

A wide-angle photograph of a city skyline at night, with numerous skyscrapers illuminated by lights. The sky is a deep blue, and the city lights reflect on the water in the foreground. The skyline is dense with buildings of varying heights and architectural styles.

FUNDING OPTIONS FOR DEVELOPERS

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Agenda

- 1 Introduction to Indian Real Estate Market
- 2 Funding Products Bouquet
- 3 Insight on FDI Funding
- 4 Funding Options Through Life Cycle of a Typical Project
- 5 Funding Options Class- Product/Investor/Invstmnt /Return Expn
- 6 Funding Options for Various Asset Classes
- 7 Funding Through Yielding Assets
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Introduction to Indian Real Estate Market

- The Real Estate Market Size in India in 2013 is USD 121 Bn.
- It is expected to grow at 11.2% in period 2008 to 2020 and reach ~USD 180 Bn. by 2020
- It contributes ~6.3% to India's GDP



Real Estate Developer

An entity who buys and develops houses, buildings and land in order to sell them and make a profit from them



Asset Classes

Residential, Commercial, Industrial, Retail, Hospitality, SEZs, Land, Schools, Hospitals, Utility, Amenities, etc.



Investor Classes

Banks, Housing Finance Companies, Private Equity Investors, Insurance companies, Pension funds, NBFCs, HNI, Land Owners, Public Market Investors (FIIs, MFs, Retail, etc.)

Introduction to Indian Real Estate Market

Developers



Hiranandani
creating better communities



Investors



L&T Finance



Funding Products Bouquet

- **Private Equity**
Private equity investment by an FDI or non FDI fund in a real estate project or at an entity level with a real estate developer
- **Structured/ Mezzanine Finance**
Finance structured with quasi debt & quasi equity features
- **Lease Rental Discounting**
Financing for tenanted properties against lease receivables
- **Strategic Partnerships (JD/JV)**
Land owner participating in joint development or joint venture model with a real estate developer
- **Commercial Mortgage Backed Securities**
Specialized financing for commercial properties
- **Construction Finance**
Finance for completing the construction works of a real estate project



Funding Products Bouquet

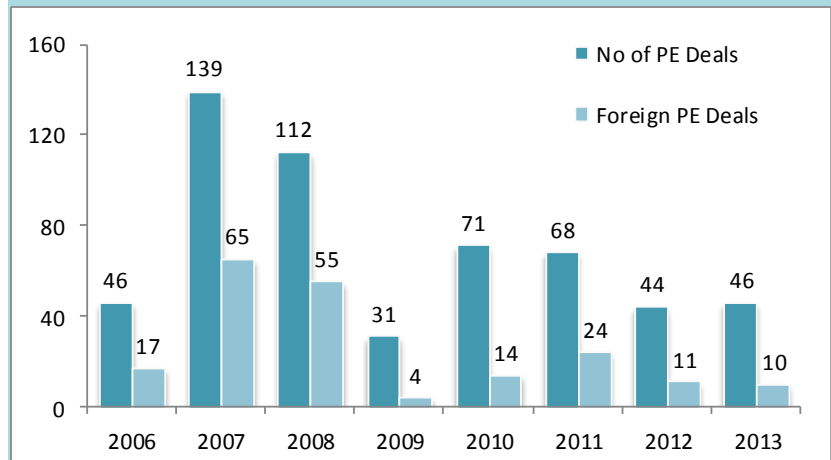
- **Loan Against Property**
Financing against real estate property
- **Bulk Inventory Sale**
Financing by means of purchasing inventory usually at discount to market value for future capital appreciation
- **Corporate Level Financing**
Financing at corporate balance sheet level
- **Core Asset Sale**
Financing by means of sale of yielding core assets
- **Public Markets**
Financing via public market listing or subsequent issues
- **External Commercial Borrowing**
Financing via low cost foreign debt issue
- **Receivable discounting**
Financing against future receivables



Insight on FDI Funding

- Fourth largest sector in FDI inflows
- FDI in the sector is estimated to grow to USD25 Bn. in 10 years from ~USD4 Bn. in 2012
- In the period 2000 to 2014 11% of the overall (USD 218Bn.) FDI in India was in the Real Estate sector

Private Equity deals in Indian Real Estate Sector:



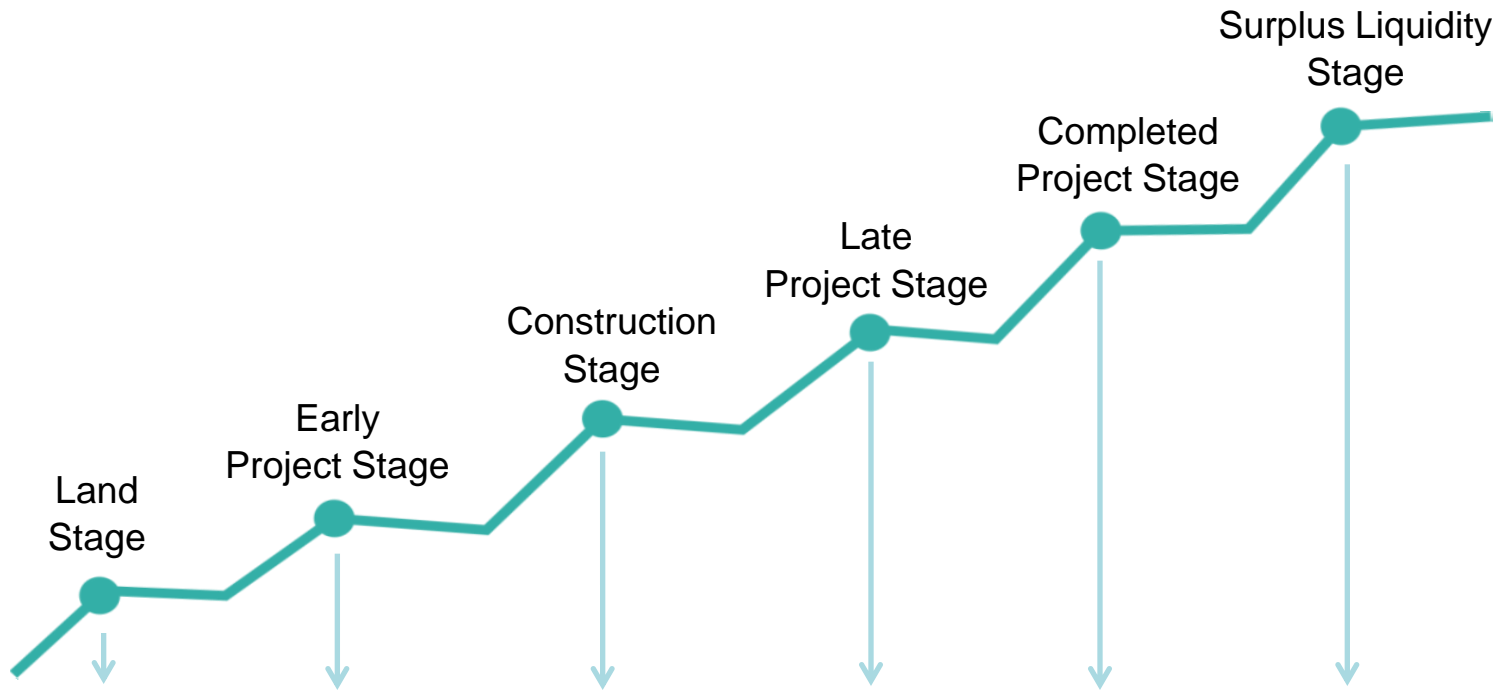
Recent guidelines & implications

- ✓ Minimum project built-up area reduced to 20,000 sq. m. (from 50,000 sq. m.)
- ✓ Eliminated requirement for minimum area for housing plots (from 10 hectares)
- ✓ Minimum capitalization requirement reduced to USD 5 Mn. for WOS (from USD 10 Mn.)
- ✓ No minimum area & capitalization requirements for affordable housing projects
- ✓ 100% FDI in operations & management projects of completed townships, malls, shopping complexes, business centers (from 100% FDI only in industrial parks)
- ✓ Pass through status for REITS

Source: Venture Intelligence, RBI Notification

Note: FDI – Foreign Direct Investment; WOS - Wholly owned subsidiary; REITS – Real Estate Investment Trusts

Funding Options Through Project Life Cycle



Funding Requirement	Land Sourcing & Acquisition Financing	Permission & Planning Costs	Construction Financing	Take-Out / Fund exits	Take-Out / Fund exits	Take-Out / Fund exits	Fund Utilization
Investors and Products	<ul style="list-style-type: none"> • Land owners (strategic partnership) • HNI (bulk inventory) • Private Equity (early) 		<ul style="list-style-type: none"> • Banks (CF) • HFC (CF) • PE (late stage) 	<ul style="list-style-type: none"> • NBFC (structured) • PE (structured) • PE (bulk inventory) 	<ul style="list-style-type: none"> • Banks (LAP) • HFC (LAP) 	<ul style="list-style-type: none"> • PE (asset purchase) • HNI (asset purchase) • Banks (LRD) • HFC (LRD) 	Investors and Products

Investment Products & Investors

Product	Investor Class	Investment Type			Return Expectation		
		Fixed	Variable	Fixed + Variable	Low	Medium	High
Strategic tie up at land stage (JV/ JD)	Land owner - HNI, Real estate business		✓				✓
Strategic tie up at land stage (JV/ JD)	PE		✓				✓
Construction Finance	Banks, HFCs	✓			✓		
Mezzanine/ Structured Finance	NBFCs	✓		✓		✓	
Mezzanine/ Structured Finance	PE		✓	✓			✓
Bulk Inventory Purchase	PE		✓	✓		✓	
Bulk Inventory Purchase	HNI		✓	✓		✓	

Note: JD – Joint Development; JV – Joint Venture

Investment Products & Investors

Product	Investor Class	Investment Type			Return Expectation		
		Fixed	Variable	Fixed + Variable	Low	Medium	High
LRD	Banks, HFCs, NBFCs	✓			✓		
LAP	Banks, HFCs, NBFCs	✓				✓	
Yielding Asset Purchase	PE			✓		✓	
Yielding Asset Purchase	HNI			✓		✓	
Corporate Level Financing	Banks/ NBFCs	✓			✓	✓	
Corporate Level Financing	PE		✓	✓		✓	✓
Traded Equity	Public Market Investors		✓			✓	

Funding Options & Asset Classes



Land

- High risk
- Regulatory risk, market risk and project risk
- Debt on asset based on borrower profile/ cash flows



Retail

- Sale/ lease model
- Moderate reliability due to higher sales risk/ leasing risk
- Leasing typically without lock-in periods
- Construction finance/ LRD/ LAP/ Core asset purchase



Residential Project

- Cash generating model of sales
- High reliability given low sales risk in tier one cities
- Construction finance/ Take-out financing/ Bulk sale



Warehouse

- Similar to commercial & retail
- Business risk in case of captive warehouses



Commercial

- Sale/ lease model
- Moderate reliability due to higher sales risk/ leasing risk
- Leasing with lock-in periods
- Construction finance/ CMBS/ LRD/ LAP/ Core asset purchase/ Bulk sale



Hospitality

Financing on business profits



Others

Others: Schools, Hospitals, etc.

Yielding Assets – Core Asset Purchase

- Leased out tenanted property - cash generating from day one
- Complete exit to developers as compared to partial exit in the case of collection of lease rentals/ CMBS/ lease rental discounting
- Exit by down selling to investors - PE funds, HNIs, REITS
- Investor returns based on lease rentals, leasing trends, rate compression, capital appreciation
- Pass through status in REITs to boost core asset purchase market



Select Examples for Funding Options

Transaction Type	Investor	Developer	Amount	Project
Construction Finance	ICICI (lead consortium)	Wadhwa	INR 450 Cr.	Residential project spread across 12 acres in Mulund
Structured Finance	Peninsula Brookfield	Ansal API	INR 400 Cr.	Residential project 'Metropolis' in Gurgaon
Private Equity	Paracor	Marvel	INR 55 Cr.	Entity level investment across portfolio of assets
Bulk Sale	Premji Invest	Total Environment	INR 70 Cr.	Units in residential project in Bangalore
CMBS	Public market investors	DLF	INR 900 Cr.	Against rent yielding 2 retail malls located in South Delhi
Lease Rental Discounting (LRD)	SBI	BPTP Ltd	INR 300 Cr.	Discounting of lease rentals being received from commercial property in Gurgaon
Loan Against Property (LAP)	Reliance Capital	Mighty Group	INR 44 Cr.	Commercial units in a developed project in Mumbai
Core Asset Purchase	Blackstone	Indian Express Group	INR 900 Cr.	Acquisition of iconic commercial building 'Express Towers' at Nariman Point

THANK YOU!

Q & A

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