

Research



INVESTMENTS IN REAL ESTATE

TRENDS IN PRIVATE
EQUITY INVESTMENTS IN INDIA
(9M 2022)

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India's Path to **Net Zero** – 2070



India's Path to Net Zero – 2070

The Indian Prime Minister, at the COP26 meeting in Glasgow in November 2021, revealed India's ambitious five-part "Panchamrit" plan with an intention of building the groundwork for India's transition to clean energy. This plan was outlined as follows:

To reach
500 GW
of non-fossil
electricity capacity
by 2030

To generate
50%
of all energy
requirements
from renewables
by 2030

To reduce
emissions by
1 bn tons
by 2030

To reduce
emission intensity
of GDP by
45%
by 2030

To achieve
net zero
by
2070

India's five commitments serve as a crucial cornerstone in the global effort to meet the ambitious target of limiting global warming to 1.5 degree Celsius, which is a key component of the Paris Agreement.

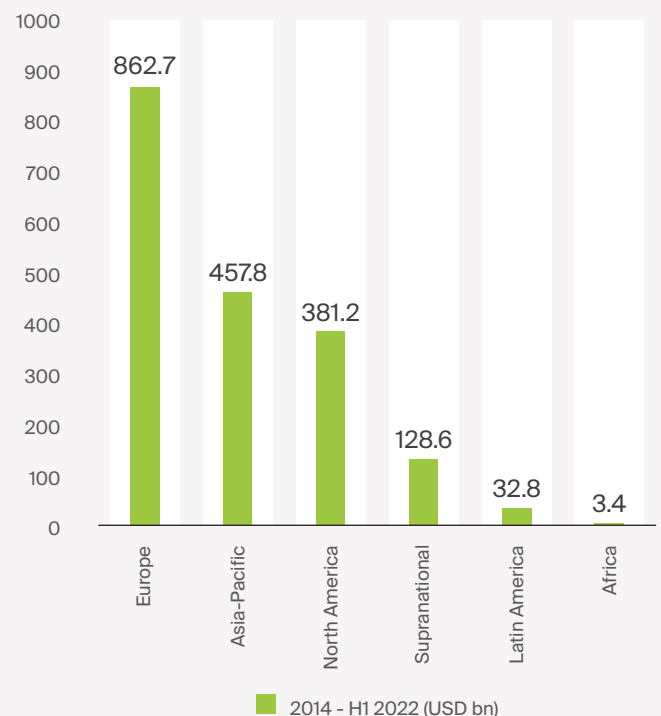
OVERVIEW OF GLOBAL GREEN INVESTMENTS

Following the passage of the Paris Agreement in 2015, green investments gained popularity on a worldwide scale as the 196 signatory economies turned to raising funds via green investment vehicles for investing in climate-related projects.

Global economies have raised approximately USD 1,867 bn in investments through green bonds from 2015 to H1 2022, with USD 211 bn raised in H1 2022. Since 2014, the bulk of bonds have been raised in Europe (USD 863 bn), followed by the Asia-Pacific region (USD 458 bn), with the least amount raised in the African region (USD 3 bn). With a total of USD 334 bn raised, the United States led in green bond issuance since 2014 among the major economies, followed by China with USD 250 bn. India ranked 20th globally, with a total issuance of USD 22 bn since 2014.

Figure 1

USD 1.9 tn worth of green bonds raised globally since 2014

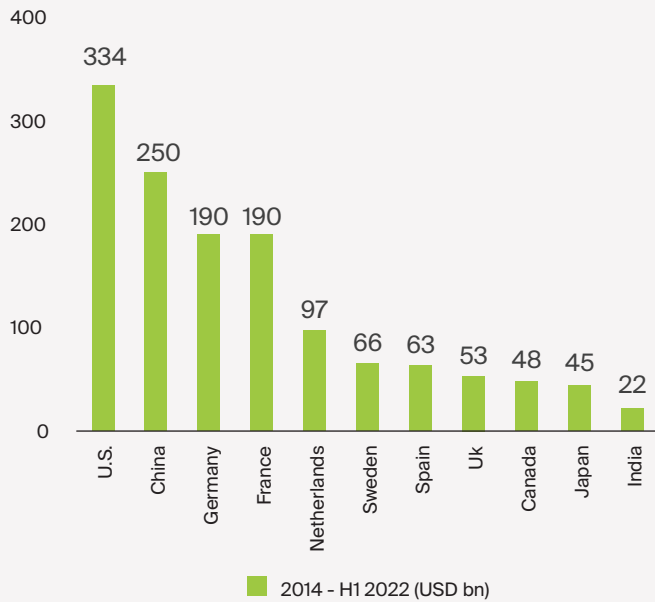


Source: CPI

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TRENDS IN PRIVATE EQUITY INVESTMENTS IN INDIA (9M 2022)

Figure 2

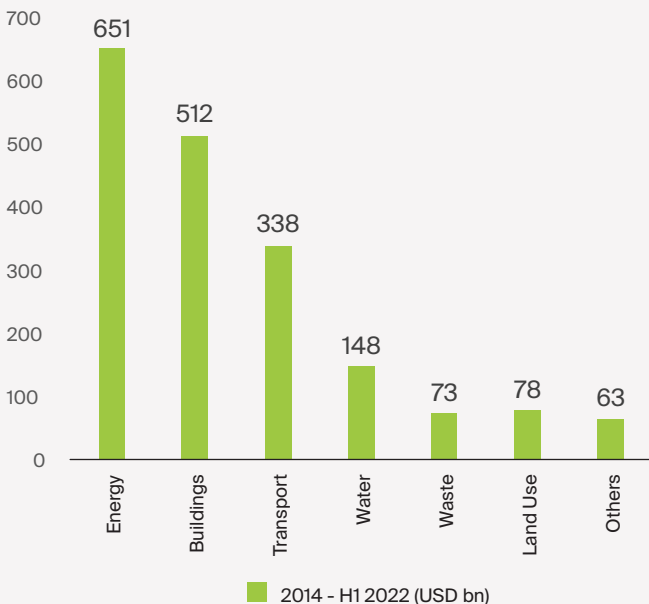
India ranked 20th with total green bond issuance of USD 22 bn



Source: CPI

Figure 3

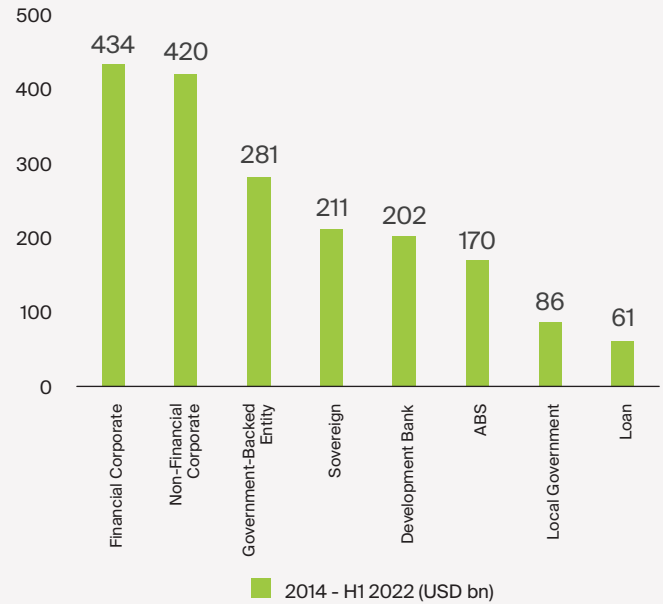
~ USD 512.2 bn raised since 2014 for buildings



Source: CPI

Figure 4

Highest green bonds raised by financial corporates



Source: CPI



SCOPE OF GREEN FINANCE IN INDIA

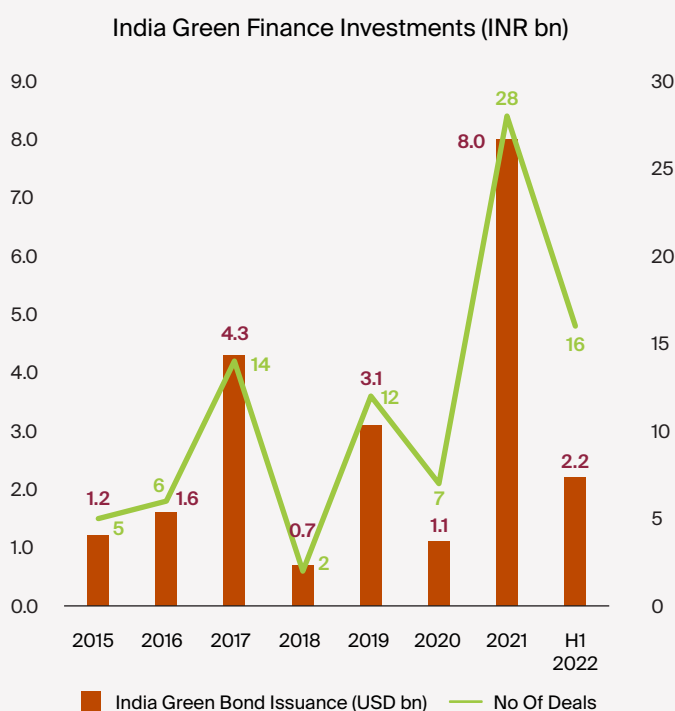
The largest impact of climate change, according to the Swiss Re Institute, is that it may wipe out up to 18% of GDP from the global economy by 2050, if global temperatures rise by 3.2°C. This rate of economic value loss does not bode well for a country like India when the government plans to increase the size of the economy to USD 10 tn by 2030 from about USD 3 trillion currently.

Moreover, as per the information supplied by India to UNFCCC in the Third Biennial Update Report (BUR), the building and construction industry is responsible for 32% of all operational and embodied emissions in the country. The real estate sector, therefore, has an opportunity to become more environmentally friendly, cut building energy use, and lower embodied carbon emissions, thus assisting India in achieving 2030 goals.

According to the Climate Policy Initiative (CPI) analysis, India must spend around USD 2.5 tn between 2015 and 2030, or over USD 170 bn, to meet its Nationally Determined Contributions (NDCs) under the Paris Agreement, and USD 10.1 tn to reach net zero emissions by 2070.

Figure 5

India raised green bonds amounting to USD 22 bn since 2015

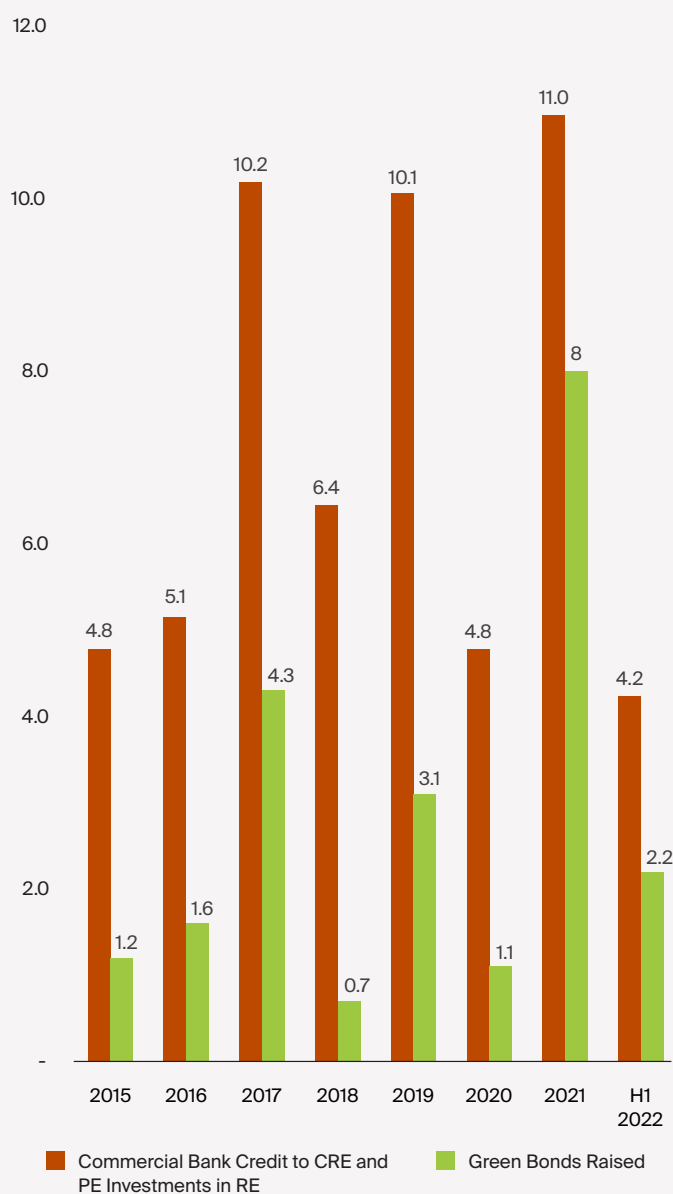


Source: CPI

India has raised a total of USD 22 bn over 90 transactions from 2015 through H1 2022. From USD 3.1 bn in 2020 to USD 8.0 bn in 2021, the issuance of green bonds have surged dramatically, reaching its highest level since 2015. However, India's green financing flows are still far from sufficient to meet the nation's present demands.

Figure 6

Green bonds issuance fall short of country's needs



Source: Knight Frank Research, CPI, RBI statistics, Venture Intelligence

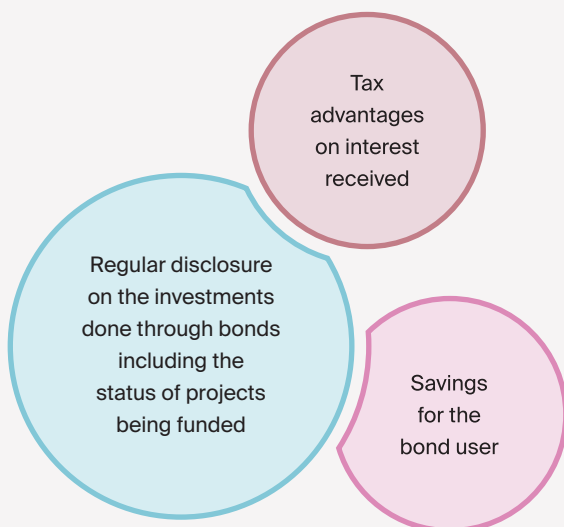
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TRENDS IN PRIVATE EQUITY INVESTMENTS IN INDIA (9M 2022)

In contrast to the overall issue of green bonds which amounted to USD 22.2 bn, the total money raised in real estate via PE investment and distribution of corporate real estate loans between 2015 and H1 2022, amounted to around USD 57 bn, thus indicating the need of adopting measures to improve awareness and liquidity of green bonds to match the available financing options and meet the long-term goals of the nation.

To assist the nation reach its net zero carbon emission target by 2070, the Securities and Exchange Board of India (SEBI) and RBI have submitted proposals to promote green financing and manage climate risk by lowering the cost of compliance for issuers that offer green bonds, while preventing greenwashing. The government and the Reserve Bank of India are also currently working on a framework for the issuance of the bonds. The market regulator is aiming to increase the issuance of green debt securities to support pollution control and the circular economy.

India's first Green Bond was issued by Yes Bank in 2015, raising USD 61.5 mn to increase long-term resources for financing infrastructure projects in the renewable and clean energy industries. Despite reaching a cumulative USD 22 bn market, or 4.6% of the Indian bond market, the issuance of green bonds in India is marginal to the issuance of green bonds worldwide.

The benefits that investors receive by investing in green bonds include the following:



It goes without saying that the initiatives sponsored with the proceeds from these bonds will support India's ambitious COP26 targets of achieving net zero emissions by 2070 and a 1 bn tonne reduction in predicted carbon emissions by 2030.



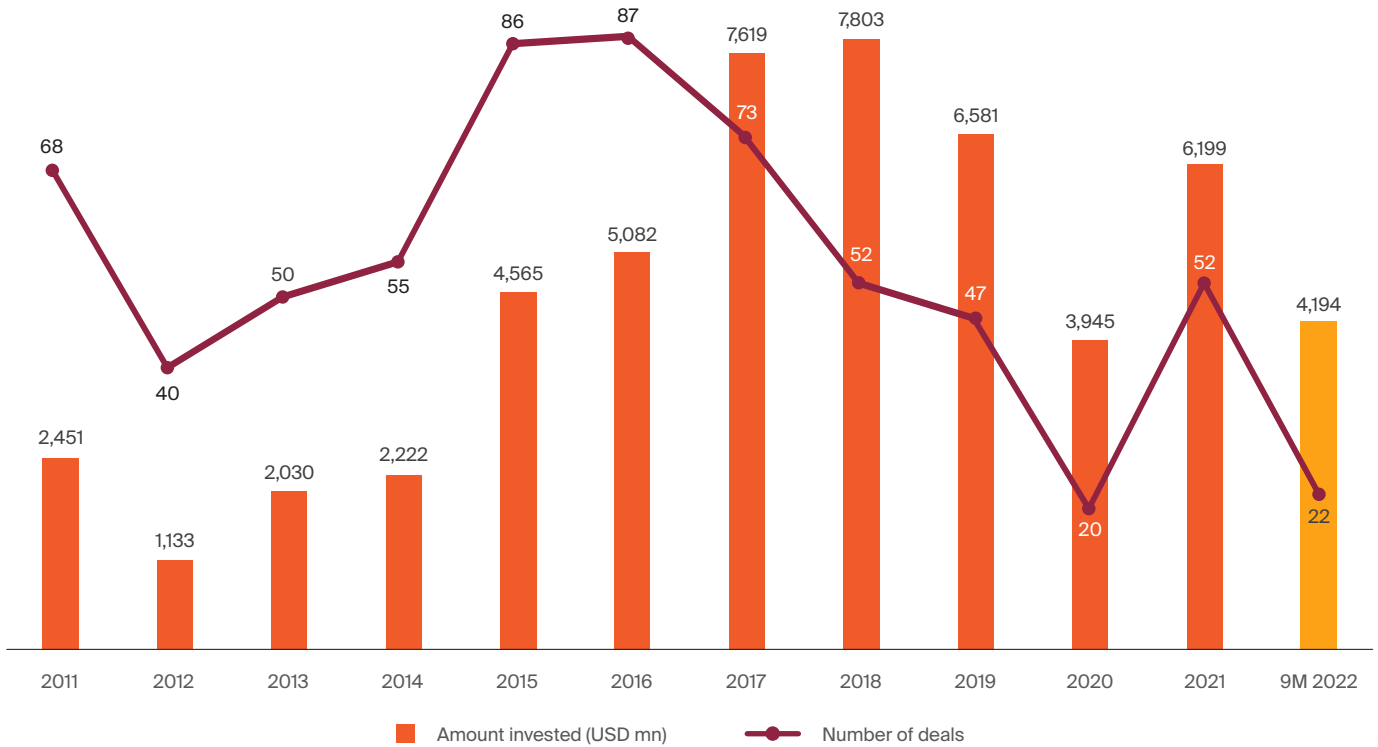
TRENDS IN PE INVESTMENTS IN REAL ESTATE



INVESTMENTS IN REAL ESTATE
TRENDS IN PRIVATE EQUITY INVESTMENTS IN INDIA (9M 2022)

Figure 7

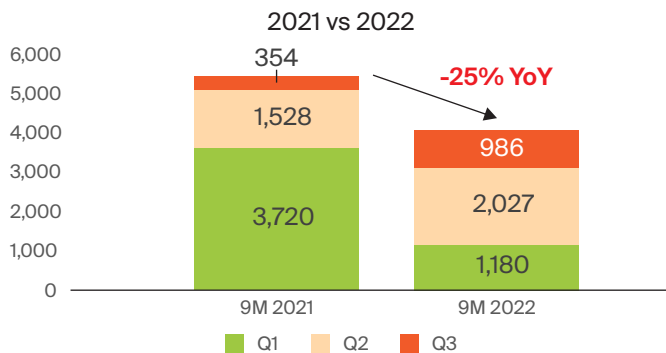
PE investments of USD 4.2 bn received in 9M of 2022



Source: Knight Frank Research, Venture Intelligence

Figure 8

Investments dropped 25% YoY in 9M 2022 due to inflation risk, rising interest rates, and geopolitical instability

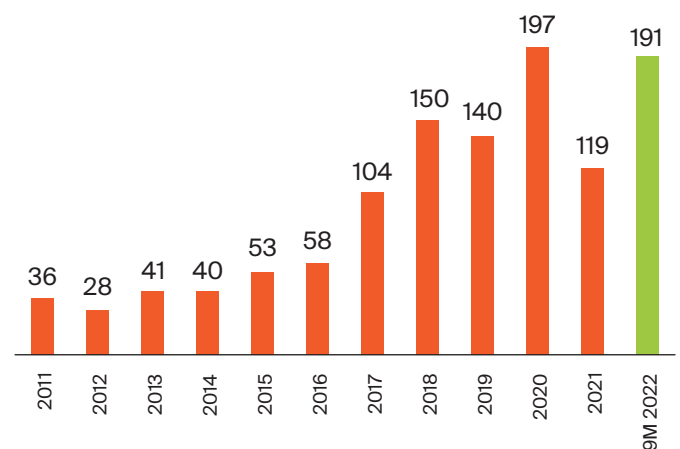


Source: Knight Frank Research, Venture Intelligence

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

Figure 9

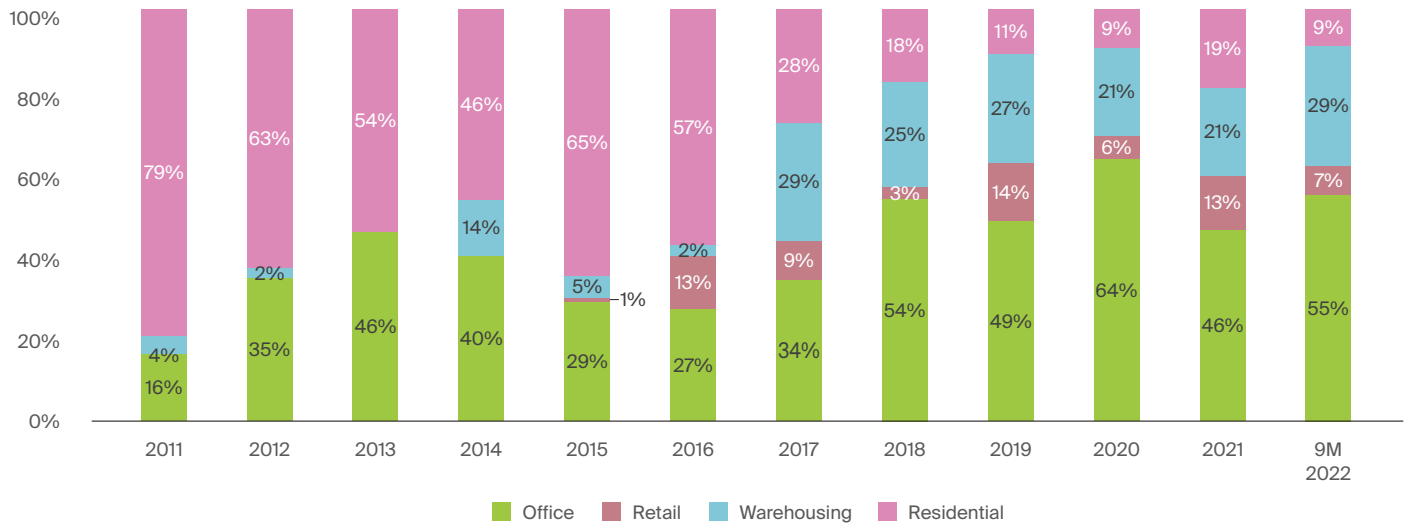
Average investments per deal soar to USD 191mn, second highest since 2011



Source: Knight Frank Research, Venture Intelligence

Figure 10

Office sector remains the frontrunner



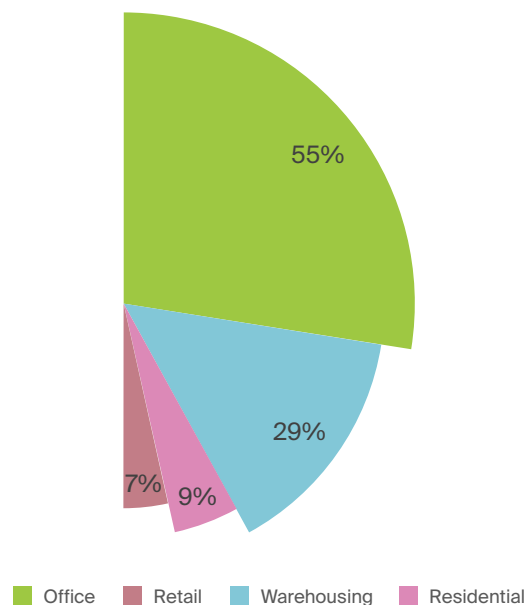
Source: Knight Frank Research

- The Indian real estate sector received PE investments amounting to USD 4.2 bn across office, warehousing, residential and retail sectors in 9M 2022.
- On a YoY basis, PE investments declined 25% from USD 5.6 bn registered in 9M 2021 as most of the segments observed a drop in investments.
- Rising inflation, higher interest rates, and geopolitical unrest, all of these contributed to a spike in volatility and slowdown in private equity (PE) transactions in 2022.
- In terms of average transaction size, the sector saw average deals of USD 191 mn in 9M 2022, 53% higher than the average deal size of USD 125 mn in the same period in the previous year. 9M 2022 recorded 22 transactions, compared to 45 transactions at the same time in the previous year.
- Foreign private equity investors continued to remain the largest contributors.
- During 9M 2022, the office sector accounted for 55% of all private equity investments, followed by warehousing (29%), residential (9%), and retail (7%).
- Mumbai received the highest investments across sectors accounting for 60% of the total investments in 9M 2022, followed by Bengaluru with 17% of the total investment pie.

- Overall, 9M 2022 observed fewer transactions as investor sentiment was negatively impacted by increased geopolitical turmoil, global equity volatility, concerns about rising commodity prices, and inflationary fears.

Figure 11

Share of investments by asset class

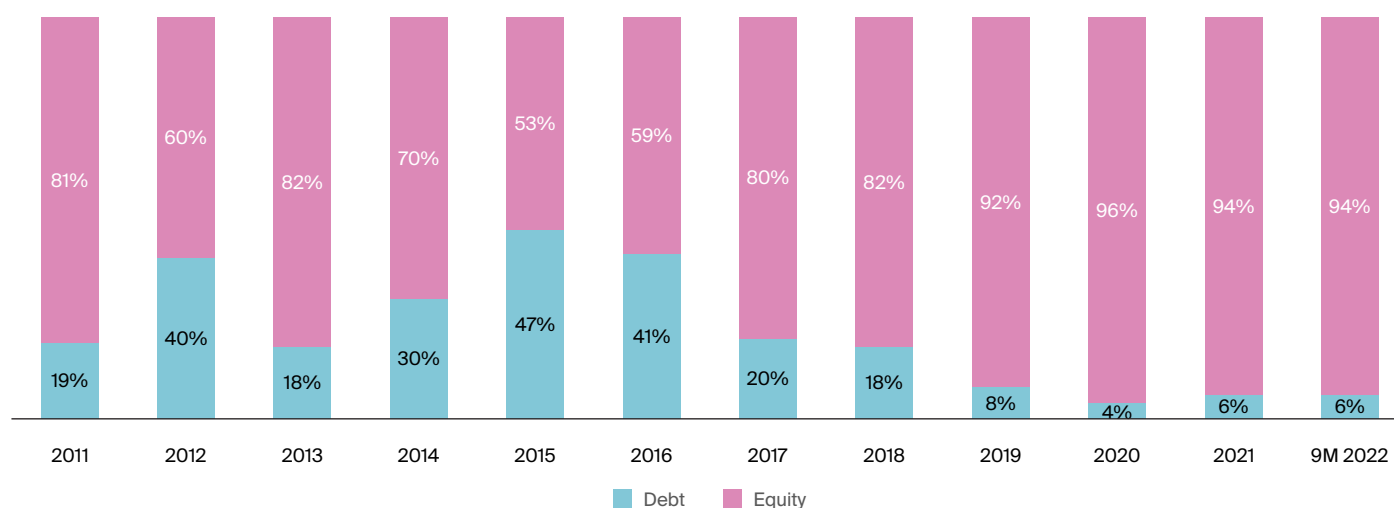


Source: Knight Frank Research

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TRENDS IN PRIVATE EQUITY INVESTMENTS IN INDIA (9M 2022)

Figure 12

Equity route continued to dominate PE investments in real estate



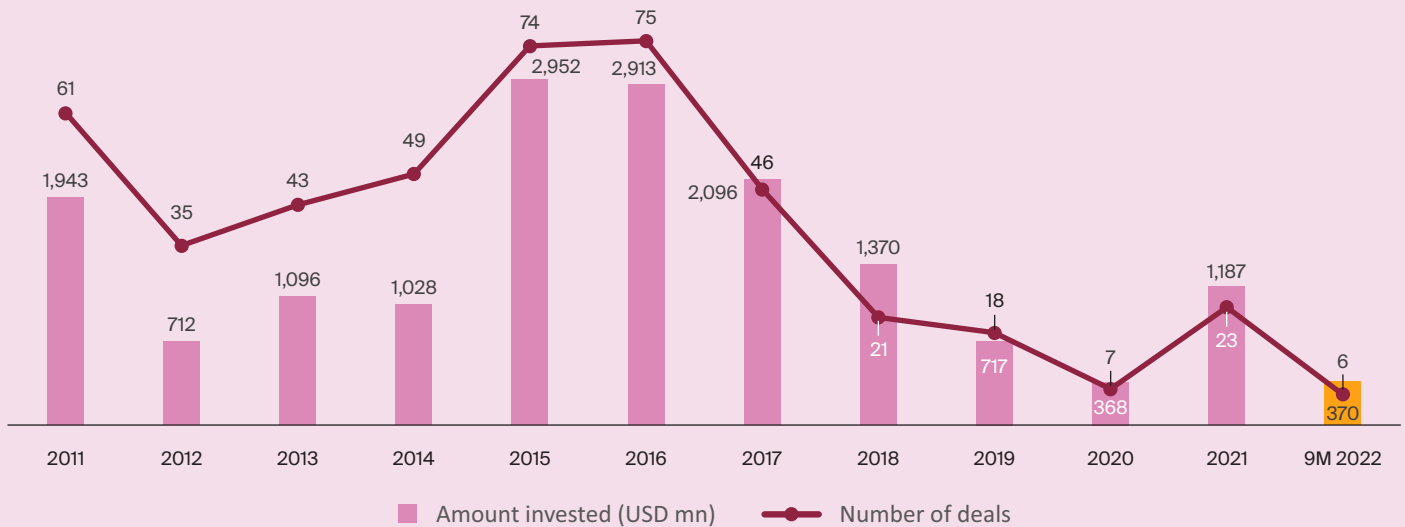
Source: Knight Frank Research



PE Investments in Residential

Figure 13

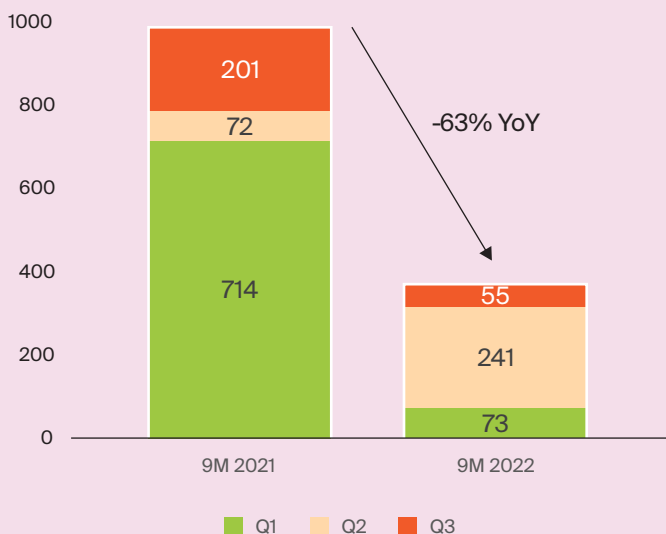
Residential received investments worth USD 370 mn in 9M 2022



Source: Knight Frank Research, Venture Intelligence

Figure 14

Residential investments declined 63% YoY in 9M 2022



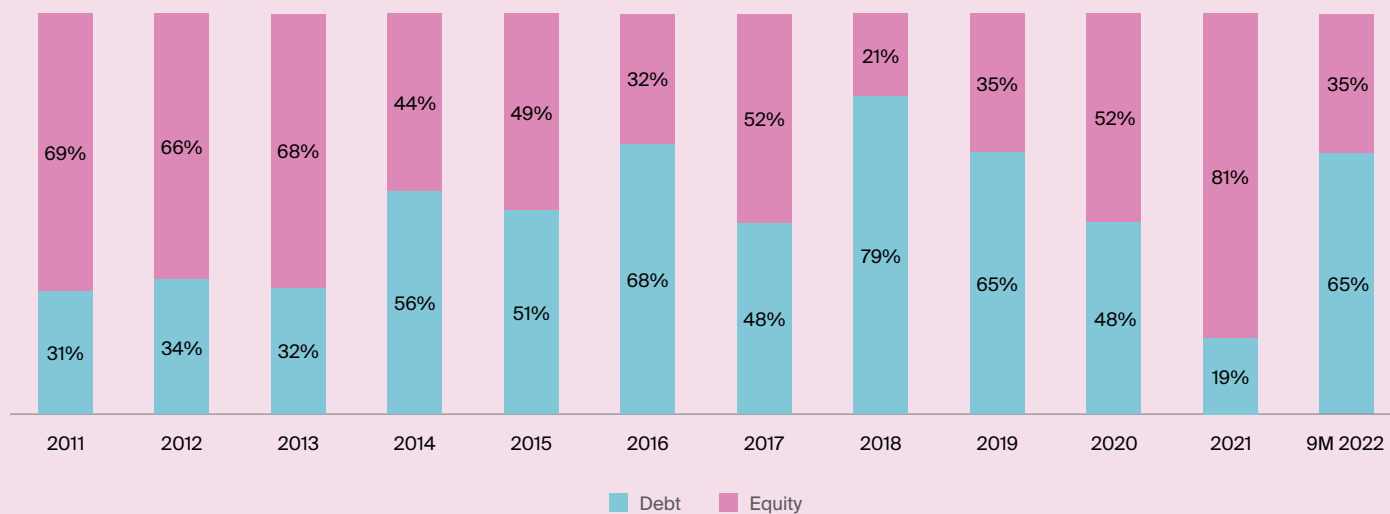
Source: Knight Frank Research, Venture Intelligence

- The residential segment received investments worth USD 370 mn in 9M 2022.
- Investors' preferred mode of investment weighed back towards debt as investors exercised caution, led by rising interest rates and increasing commodity prices.
- Majority of private equity investment in the residential sector was received via foreign PE players
- Chennai and NCR led the investment scenario due to development stage transactions by leading global players.

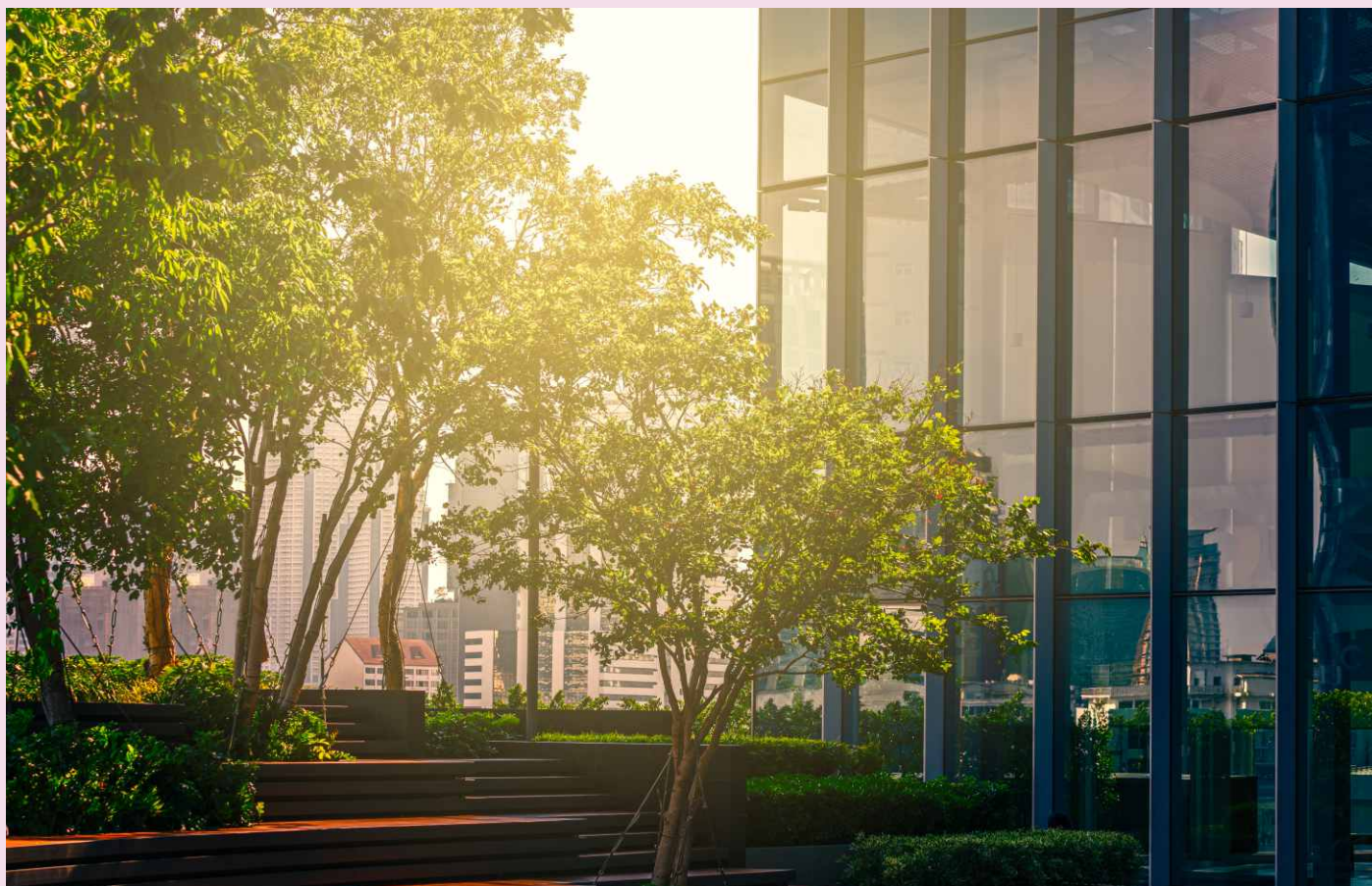
INVESTMENTS IN REAL ESTATE
TRENDS IN PRIVATE EQUITY INVESTMENTS IN INDIA (9M 2022)

Figure 15

Investors exercise caution over investments in 9M 2022



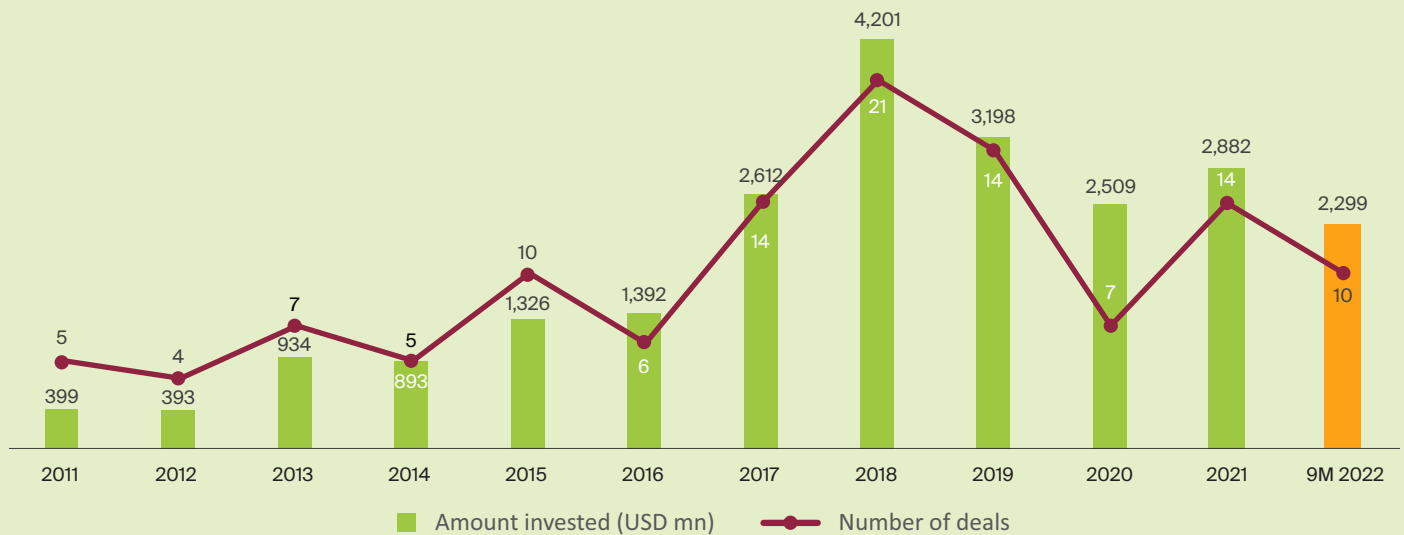
Source: Knight Frank Research



PE Investments in Office

Figure 16

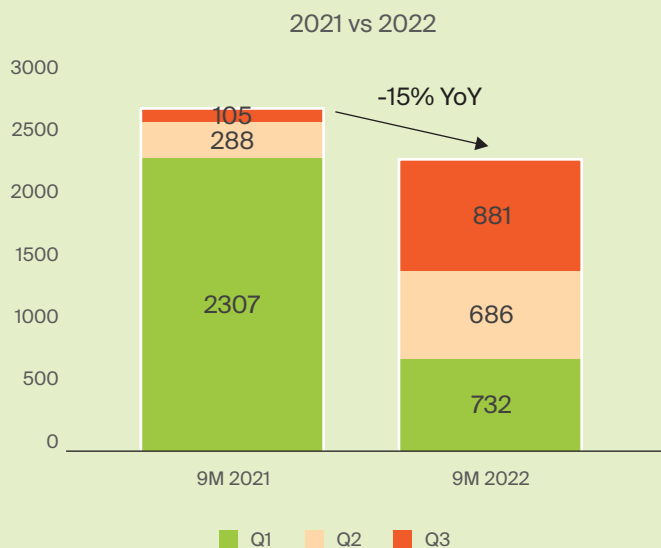
Office maintained its spot as the most favoured segment



Source: Knight Frank Research, Venture Intelligence

Figure 17

Investors made staggered investments across quarters



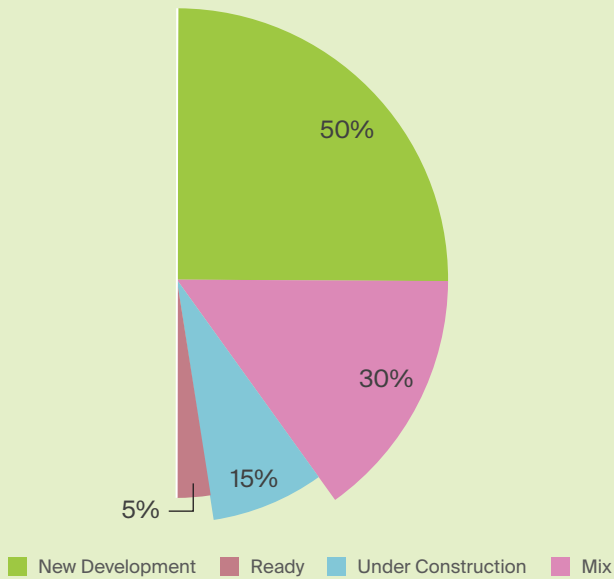
Source: Knight Frank Research, Venture Intelligence

- The office sector received investments worth USD 2.3 bn in the first nine months of 2022.
- In 9M 2022, approximately 67% of the investments were in ready assets, while 33% of the investments were made in new and under-construction developments as investors refrained from undertaking risky bets.
- Mumbai and Bengaluru led the investment scenario due to development stage transactions by leading global funds.

INVESTMENTS IN REAL ESTATE
TRENDS IN PRIVATE EQUITY INVESTMENTS IN INDIA (9M 2022)

Figure 18

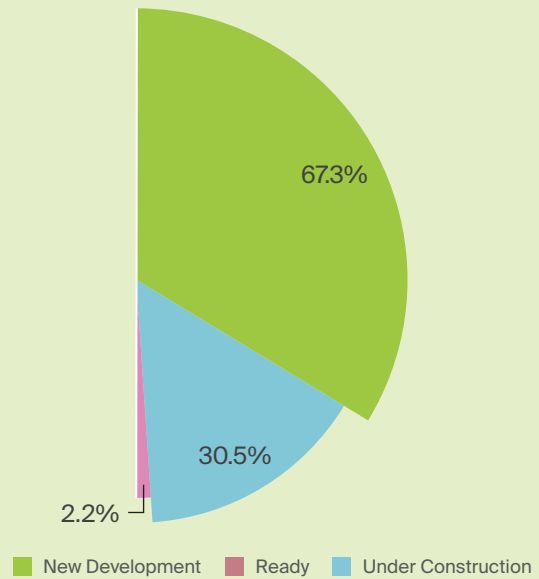
Stage of equity investments in office segment in 9M 2021



Source: Knight Frank Research

Figure 19

Stage of equity investments in office segment in 9M 2022



Source: Knight Frank Research

Table 1

City wise investments in office segment:
Mumbai takes the largest quantum since 2011

City	Amount invested (USD mn)	Number of deals
Mumbai	6,131	24
Bangalore	4,601	19
NCR	3,311	19
Hyderabad	2,081	14
Bangalore, Chennai, NCR	2,000	1
Pune	1,143	12
Chennai	923	9
Chennai, Hyderabad	415	1
Mumbai, Pune, NCR, Bengaluru	325	1
Mumbai, Pune, Hyderabad, Chennai*	240	1
Kerala	67	1
Grand Total	21,237	102

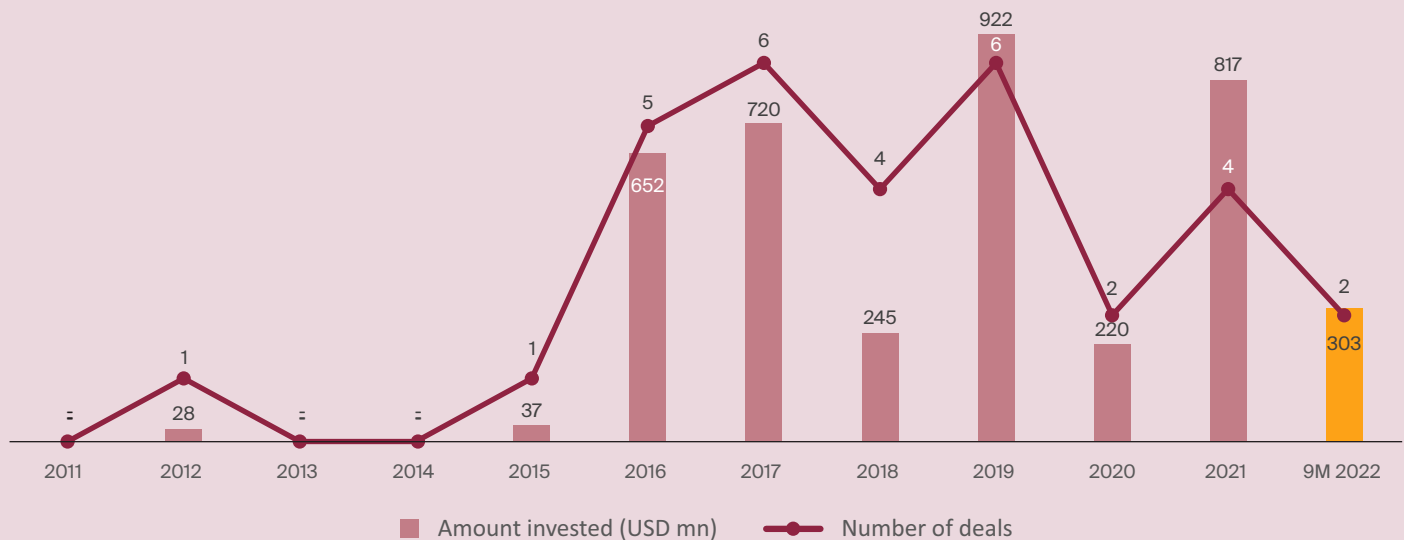
Source: Knight Frank Research

Note - * represents investments in a single deal. The Grand Total represents investments since 2011.

PE Investments in Retail

Figure 20

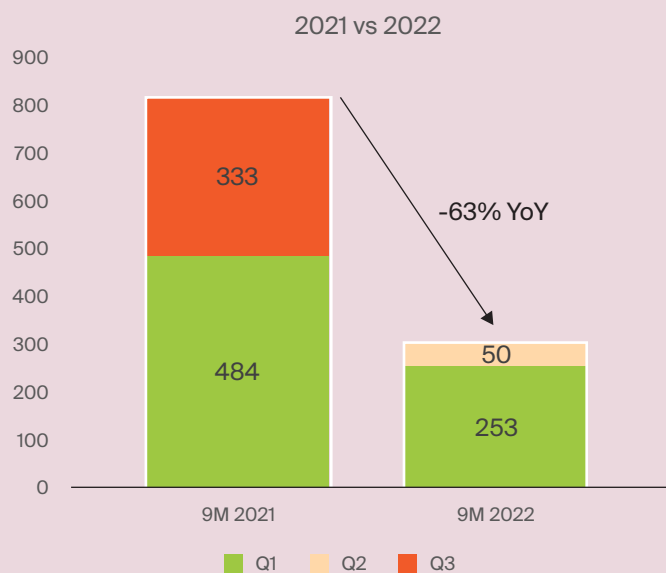
PE investments in retail



Source: Knight Frank Research, Venture Intelligence

Figure 21

Investments in retail segment plunged 63% YoY in 9M 2022



Source: Knight Frank Research, Venture Intelligence

- The retail sector received investments worth USD 303 mn in 9M 2022.
- PE investments in retail remained skewed due to two deals in 9M 2022: An investment by Lakeshore Advisors in Ashwin Sheth Group's Viviana Mall, and an investment by GIC undertaking additional stake in Phoenix Mills.
- Investors avoided the retail sector due to concerns about the potential negative effects a high inflation environment would have on the sector
- However, the retail sector will continue to observe capital commitments from investment platforms that remain bullish on its growth prospects, eyeing retail sales' buoyancy arising from prolonged pandemic stress.

INVESTMENTS IN REAL ESTATE
TRENDS IN PRIVATE EQUITY INVESTMENTS IN INDIA (9M 2022)

Table 2

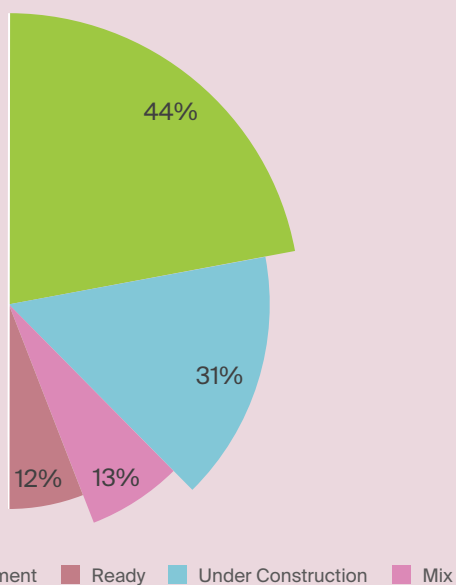
Unlike office assets, investor interest in retail goes beyond major metros

City	Amount invested (USD mn)	Number of deals
Mumbai	1,664	9
Bangalore	512	2
Pune	483	5
Chandigarh	267	2
Hyderabad	197	2
NCR	192	2
Ahmedabad	123	1
Lucknow	115	1
Chennai	106	2
Nagpur, Amritsar	100	1
Indore	61	2
Bhubaneswar	46	1
Kolkata	77	1
Grand Total	3,944	31

Source: Knight Frank Research
Note: The Grand Total represents investments since 2011.

Figure 22

Share of private equity investments in retail since 2011



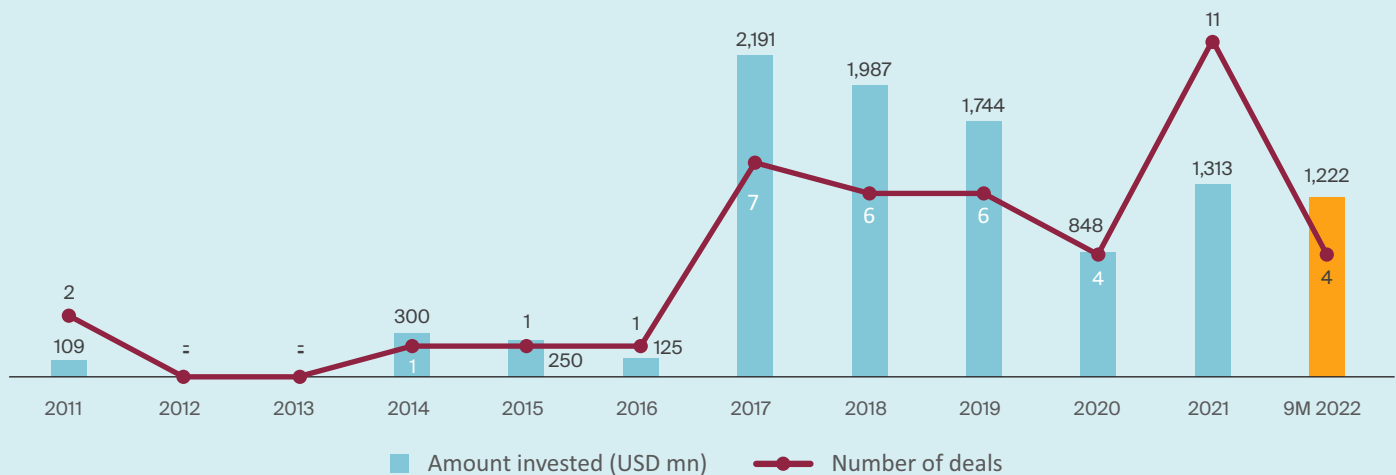
Source: Knight Frank Research, Venture Intelligence



PE Investments in Warehousing

Figure 23

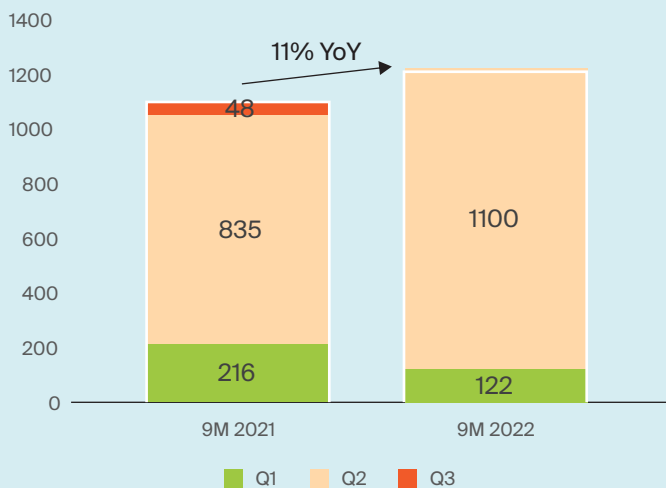
PE investments in warehousing



Source: Knight Frank Research, Venture Intelligence

Figure 24

Investments grew 11% YoY in 9M 2022 registering strongest growth compared to other segments

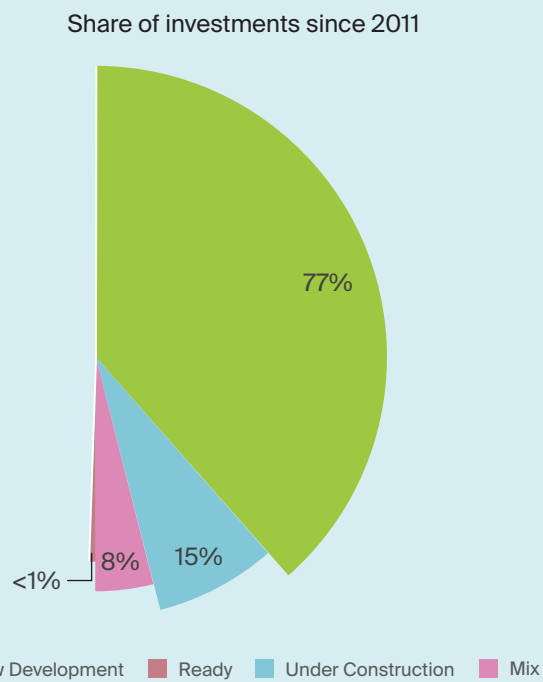


Source: Knight Frank Research, Venture Intelligence

- Investments in logistics and industrial segments remained robust in 9M 2022 on the back of strong demand for this asset class supported by rise in automation and increased demand for third-party logistics
- The investment volume in warehousing segment increased by 11% YoY to USD 1.2 bn in 9M 2022 compared to USD 1.1 bn received in the same period last year
- Warehousing segment registered the strongest growth compared to office, residential and retail segments as investor confidence in the sector remained high, owing to the ever-increasing need for last-mile deliveries and logistics
- Robust demand for warehousing and logistics spaces amidst pandemic and a dearth of organized assets led to several greenfield investments during the year
- The outlook for the warehousing segment remains positive with the segment registering occupier demand of 4.8 mn sq m (51.3 mn sq ft) in FY 2022, rising by 62% YoY, underscoring the strength of the market.

Figure 25

Lack of mature assets in India's warehousing segment and shorter construction timelines post land acquisition make a strong case for greenfield investments



Source: Knight Frank Research



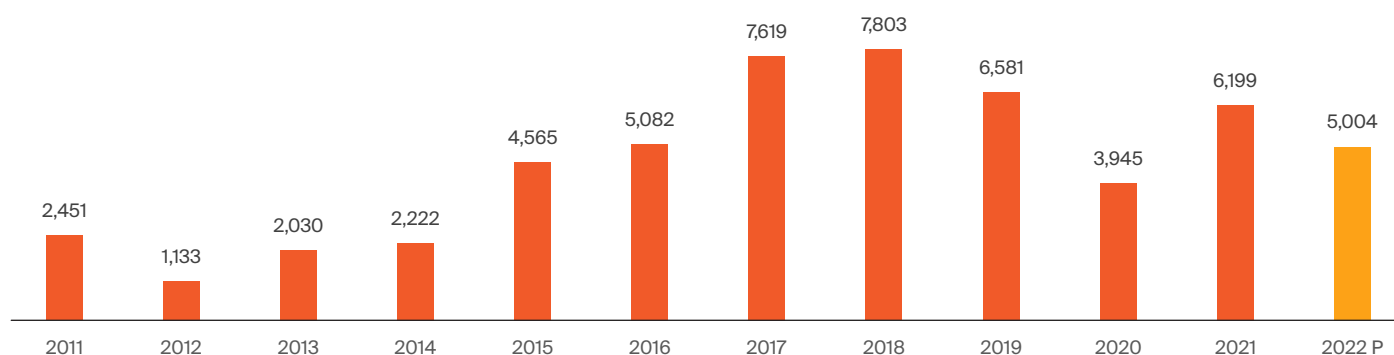
Outlook

India's investment scenario, which had improved in 2021 because of effective vaccination rollout and government support for fiscal and monetary policy, saw a setback in 9M 2022, as investors became more cautious in response to growing global tensions and worries over rising inflation and interest rates. Fewer transactions were seen in the 9M of 2022 as investors adopted a cautious approach.

The office segment continued to remain the most popular investment choice on the back of the resilience exhibited by investible grade office assets, while demand for warehousing sector improved on the backdrop of rising demand for third party logistics, manufacturing, and e-commerce

Figure 26

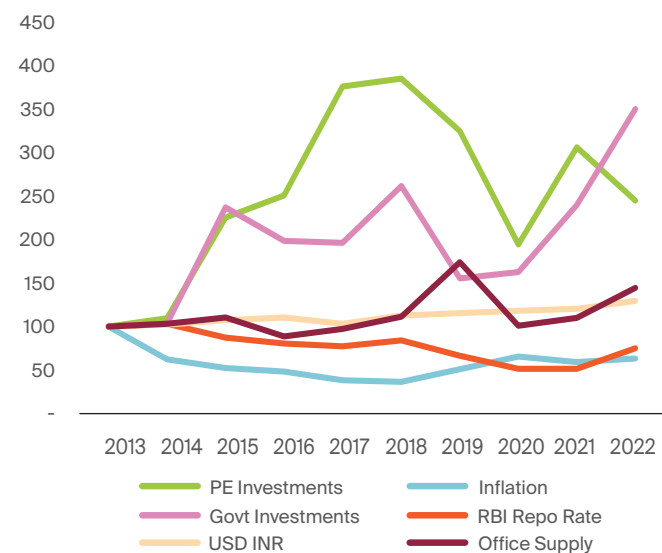
PE investments in 2022 expected to decline by 19% YoY to USD 5.0 bn



Source: Knight Frank Research

Figure 27

Factors impacting PE investments in India



Source: Knight Frank Research

According to our prior analysis, we projected the overall private equity investments in India at USD 6.9 bn in 2022, based on the correlation of government investment, currency movement, inflation, interest rate, and office supply to PE investments in India. However, with overshooting of underlying variables of inflation, exchange rate, and interest rate owing to the evolving geopolitical scenario brought by prolonged Russia – Ukraine war and strong monetary policy actions in the developed markets, we have revised our earlier projection downward.

We now project total private equity investments in India at USD 5.0 bn for 2022, a 19% YoY decline, based on our analysis of the effect of these variables on investments. In the face of the global liquidity tightening and increase in interest rate, investment climate has subdued for the near term. Going forward, as global headwinds settle, resilience displayed by the Indian economy and favourable unit economics of the real estate assets will play a role in PE investment activity in the sector.

INVESTMENTS IN REAL ESTATE
TRENDS IN PRIVATE EQUITY INVESTMENTS IN INDIA (9M 2022)

KEY CONTACTS

Shishir Baijal

Chairman & Managing Director
shishir.baijal@in.knightfrank.com

RESEARCH, ADVISORY, INFRASTRUCTURE, & VALUATION

Gulam Zia

Senior Executive Director
gulam.zia@in.knightfrank.com

Saurabh Mehrotra

Executive Director - Valuation & Advisory
saurabh.mehrotra@in.knightfrank.com

Rajeev Vijay

Executive Director - Government & Infrastructure Advisory
rajeev.vijay@in.knightfrank.com

RESIDENTIAL (MUMBAI)

Reshmi Panicker

Executive Director
reshmi.panicker@in.knightfrank.com

OCCUPIER STRATEGY & SOLUTIONS

Viral Desai

Senior Executive Director - Transactions
viral.desai@in.knightfrank.com

INDUSTRIAL & LOGISTICS SERVICES

Balbirsingh Khalsa

Executive Director
balbirsingh.khalsa@in.knightfrank.com

Pinkesh Teckwani

National Director
pinkesh.teckwani@in.knightfrank.com

CAPITAL MARKETS

Viral Desai

Senior Executive Director - Transactions
viral.desai@in.knightfrank.com

LAND SERVICES

Reshmi Panicker

Executive Director
reshmi.panicker@in.knightfrank.com

PROJECT MANAGEMENT

Deben Moza

Senior Executive Director
deben.moza@in.knightfrank.com

FACILITIES & ASSET MANAGEMENT SERVICES

Sathish Rajendren

Senior Executive Director
sathish.rajendren@in.knightfrank.com

RESEARCH

Vivek Rathi

Director
vivek.rathi@in.knightfrank.com

AHMEDABAD

Balbirsingh Khalsa

Branch Director
balbirsingh.khalsa@in.knightfrank.com

BENGALURU

Shantanu Mazumder

Executive Director
shantanu.mazumder@in.knightfrank.com

CHENNAI

Srinivas Ankipatti

Senior Director - Tamil Nadu & Kerala
srinivas.ankipatti@in.knightfrank.com

HYDERABAD

Samson Arthur

Senior Branch Director
samson.arthur@in.knightfrank.com

KOLKATA

Shishir Baijal

Chairman & Managing Director
shishir.baijal@in.knightfrank.com

NCR

Mudassir Zaidi

Executive Director - North
mudassir.zaidi@in.knightfrank.com

PUNE

P Vilas

Branch Head
p.vilas@in.knightfrank.com

REPORT AUTHOR

Naresh Sharma

Lead Consultant - Research
Naresh.Sharma@in.knightfrank.com

GRAPHICS & DESIGN

Nitin More

Senior Manager - Graphics & Design
Nitin.More@in.knightfrank.com

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RESEARCH

Vivek Rathi

Director

Vivek.Rathi@in.knightfrank.com

CORPORATE - MARKETING & PUBLIC RELATIONS

Piyali Dasgupta

Director - Corporate Marketing & Public Relations

Piyali.Dasgupta@in.knightfrank.com

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