



# Connect

December 2015

## Foreword

▶ **Rubi Arya**  
Executive Vice Chairman



### *Dear Friends and Associates*

I am pleased to present to you the December 2015 issue of CONNECT.

I would like to start off by wishing you and your family a Merry Christmas and a prosperous New Year. May the new year bring health, wealth and prosperity to everyone.

During the last quarter, our 10th Fund, the Milestone Opportunities Fund 10 (MOF 10) made its maiden investment in a residential housing project in Mumbai. We have partnered with 'Rajesh Lifespaces', a reputed developer in Mumbai for their 9.4 acre project 'Raj Tattva' in Thane. Mid-income residential & affordable housing by established developers, will witness continued demand in the next few years and select micro markets with well developed infrastructure and connectivity will remain favourable. For the first time in three years, incremental housing demand has exceeded the incremental supply in cities such as Mumbai, Pune & Bangalore, thereby signaling a stability in the coming years.

The real estate sector is poised for tremendous growth over the next few years. The Government is playing its part by announcing a slew of initiatives. Recently the Union cabinet approved major amendments to the Real Estate (Regulation & Development) Bill 2015, which aimed at greater accountability, investor protection, transparency & efficient working in this sector. This will lead to faster completion of projects and bring back buyer confidence. The Government has also boosted sentiments by amending the FDI policy on Construction and Real Estate Sector, which enables free flow of foreign capital into the real estate sector with a significant relaxation in the earlier specified criteria for investments and exits. In my view, the relaxation of the FDI norms along with India moving up 4 spots in the 'Ease of Doing Business Index' will attract interest from FIIs, and established fund houses will collaborate with institutional investors to set up club deals & separate accounts giving the institutional investors more control.

We are extremely bullish on the revival and high growth of the commercial real estate, with REITs as a potential exit strategy for completed assets with existing cash flow. As per market studies, Bangalore, accounting for 33% of all office space leased in Asia-Pacific region, leads the global office rental index with yields as high as 10.5% this year. This is primarily due to the IT/ITeS & e-commerce players leasing out large office & warehousing spaces. Going forward, I believe that Mumbai, being India's financial capital backed by corporate growth, ease of doing business & focus on infrastructure, will support robust office leasing activity. Studies show that Mumbai is slated to provide upwards of 15% yields by 2018, and with limited incremental supply of high-quality commercial offices, makes it one of the most attractive markets to evaluate for commercial office investment. Focusing on long-term corporate strategy and workplace improvement, companies are willing to consider opportunistic upgrades and activity-based workplaces, hence willing to evaluate high-grade office spaces.

Given such a robust outlook, it is an optimal time for investors to consider investing into the rent yielding office/warehousing sector in India and we are also working on certain innovative products allowing them to partake into this opportunity with a professionally managed platform.

On an organizational front, I am happy to share that our Trusteeship business has now garnered Assets under Trusteeship of Rs 30,000 crores and we will soon begin to roll out a few products from our NBFC and PMS platform as well.

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



# Business Updates

**Our 10th Fund, the Milestone Opportunities Fund 10 has made its maiden investment in 'Rajesh Lifespaces' for their project 'Raj Tattva' in Thane (Mumbai)**

## RESIDENTIAL REAL ESTATE

### **Economic sentiment is turning positive and buyers are motivated**

Bangalore and Hyderabad saw a few new residential project launches followed by Mumbai, Gurgaon and Chennai. Capital values remained largely stable across all cities. Overall urban housing demand in India is expected to grow by nearly 15 million units by the end of 2019, the growth being led by mid-income & affordable housing development. The top eight cities will contribute 3.4 million units to this overall demand.

With inflation coming down and RBI reducing policy rate we see a further reduction in home loan rates which will help generate end-user demand for residential market.

At Milestone, our funds are fully committed and our investments are being well serviced by developers. We have partially exited from Richa Realtors and Hubtown in Mumbai and expect to fully exit by mid 2016. We are also in advanced stages of exiting our investment in ACORN Warehouse, Dharuhera.

## COMMERCIAL OFFICES

### **Commercial Real Estate on a strong recovery path**

Improving business sentiments and economic recovery have led to higher demand for office spaces in the last few quarters. Absorption volumes have been surpassing new completions consistently due to which, the vacancy levels in India have been reducing. Bangalore & Mumbai currently lead the way, with the highest office space absorption in the country, with over 10% yield on investments. Over 10mn sq ft of office space was transacted in these markets during H1 2015. As per market reports, given enhanced corporate performance & industrial growth, demand for quality commercial property will be in high demand in Mumbai making it one of the highest yield producing markets globally in the next 3 years with yields upwards of 15%. This makes this sector extremely attractive for investors going forward.

At Milestone, we are actively exploring exits of our balance investments in the IL&FS Milestone funds and expect to fully exit within the remaining life of the fund.

# Business Updates

**57** REAL ESTATE INVESTMENTS

**26** COMPLETE EXITS

Over  
Rs. **2800** Cr.  
Raised & Distributed

## Milestone Fund Track Record

As on 30<sup>th</sup> November 2015

All figures shown in Rupees (Crores)

# Knight Frank valuation adjusted after capital distribution made post 31st March, 2015

NAME OF FUND	FUNDS RAISED	CLOSING	INVESTMENTS	AMOUNT RETURNED (Capital + Income)		INVESTMENT MULTIPLE	REALISED GROSS IRR	VALUATION OF UNDIVESTED CAPITAL*	PROJECTED GROSS IRR	
<b>DEVELOPMENT FUNDS</b>										
MILESTONE DOMESTIC FUND I & II	2 funds	617	Mar-08/ Nov-08	28	664	108%	1.3	12%	159	11%
<b>PRIVATE REITs</b>										
IL&FS MILESTONE FUND I & II	2 funds	1086	Mar-08/ Mar-10	12	1,249	115%	1.5	16%	375	13%
<b>STRUCTURED DEBT</b>										
MILESTONE DOMESTIC FUND III	1 fund	394	Jan-12	10	283	72%	1.5	24%	308	21%
<b>TOTAL DOMESTIC FUNDS</b>		<b>2,097</b>		<b>50</b>	<b>2,196</b>	<b>105%</b>	<b>1.4</b>		<b>842</b>	
<b>OFFSHORE FUNDS</b>										
IL&FS MILESTONE CORE PLUS RETAIL FUND LLC	1 fund	100	Dec-11	1	137	137%	1.5	21%	9	21%
MILESTONE FUND LLC	1 fund	341	Mar-09	5	85	25%	1.3	14%	357	14%
<b>TOTAL OFFSHORE FUNDS</b>		<b>441</b>		<b>6</b>	<b>222</b>	<b>50%</b>	<b>1.3</b>		<b>366</b>	
<b>OTHER FUNDS</b>										
MILESTONE BULLION SCHEME - I	1 fund	330	Oct-10		389	118%	1.2	6%	FUND FULLY EXITED	-
<b>TOTAL MILESTONE FUNDS</b>		<b>2,868</b>		<b>56</b>	<b>2,807</b>	<b>98%</b>			<b>1,208</b>	
<b>DIVESTED BUSINESSES</b>		<b>833</b>								
<b>TOTAL</b>		<b>3,701</b>								
REAL ESTATE FUNDS		2,538		<b>Number of investments</b>		57 investments pan India.				
BULLION PRODUCTS		330		<b>Performance across funds</b>		26 exits across real estate funds 98% of all funds raised returned by way of capital & income				
EQUITY LINKED NOTES		400								
*EDUCATION & HEALTHCARE FUND (DIVESTED)		433								
<b>TOTAL FUNDS RAISED BY MILESTONE</b>		<b>3,701</b>								

Note: IRRs for Offshore Funds are in INR terms

## Team Enhancement



### Shodhan Kembhavi, Head - Legal

Shodhan has 32 years of work experience and was last associated with Oberoi Realty Limited as Chief Legal Officer. Before joining Oberoi Realty, he was associated with Godrej Properties Limited for 14 years as Vice President ( Legal ) & Company Secretary. His other stints were with Leela Hotels, Bajaj Hindusthan, Standard Batteries, Premier Automobiles and HUL. He is a Company Secretary ('91), LLB ('83) and B.Com ('81) from Mumbai University.

# Smart Referrer



Bangalore, Mumbai & Delhi currently offer the highest yields globally at 9-11% (refer Table 1). Going forward, Mumbai & Bangalore commercial offices are slated to offer yields upwards of 15% (refer Table 2). This scenario is extremely encouraging for the investors looking towards the commercial sector with interest, as this is the right time to create wealth by investing into commercial real estate.

**Table 1 - Prime rental yields across 20 global cities  
- end of 2015 forecast:**

Rank	City	Prime Rental Yields
1	Bengaluru	10.50%
2	Mumbai	10.00%
3	Delhi	9.50%
4	Mexico City	7.00%
5	Shanghai	6.30%
6	Beijing	6.30%
7	Melbourne	6.10%
8	Sydney	5.75%
9	Chicago	5.40%
10	Washington DC	5.00%
11	Los Angeles	4.90%
12	Frankfurt	4.50%
13	San Francisco	4.00%
14	New York City	4.00%
15	Madrid	4.00%
16	Tokyo	3.70%
17	Singapore	3.70%
18	London	3.50%
19	Paris	3.50%
20	Hong Kong	2.90%

**Table 2 - Forecast for Office Rental Growth for  
the period between end of 2015 to end of 2018**

Rank	City	Prime Rental Yields
1	Madrid	22.2%
2	Mumbai	21.3%
3	San Francisco	20.2%
4	Melbourne	15.8%
5	Bengaluru	15.8%
6	London	13.6%
7	Los Angeles	12.5%
8	Hong Kong	12.0%
9	Paris	9.8%
10	Chicago	9.3%
11	Washington DC	8.5%
12	Sydney	7.7%
13	Shanghai	6.1%
14	New York City	5.8%
15	Tokyo	5.3%
16	Delhi	5.0%
17	Frankfurt	3.5%
18	Mexico City	1.5%
19	Beijing	1.8%
20	Singapore	-3.0%

Source: Knight Frank, Newmark Grubb Knight Frank, Sumitomo Mitsui Trust Research Institute



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Disclaimer: All references to market scenarios expressed herein are collated from various published third party market information and does not indicate any effort to solicit any sale or enquiry. All figures pertaining to our funds are as per our latest quarterly e-newsletters and are updated as on the last day of the previous month. While we have made every attempt to ensure that the information contained herein has been obtained from reliable sources, we are not responsible for any errors or omissions, or for the results obtained from the use of this information. We specifically disclaim any and all liability for any claims or damages that may result from the information contained herein. Any queries pertaining to any information displayed herein should be mailed to info@milestonecapital.in