

Investments in Real Estate



Trends in Private Equity Investment in India – H1 2023

June 2023

Knight Frank's comprehensive handbook showcasing trends in private equity (PE) investments within the Indian real estate sector across various asset categories.

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Foreword

In 2022, investors faced numerous challenges, leaving little room for celebration. Factors such as geopolitical instability, rising interest rates, and increasing inflation had a significant impact on investment decisions throughout the year. These conditions resulted in high volatility in financial markets, making it more difficult to make investment choices.

During 2022, private equity (PE) investments in various segments of the Indian real estate market including office, residential, retail, and warehousing, declined by 13.6% to USD 5.4 bn as investors shied away from making big investments due to geopolitical concerns.

In H1 2023, investors continued to remain cautious with investments due to escalating international tensions and concerns about rising inflation, increasing interest rates and the fear of a possible recession among major economies. While investors remained wary due to the ongoing turbulence, this current uncertainty in the short term presents an opportunity for investors to pursue their long-term goals by investing in quality assets.

As an increasing number of companies seek capital and financing in private markets, the range of potential investment opportunities expands. Historical evidence suggests that even during periods of turmoil, private assets have the potential to perform well both in absolute and relative terms.

The Knight Frank Capital Market Report provides comprehensive insights into institutional private equity investments in the Indian real estate sector, covering overall inflows, key statistics, major trends, and enduring themes expected to sustain in the foreseeable future.

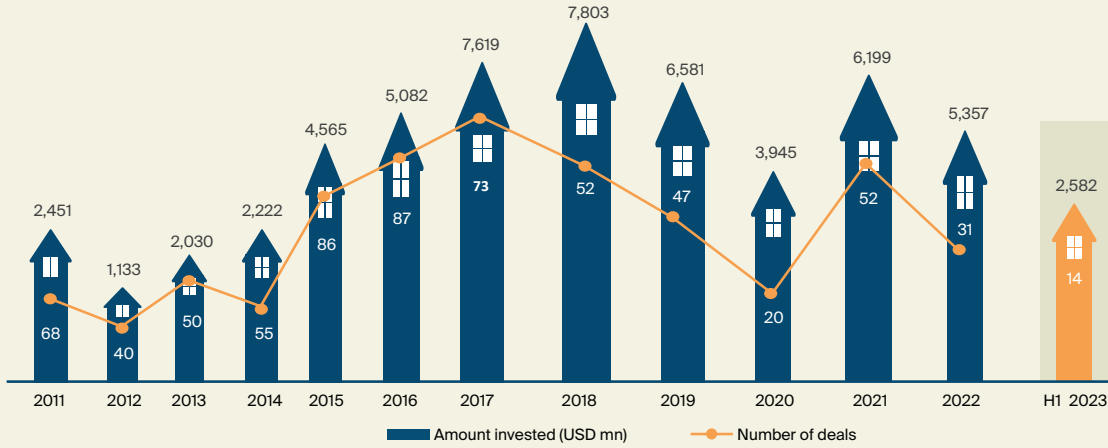
We hope that the report proves valuable to you and contributes to your understanding of the Indian investment landscape. We welcome your feedback and wish you and your loved ones a safe and healthy time ahead.



Shishir Bajjal
Chairman and Managing Director

Trends in PE Investments in Real Estate

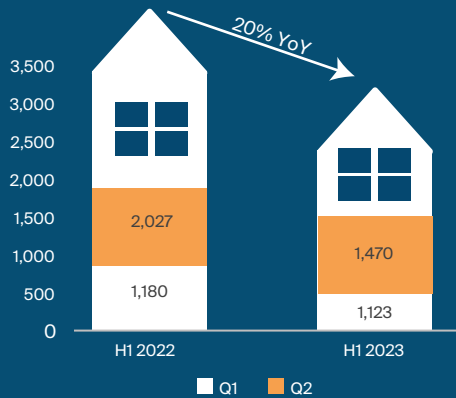
Chart 1: Real estate investments totalled USD 2.6 bn in H1 2023



Source: Knight Frank Research, Venture Intelligence.

*Investments considered till 25th June 2023

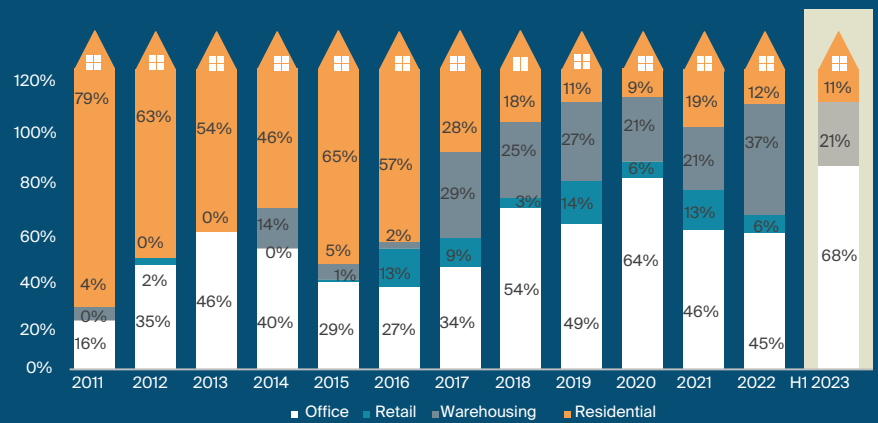
Chart 2: Investors adopted a measured approach in H1 2023, resulting in a conservative shift in investment strategies



Source: Knight Frank Research, Venture Intelligence.

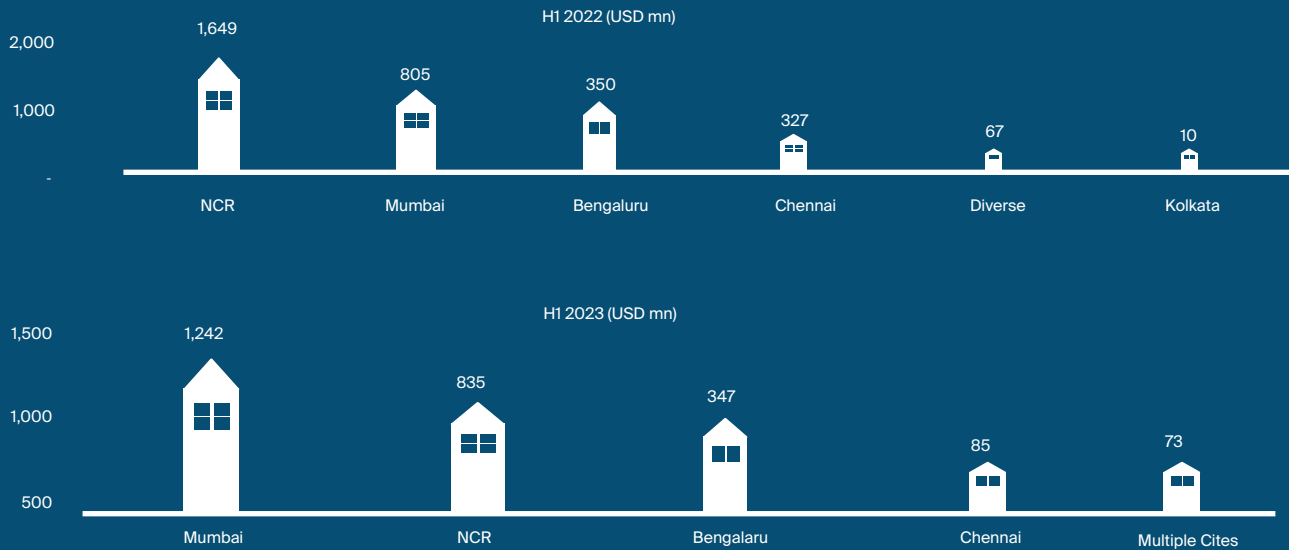
*Investments considered till 25th June 2023

Chart 3: The office sector leads the pack in the market with warehousing in a strong second position



Source: Knight Frank Research, Venture Intelligence

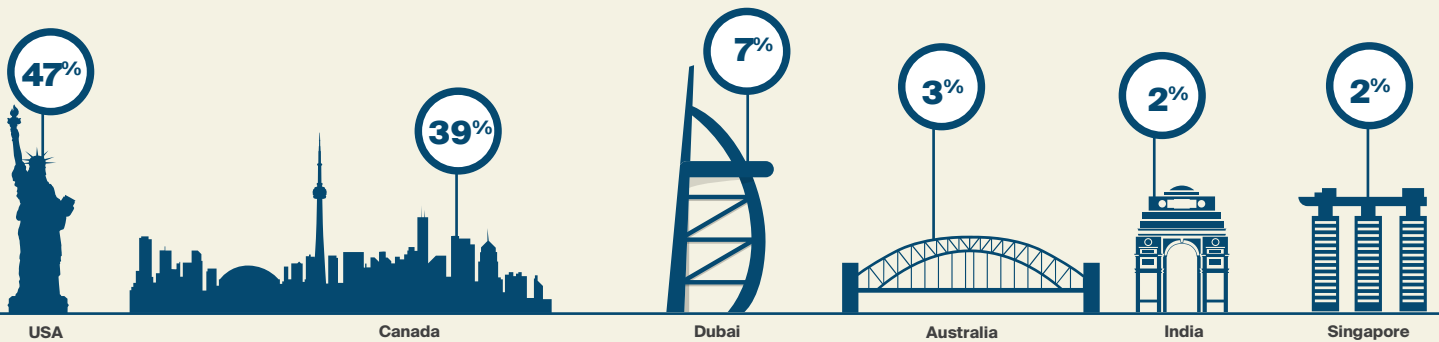
Chart 4: Mumbai and NCR continue to receive the highest investments in H1 2023



Source: Knight Frank Research

Chart 5: H1 2023 witnessed a significant influx of investments from Asian investors

H1 2022



H1 2023

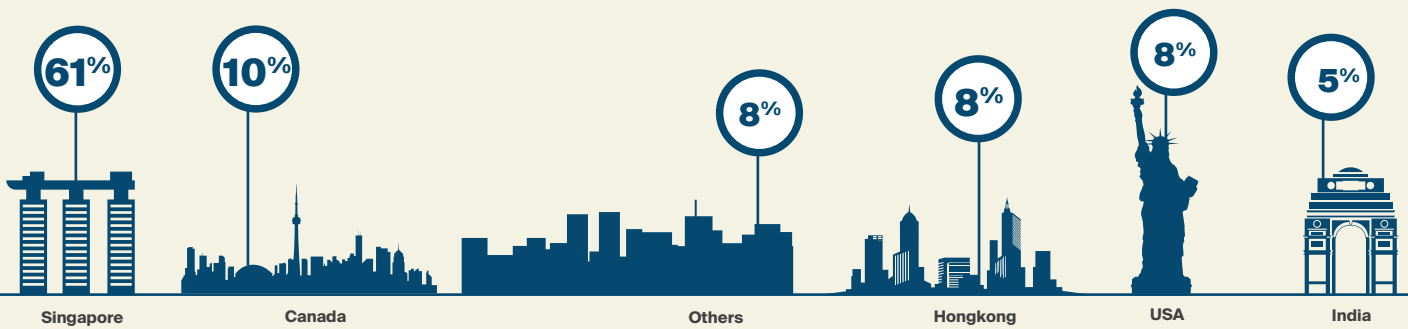


Chart 6: Recognizing the need for capital protection, investors opt for safer investment alternatives

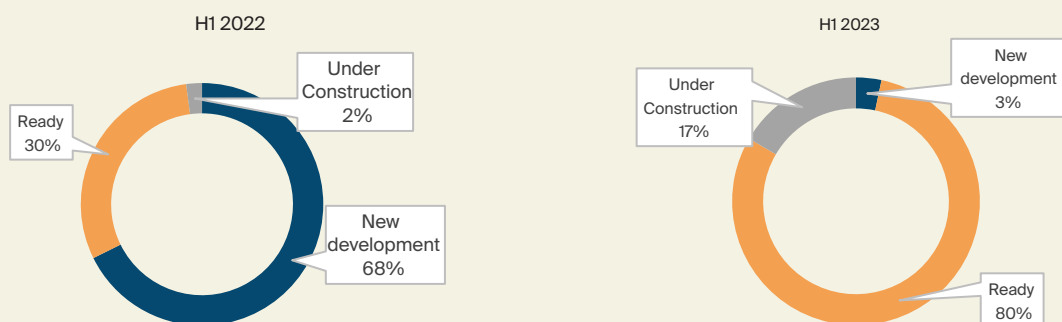


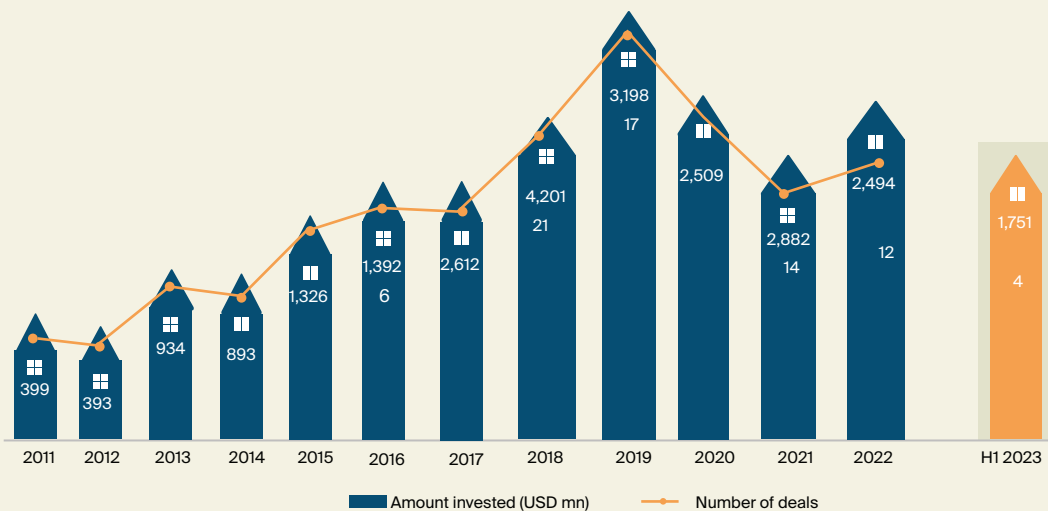
Chart 7: Equity continues to be the favored choice for investments



- In the first half of 2023, the Indian real estate sector received USD 2.6 bn in private equity (PE) investments across office, warehousing and residential sectors.
- Compared to the first half of 2022, PE investors adopted a measured approach in H1 2023, resulting in a conservative shift in investment strategies.
- Tightened lending standards and geopolitical uncertainty on a global scale kept investors cautious and limited their involvement in the market.
- The impact was relatively minimal as investors took careful positions across sectors, with the office sector receiving the highest share of investments.
- Foreign private equity investors continued to be the largest contributors, accounting for 90% of the total investments in the first half of 2023.
- The office sector constituted 68% of all private equity investments during this period, followed by warehousing at 21% and residential at 11%. Among cities, Mumbai and NCR received the highest share of investments across sectors in the first half of 2023.
- In contrast to the first half of 2022, where most investments (86%) came from the US and Canada, only 18% of the investments in the first half of 2023 originated from these countries. Most investments (75%) came from Asian countries.
- Since March 2022, the US Federal Reserve has implemented interest rate hikes on ten occasions, resulting in a 2.25 percentage point increase in rates, while the Central Bank of Canada has implemented nine such rate hikes, leading to a 2.75 percentage point increase in the overnight rate. As a result, current interest rates in the US and Canada stand at 5.25% and 4.75% respectively, almost double compared to the pre-pandemic period. The impact of increased capital costs, and growing concerns of recession has subdued investment activity from these countries.
- In the first half of 2023, over 80% of the total investments were directed towards ready assets, clearly indicating investors' cautious stance.
- Despite prevailing global concerns influencing investments, the moderation in growth has been limited, and a rebound is anticipated in the second half of 2023.

PE Investments in Office Sector

Chart 8: The office sector remained the top recipient of investments in H1 2023



Source: Knight Frank Research, Venture Intelligence

*Investments considered till 25th June 2023

Chart 9: Office sector investments soared by 24% in H1 2023

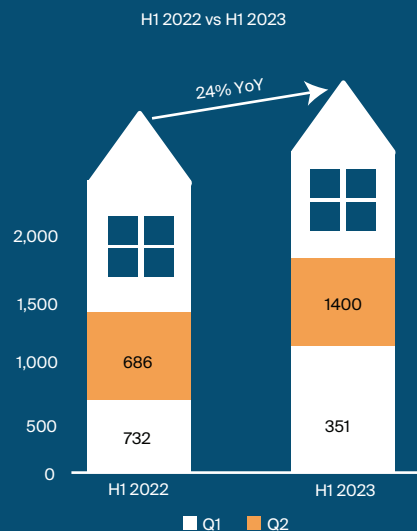
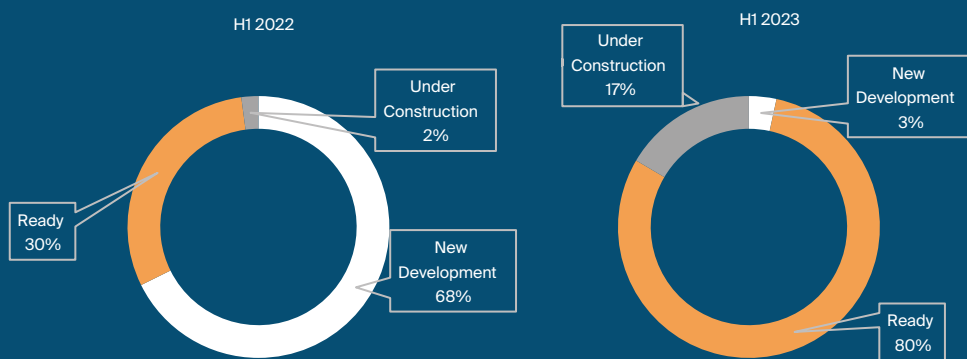


Chart 10: Investors opt for safer investment avenues, exercising caution in their approach



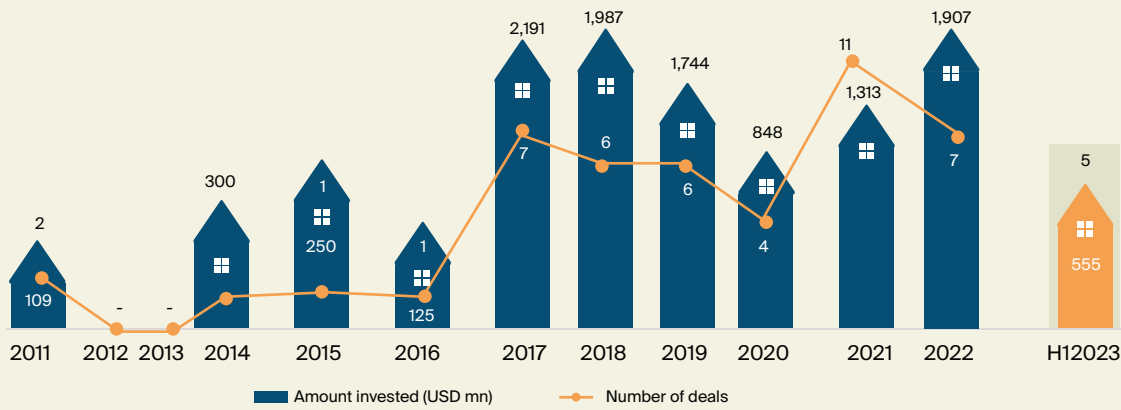
- The office sector received USD 1.8 bn in investments during H1 2023.
- The trend of office assets maintaining their lead continued in H1 2023, accounting for a 68% share of total investments. The resilience of investible grade office assets supported this dominance.
- PE investments in the office sector experienced a YoY increase of 24% in H1 2023. This growth was largely driven by a substantial deal worth USD 1.4 bn between GIC and Brookfield India Real Estate Trust REIT. Around 80% of the

investments in H1 2023 were in ready assets, while 20% were allocated to new and under-construction developments, reflecting investor aversion to risks. Mumbai, NCR and Bengaluru emerged as leading investment destinations for office investments in H1 2023.

- The outlook for PE investment in Indian office assets remains positive. The demand for office space is expected to continue growing in the coming years, while the supply of office space is anticipated to be limited. These factors should drive up rental rates and make Indian office assets appealing to PE investors.

PE Investments in Warehousing

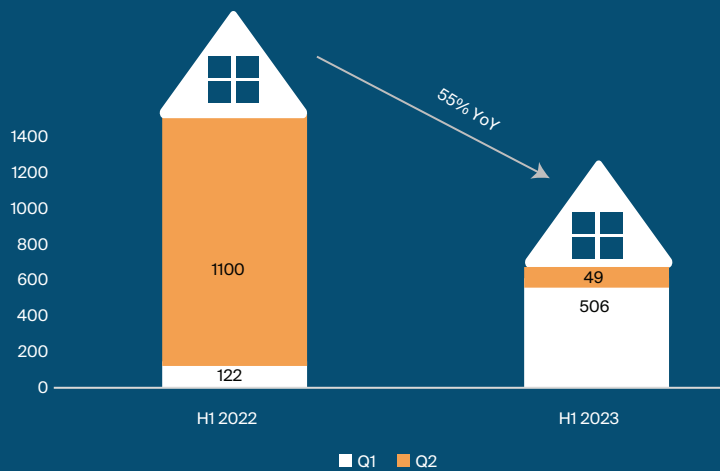
Chart 11: Warehousing emerged as the second-highest beneficiary, receiving USD 555 mn in investments during H1 2023



Source: Knight Frank Research, Venture Intelligence

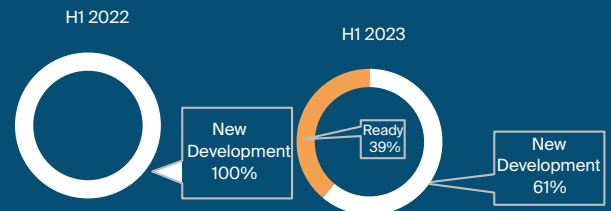
*Investments considered till 25th June 2023

Chart 12: Investments in warehousing sector dipped 55% YoY in H1 2023



Source: Knight Frank Research, Venture Intelligence

Chart 13: The majority of investments received in new developments due to a dearth of ready assets



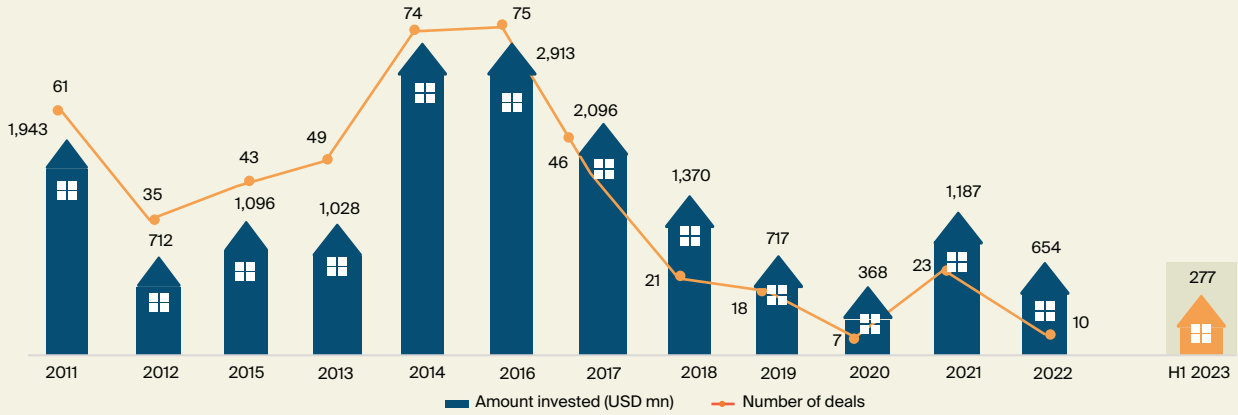
Source: Knight Frank Research, Venture Intelligence

- Investment in the warehousing segment experienced a contraction in H1 2023, with an amount of USD 555 mn compared to USD 1.2 bn in H1 2022.
- The lack of supply of high-quality grade assets contributed to the slowdown in investments in the warehousing sector.
- PE investors are targeting various subsectors within the warehousing market, including e-commerce logistics and 3PL (third-party logistics) facilities.

- Despite the dip in PE investment in warehousing in H1 2023, the outlook for this asset class remains positive. The demand for warehouse space is expected to continue growing in the coming years as e-commerce and logistics companies expand their operations. This is likely to drive an increase in PE investment in the warehousing sector in the future.

PE Investments in Residential

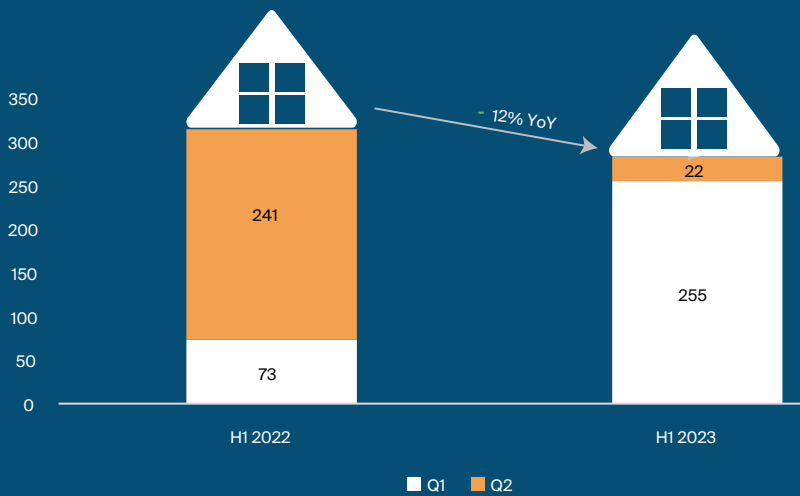
Chart 14: Residential sector received investments worth USD 277 mn in H1 2023



Source: Knight Frank Research, Venture Intelligence

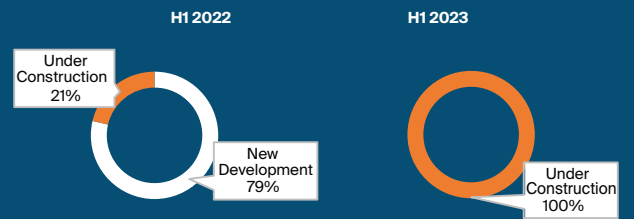
*Investments considered till 25th June 2023

Chart 15: PE investments in residential sector dipped 12% YoY in H1 2023



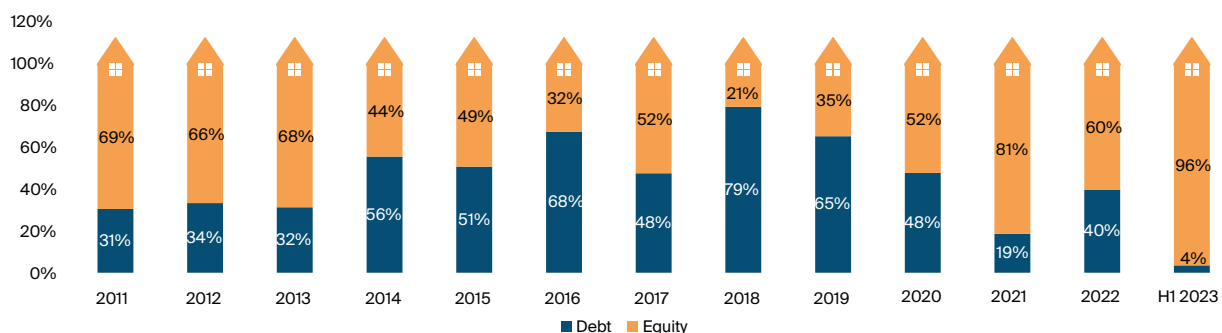
Source: Knight Frank Research, Venture Intelligence

Chart 16: Investors strategically invest in under-construction projects for better returns



Source: Knight Frank Research, Venture Intelligence

Chart 17: Equity remains the preferred investment route for investors

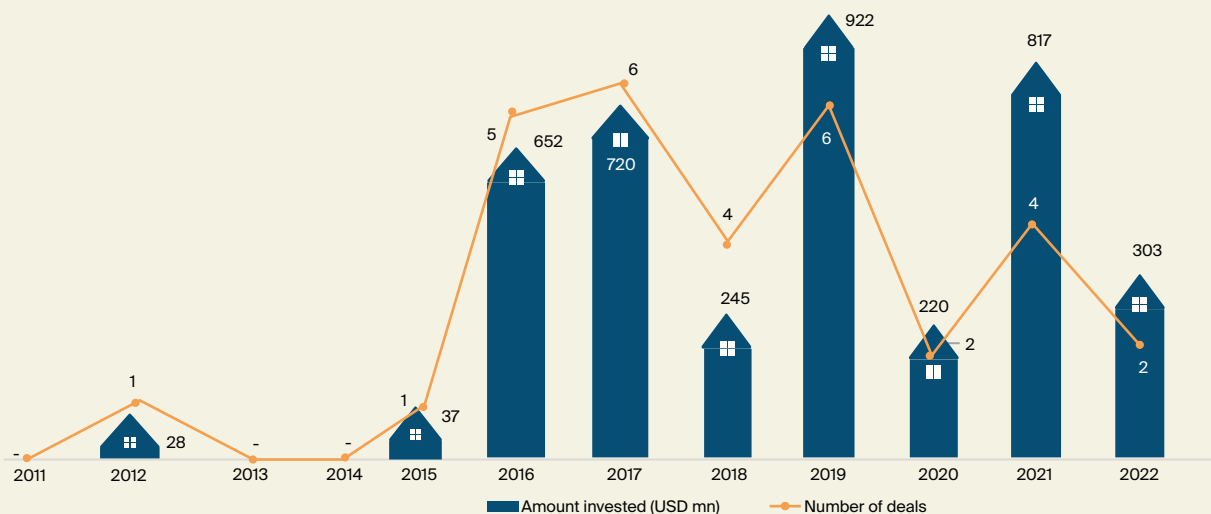


- Residential sector attracted USD 277 mn in investments during H1 2023.
- All PE investments in the residential sector were focused on under-construction projects, aiming for investments at early stage for better returns.
- Foreign PE players accounted for 82% of the private equity investments in the residential sector.
- NCR and Bengaluru emerged as leading investment destinations, driven by development stage transactions involving prominent global players.



PE Investments in Retail

Chart 18: Retail sector did not witness a deal in H1 2023



Source: Knight Frank Research, Venture Intelligence

*Investments considered till 25th June 2023

Table 1: Investor interest in the retail sector has expanded beyond major metros in recent years

Cities	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

- Heightened recession concerns and increasing costs have made global investors more cautious over large investments. However, the outlook for the Indian retail sector continues to remain positive.
- The listing on a retail REIT will likely lead to increased interest among investors.
- Investment platforms optimistic about growth prospects of the retail sector are expected to continue making capital commitments, as we witness a rebound in retail sales.

Source: Knight Frank Research

Note: The Grand Total represents investments since 2011.



Outlook

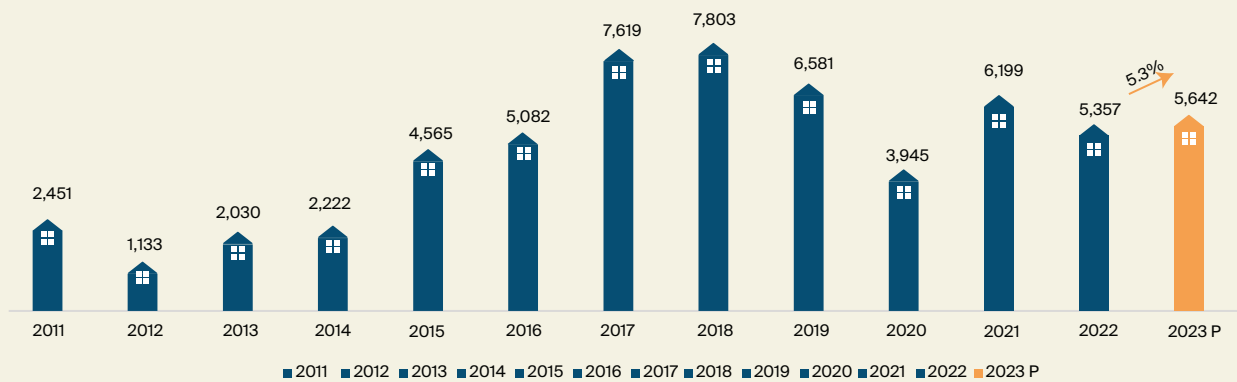
The subdued investment activity over the past year can be attributed to high interest rates and geopolitical uncertainty, which made investors cautious in capital commitment to emerging markets. Additionally, concerns about a potential recession in major global economies impacted investor sentiment.

In our previous analysis, we projected that the overall private equity investments in Indian real estate across office, warehousing, residential and retail would reach USD 5.0 bn in 2022. This estimation was based on determinants such as

government investment, currency trend, inflation, interest rate, and office supply. The actual private equity investment in 2022 was recorded at USD 5.3 bn, aligning closely with our projections.

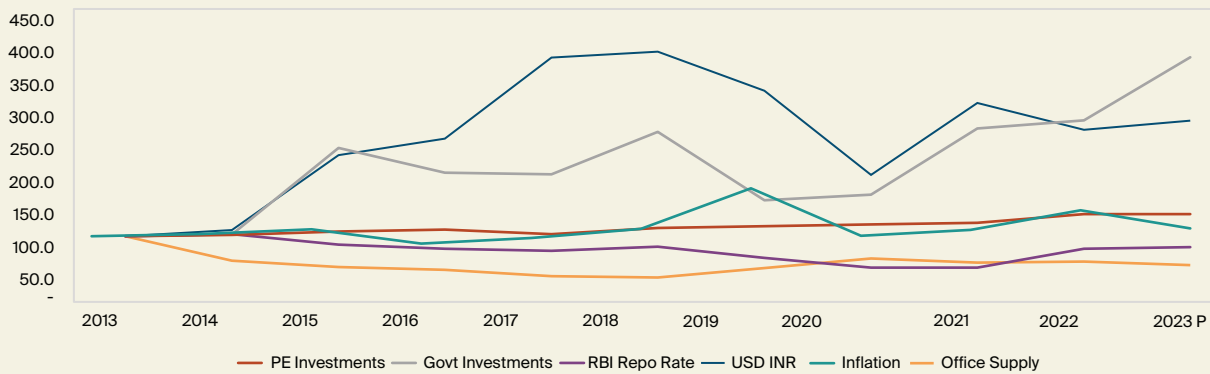
During the first half of 2023, the office segment remained the most favoured choice for investments, mainly due to the resilience displayed by high-quality office assets. While investments in other sectors experienced a slowdown, the underlying demand outlook for all sectors remains positive.

Chart 19: Indian real estate PE investments projected to increase moderately by 5.3 %YoY to USD 5.6 bn in 2023



Source: Knight Frank Research

Chart 20: Factors impacting PE investments in India



Source: Knight Frank Research

The decision by major economies like the US and Canada to pause their interest rate hikes provides some relief to private equity investors in India. The Indian economy has shown robust growth, expanding at a rate of 7.2% in FY 2022-23, driven by strong performances in the manufacturing, construction, and services sectors. In the 2023-24 budget, the Indian government increased capital expenditure by 37% and allocated USD 45 bn for grants to states, aimed at creating capital assets and further stimulating economic growth through infrastructure development.

The Reserve Bank of India (RBI) has chosen to maintain a steady repo rate of 6.5% for the second consecutive time in H1 2023. Additionally, India's inflation rate currently stands

at 4.25% as of May 2023, the lowest since April 2021, and is projected to be 5.1% for FY 2023-24, comfortably below the 6% upper threshold. These factors, along with other supportive measures, contribute to India's attractiveness as a global investment destination.

Based on Knight Frank's investment forecasting model, which considers factors such as government investment, currency fluctuations, inflation, interest rates, and office supply, we project a YoY growth of 5.3% in PE investments in India in 2023, reaching USD 5.6 bn. As global headwinds subside, the resilience displayed by the Indian economy and the favourable unit economics of real estate assets will positively influence PE investment activity in the sector.

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research, or would like some property advice,
we would love to hear from you.



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