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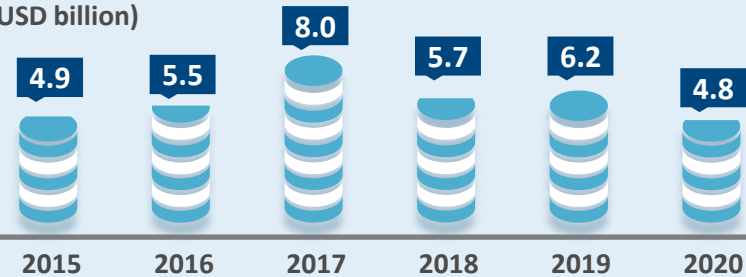
INVESTMENT CONFIDENCE REMAINS INTACT

Insights & Recommendations

During 2020, private-equity investments into the Indian real estate sector declined 23% from 2019. At this juncture, investors are also eyeing alternate assets, as well as projects that require last-mile funding. Investment firms and global developers are undertaking development risks in India and constructing office parks.

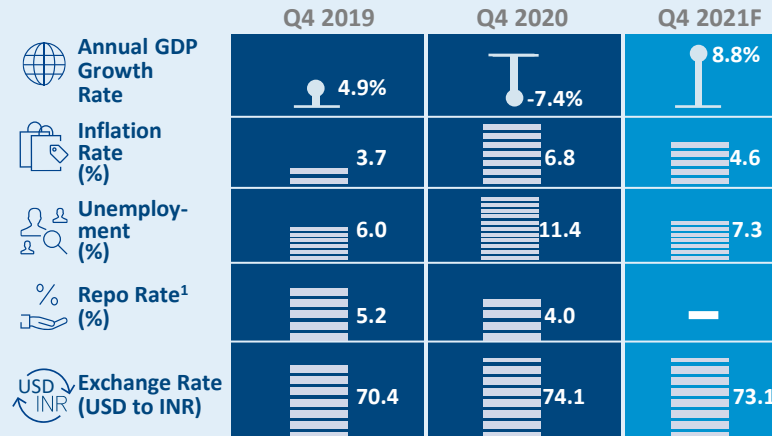
- > We recommend investors fund stalled projects in the final stages of construction. These projects mitigate risks as project approvals are already in place.
- > We also recommend investors focus on logistics and data center assets to take advantage of the growth in these sectors by converting them into a Real Estate Investment Trust (REIT) offering.

Institutional Investments in Indian Real Estate, 2015-2020 (USD billion)



Source: Colliers International

Economic Indicators



Indian REITs	Share Performance ²		Dividend Yield ³
	QOQ	YOY	
Embassy Office Parks REIT	-5.5%	-20%	6.7%
MindSPACE Business Parks REIT	5%	-	-

Source: Oxford Economics, The Reserve Bank of India, Bombay Stock Exchange

¹The rate at which the Reserve Bank of India lends short term funds to banks

During 2020, investments in Indian real estate were subdued in the backdrop of the COVID-19 pandemic. As the economy picked up in Q3 2020, several deals that were stalled in Q2 2020 closed, with transactions rising more than four-fold in H2 2020 over H1 2020.

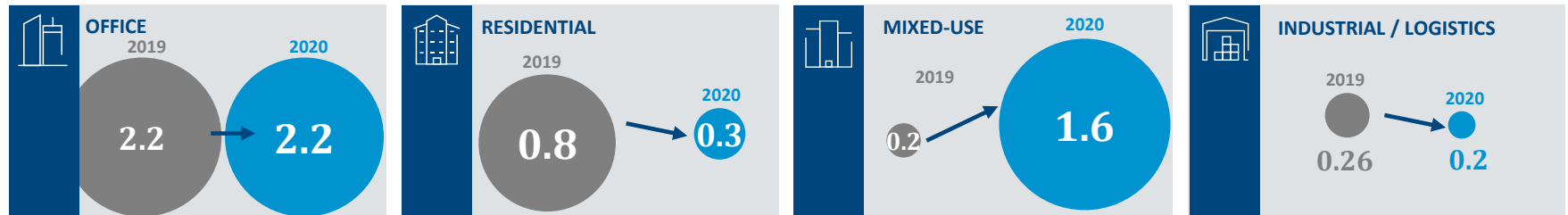
We estimate the commercial office sector accounted for 46% of the total inflows in 2020, signifying investors' unwavering confidence despite India's continuing *work from home* scenario. Further, low interest rates in the country places core office assets in an attractive position for investors. In August 2020, MindSPACE Business Parks, jointly owned by K Raheja and Blackstone, became India's second REIT listing.

From a policy perspective too, the government initiated several reforms in 2020 to improve the real estate sector. To read the impact of the government's financial stimulus, please refer to our report, [India's Financial Stimuli Steering Realty](#), published in December 2020.

²As on 31 Dec. 2020

³Annualised as on 30 Sep. 2020

Trends for Institutional Investments in Indian Real Estate, 2019-2020 (USD billion)



Source: Colliers International

CONTINUED CONFIDENCE IN OFFICE

During 2020, office assets accounted for 46% of the total inflows totaling USD2.2 billion (INR15,450 crores), with the sector showing resilience despite the global pandemic forcing occupiers to use remote working. In one of the largest real estate deals in the country, Canadian investment firm Brookfield Asset Management took an 18% stake in Bengaluru-based RMZ Corp. for about USD2 billion (INR14,000 crores). Despite technology companies in India continuing to work remotely, markets like Bengaluru and Hyderabad are continuing to witness enquiries from technology companies looking to set up their [global in-house centers](#). However, as investment firms are now finding quality assets hard to come by, they are undertaking development risks.

Last-mile funding gains significance in residential projects

Due to the ongoing pandemic, the residential segment has experienced lower sales velocity, which is also impacting investment inflows. In 2020, investments in residential assets accounted for only 6% of the total inflows. [We believe there is ample opportunity for investment funds to finance projects stalled in final stages of construction. This offers lower risk for investors, as project approvals are already in place.](#) The Special Window for Affordable and Mid-Income Housing (SWAMIH) Fund, announced by the government in November 2019 as the dedicated vehicle to finance completion of stressed projects in the affordable and mid-segment housing, is bearing fruit now. The fund has cleared investments worth USD1.8 billion (INR13,200 crores) for 136 projects⁴. Credit funds such as Oaktree Capital and Apollo Global Management are investing in residential projects to help complete construction. As the residential sector undergoes consolidation, we believe that investors are increasingly infusing equity in companies directly, as opposed to the structured debt route at a project level that investors largely used in the last decade. We also note that Japanese funds are eyeing India's residential assets. For instance, Marubeni Corp. invested about USD40 million (INR300 crores) in Wadhwa Group's residential project in Mumbai. We note that stagnant prices, decadal-low loan rates, and rebates offered by developers bode well for demand in the residential sector.

⁴<https://content.magicbricks.com/property-news/govt-backed-stress-fund-starts-realty-projects-revival-buyers-gain-confidence/117611.html>

Highlights



46% of the total inflows totaling **USD2.2 billion** (INR15,450 crores) were in the office market.

18% of Bengaluru-based RMZ Corp. worth **USD2 billion** (INR14,000 crores) purchased by Canadian investment firm Brookfield Asset Management



Opportunity for last mile funding offers a **Lower risk** for investors

Investors honing on data centers (DCs)

During 2020, Colliers notes the large Carlyle Group – Nxtra Data Services entity-level investment of about USD235 million (INR1,700 crores) in DCs, and we expect another entity-level deal to be closed in Q1 2021. This interest in DCs resonates with our April 2019 survey [Investors in India look to office and data centers](#), where about 63% of the respondents preferred DCs as their first choice among newer avenues for investment. Per Colliers’ report [Co-location data centers in India: A realty-tech-infra play](#) dated October 2020, we estimate that Tier 3 and Tier 4* data center assets can provide a net yield per annum of about 16%-18%, making them attractive for investors. [Over the next decade, we also believe that a strong DC portfolio can be converted into a Real Estate Investment Trust \(REIT\) offering, led by a strong appetite for income-yielding assets.](#)



India has DC capacity of about **1.2 megawatt (MW)** per user, compared to Europe’s **19.1 MW** per user.

The inflows on the map account for 21.0% of the total investments in India. The remaining inflows are multi-city deals or in Tier II cities.

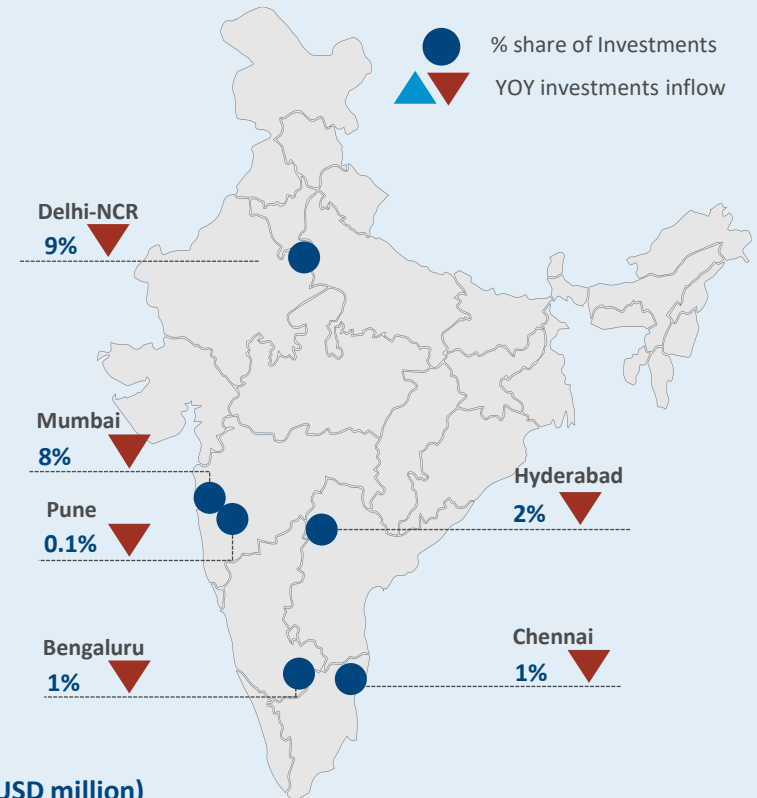
Private Equity Construction Finance

Investment Type	Investment Stage	IRR
Pure equity	Land acquisition	>23%
Structured debt	Post land acquisition	18-23%

Current Yields

Asset Class	Yield Range
Completed office assets	8.5%-9.5%
Fully leased warehouses	9-11%
Retail (Minimum guaranteed rental revenue)	9.5%-10%
Residential	2.5%-4%
Co-living, student housing	5-7%

India, Investment Inflow, 2020



Major Investment Deals 2020, INR crores (USD million)

Investor	Investee	Asset Class	City	Amount
Brookfield	RMZ	Office	Multiple	14,000 (2,000)
Blackstone	Prestige	Mixed-use	Multiple	12,745 (1,500)
The Carlyle Group	Nxtra Data Services	Data Center	Multiple	1,700 (235)
GIC-ESR	Joint Venture Platform	Logistics	Multiple	5,500 (750)
Good Host Spaces	OP Jindal	Student Housing	Sonipat	900 (120)

Source: Colliers International. *Tier 1 data centers offer the simplest infrastructure, while Tier 4 offers the most complex infrastructure with accompanying redundancy up to an expected uptime of 99.995%.

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