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# FUNDS INFLUX IN INDIAN PROPERTY ON A NEW HIGH

Assessing investment inflows into real estate in H1 2019

## Summary & Recommendations

During H1 2019, private-equity inflows\* into real estate stood at USD3.9 billion (INR27,767 crore), representing a 26% increase over the corresponding period last year, as per Colliers International. Interestingly, the average deal size of the commercial office investments increased by 66% to USD168 million (INR1,165 crore), in H1 2019.

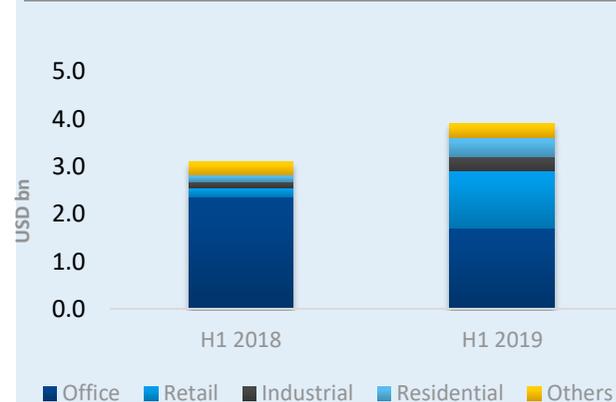
- > We expect investments in 2019 to create a new record, led by the commercial office sector, even as foreign investors hone their focus on the retail and logistics sectors.
- > Distressed assets in the residential space are gathering investors' attention, given their attractive valuation.
- > We foresee investor interest in quality retail developments, not only limited to Tier I cities, but also in smaller towns.

India, investment inflows, H1 2014-H1 2019 (USD bn)



- > Inflows in **H1 2019** surpasses H1 inflows of past years
- > Inflows up **26%**
- > Investments by foreign investors up **28%** hoh

India, sector inflows, H1 2018-H1 2019 (USD bn)



- > Investments more broad-based
- > Office sector share at **42%**
- > Retail garnered **31%** share

Source: Colliers International

\*Inflows denote all investments made through debt, equity and buy-outs  
Others includes Hospitality and mixed-used assets

## Private Equity inflows peaks in H1 2019

During the first six months of 2019, the real estate sector witnessed private-equity (PE) inflows of USD3.9 billion (INR27,767 crore), eclipsing the first halves of previous years, as per Colliers International. This 26% increase in inflows over the corresponding period last year, signals rising confidence of institutional investors in India's grade A offices, retail properties and the warehousing sector. Investors are scouting for investment-ready assets in core office locations in Mumbai, Delhi-NCR, Bengaluru and Hyderabad, which together accounted for about 77% of the office leasing activity in 2018.

Investors also have the logistics and warehousing sector under their radar. The sector has received a much-needed boost from the government following the implementation of the Goods and Services Tax (GST), in addition to attaining infrastructure status, enabling companies to access lower cost credit, with longer tenures and enhanced limits.

Foreign funds remain active in the real estate market, with inflows from such investors rising 28% in H1 2019, as per Colliers International. While foreign funds continue to be active in the commercial office space, they are also investing into the logistics sector. Some recent funds in this space include Logos, Morgan Stanley and the Warburg Pincus-backed developer e-Shang Redwood.

### Top deals, H1 2019 (USD mn)

Investor	Investee	Deal value	City	Sector
Warburg Pincus	Runwal Group	1,000	Multiple cities	Retail
Kotak Investment	Divyasree	400	Multiple cities	Office
Blackstone	Radius	330	Mumbai	Office

Source: Colliers International

### Asset-wise investment inflow, H1 2019



Source: Colliers International

## Mumbai, Pune on investors' radar

Mumbai, India's financial capital, accounted for 27% of total inflows, garnering roughly USD1.05 billion (INR7,288 crore) of investments. Mumbai continues to be the darling of investors, garnering the highest inflows during the first half of 2019. Most of those investments made in the city were on the project level, allowing investors lower risk and appetite.

Pune also attracted notable investments during the six-month period, led by office sector, followed by residential assets and retail malls. Total investments rose tenfold to USD237 million (INR1,645 crore) in H1 2019. Investor interest in Pune mirrors Colliers' *Investors in India look to office, data centers report*, where Pune emerged as top choice for investors in emerging cities.

## Commercial office on top

During the first six months of the year, investments in commercial office assets accounted for 42% share of total investments. Funds are evaluating grade A rent-yielding assets, led by an upswing in occupier demand. Mumbai accounted for the highest share during the first half of 2019, led by two deals by PE major Blackstone.

Buoyed by the successful listing of the Blackstone-Embassy REIT, investors have been building up their commercial office portfolio over the last few years. Pension and sovereign funds are aggregating commercial assets in prime markets. With numerous funds chasing the few investable assets, there is likely to be an increase in capital values, leading to compression in yields in core markets. In fact, investors are also looking to invest at the under-construction stage, to develop buildings into development-grade assets.

In H1 2019, the average deal size rose 66% to USD168 million (INR1,165 crore), led by foreign investors, who accounted for 75% of total office investments.

## Investors shop for retail assets

During H1 2019, investors pumped in USD1.2 billion (INR8,328 crore) into the retail sector, accounting for 31% share. Investors are putting their buck behind India's growth in malls, as 100% FDI in single-brand retail has encouraged brands to set up shop in India, despite the rapid growth of e-commerce. Foreign funds have formed partnerships as they look to grab a piece of the burgeoning Indian market.

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