

PE Inflows into Office Space Surge on Reforms

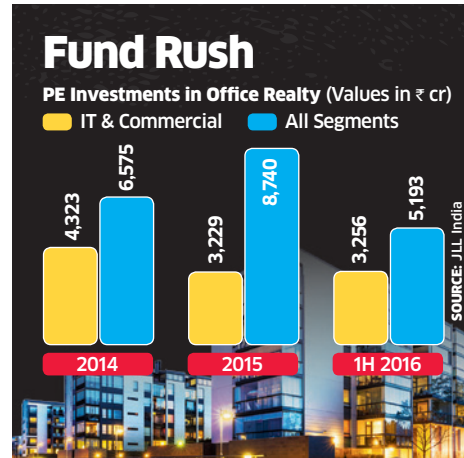
Experts feel PE investments in 2016 may cross the previous 5-year high of ₹4,323 cr in 2014 as office realty gets ₹3,256 cr in first half

Kailash.Babar@timesgroup.com

Mumbai: Renewed confidence among institutional investors has pushed private equity flows into commercial real estate in the first half of 2016 even beyond the cumulative investments witnessed during the whole of last year. Office realty has received over ₹3,256 crore investments from private equity funds during January to June against ₹3,229 crore in 2015, a JLL India study showed.

Given the steady rise in these investments, experts believe that private equity inflows into commercial real estate in 2016 may even cross the previous five-year high of ₹4,323 crore seen in 2014.

“The current developments relating to Real Estate Regulatory Authority (RERA) and Real Estate Investment Trusts (REITs) are major factors that will lead to more investments into the sector. RERA is expected to enhance the transparency and corporate governance, which is preferred by institutional investors. The possibility of an exit avenue in the form of Real Estate Investment Trusts is also prompting developers and institutions to own these assets,” said Anuj Puri, country head of JLL India.



Institutional investors' interest in the country's commercial assets has been inching upward in the backdrop of rising occupancy levels and steady demand. In India's largest real estate transaction so far this year, realty developer RMZ

Corp acquired the Essar Group's commercial project Equinox Business Park in Mumbai's BKC for ₹2,400 crore. RMZ bought this asset through its alliance with Qatar Investment Authority.

“Recent government reforms along with improved occupancy, rentals and demand for commercial and office space from various industries such as IT/ITES, pharmaceuticals, BFSI have made the investment into this sector more lucrative. Demand for commercial assets is outstripping supply in the market due to a lack of commercial asset development between 2011 and 2014. This is an ideal time for commercial real estate investments as assets are available at attractive valuations,” said Rubi Arya, executive vice-chairman of Milestone Capital Advisors, that has invested and managed over 4 million sq ft commercial assets in India.

Global investors, including Blackstone Group, Singapore's sovereign fund GIC, Canada Pension Plan Investment Board (CPPIB), Goldman Sachs and Qatar Investment Authority have already been investing in Indian realty assets for the past few years. Apart from these, several new funds are also eyeing investment and alliance opportunities.

“Mood has changed from what it used to be two years ago. Investors have started to see the yield

curve coming down and now expect good capital gains besides rent appreciation. With this, more funds are prepared to assume equity risk in ready and leased commercial realty projects,” said Sudarshan Bajoria, MD of First Eagle Capital Advisors.

Equity flows in the commercial sector, against debt and mezzanine structures, have also turned stronger, indicating that large investors are keen on equity participation in these projects. Although the right asset remains a key consideration, the increasing share of equity financing indicates strong positive sentiments for commercial assets.