



# Connect

April 2015

## Foreword

▶ **Rubi Arya**  
Vice Chairman & Director



### ***Dear Friends and Associates***

I am happy to present to you the April, 2015 issue of CONNECT, our corporate e-newsletter.

The past few months have been extremely robust and action packed for all of us at Milestone. Our new fund, the 'Milestone Opportunities Fund 10' is gaining momentum and we have received commitments from existing as well as new investors. Moreover the pass through status for taxation of AIF (Category II) funds like ours announced in the Union Budget 2015 immensely benefits investors for efficient tax planning in line with their effective tax rates. I am happy to share that we are in final stages of closing deals in Chennai and Mumbai.

After a multi-year stagnancy since 2008, when the last launches of commercial build out took place, it is our view that as the revival of the economy and corporate sector takes place, commercial real estate will undergo a significant transformation and re-rating, led mainly by the non-IT/BPO sector. This thesis is supported by the IT/BPO led commercial boom in the last few years where a large amount of assets, backed by readily available PE funding got absorbed in markets like Bengaluru. With no incremental supply on the corporate commercial side, as well as the huge price gap between commercial and residential real estate, especially in markets like Mumbai, there is a sweet spot in the next 24 months for fund investments, after which quality commercial assets will be in short supply. We expect the commercial boom cycle may be far greater than residential.

On the residential side, from a growth & investment perspective, micro-markets that have a high concentration of current and projected business & infrastructure activity and offer the right price-product mix, will see an increased momentum when compared to other markets that are relatively saturated.

I am happy to share that, we have recently exited our investment in a residential project in Greater Noida – ATS Dolce through our Milestone Domestic Scheme III fund. We are also pursuing exits from our commercial assets such as the iconic 247 Park in Mumbai, E-City in Bengaluru, Millennium Tower in Kolkata and Acorn Warehouse in Dharuhera NCR. It gives us immense pride that we are one of the few real estate fund houses in the country that have been consistently returning money back to our investors. Till date, we have returned over Rs 2200 crores by way of capital and income to our investors.

Also, Milestone has demonstrated relative outperformance in a study conducted by Venture Intelligence- an independent PE & VC analytics company covering top 8 domestic real estate PE fund houses in India. The study was conducted across various parameters like diversification of investment portfolio, number of funds raised in real estate and amount returned to investors during the period 2008-2014. A noteworthy mention is that, as on 31st Dec 2014, we have returned 65% of our real estate funds raised as against the industry average of 50%.

Lastly, it gives me immense pleasure to state that we are on the verge of successfully closing two of our initial real estate funds, Milestone Domestic Scheme I and IL&FS Milestone Fund I at healthy valuations.

I thank you all for your support and look forward to CONNECTing again.

# Business Updates

“We are successfully closing our early vintage funds and focus has been on profitable exits. We continue to evaluate attractive investment opportunities and will soon invest in mid segment residential project.”

## Housing demand is likely to pick up in the forthcoming months

Residential sales declined by approximately 30% y-o-y by the end of 2014 across the seven leading cities of the country, largely due to high price points, sticky interest rates and cautious buyer sentiments. However with recent RBI rate cuts and improving business sentiment, housing demand is likely to pick up in the forthcoming months. At Milestone, we believe that in the next 3-4 years, the housing sector will witness a major upswing in the sales velocity, provided sale prices and product configuration is right.

We are successfully closing our early vintage funds and focus has been on profitable exits. We continue to evaluate attractive investment opportunities and will soon invest in mid segment. We exited our first tranche investment of Rs. 65 crores in ATS Dolce, Greater Noida at an IRR of 23%. Also we have concluded exits from Assa House, Nagpur and Salaam Towers, Chennai at a combined valuation of Rs 50 crores. Additionally, we have recently invested into a senior living / villa development at Pondicherry which has already sold 50% of its inventory.

We continue to evaluate attractive investment opportunities and will soon invest Rs 75 crores in mid segment residential project, once due-diligence is complete. We are also in the process of finalizing investments in Mumbai/Pune/Bengaluru as part of our new fund strategy.

## Real Estate Development Funds

### ► Milestone Domestic Scheme - I

Funds Received	Rs. 219.3 Crores
Final Closing Date	31st March, 2008
Term	5 years + 1 year + 1 year
No. of Investments	15
Committed Amount	Rs. 212 Crores
Capital Divested	Rs. 174 Crores
Income Generated (Pre-tax)	Rs. 82 Crores
Total Divested Amount	Rs. 257 Crores (117%)

### ► Milestone Domestic Scheme - II

Funds Received	Rs. 398.0 Crores
Final Closing Date	30th November, 2008
Term	4 years + 1 year + 1 year
No. of Investments	13
Committed Amount	Rs. 323 Crores
Capital Divested	Rs. 217 Crores
Income Generated (Pre-tax)	Rs. 125 Crores
Total Divested Amount	Rs. 397 Crores (99%)

Additional Distribution made Rs. 54 Crores

### ► Milestone Domestic Scheme - III

Funds Received	Rs. 394.0 Crores
Final Closing Date	31st January 2012
Term	3.5 years + 1 year + 1 year
No. of Investments	9
Committed Amount	Rs. 328 Crores
Capital Divested	Rs. 80 Crores
Income Generated (Pre-tax)	Rs. 123 Crores
Total Divested Amount	Rs. 203 Crores (51%)

### ► Milestone Fund LLC

Funds Received*	US\$ 75.3 mn (INR 3410 mn)
Final Closing Date	30th March, 2009
Term	6 years + 1 year + 1 year
No. of Investments	5
Committed Amount	US\$ 66.1 mn (INR 2904 mn)
Capital Divested	US\$ 5 mn (INR 283 mn)
Income Distributed (Pre-tax)	US\$ 9.2 mn (INR 564 mn)
Total Divested Amount	US\$ 14.2 mn (INR 846 mn (24.8%))

\* Exchange rate 1 US\$ = INR 45.32 at the time of fund received

**“At Milestone, our rental yield funds are fully deployed and are generating stable yields consistently.”**

## Commercial Real Estate on the way to transformation

The commercial real estate market in India is on the way to transformation and we expect significant re-rating, the key drivers being:

- a) improving supply-demand dynamics
- b) increased private equity investments
- c) seeding of I-REITs

Private equity investments in real estate doubled y-o-y in 2014 with almost 50% in commercial real estate.

Commercial real estate is poised for multi-year growth with several tailwinds in place. Bengaluru, in general (ORR in particular), select micro-markets of Gurgaon (CBD, Cybercity) and Mumbai (BKC, Western & Central suburbs) are preferred regions.

Leasing activity witnessed an upward momentum in Mumbai & NCR in 2014, particularly during the second half of the year, when occupier interest peaked. Vacancy rates in office space market declined 5-6% over the past 3-4 years. Office space occupiers will continue to remain bullish in 2015 as well and we expect leasing to improve & rentals to go up from current levels, which are still 15-40% lower than peak in most markets.

At Milestone, our rental yield funds are fully deployed and are generating stable yields consistently. We are under finalization to exit from properties in Kolkata and Bangalore in the next couple of months.

### Real Estate Rental Yield Funds

#### ► IL&FS Milestone Fund - I

Funds Received	Rs. 516 Crores*
Final Closing Date	31st March, 2008
Term	4 years +1 year +1 year
No. of Investments	6
Committed Amount	Rs. 487 Crores
Capital Divested	Rs. 340 Crores
Income Generated (Pre-tax)	Rs. 281 Crores
Total Divested Amount	Rs. 621 Crores (120%)

\*Includes the corpus of co-investment vehicles

#### ► IL&FS Milestone Fund - II

Funds Received	Rs. 570 Crores*
Final Closing Date	31st March, 2010
Term	4 years +1 year +1 year
No. of Investments	6
Committed Amount	Rs. 488 Crores
Income Generated (Pre-tax)	Rs. 202 Crores
Total Divested Amount	Rs. 202 Crores (35%)

\*Includes the corpus of co-investment vehicles

#### ► IL&FS Milestone Core Plus Retail Fund LLC

Funds Received	US\$ 22 mn
Final Closing Date	19th December 2011
Term	5 years +1 year +1 year
No. of Investments	1
Committed Amount	US\$ 22 mn
Income Distributed (Pre-tax)	US\$ 2.53 mn (11%)

\* Exchange rate 1 US\$ = INR 45.71 at the time of fund received

# Smart Referrer



REITs Global Index market capitalization is US\$ 1.1 trillion with approximately 64% coming from US REITs. Globally, the REIT Index (developed markets) has outperformed non-REIT Realty Index by 35-40% in the last 5 years. US REITs took more than 30 years of nascent period before massive takeoff.

Capital/rental appreciation to play crucial role in augmenting total return for REIT investment

		Cap rate (%)				
		8%	9%	10%	11%	12%
Rental CAGR (%)	0%	12.0%	9.1%	6.5%	4.2%	2.1%
	1%	13.1%	10.2%	7.7%	5.4%	3.3%
	2%	14.3%	11.4%	8.9%	6.6%	4.5%
	3%	15.5%	12.6%	10.0%	7.7%	5.6%
	4%	16.6%	13.7%	11.2%	8.9%	6.8%
	5%	17.8%	14.9%	12.3%	10.0%	8.0%

Source: MOSL

Country	Inception year	Years of History	Nos of REITs	Mcap (USD b)
US	1960	53	197	852
Netherland	1969	44	5	11
Australia	1985	28	52	86
Canada	1994	19	49	56
Singapore	1999	14	37	52
Japan	2000	13	46	84
France	2003	10	33	75
Hong Kong	2003	10	12	29
Taiwan	2003	10	6	3
UK	2007	6	22	66

Source: EPRA



## Making a Difference !!!

Milestone Capital Advisors has partnered with IIMPACT, a NGO actively engaged in promoting girl child education in remote villages across India. Milestone is closely working with the NGO and has set up **‘Ved Prakash Arya Learning Centres’** across 5 villages in rural Kota, Rajasthan. The learning centres provide foundation level education to the girls and educate them with language skills, basic numbers & alphabets along with creating awareness on sanitation, cleanliness & hygiene. The initiative is currently in its 4th year and is receiving a favourable response from the local village panchayats and we are seeing an increased number of admissions every year.

Additionally, we have partnered with Sankara Nethralaya, a Chennai based charitable hospital actively engaged in ophthalmic care, to support Cataract operations of underprivileged patients. The initiative is in its 1st year and we intend to subsequently increase the number of patients every year.



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