Revamped Realty Scene Attractive for Institutional Capital Flows

Realty Act, GST and demonetisation have made sector more transparent

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Mumbai | Bengaluru: The big-ticket transition signalled through the Real Estate Regulatory Act (RERA), currency demonetisation and Goods and Services Tax is set to spell more opportunities for institutional capital in India's real estate sector. Private equity players, who have so far preferred the structured-debt route to invest in Indian property market, are likely to find the market even more transparent and attractive.

More foreign direct investment (FDI) can be expected through equity now as this will lead to an economy more aligned to global compliance standards, making investing easier for foreign entities.

"From a historic high seen in 2009, when the share of private equity inflows into residential real estate peaked to 60% of the overall pie, it has gradually reduced to 10% in 2016. This 10% figure is same as the investment split seen in 2006, which was the first time equity interest tracked into the residential asset class. Private equity investment was entirely focused on the commercial asset class in the initial few years," said Anuj Puri, chairman, JLL India.

"While the real estate business has currently taken a step back due to these, it will set a very strong foundation for long-term growth. Equity investments at such times can work extremely well for long-term investors," Puri said.

"Going forward, the nature of private equity participation in real estate will have to change significantly. Gone are the days of evaluating security values based on projected capital rates and cash flows in order to take secured debt positions. Taking these debt positions is no more risk free and returns are also diminishing as developers continue to shy away from high cost debt," said Rubi Arya, vice-chairman, Milestone Capital Advisors.

Private equity funds will have to increase their risk appetite as pure debt opportunities will not be available with good established brands. Taking structured equity or pure equity positions is the way forward for higher returns.

Since high returns are linked to high risks, inherent knowledge, investment discipline and team strength will matter the most, Arya said.

Asset management companies need to be more and more hands-on with their knowledge of micro markets, project development and statutory aspects in particular.

In 2016, the trend of raising debt continued especially in the residential segment. Further leverage being limited, developers are likely to be open to providing entry points to the long-term equity investors. While a few equity-related risks would continue, attractive entry points will also provide a higher margin of safety.

"Both investors and developers will gain more confidence with respect to the underlying returns of real estate projects. Stabilised RERA implantation will enhance the predictability of earnings and project cash flows, and hence, prompt them to consider equity option as well," said Neeraj Sharma, director at Grant Thornton Advisory, a global consultancy firm.

"Equity money will be back in the market. It will be a challenge for builders to get higher returns as they may not find the right partners. There will be a huge demand for liquidity as sales have considerably slowed down," said Ravindra Pai, MD, Century Real Estate Holdings.

Equity Play

More FDI can be expected through equity route

As compliance standards align with global ones, investing would be easier

But PE funds need more risk appetite as pure debt opportunities will not be available with reputed brands

The route to higher returns is through structured equity or pure equity

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ANUJ PURI
Chairman, JLL India