

Research



# Investments in Real Estate

Trends in private equity investment (Q1 2021 update)

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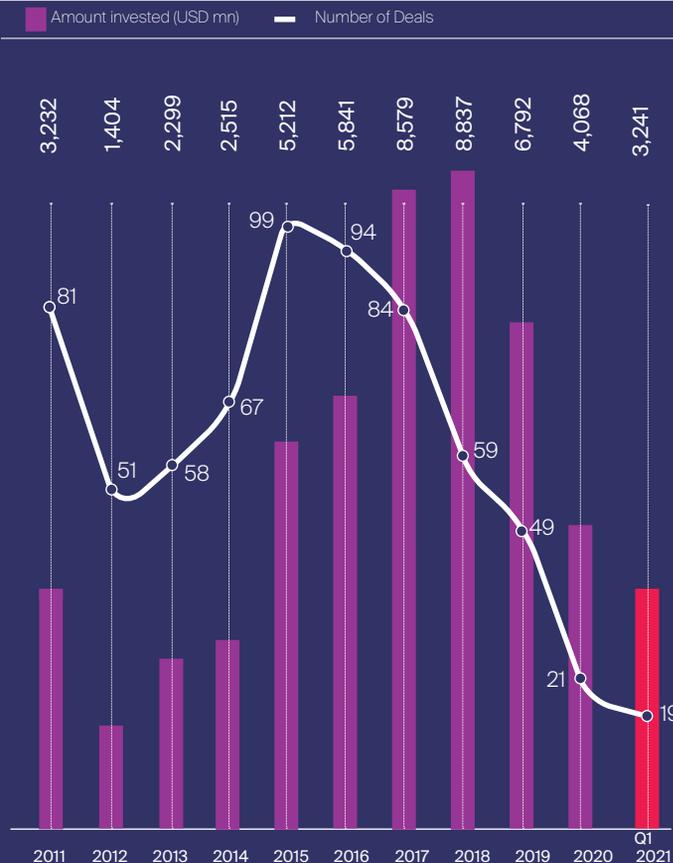


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01

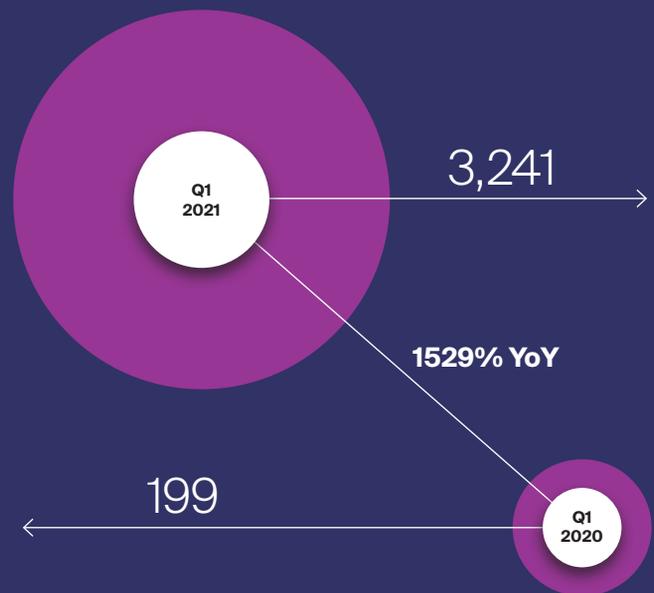
# TRENDS IN PRIVATE EQUITY INVESTMENTS IN REAL ESTATE

Chart 1:  
~USD 52 billion invested across debt and equity in Indian real estate since 2011



Source: Knight Frank Research, Venture Intelligence

Q1 2021 vs Q1 2020 (USD mn)



Source: Knight Frank Research, Venture Intelligence

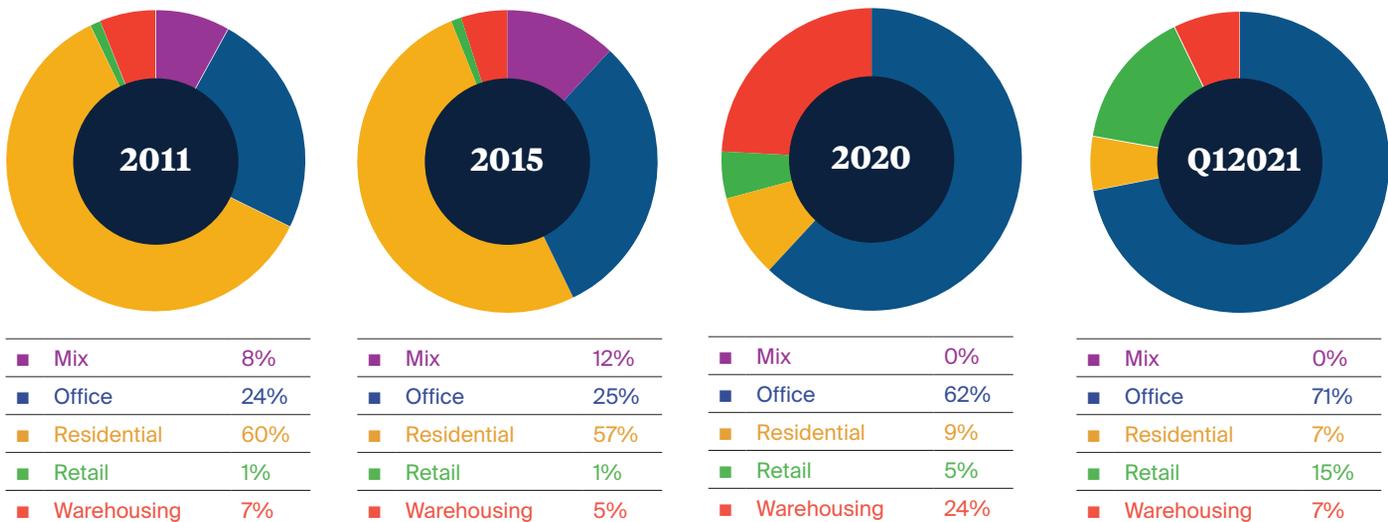
Note: Private equity includes real estate funds, pure private equity funds, sector-focused funds, pension funds, sovereign funds and Alternate Investment Funds (AIF), but excludes investments by SWAMIH fund

- 2020 was a difficult year for the entire humankind which spent a significant part of the year battling the COVID-19 pandemic through stringent lockdowns. The pandemic disrupted business activities across the globe and created waves of uncertainties. The impact of lockdown-related uncertainties was evident in the PE investments in India real estate which dropped 40% YoY in 2020.
- Things improved significantly as we entered the new year in 2021. Investor activity bounced back sharply with the decline in COVID-19 infections in India in the early months of the year during Q1 2021. This quarter witnessed PE investments to the tune of USD 3.2 billion which was ~80% of that witnessed in full year 2020 and ~48% of full year 2019. The recovery in investments (in value terms) was majorly driven by office and retail segments.
- The recovery was evident in volumes (number of deals) as well. Q1 2021 witnessed 19 deals compared to 21 deals in the entire 2020. This sharp bounce back in investment volumes was majorly driven by investor activity in the office and residential segments.
- The recovery in Q1 2021 was driven by two major factors – spillover of certain deals from 2020 and the rise in investor confidence due to the drop in COVID-19 infections during early parts of Q1 2021, which had created some ripples of positivity in the economy. While, Q1 2021 has been an encouraging quarter for PE investments, however, the upward trajectory can be derailed by the rising second wave of COVID-19 infections in India and subsequent lockdowns in several parts of the country. The sustainability of revival in investor sentiments will therefore depend on how soon the second wave of infection subsides and also the pace of vaccination.



Chart 2:

**Share of investments by asset class in**



Source: Knight Frank Research

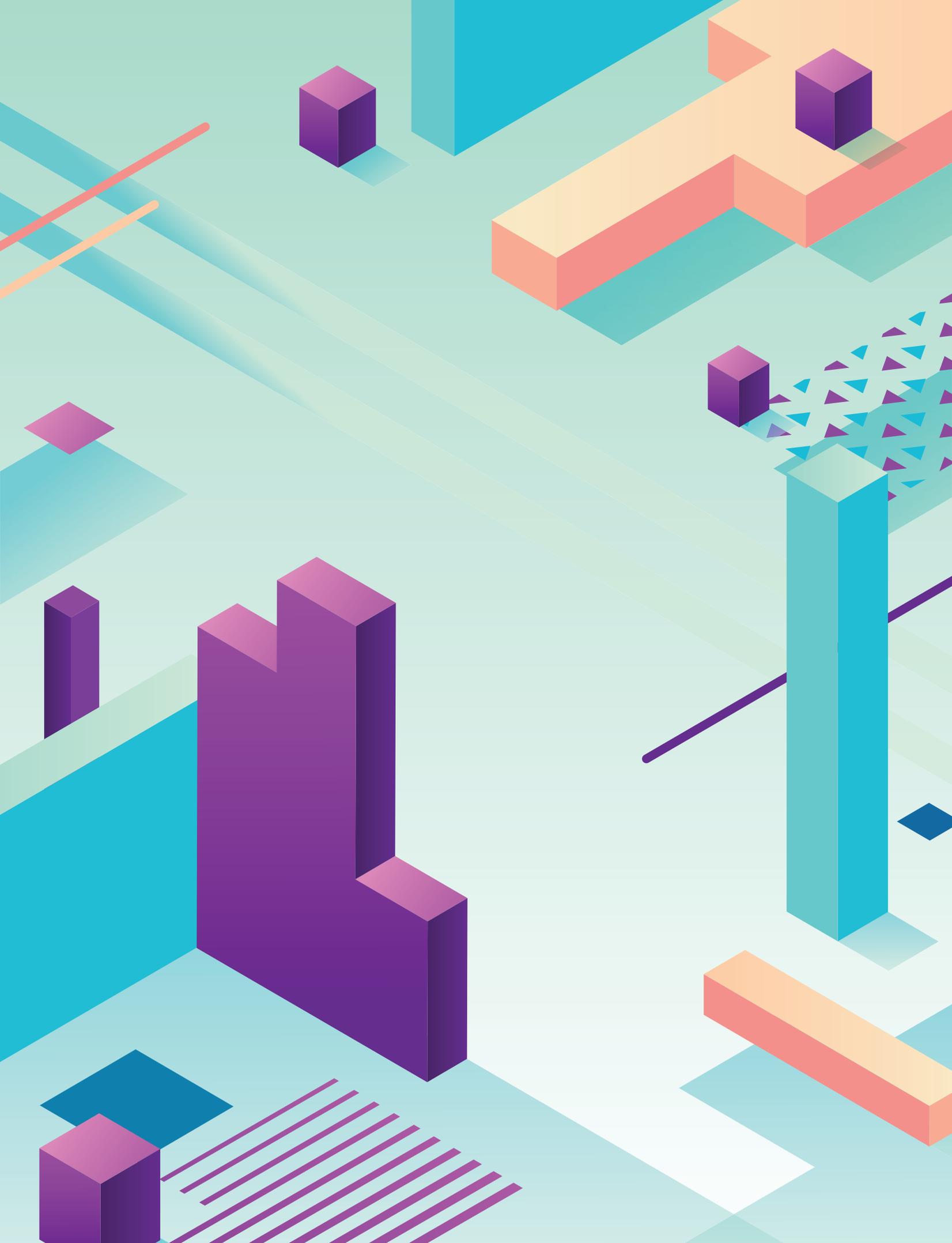
Chart 3:

**Equity route has dominated PE investments in recent years, as big ticket investors who are bullish on annuity assets, are committing substantially higher risk (equity) capital**



Source: Knight Frank Research





SECTION

02

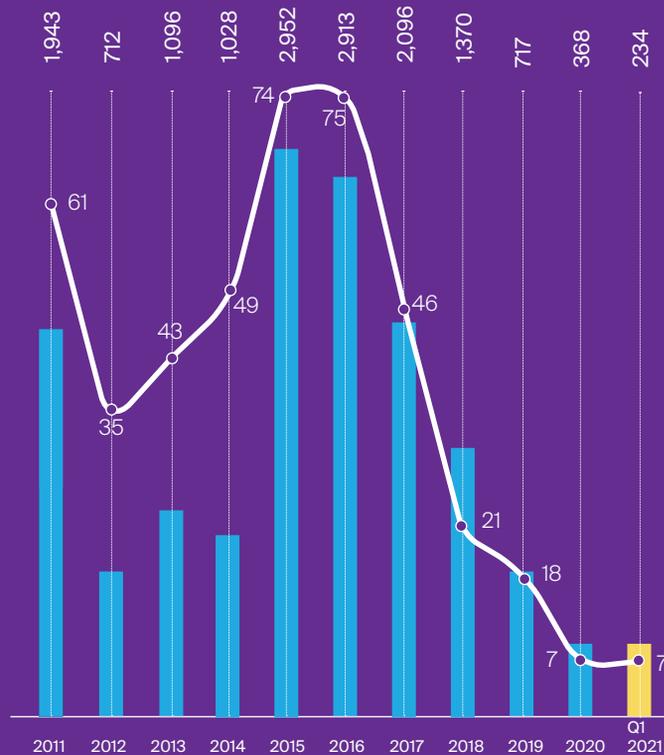
# PRIVATE EQUITY INVESTMENTS IN RESIDENTIAL



Chart 4:

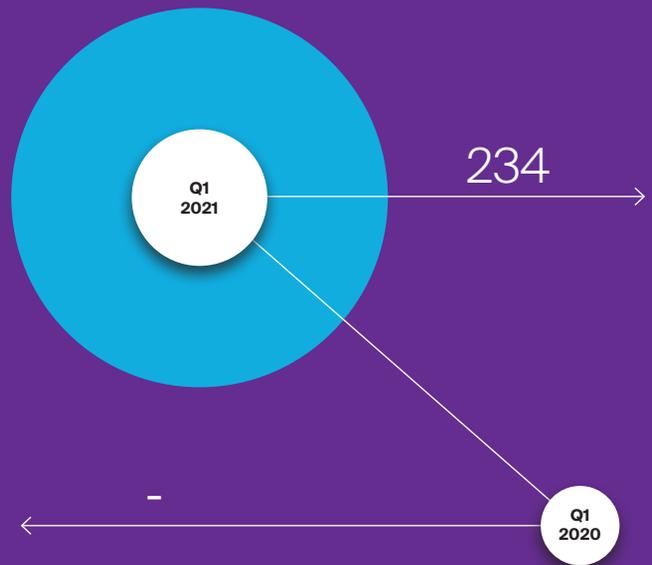
**PE (Debt + Equity) investment in residential**

■ Amount invested (USD mn) — Number of Deals



Source: Knight Frank Research, Venture Intelligence

Q1 2021 vs Q1 2020 (USD mn)



Source: Knight Frank Research, Venture Intelligence

- The residential segment in India had suffered a down cycle during the second half of the last decade. The sector battled slowing sales velocity, stagnant or reducing end product prices, rise in input costs and dearth of funding, particularly after the IL&FS and NBFC crisis. Consequently, PE investment in residential declined each year since 2016 both in value terms as well as volume. This cycle also saw a large number of unscrupulous and non-serious developers exit the real estate business and serious developers with strong project execution capabilities survive.
- Q3 2020 and Q4 2020 saw an encouraging demand pull back after a lockdown induced lackluster Q2 2020. Despite the hit on income streams due to the lockdown and contrary to the perception of widespread demand

destruction during the early days of lockdown, the residential segment witnessed a strong growth in sales in the months after the lockdown, on the back of historic low home loan interest rates, pent up demand, fence sitters coming back to the market, increase in household savings rate due to the lockdown and incentives extended by developers and some state governments.

- Another interesting trend is that home ownership which was being deferred due to the ‘uberisation culture’ of recent years, has made a strong comeback due to the pandemic.
- A significant percentage of homebuyers are buying new homes due to the pandemic and not in spite of the pandemic. This trend is predominant in the upgrade demand. The pandemic

has brought office, school, college and regular household activities within the boundaries of the home, making families realize the importance of having additional rooms in their houses, thereby creating a fresh demand for upgrading to larger homes which may not have been a necessity earlier.

- The cumulative impact of this has been witnessed in the uptick in quarterly All-India residential sales. After the lockdown restrictions were lifted in a phased manner between Q2 and Q3 2020, All-India residential sales grew by 5% YoY in Q4 2020 and by 44% YoY in Q1 2021.
- With private equity players hopeful of new residential business cycle, the residential segment has witnessed investments worth USD 234 million in Q1 2021 which was 64% of that witnessed during the entire 2020 and 38% of that witnessed in 2019. In volume terms (number of deals), the investment activity touched 100% of 2020 levels and 39% of 2019 levels in the first 3 months of 2021.
- The investor preference, which had moved from equity to debt (chart 5) in the last decade, again tilted strongly in favor of equity in 2020 and Q1 2021, indicating a resurgence in appetite to take risks and hopes for the new business cycle.
- During the lockdown in March 2020, due to cultural inclination of Indians to save money, families were able to sustain using their savings. However, this cushion has not been replenished for many and if a major national lockdown happens again, several families may find it difficult to make a high-ticket purchase like housing. Hence, the trajectory of recovery in residential needs to be monitored cautiously.

Chart 5:  
**The comeback of equity investments in recent years**



Source: Knight Frank Research



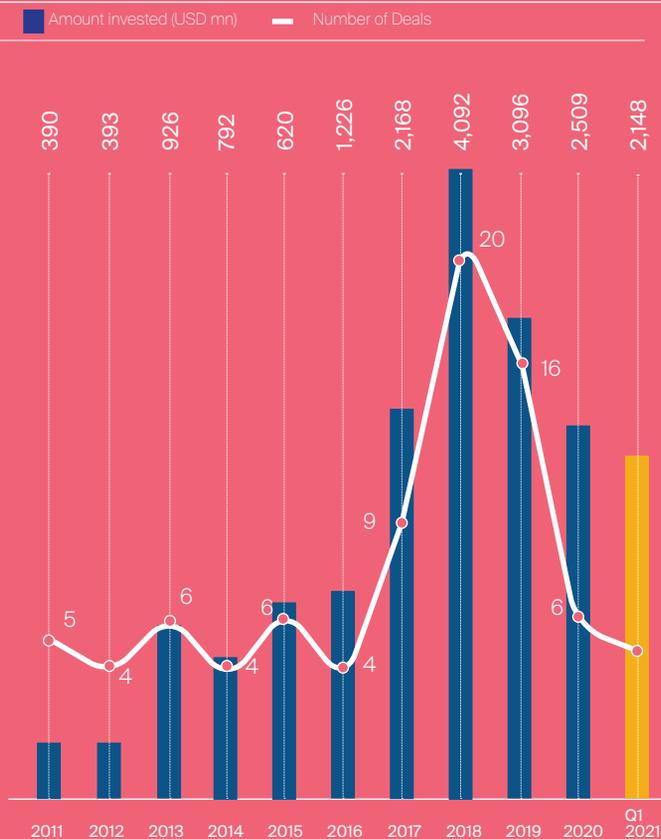
SECTION

04

# PRIVATE EQUITY INVESTMENTS IN OFFICE

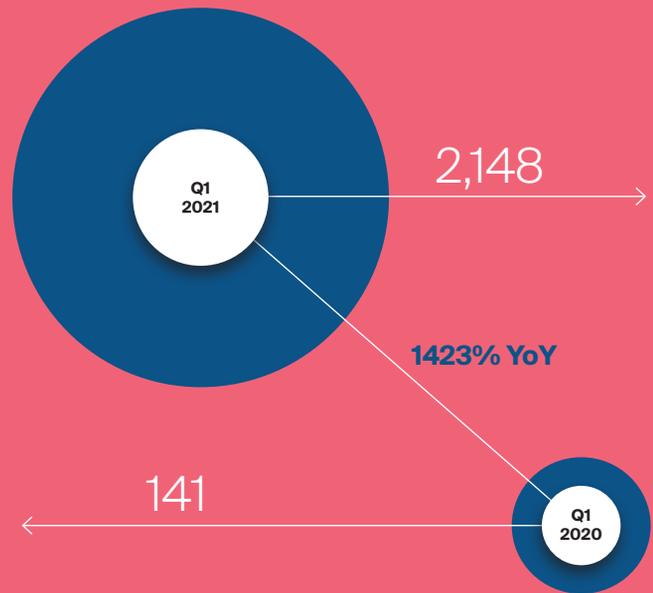
Chart 6:

**Office segments received (equity) investments of over USD 18.4 billion since 2011**



Source: Knight Frank Research, Venture Intelligence

Q1 2021 vs Q1 2020 (USD mn)

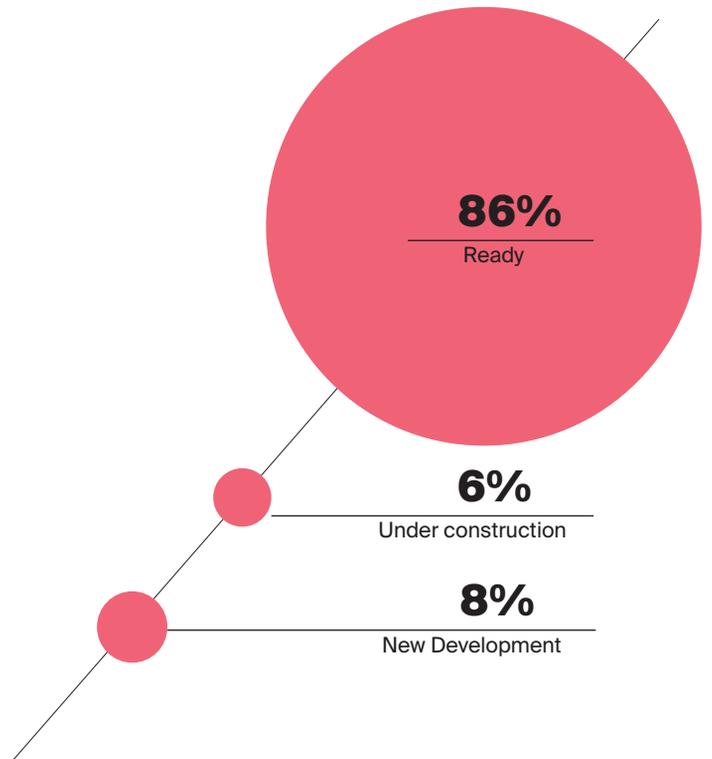


Source: Knight Frank Research, Venture Intelligence

- The office sector continues to be the blue-eyed boy for investors due to the strong fundamentals of the India office market. The investors are also emboldened by the encouraging response to the 3 REITs listed on Indian stock exchanges which provides them with a credible avenue for exit.
- Despite the concept of work from home gaining prominence during the lockdown, investors continue to bet big on the growth in overall office demand in India and expect the office demand to recover completely once the masses are vaccinated. The investors were also encouraged with the recovery in office leasing in December 2020 quarter which had touched 115% of 2019 quarterly average. Further, with the consistent decline in COVID-19 cases in India between October 2020 and February 2021, several companies had started calling their employees back to offices. However, the plans of complete return to office have been pushed forward by the rises in COVID-19 infections and subsequent restrictions in April 2021.
- In Q1 2021, the segment witnessed PE investments (equity) worth USD 2.1 billion, which was 92% of that witnessed during the full year 2020 and 72% of investments during 2019. Q1 2021 witnessed 7 deals - as many as that seen during full year 2020.
- In 2016, 14% of investments were into new development and under-construction projects. In the latest period of Q1 2021, 55% of PE investments were in new development and under-construction projects. In the primary reason for this increase in share of new development and under-construction assets is the paucity of mature transactable assets in the Indian office market.

Chart 7:

**Share of (equity) investments in 2016**



Source: Knight Frank Research, Venture Intelligence

Chart 8:

**Share of (equity) investments in Q1 2021**

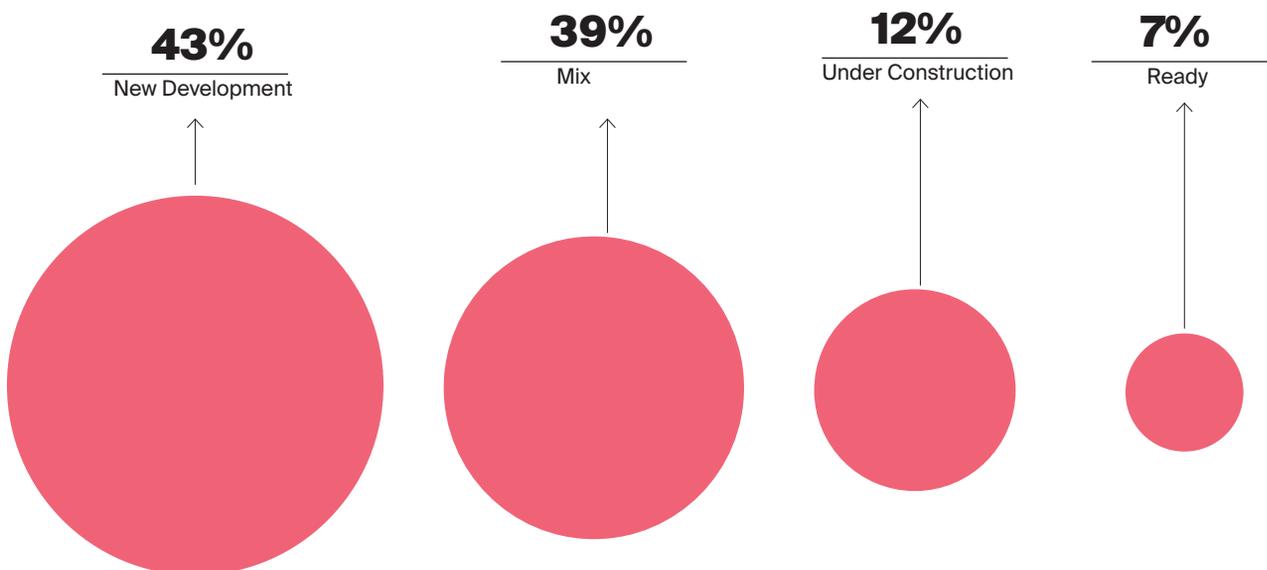
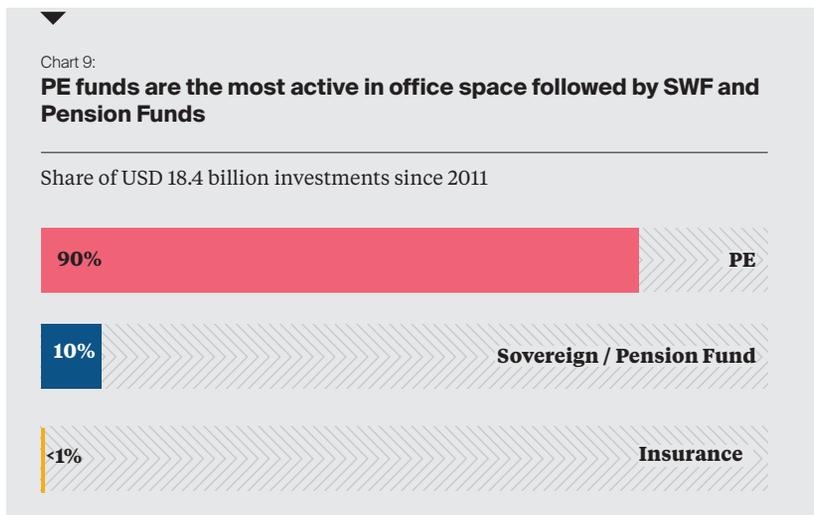


Table 1:  
**~241 mn sq ft of office space was transacted in the last decade of which ~80 mn sq ft were a part of India's first three REITs with future REIT potential of at least 160 mn sq ft**

Year	Total area of the assets transacted (mn sq ft)	Total area of the assets transacted (mn sq m)
2011	5.8	0.5
2012	18.9	1.8
2013	11.6	1.1
2014	5.6	0.5
2015	5.8	0.5
2016	13.5	1.3
2017	56.7	5.3
2018	36.1	3.4
2019	33.7	3.1
2020	21.8	2.0
2021	31.5	2.9
<b>Grand Total</b>	<b>241</b>	<b>22.4</b>

Source: Knight Frank Research



Source: Knight Frank Research

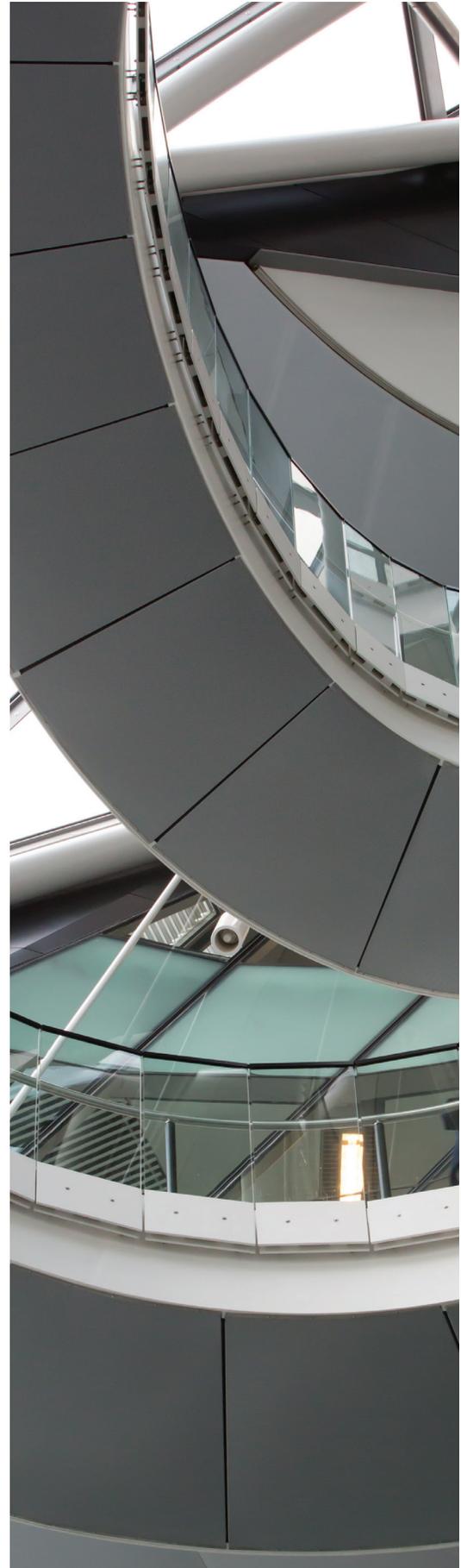




Table 3:

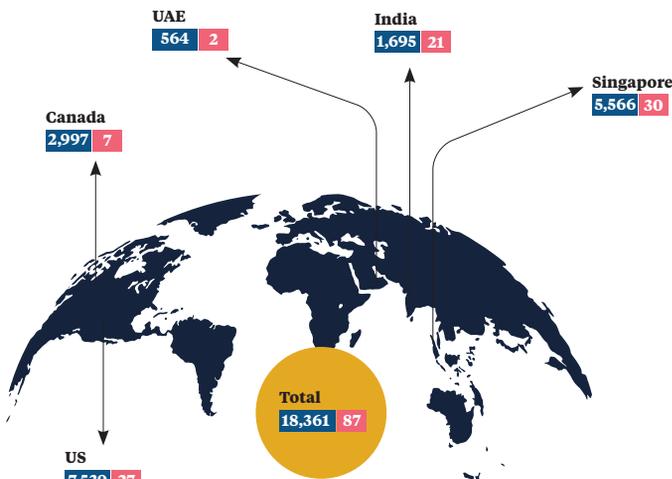
**City wise investments - Mumbai takes the largest quantum of (equity) investment since 2011**

City	Amount invested (USD mn)	Number of deals
Mumbai	5,288	22
NCR	3,368	14
Hyderabad	2,866	16
Bengaluru	2,303	13
Bengaluru, Chennai, NCR*	2,000	1
Chennai	1,118	9
Pune	936	10
Chennai, Hyderabad*	415	1
<b>Others</b>	<b>67</b>	<b>1</b>
<b>Grand Total</b>	<b>18,361</b>	<b>87</b>

Chart 10:

**Origin of PE investors investing in office assets**

■ Amount invested (USD mn) ■ Number of deals



Source: Knight Frank Research  
 Note: Grand total represents investments since 2011

Source: Knight Frank Research  
 Note - \* Represents investments in a single deal and Grand total represents investments since 2011

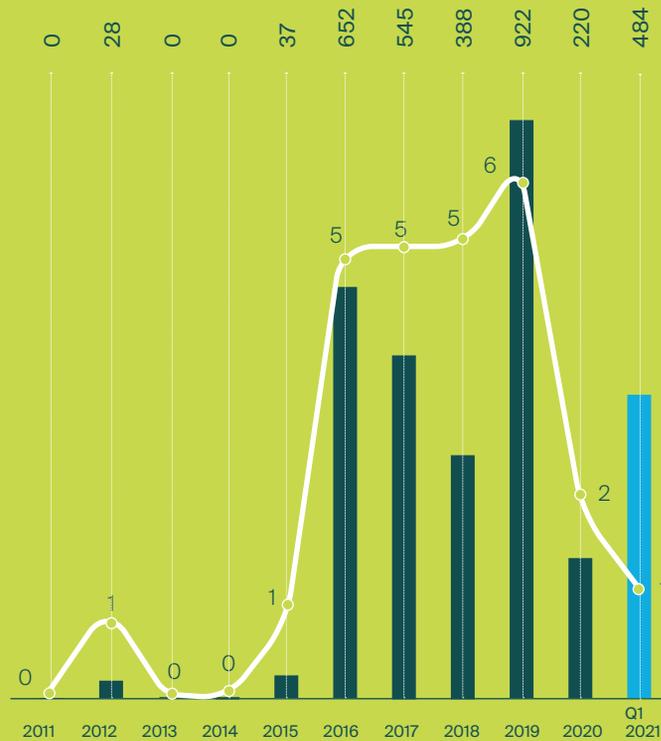


# PRIVATE EQUITY INVESTMENTS IN RETAIL

Chart 10:

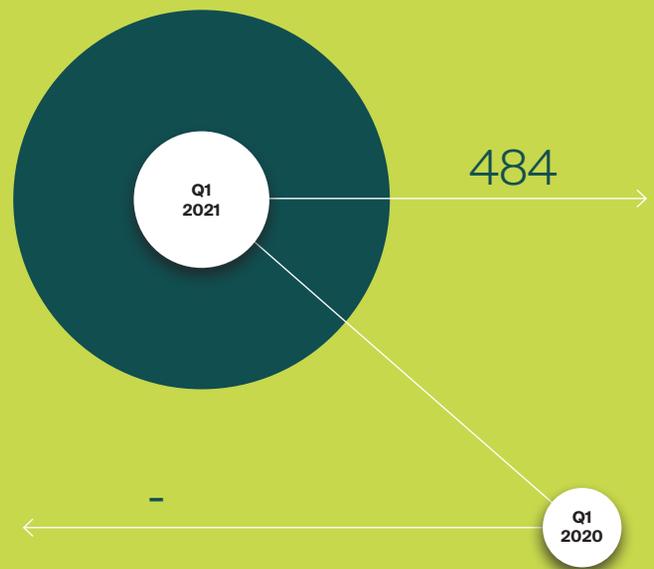
## PE (Equity) Investments in Retail

■ Amount invested (USD mn)    — Number of Deals



Source: Knight Frank Research, Venture Intelligence

### Q1 2021 vs Q1 2020 (USD mn)



Source: Knight Frank Research, Venture Intelligence

- The retail sector has been the worst affected segment in this COVID-19 crisis. The pandemic induced lockdown in March 2020 had forced all malls to temporarily shut down affecting their business adversely. Malls have been amongst the last to open in 2020 during the unlocking phases and the fear of virus has kept the consumer footfalls low. As a result, the PE investment dropped by 76% in 2020.
- Several mall owners in India had announced a partial/full rent waiver for the lockdown period in 2020 taking a major hit on the revenues. Some had extended this partial waiver for the rest of the financial year and also offered to waive off a portion of the minimum guarantee or a fixed portion of rents and shift to a higher percentage of revenue share. Significant losses to retailers due to lockdown and fear of vacancy forced mall owners to enter into such arrangements.
- The retail sector was barely starting to recover from the crisis, when the second wave of COVID-19 infections struck the nation in March-April 2021. The new lockdown in several parts of the country has forced retail assets to shut down again. This

Table 5:

**34.4 mn sq ft of retail assets were transacted in the last decade**

Year	Total area of the assets transacted (mn sq ft)	Total area of the assets transacted (mn sq m)
2011	-	-
2012	1	0.1
2013	-	-
2014	-	-
2015	1.2	0.1
2016	4.7	0.4
2017	6.0	0.6
2018	4.9	0.5
2019	8.9	0.8
2020	2.7	0.3
Q1 2021	5	0.5
<b>Grand Total</b>	<b>34.4</b>	<b>3.2</b>

Source: Knight Frank Research  
 Note- YTD 2020 represents investments till Q3 2020.

Table 6:

**Unlike office assets, investor interest in retail goes beyond major metros**

City	Amount invested (USD mn)	Number of deals
Mumbai	1,154	5
Bangalore	512	2
Pune	434	5
Chandigarh	267	2
Hyderabad	197	2
NCR	160	2
Ahmedabad	123	1
Lucknow	115	1
Chennai	106	2
Nagpur, Amritsar*	100	1
Indore	61	2
Bhubaneswar	46	1
<b>Grand Total</b>	<b>3,276</b>	<b>26</b>

Source: Knight Frank Research  
 Note - \* represents investments in a single deal and Grand total represents investment since 2011

shutting down of retail assets is limited to certain states presently, however, if it spreads to other states, it may lead to a big hit on topline for a majority of asset owners. Such high levels of uncertainty have kept investors away from retail assets, and only one major deal was transacted in Q1 2021.

- In Q1 2021, PE investments in retail assets jumped to USD 484 million from USD 220 million in 2020, and this jump can be attributed to the single large deal between Blackstone and Prestige which involved multiple retail, office and hospitality assets as part of the larger transaction.

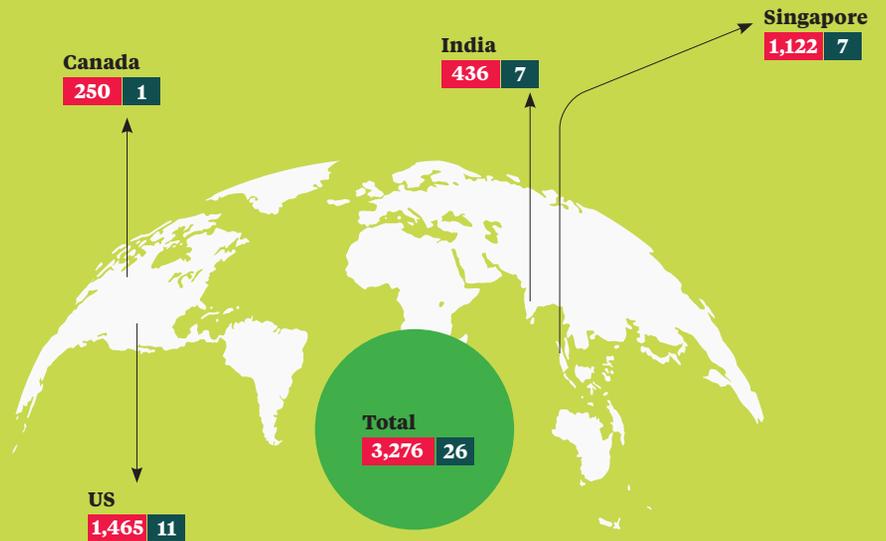
Chart 11:  
**Share of equity investments since 2011**



Source: Knight Frank Research

Chart 12:  
**Origin of PE investors in retail assets**

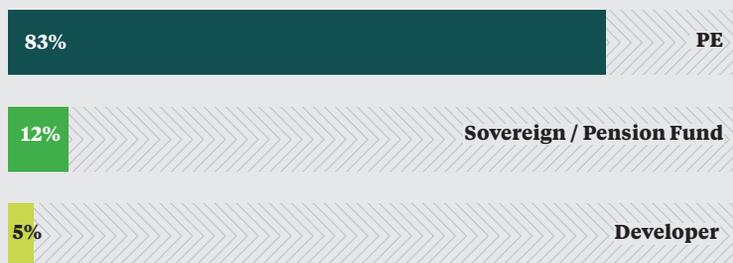
■ Amount invested (USD mn) ■ Number of deals



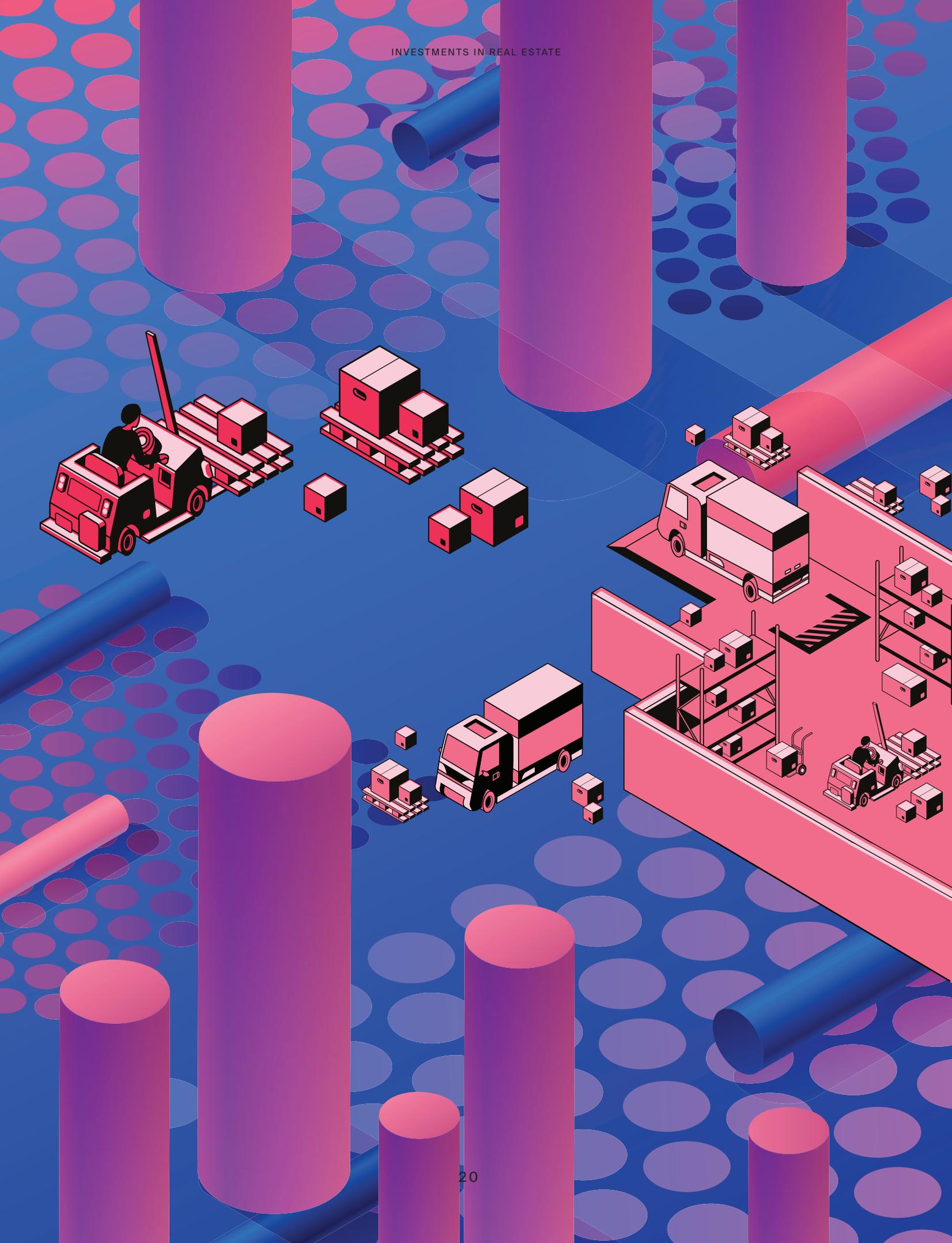
Source: Knight Frank Research  
Note: Grand total represents investments since 2011

Chart 13:  
**PE and long-term capital providers alike actively participating in quality retail assets**

Share of investments since 2011



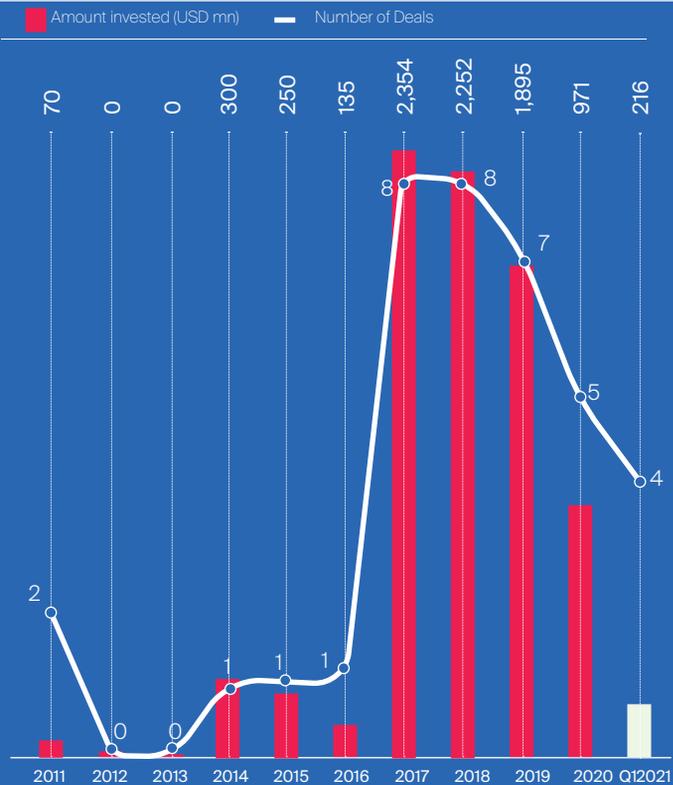
Source: Knight Frank Research



# PRIVATE EQUITY INVESTMENTS IN WAREHOUSING

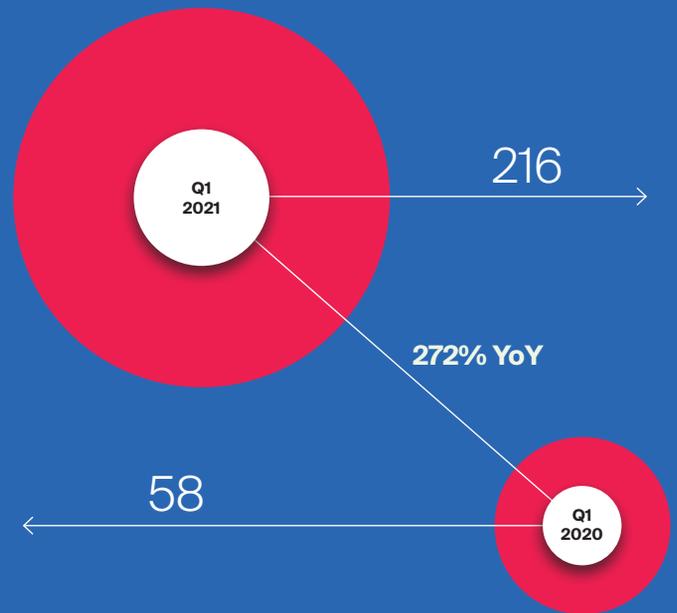
Chart 4:

**PE (Equity) investments in warehousing**



Source: Knight Frank Research, Venture Intelligence

**Q1 2021 vs Q1 2020 (USD mn)**



Source: Knight Frank Research, Venture Intelligence

Note: Private equity includes real estate funds, pure private equity funds, sector-focused funds, pension funds, sovereign funds and Alternate Investment Funds (AIF).

- Globally, investors expect the warehousing segments to emerge stronger from the crisis, driven primarily by the renewed growth potential of e-commerce segment, which would lead to further demand for warehousing spaces. A significant chunk of consumer spending is likely to shift online due to restrained consumer mobility and repeated lockdowns.
- A huge quantum of investments committed to warehousing over the last few years is awaiting deployment. There are not many transactable land parcels in India with clear title and acquisition of new land parcels remains a challenge. Thus, the investment numbers have declined since 2017-18.
- In Q1 2021, the warehousing segments witnessed investments worth USD 216 million across 4 deals.

Chart 14:

**Lack of mature assets in India and lower construction timelines post land acquisition make a strong case for greenfield investments**



Source: Knight Frank Research

Chart 13:

**PE and long-term capital providers alike actively participate in creating new warehousing assets**

Share of investments since 2011

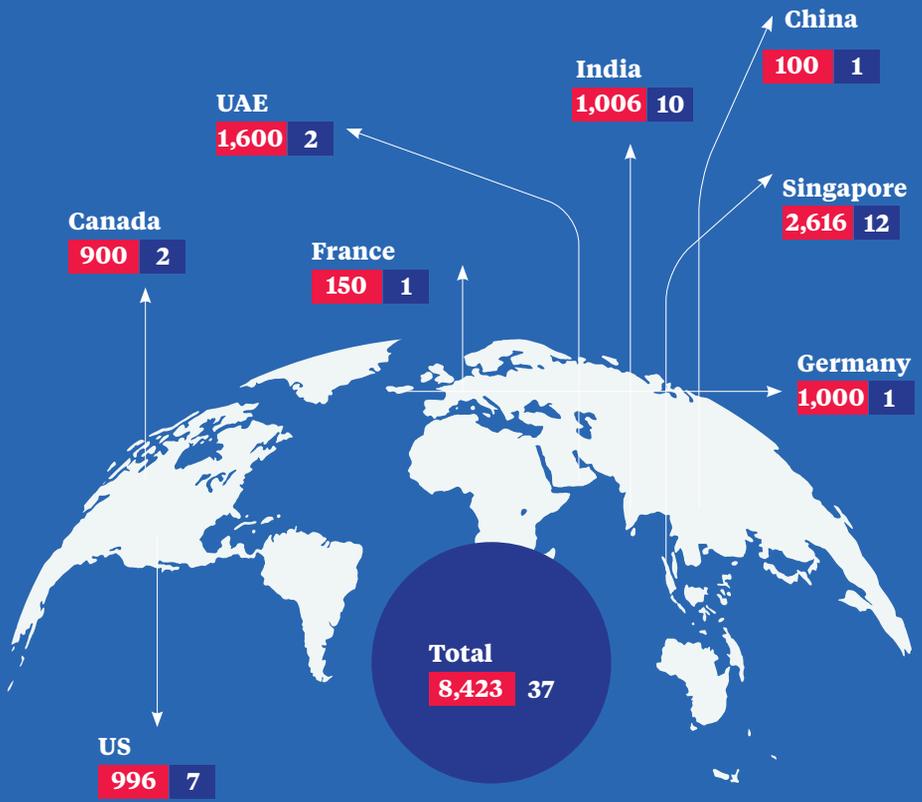


Source: Knight Frank Research

Chart 12:

**Origin of PE investors in warehousing assets**

■ Amount invested (USD mn) ■ Number of deals



Source: Knight Frank Research  
 Note: Grand total represents investments since 2011

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# CELEBRATING



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Co-working



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Investments in Real Estate



India Warehousing



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