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A fund-raising exercise

With the total inflow of funds in the realty sector increasing by 40 per cent in Q1 2016 as compared to the corresponding quarter last year, experts believe that this renewed confidence of the PE players could turn the tables for the real estate industry

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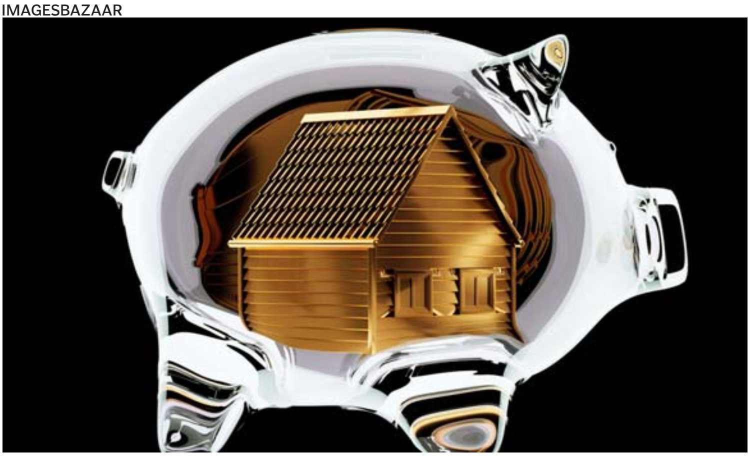

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On one hand, tepid sales and weak sentiments defined the residential real estate sector of 2015 and on the other, an increased leasing activity, vacancy levels bottoming out and large scale transactions painted the revival of the commercial market. One of the bright spots for the real estate market has been the renewed interest of the Private Equity (PE) players, who extensively infused money into the sector. Private Equity investments in Real Estate (PERE) peaked during 2015 with Rs 25,680 crore/Rs 256.8 billion (bn) (USD 4.0 bn), the highest since 2008, stated a report released by Cushman and Wakefield, earlier this year. And with one quarter of the year already behind us, realty experts believe that PE players will continue to pump in more money into the real estate sector this year as well, due to improved macro-economic conditions and the recent regulatory reforms introduced by the government. Experts are also optimistic because the total inflow into the sector has also increased by 40 per cent in Q1 2016 at Rs 3,840 crore/Rs 38.4 billion (bn) (USD 577.0 mn), as compared to the corresponding quarter last year, stated a new report released by Cushman and Wakefield. Similarly, the average deal size increased by 23 per cent over Q1 2015 to Rs 2.3 bn (USD 34.0 mn). Unlike Q1 2015, which saw investments only in residential assets, the first quarter of 2016 witnessed investments across asset classes. "PE has emerged as a major funding channel for the realty sector since the last decade. Post the global crisis of 2008, banks and the central bank opted to take a hawkish view on real estate, construction and infrastructure credit, thus slowing down capital availability. Realty companies in India have taken recourse to PE, NBFCs and other private capital options to meet the projected demand for new housing stock and ensure that they keep up the growth trajectory," says Niranjan Hiranandani- MD, Hiranandani Communities. With project cashflows being weak and lending from banks not easily available, would this be a year of fund-raising for the developers?

UNLIKE Q1 2015, WHICH SAW INVESTMENTS ONLY IN RESIDENTIAL ASSETS, THE FIRST QUARTER OF 2016 WITNESSED INVESTMENTS ACROSS ASSET CLASSES.

The Indian real estate market is one of the most globally recognised sectors. It is on the edge of a structural shift towards a healthy business environment, post the formation of the new government and hence, global investors are expected to show faith in the business. "The confidence of the PE players has been renewed in the Indian realty market due to a continuous improvement on the technological front by the developers, greater transparency in the sector due to regulatory changes, a positive growth story of commercial realty and subdued real estate prices in the last two years. All these factors have created a large headroom for growth and hence, this is a favourable time for investors to enter the market and reap benefits in the long run," points out Sajal Gupta, chief financial officer, Rustomjee Group.

"The Union Budget this year, has given a lot of confidence to investors. Besides, international agencies like IMF and World Bank have also started talking in a positive vein about India. To add to it, people who were sitting on the fence have also turned optimistic," says Sunil Rohokale, CEO and managing director, ASK Group. Hence, property analysts believe that though the recovery in the sector is still some time away, investors will continue to aggressively back projects and realty firms this year, as well.

Experts believe that 2016 would be no different from 2015, as bank-lending was largely absent. "Banks have become choosy while lending money to the developer, which according to me, is a healthy sign. It is important that they exercise caution while remitting funds as the trust deficit between the home-buyers and developers has only increased lately," says Nimesh Grover, partner, IDFC Alternatives Ltd.

"2016 would see even larger constraints on the bank's side because the entire lending scenario in the country is changing with public sector banks already grappling with huge NPA problems. There would be quality cases, where private sector banks would be chipping in, but a majority of the money will have to come from PE," says Rajeev Bairathi, executive director and head - capital markets, Knight Frank India Pvt. Ltd. "PE funds bridge the funding gap by providing a premium debt to the developer, till the project reaches a certain completion stage and qualifies to receive secondary financing at lower interest rates," says Rubi Arya, executive VC, Milestone Capital Advisors Ltd.

In the current scenario, real estate developers are looking at sources of funding, and options like PE have the potential to bridge the huge capital requirement of the industry. Therefore, unless the government does not create new options for institutional finance at reasonable interest rates - this dependence on external sources will continue.