

# PEs Go for 'Safe' Bets in Commercial Realty

In '15, PEs pumped in over \$5 b, of which 10% was in commercial space

**Sobia Khan & Kailash Babar**

**Bengaluru | Mumbai:** The commercial real estate sector is witnessing increased interest from private equity funds, with several large institutions focusing on completed and leased commercial assets for investment.

In 2015, private equity real estate firms deployed more than \$5 billion in Indian realty companies and projects — the highest since the financial crisis of 2008 — through 90 deals, according to research from Venture Intelligence. Large investors and established developers also created several joint venture platforms in the past year, it said in a report. Of the investment made, commercial projects accounted for 10%, it said.

“Most of the private equity funds that India is receiving are from sovereign funds and pension funds,” said Sanjay Dutt, managing director, India, at realty consultants Cushman & Wakefield. “These funds prefer to invest in safer assets and have the potential to make long-term investments.”

Completed leased commercial assets are seen as the best bet for these investors. They have also been actively getting into tie-ups with builders to make investments in India.

In one such arrangement, Tata Group's real estate and infrastructure development arm, Tata Realty & Infrastructure, partnered with Standard Chartered Private Equity to create a ₹3,000 crore investment platform. While Goldman Sachs and Bengaluru-based property developer Nitesh Estates formed a \$250 million fund to invest in income producing commercial real estate assets in India, APG and Xander launched a \$300 million India office venture. Similarly, US private equity giant Blackstone formed a special purpose vehicle with Embassy Property Developers, while

## Standing Tall

**Office space** pre-commitment levels across 8 cities seen at 11.80 msf in 2015



**2015 witnessed several Joint Venture platforms** being created between large investors and established developers

**Commercial projects** accounted for 10% share of the total PE investment

**Private equity funds** that are planning to launch their REIT are seeking to build a portfolio of commercial assets



## RISING INTERESTS

Tata Realty & Infrastructure formed a **₹3,000-crore** platform with Standard Chartered Private Equity

Goldman Sachs and Nitesh Estates formed **\$250 million** platform

APG and Xander also launched **\$300 million** India Office Venture



**Assets are available at attractive valuations. We are already evaluating a few deals for investment**

**RUBI ARYA**

*Executive vice chairman of Milestone Capital Advisors*

sovereign wealth fund Qatar Investment Authorities agreed to back real estate firm RMZ to buy commercial assets.

“The world economy is unstable and risk appetite among investors is going down. Funds want to invest in income-generating assets as they are looking for safe and long-term investment,” said Raj Menda, corporate chairman at RMZ. The company is looking to raise \$600 million more to invest in income-generating assets.

From the REIT perspective, private equity funds that are planning to launch REITs are seeking to build a portfolio of commercial assets. “Commercial platform is extremely important as office assets cannot survive merely on leverage (borrowed) money. Equity money is extremely important to increase quality of commercial assets and long-term success of real estate investment trust,” said Rajeev Bairathi, ED of capital trans-

actions group at Knight Frank India.

Meanwhile, better market outlook is prompting Milestone Capital to look at introducing a domestic commercial fund this year to deploy rent-earning pre-leased assets, of around ₹1,000 crore.

“Assets are available at attractive valuations. With interest rates in a low range, higher capital appreciation is possible. We are already evaluating a few deals for investment,” said Rubi Arya, executive vice chairman of Milestone Capital Advisors.

Milestone Capital is also working on exits worth ₹700 crore, including ₹500 crore from commercial assets in the next one year in the backdrop of a recovering office property market.

Milestone's last major exit came with Blackstone Group acquiring entire stake in the 1.2-million-sq-ft commercial asset, 247 Park in the Vikhroli suburb of Mumbai, for ₹1,060 crore in 2015. It exited the project with returns of 2.4 times its investment.

