

## NEW VENTURE

# Milestone raising ₹1,400 cr commercial real estate fund

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MUMBAI

**M**ilestone Capital Advisors Ltd is raising its third commercial real estate private equity fund of almost ₹1,400 crore, said a top executive of the property-focused investment firm.

"We are in the process of raising a new commercial fund, which envision will be of ₹1,400 crore. The principal component is around ₹700 crore, while there is a green shoe option to go up to another ₹700 crore," said Rubi Arya, executive vice-chairman at Milestone.

Funds are being raised from both domestic and overseas investors, with Milestone expecting overseas investors, including non-resident Indians (NRIs) and institutional investors, to contribute around ₹500 crore to the fund.

Milestone expects to achieve a first close of the fund by the end of the current calendar year.

This is the 11th fund that the investment firm is raising since starting operations in 2007. It is currently in the final stages of raising a residential property-focused fund of around ₹500 crore. In its previous nine funds, Milestone has raised close to ₹3,700 crore. Previously, the investment firm had raised two commercial real estate funds. Milestone has exited both.

It is raising its third commercial

real estate fund, as it feels that vacancies—in office spaces—and rents have bottomed out, thus making this an opportune time to invest in ownership of commercial assets, said Arya.

"The market is opportune for a commercial fund right now. On the back of growth of sectors such as IT and ITes (information technology and IT-enabled services), banking and financial services, pharmaceuticals and, to a certain extent, the growth of e-commerce, we are seeing a lot of absorption of office space. In fact, the absorption has increased to 2006-2008 levels. We are seeing 42-43 million sq. ft absorption pan India, annually," she said.

Market dynamics such as rentals and supply-demand mismatch also

make it an interesting time to invest in commercial assets.

"As far as rentals are concerned, we feel that we have already seen them bottoming out. And now we see an upward trend, because vacancies are low and there is a supply-demand mismatch," said Arya.

Demand for commercial assets is outstripping supply in the market due to a lack of commercial asset development

between 2011 and 2014, she said.

"Developers were not getting funded for commercial real estate development and even monetization of assets was not happening as people were staying away from real estate during those years. Today, there is a clear mismatch between the cost of residential assets and commercial assets. In the same markets, you see residential assets are at least 50% higher, if not more, than commercial assets," said Arya, adding that down the road Milestone expects matching

of prices to happen and hence any investor who is coming into commercial assets will see good returns.

The latest fund is registered with the Securities and Exchange Board of India as a category II alternative investment fund, which will have the flexibility of getting converted into a REIT (real estate investment trust).

REITs are listed entities that primarily invest in leased office and retail assets, allowing developers to raise funds by selling completed buildings to investors and listing them on stock exchanges as trusts. Investors earn return on investment either

through value appreciation or rental income generated by commercial assets.

The fund will be investing primarily in tier I cities such as Mumbai, Pune, Bengaluru, Chennai, Hyderabad and Delhi NCR. "We are looking at tier I cities only because we see growth happening in industries such as services industries, which are based out of tier I cities," said Arya. "We want to have a risk-averse instrument for our investors so we are limiting ourselves to tier I cities only."

The fund will be looking at owning rent-yielding assets, which could be in the range of ₹150 crore to ₹500-600 crore. "If we have to invest in larger assets then we also have co-investment option for our investors," said Arya. Ownership of assets allows for better control over the asset and also allows for creation of more value out of the asset, she said, adding that the fund will primarily look for assets that are already generating rental income.

However, the fund also has a provision of deploying up to 10% of the capital in debt investments as last-mile funding for commercial assets.

The latest fund from Milestone will have a life of seven years and the firm is looking to give post-expense returns to investors in the range of 15-16%.

The new commercial real estate fund-raise from Milestone comes at a time when private equity investments in the real estate sector witnessed a sharp jump in 2015. According to Bain & Co's *India Private Equity Report 2016*, private equity investments in the real estate sector grew to \$3.9 billion in 2015 from \$2.2 billion in 2014.

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**Milestone expects overseas investors, including NRIs, to contribute around ₹500 cr to the fund**