



Commercial Real Estate The Unexpected Hero

Indian Real Estate: The Phoenix Story

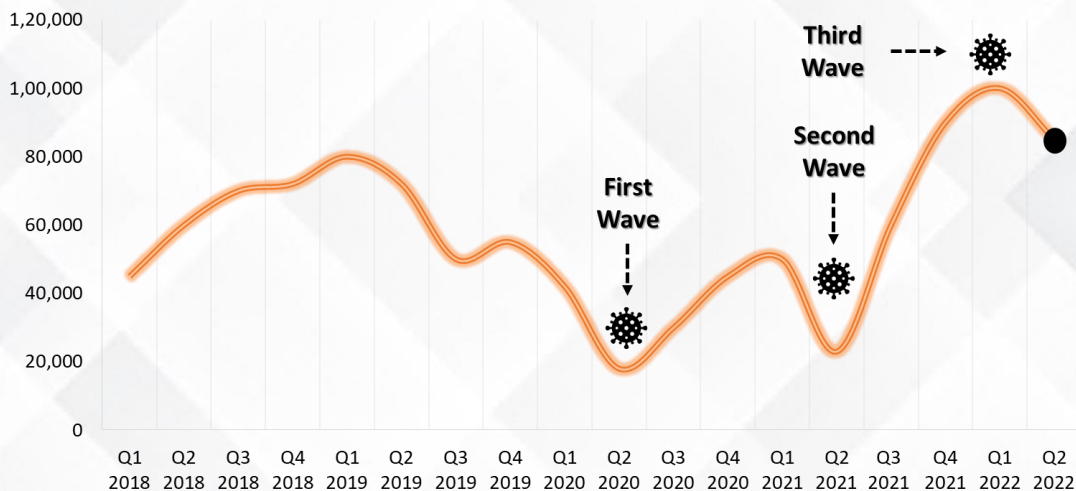
Industry Overview

After two arduous years of a persistent global crisis that has been impeding trade in all industries, 2022 began on a high note for the Real Estate sector which has witnessed stable growth since the start of the year. Interesting trends have emerged in the industry as consumer demands in the housing sector shifted from Tier 1 cities to Tier 2 cities with work from home forcing office closures in metro cities and people moving back home to save a good buck. While the highest demand was seen in the mid-segment market, the youth seemed to be drifting towards premium segment housing, suggesting demand for a better lifestyle in millennials and the paying capacity to afford it.

Markets

The Mumbai Metropolitan Region continues to report the highest number of sales in Q2 of 2022. Pune and MMR jointly reported 45% of all the housing sales in the quarter, recording 38,280 units sold. NCR came in a close second after MMR, recording 15,340 units housing units sold. Residential Real Estate sales grew by 60% in the first half of the year 2022. The transaction in office spaces saw a whopping 107% jump from the last year, driven by Bangalore & NCR, indicating the revival of commercial real estate and return to “business as usual” post the pandemic slump.

HOUSING UNITS SOLD (PAN-INDIA)



Source: ANAROCK Residential Market Viewpoints PAN India

Trends and Future Predictions

Consumers' need for an upgrade in their lifestyle, fuelled by lowered interest rates, drove the housing market in the post-pandemic year. According to experts, the affordability of homebuyers has increased due to post-pandemic recovery and they are seeking houses in idyllic locations with accessible amenities and bigger areas. There is also an increase in the number of homebuyers owing to the increased sentiment of stability attached to owning a home. However, consumers are drawn towards affordability in housing, for which experts believe that the developers may not have further room to increase the prices.

With stronger regulations from the government and policy incentives for Real Estate Business, the Real Estate Sector can expect stronger growth in the future.

The Rise of Commercial Real Estate

The Indian Corporate Sector has made a significant recovery after the setbacks from the pandemic. With more and more workers returning to offices, the demand for office spaces has almost reached pre-pandemic levels. Hence, it has become an asset of choice for investors, as they expect the Commercial Real Estate sector to grow at a CAGR of 13% in the coming 5 years.

Over the past 5 years, foreign investments in the Indian Real Estate market have grown 3 times to a value of USD 24 billion, led by investments in office assets. 43% of all the foreign investments in Real Estate were made in office spaces followed by 18% in mixed-use ones. Regulatory reforms brought in by the government in 2016, that focused on important aspects like improvement of transparency and competence along with rising demand for Grade-A offices in the country, further encouraged the investors.

The pandemic threw the spotlight on the e-commerce industry and 3PL firms that depended on robust warehousing and logistics systems for delivery. It became the top choice for foreign investments in 2021 with investments of approximately USD 1.1 billion, surpassing the office sector, as the investors saw a gap i.e. Tier 1 and Tier 2 warehousing and logistics infrastructure, where the demand was the highest.

While historically, the Commercial Real Estate Market has been concentrated primarily in tier 1 cities, the trends in demand for Commercial Real Estate are expected to move towards Tier 2 and 3 cities with the introduction of Industrial Corridors.

The most anticipated impactful corridors are:

1. The Delhi-Mumbai Industrial Corridor (DMIC)
2. The Chennai-Bengaluru Industrial Corridor (CBIC)
3. The Bengaluru-Mumbai Economic Corridor (BMEC)
4. The Amritsar-Delhi-Kolkata Industrial Corridor (ADKIC)



Commercial Real Estate Ecosystem in India

These corridors will connect Tier 2 & 3 cities with the major markets in the country. The incentive for investors to develop Grade-A Industrial and Logistics Parks in these geographies is the availability of larger land areas and 40-50% lower cost of the commercial spaces. Another lucrative offering of these areas is the low cost of doing business.

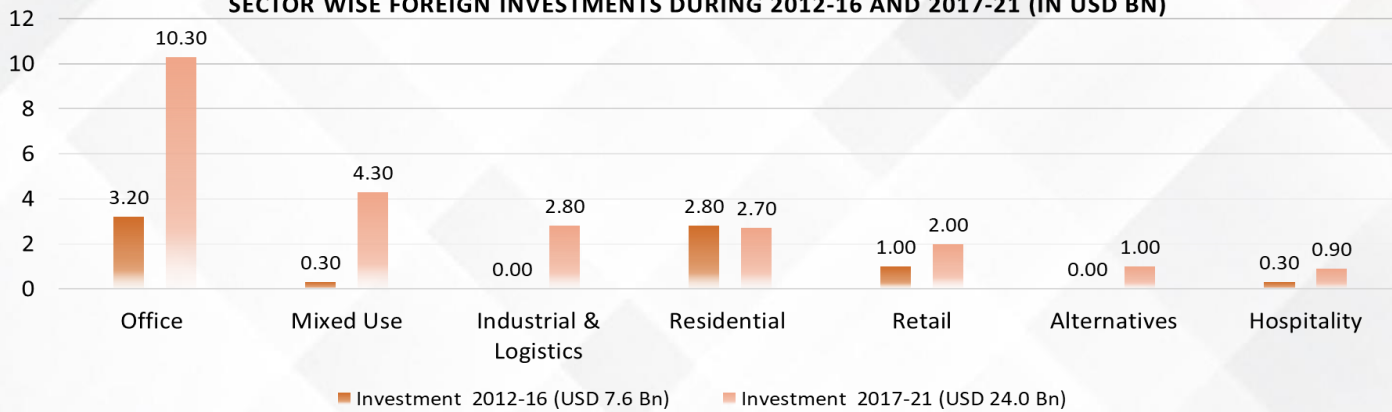
Real Estate Investment Trusts (REITs) have also played a major role in providing a boost to the Commercial Real Estate Sector. The trend which is popular globally was introduced to India a few years ago and has fast caught on with retail investors. REITs have also given developers a good exit option at high capitalisation rates, thus reducing their high-level debts.

The Government's policy thrust to Make in India and Data Localization have further driven the growth prospects for Commercial Real Estate through demand for production facilities, office spaces and data centres.

This has given investors an opportunity to invest in alternative assets like data centres across the country.

Foreign Investments in Indian CRE

SECTOR WISE FOREIGN INVESTMENTS DURING 2012-16 AND 2017-21 (IN USD BN)



Source: Foreign investments in Indian real estate turn a corner

The Commercial Real Estate sector has been an attractive investment for foreign agencies over the past 5 years. The regulatory reforms introduced by the government, such as the formation of the Real Estate (Regulation and Development) Act, 2016, have strengthened the interest of the investors and the share of foreign investments in 2017-21 grew to 82% as compared to 37% during 2012 and 2016. Out of all the investments in the first half of 2022, a massive 84% of the funds were from foreign investors, with most funds directed towards the Commercial Real Estate sector.

The United States and Canada have been the frontrunners in investments with a combined share of more than 60% in the Commercial Real Estate sector, except for the office and mixed-use segments. Investments from Asia are focused on the Office spaces and Industrial and Logistics segments.

NCR received the maximum investment in the CRE Sector amongst the major markets, followed by Mumbai.

Data Centres have led foreign investments in the alternative assets market with a share of 52% in the last 5 years. In the announcement of the Union Budget 2022, the Hon'ble Finance Minister accorded infrastructure status to data centres, thus providing the much-needed impetus to investments in this sector.

Current Trends in Real Estate Investments: REITs v/s Fractional Ownership

Real Estate Investment Trust (REIT)

REIT is a company that owns, operates, or finances income-generating Real Estate. The REITs enable individual investors to invest in very expensive CREs and earn dividends to the extent of their investment. REITs pay as much as 90% of their earnings back to investors by way of dividends.

The advantage for investors is that they may not have to buy the property in its entirety. They also do not have the onus of finding tenants, taking care of lock-in agreements, and maintaining the property while they can still enjoy a large part of the earnings generated by the commercial real estate

Fractional Ownership

Fractional Ownership is an investment option wherein the investor can select the property into which he or she invests. Investors can take an informed decision on investing in the property through fractional ownership. The decision can consider various factors such as the location, type of tenants, proximity to airport and business districts etc.

This can enable them to enjoy a rental yield and capital appreciation over time. While REITs investors may get dividends that come from the monthly rental income earned by the commercial real estate, they may not enjoy much in terms of benefits due to capital appreciation.

Towards Responsible Real Estate Development

Certified Green Office stock grew by 177% to 212 million sq. ft. in Q3 2021 from under 80 million sq. ft. in 2011

ESG-complaint buildings make for more attractive investment propositions in terms of asset values and rents. Such projects show a lower degree of obsolescence and improved tenant satisfaction, thereby providing scope for higher lease renewal rates.

ESG Framework and Role of Green CRE

ESG is a framework analyzing risks and opportunities managed by Corporates related to environmental, social, and governance criteria.

Benefits Anticipated:

- ④ Lead to Higher Rents and Asset Valuation
- ④ Ease of doing business and safeguards from regulatory processes
- ④ Lowering of long-term costs; elongating asset life
- ④ Supports better financial growth for corporates

Benefits Realized by CRE:

- ④ Premium commanded by Certified Projects in SEZ Category ranged between 2.6% to 11.1%.
- ④ Premium commanded by Certified Projects in Non-SEZ Category ranged between 5.0% to 33.0%.
- ④ Certified Stocks account for 65% of the Stocks listed in REITs.
- ④ Whereas, with the growing importance of ESG in Real Estate and an anticipated tightening of regulatory compliance with respect to ESG reporting, the share of green-certified REIT assets are bound to increase and garner more investments

'The India Future of Office Survey 2021':

Wellness and Sustainability are among the top five expectations that occupiers have from developers

Other Major News

Investor confidence in Indian Real Estate is increasing steadily which is a reflection of the improvement in the Indian economy, and the state of the Real Estate Industry.

This is proven by the substantial 40% increase in the Private Equity (PE) investment during the April-September period of this fiscal year, reaching USD 2.8 billion. It is worth noting that USD 2.2 billion was in the form of pure equity while the rest was structured debt.

Domestic investments increased by 45%, while foreign investments rose by 36% as compared to the year-ago period.

The office assets accounted for around USD 1.86 billion among the total PE between April to September this year while residential assets accounted for USD 0.372 billion.

Up to September 2022, the office sector accounted for 55% of all private equity investments, followed by warehousing (29%), residential (9%), and retail (7%).

Regulatory Framework promoting ESG in CRE Landscape

In 2021, SEBI adopted **Business Responsibility and Sustainability Reporting** against the backdrop of ESG. This is an update on the previously used Annual Business Responsibility Reports (ABRR) which was a part of the disclosure requirements of the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business' (NVGs).

Key Takeaways

- ④ CRE Investment to garner the prime slot in PE Investment in the near future
- ④ With REITs and Fractional Ownership platforms, the investment in the CRE to further takes a boost
- ④ With growing awareness and commitments by the Corporates, ESG compliance & certified projects garner higher premium

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About Primus Partners

Primus Partners has been set up to partner with clients in 'navigating' India, by experts with decades of experience in doing so for large global firms. Set up on the principle of 'Idea Realization', it brings to bear 'experience in action'. 'Idea Realization'— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

Our core strength comes from our founding partners, who are goal-oriented, with extensive hands-on experience and subject-matter expertise, which is well recognized in the industry. Our core founders form a diverse cohort of leaders from both genders with experience across industries (Public Sector, Healthcare, Transport, Education, etc), and with varied specialization (engineers, lawyers, tax professionals, management, etc).



PASSION

for providing solutions to help clients achieve their goals

RESPECT

For all and alternate viewpoints

INTEGRITY

of thoughts and actions

MASTERY

of our chosen subject to drive innovative and insightful solutions

US

Representing the Primus collective, where each individual matters

STEWARDSHIP

for building a better tomorrow

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