicated to funding affordable housing, a huge influx of urban population envisaged in the forthcoming years would entail a higher demand for such homes, thus creating increased investment opportunities.

"Investments into affordable homes has increased since the introduction of reforms in the sector, leading its share to increase from 9% of the total investment in residential asset class, in the pre-pandemic period of 2018 and 2019, to 15% and 28% respectively in 2021 and 2022 (YTD)."

Share of affordable housing in total investment in residential assets

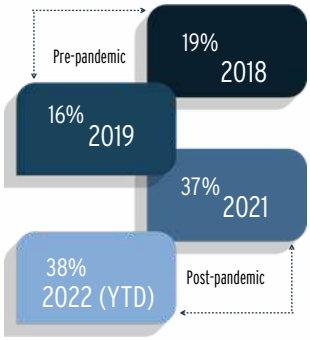


Luxury housing

India's luxury housing sector shown considerable activity in the recent years, making its presence felt on the investors' radar. The sector has seen significant growth in the post-pandemic scenario, its share of sales doubling in H1 2022 as compared to the sales figure in the corresponding period in pre-pandemic 2019. Factors such as reduction in the rate of interests, as well as the availability of a large variety and option of units in the luxury segment, played a key role in augmenting the sale of such housing units. Sales in luxury housing have also been buoyed by the increasing purchasing power of Non-Resident Indians (NRIs), owing to a steady rise in the exchange rate of the US dollar. Additionally, sales in this segment saw increased traction from high networth individuals (HNIs), scouting for good deals that offered a range of amenities and larger spaces that facilitated a self-sufficient environment, particularly in the COVID-19 backdrop. A Sotheby's Luxury Housing Outlook-2022 study reported that up to 67% of HNIs are planning to invest in luxury houses in 2022. This bodes well for the growth of the luxury housing market in India, offering increased investment opportunities in its wake. Of the recent investment deals inked in the sector, mention can be made of US-headquartered Oaktree Capital Management investing USD 58 million in a prime sea-facing luxury residential development in central Mumbai.

"The luxury housing market in India has seen increased sale in such units, buoyed by factors such as reduction in the rate of interests, a large variety and option of units in the luxury segment, increasing purchasing power of NRIs and rising interest of HNIs."

Share of luxury housing in total investment in residential assets



Select real estate investment deals in residential assets segment during 2018-YTD 2022

INVESTOR	DEVELOPER/ PARTNER	LOCATION	APPROX AMOUNT (IN USD MILLION)	YEAR
ASK Group	Shriram Properties	Bengaluru, Chennai, Coimbatore, Vizag and Kolkata	156	2018
HDFC Venture, Piramal Fund, Kotak Realty, JM Financial	Adarsh Group	Bengaluru	182	2019
Marubeni Corporation	Wadhwa Group	Mumbai	39	2020
Motilal Oswal	Pacifica	Bengaluru	130	2021
Godrej PE, Burman Family Office	Isprava	Mumbai	131	2022

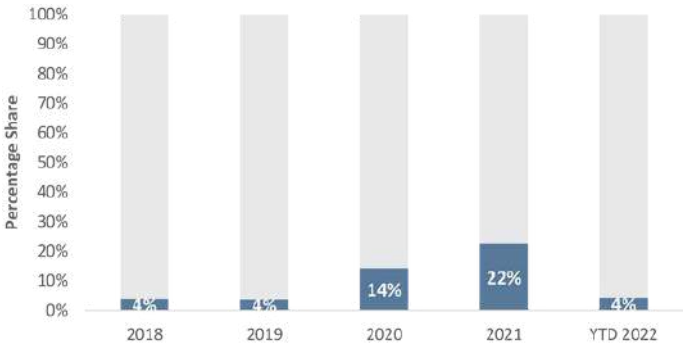
Source: Vestian Research



Investment in warehousing & logistics

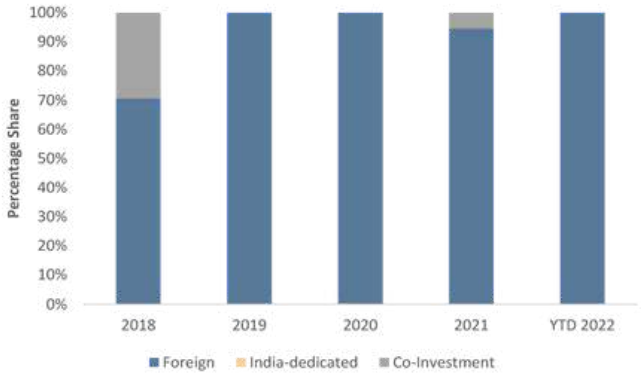
Amongst the real estate asset classes vying for attention for investment, the warehousing sector has garnered substantial interest, one of the primary reasons being the fast-paced growth of the e-commerce sector in the country. This, coupled with increasing income level, translates into increased demand for warehousing space – thereby proving to be a viable investment option. Also, factors such as planned infrastructure development through comprehensive programmes encompassing road, rail and waterways, and the promotion of India as being foreign investor friendly with several policy reforms making compliance easier, have made the warehousing sector attractive to prospective investors.

Share of warehousing & logistics in total real estate investment



Source: Vestian Research

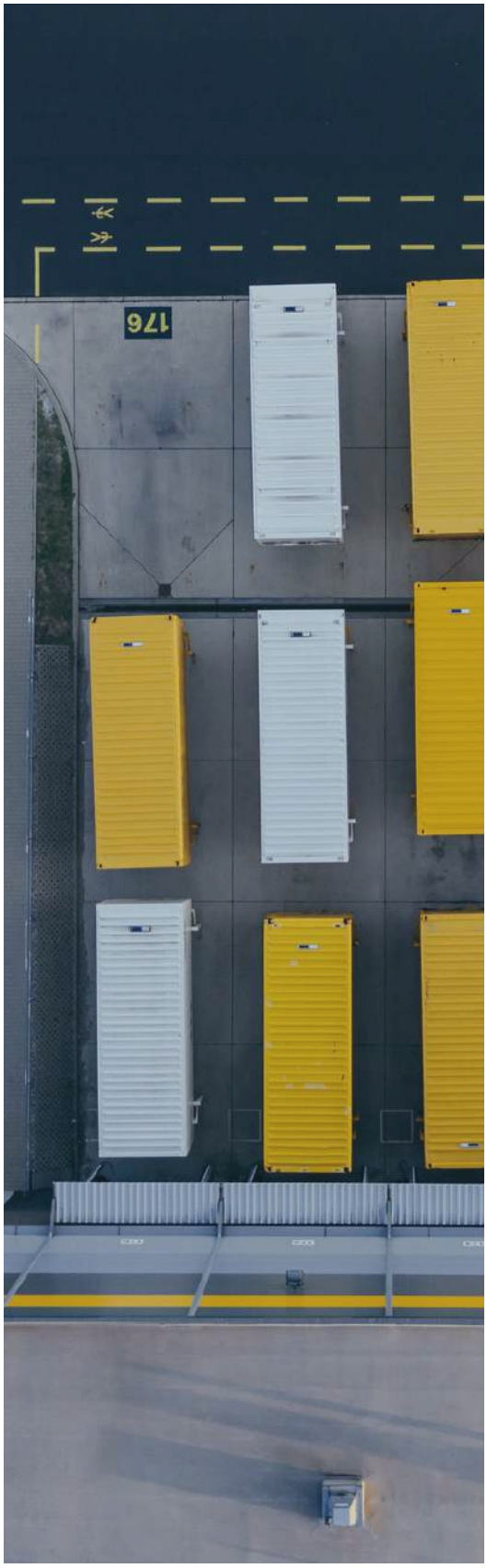
Share of investment by fund-type



Source: Vestian Research

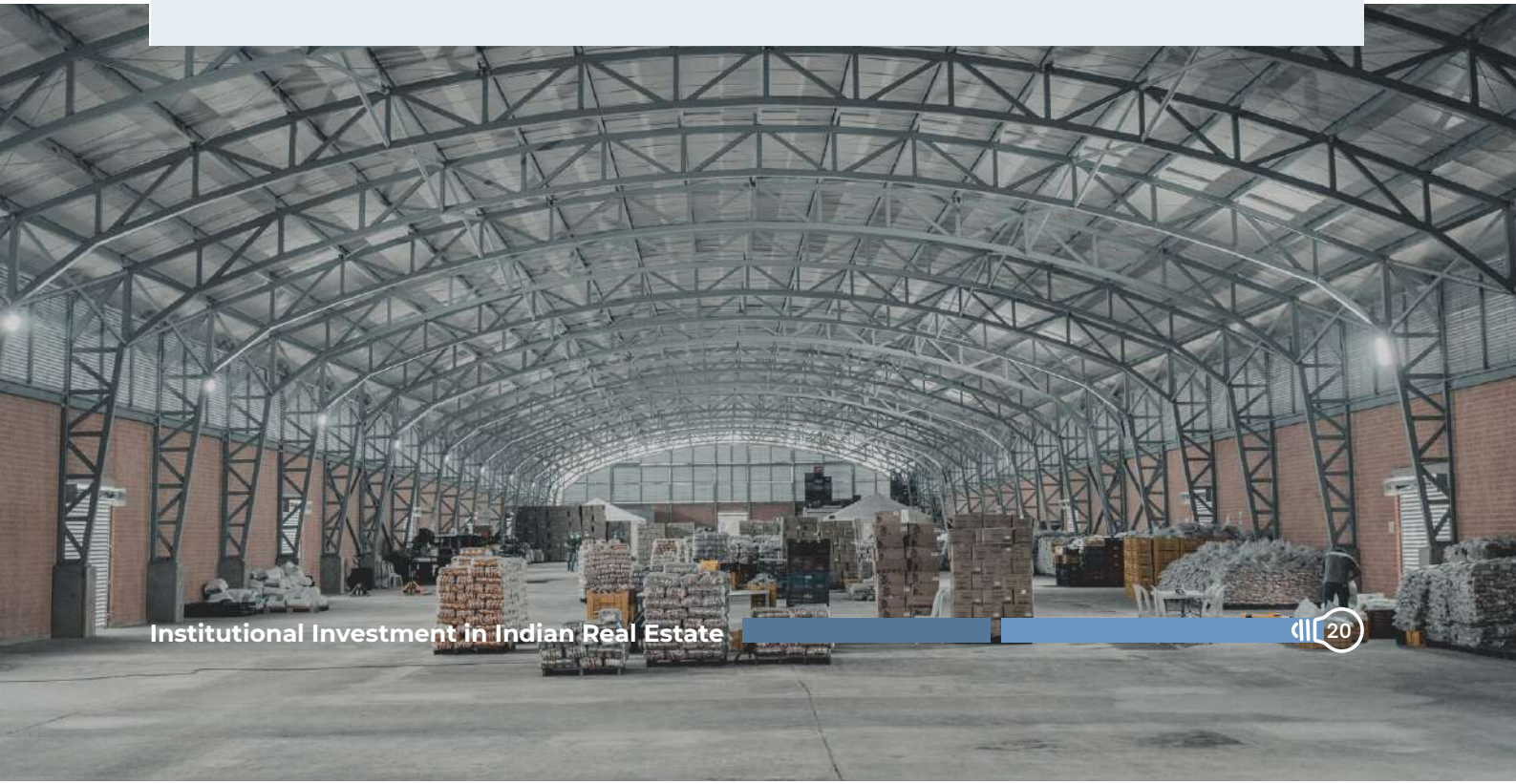
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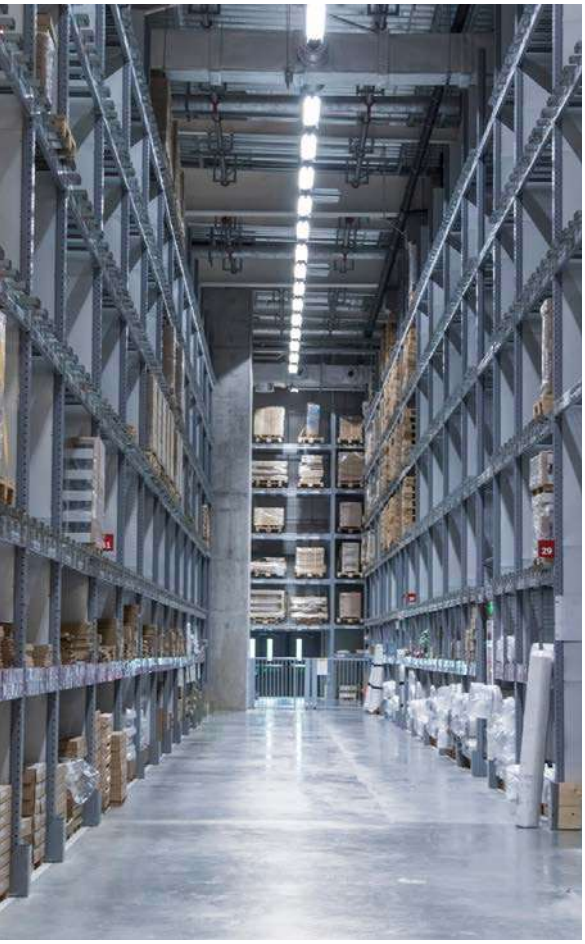
"Propelled by 'infrastructure status' allocated to the sector, interest in investment in warehousing has gained momentum since 2017 and the sector received the second highest institutional investment after office space segment during the period 2021."



Key observations:

- In the span of the nearly five years (2018- YTD 2022), the warehousing sector has garnered a total institutional investment of USD 2.6 billion.
- Propelled by 'infrastructure status' allocated to the sector in 2017 as well as the predicament brought forth by the COVID-19 crisis in 2020, interest in investment in warehousing has gained substantial momentum and the sector received the second highest institutional investment after office space segment during the 2021, accounting for 22% share of the total investment during the year.
- The period 2018 - 2022 (YTD) saw several prominent deals, such as PE investor Blackstone acquiring Bengaluru-based Embassy Industrial Parks from Warburg Pincus and Embassy Group, as well as IndoSpace entering into a new joint venture with KSH Infra to develop a portfolio of warehousing and logistics parks across India.
- Despite the growing interest in the warehousing sector, investment has been observed to have slowed down, largely owing to the dearth of mature, good quality rent yielding warehousing assets, as compared to office and retail assets.
- Given the uncertainties regarding global supply chain arising out of the ongoing Ukraine-Russia war and impeding the flow of goods, investors have remained cautious for the major part of 2022 (YTD).
- Meanwhile, a large share of the investment has been observed to be spread across the country, depicting investors' decision to diversify their portfolio, instead of focusing on one region alone. It also showed the investors' confidence in multiple cities of the country.





The Rising Asset Class in Warehousing & Logistics Segment

Cold storage

Cold storage is fast emerging as an alternate real estate asset class. While a major share of the industry is currently in an unorganized and fragmented state, it harbours good potential to grow into an organised market in the near future. From a real estate perspective, the sector is gradually picking up momentum and holds prospects of fetching high rentals. Pertinent issues such as the need for uninterrupted power, better distribution of cold storage facilities and the dearth of enabling infrastructure, surface as key constraints for the industry. Further, the lack of enhanced and innovative integrated cooling technologies, necessary for cold storage and logistical support in the supply chain, are some of the crucial infrastructural challenges that the sector has to navigate through. Besides, it requires large tracts of land for building cold storage facilities and entails huge capital investment due to their specific fitouts and high operating cost, thus somewhat deterring the entry of interested players into the market. Developers and institutional funds, alike, are exploring this segment to invest, with third-party logistic players planning to expand cold storage facilities that have superior building specifications and advanced technology. Despite COVID-19 posing economic hindrances, there is a growing need not only for horticulture but also for pharmaceutical products, thus emphasizing on muti-product cold storage facilities. Going forward, we believe that the cold chain segment will attract higher influx of investments from global and domestic investors in coming years, heralding the forming of a strong asset class in the market.

"Cold storage is fast emerging as an alternate real estate asset class. While a major share of the industry is currently in an unorganized and fragmented state, it harbours good potential to grow into an organised market in the near future. From a real estate perspective, the sector is gradually picking up momentum and holds prospects of fetching high rentals."

Select real estate investment deals in warehousing and logistics segment during 2018-YTD 2022

INVESTOR	DEVELOPER/ PARTNER	LOCATION	APPROX AMOUNT (IN USD MILLION)	YEAR
Proprium Capital Partners	Musaddilal Projects	Hyderabad	100	2018
Ascendas India Trust	Arshiya Limited	Mumbai	38.7	2019
Blackstone	Allcargo Logistics & Industrial Parks	Multiple cities	53.5	2020
IndoSpace	KSH Infra	Pune	134.5	2021
InvestCorp Group	NDR Warehousing	Chennai, Mumbai, NCR, Bengaluru, Coimbatore and Kolkata	55	2022

Source: Vestian Research

Note: YTD 2022 refers to the period January to September 2022

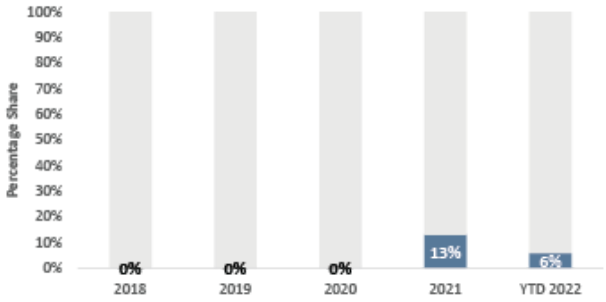




The alternative asset classes

Of late, there has been increased attention focused towards the emerging sectors of data centres and life sciences R&D centres in India, based on the immense growth prospects held by these two segments. The rising interest of investors can be attributed to the potential growth envisaged in data centres, fuelled by an increasing demand from fintech, education, media and content companies, as well as the growth in pharma sector and the increasing contribution of India's workforce in the life sciences sector.

Share of alternative asset classes in total real estate investment



Source: Vestian Research

"With investors, today, looking for an alternative asset class beyond commercial offices and shopping malls, the life sciences R&D sector and data centres hold prospects of substantial interest. The impending surge in the demand for such upcoming segments, combined with the inclination of major construction players to dabble in this rising sector, would lead to further noteworthy developments in India in 2022."

Key observations:

- Alternative asset classes such as data centres and life sciences are fast gaining confidence among the investors with its share increasing to 13% in 2021, although 2022 (YTD) saw a relatively lesser share.
- Interest in life sciences grew prominently in Q2 2022, leading to the share of alternative segments accounting for 15% out of the total investment during the period. Notable mention includes Actis, a global investor in sustainable infrastructure, investing USD 200 million in Rx Propellent. The surge indicates cognisance of the segment as holding vast potential in the forthcoming times.
- In other developments, Bharat Serums and Vaccine Limited has announced an investment of USD 25.7 million for manufacturing state-of-the-art injectables and vaccines, while Ferring Pharma plans to invest USD 64.4 million over the next 2–3 years to set up a facility to manufacture its product Pentasa.
- On the data centre front, India is on the brink of witnessing a boom in the sector. In the wake of businesses striving towards making cloud their primary storage, the ever-increasing demand for app-based services and considerably high dependence on OTT platforms, the data centre market size of India by investment is expected to register a significant growth. Moreover, the impending rollout of 5G will entail high reliability and low latency apps, which will again lead to a growth in demand for data centres.
- Interestingly, the largest contributor to this growth spurt for data centres can be attributed to the COVID-19 crisis. With a vast majority of businesses operating remotely during the pandemic period, a massive rise in data consumption was observed, leading a CRISIL report to suggest a year-on-year increase of 38% from FY 2020 to FY 2021. This augurs well for investor opportunities towards this nascent sector.

Select real estate investment deals in alternative assets segment during 2018-YTD 2022

INVESTOR	DEVELOPER/ PARTNER	LOCATION	APPROX AMOUNT (IN USD MILLION)	YEAR
Cerestra Advisors	Kolte Patil SPV	Pune	100	2018
Ascendas	Ascendas Data Centre SPV	Mumbai	161	2019
CDPQ	MN Park	Hyderabad	100	2020
Brookfield	K Raheja Corp	Mumbai	73.83	2021
Actis	Rx Propellant	Bengaluru, Hyderabad	200	2022

Source: Vestian Research

Note: YTD 2022 refers to the period January to September 2022





The potential game changers: REITs and fractional ownership

REITs

REITs, today, are increasingly being preferred as a viable investment option as they are real estate asset backed, operated and maintained by trusts. While the share of REITs in the overall real estate market capitalization is quite substantial on a global scale and have been in existence in the west since the 1960s, the current SEBI guidelines related to REITs in India were approved only in 2014 and the first REIT launched even later. The country currently has three REITs listed with SEBI (Embassy Office Parks REIT launched in 2019, Mindspace Business REIT in 2020 and Brookfield India REIT in 2021), comprising a large volume of operational commercial buildings with Category A tenants and with good tenant mix.

One of the major trends observed in recent years has been the emergence of the commercial assets segment as the most preferred segment for real estate investment. Not surprisingly, all the three operational REITs have a substantial stronghold over commercial real estate assets. Considering that deals were closed in the midst of the COVID-19 crisis, depicts the maturity of the market and the degree to which India's real estate corporate finance landscape has evolved.

Notwithstanding a few concerns such as the fragmented nature of the market and the high level of compliance and stringent regulatory requirements for REITs, there lies vast untapped opportunity in REIT market, it being still at a relatively early stage in India. Given that the country has a strong commercial office presence, REITs stand to gain substantially. Over time, with strengthening of portfolios across varied asset classes, structural themes of REITs are expected to emerge, and we expect more retail, warehousing and hospitality assets as part of REIT offerings in the forthcoming period. With SEBI having set up an advisory committee on hybrid securities to promote growth and innovation, bodes well for the sector. Moreover, its decision to allow REITs to issue commercial papers will help in raising short-term debt at a lower interest cost. Thus, with relevant factors such as improvement in the economy, growth of other asset classes besides commercial real estate, and more participation envisaged of large domestic institutional investors, REITs in India is set to witness a continued upward growth trajectory in the forthcoming times.





Fractional ownership

With an increasing number of people veering towards an alternate income source, largely to fulfil their aspirations and fortify their retirement corpus, fractional ownership in Commercial Real Estate (CRE) has emerged as one of the preferred avenues that suggest a long-term and stable investment. While fractional investment is fairly popular in the US and in Europe, it is gradually gathering momentum in India as well. The fact that it allows easier access to CRE and enables individuals to invest in real estate in relatively smaller amounts, has led investors to explore this investment opportunity actively in anticipation of the returns expected of commercial grade A properties – an experience that was previously beyond their reach. Thus, commercial real estate sphere that was hitherto dominated by institutional investors, is now set to become a viable investment avenue for the middle class and retail investors in the country.

While the concept of fractional ownership in India is still evolving – its scope necessitating more clarity, several models regarding its structure are already being discoursed upon. Irrespective of models, the underlying intent is to enable one to invest in sections of premium commercial properties to earn a monthly rental yield and create long-term wealth. Indicative returns are offered on the property, typically ranging between an average rental yield of 9-12% and IRR of 13-18% over a period of five to ten years. Interestingly, the concept has found favour with young Indians who are intrigued by the benefits offered by this unique ownership opportunity in CRE, India being one of the stronger and resilient office markets in the world.

Going forward, fractional ownership is expected to evolve into a comprehensive model, or models, that encompass a slew of other real estate segments, besides commercial office spaces. Assets in industrial & warehousing space are already being added selectively to fractional ownership platforms, while others like, hotels, resorts, holiday homes, serviced apartments, managed office spaces, senior living, student living, co-living, retail and institutional (education and healthcare), are some of the segments that are likely to attract fractional ownership in the near future. The advantages of fractional investing are too significant to overlook as it can reduce portfolio risks, cushion market shocks, and improve returns through appropriate diversification. These factors would aid investors in a post-pandemic scenario greatly, helping them to deal with financial disruptions and meet their long-term financial goals by way of smart investing.

Outlook

While the global concerns about the COVID-19 pandemic have subsided now, 2022 (YTD) has seen relative cautiousness with institutional investors, for the major part, opting to wait and watch as developments brought forth by economic slowdown and the Russia-Ukraine war unfolded. The period, nevertheless, has remained positive and saw several important deals being inked in commercial and residential sectors. Thus, the continued traction in institutional investment in real estate during the year implied that investors' confidence has remained fairly consistent despite the economic constraints, inflationary pressure and the continuing pandemic.

The apprehension around the future of the real estate sector in the wake of the economic turmoil notwithstanding, sectors such as commercial and residential assets have continued to hold favourable investment prospects in 2022. With an increasing number of employees returning to office and a robust supply in the pipeline in the forthcoming period, the office sector is expected to witness a better demand than in the previous pandemic-inflicted years, thereby opening increased investment opportunities. On the retail front, improved customer activity and increased investor interest portend fair growth potential for the sector.

Interestingly, circa 2021, in a post-pandemic scenario, investors have been observed to increase their exposure to emerging alternative asset classes such as data centres and life sciences R&D centres. This development is likely to pick up momentum in the next few years. Additionally, REITs have continued to evolve and, along with fractional ownership, is touted to be a game changer for the real estate sector.

Going forward, in the forthcoming period, with the government working towards augmenting the ease of doing business, the IT sector booming in India, and alternate assets growing, institutional investment in real estate is expected to emerge stronger in the forthcoming period, than observed in the first half of the year.



About **FICCI**

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialisation, and its emergence as one of the most rapidly growing global economies. A not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging ebate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 250,000 companies. FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.



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About **Vestian**

Vestian, is a contemporary workplace solutions firm that specializes in providing occupier-focused solutions for commercial, residential, industrial, retail and hospitality sectors. Our service portfolio includes Integrated Service Delivery, Project Services, Investment & Consultancy Services, Transaction Advisory Services, Retail Business Solutions & Integrated Facilities Management Services.

We align and measure our key deliverables based on clients' strategic business goals. Our commitment to achieve excellence and consistency in our service delivery models has helped us attain high standards of quality and raise the bar for the industry. Our experienced team has the required expertise and exposure in different sectors. Combining global best practices and local knowledge, the team provides an integrated solution for all real estate requirements. Moreover, the belief in our corporate philosophy - Delivering Measurable Results - helps us to provide solutions, in keeping with global delivery standards. Vestian is certified in both quality management systems and environmental health & safety standards - ISO 9001, ISO 14001, ISO 37001 and ISO 45001. We are also a member of the Indian Green Building Council.

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