Real Estate Market, Equity and Debt Financing, Mezzanine Finance and Alternative Structures to Private Equity

Session By: Puneet Bhatia

KEY MARS MISSION TEST A SUCCESS

TERRORISTS HIT MUMBAI

India beat S

for

RACI

MAKE IN INDIA

India

Maharashtra: Hard selling NaMo to keep the spark alive

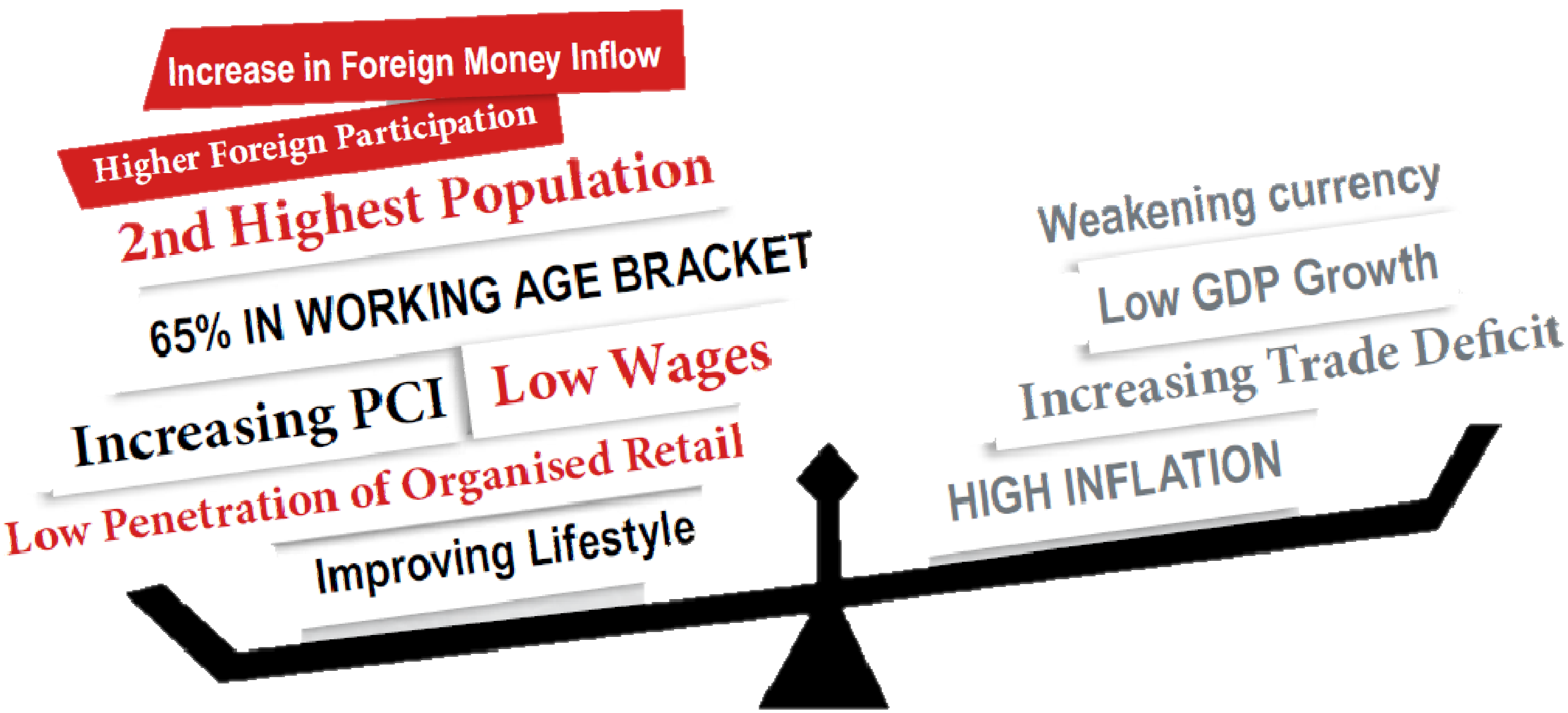
Chetan Bhagat has written six more best sellers books in a decade

AIG, Lehman ... Markets

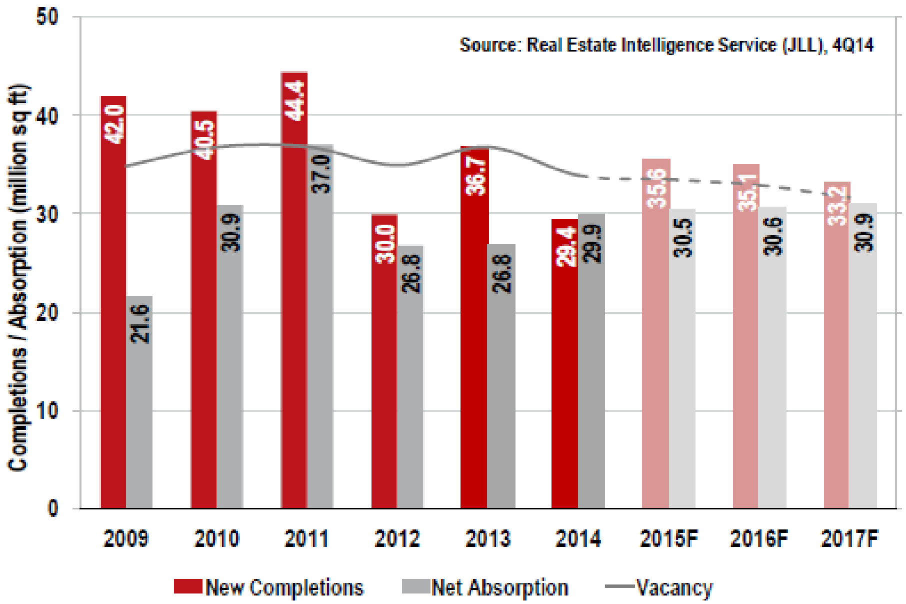
Frantic buying from foreign ... supported by local operators helps BSE ... of 10,000

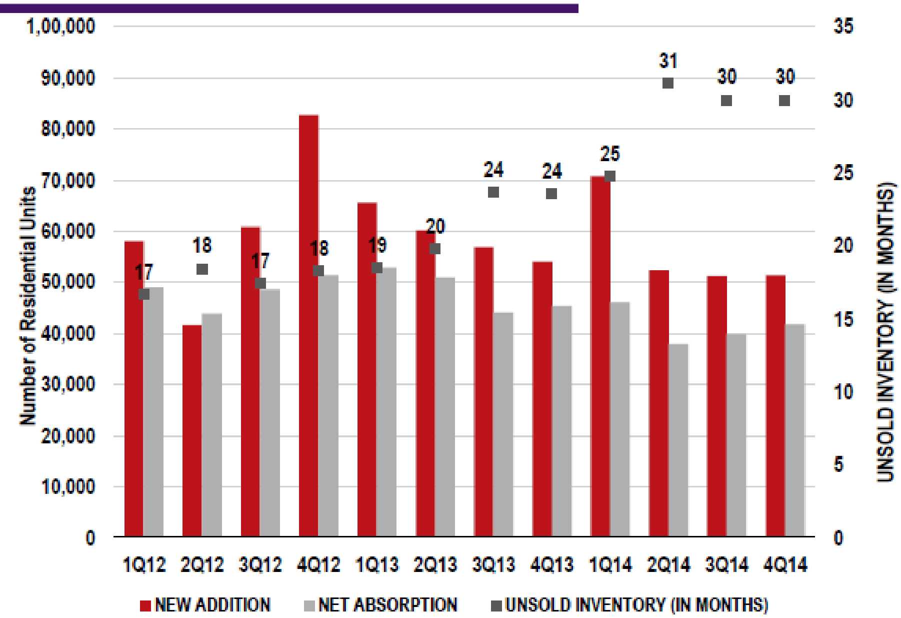
RBI to w... ency notes issued before 20

Fundamentally a strong economy



Demand for Finance as RE stock has been growing





Office Space

Pan India	4Q14
Stock (Mn Sq Ft)	406
Occupied Stock (Mn Sq Ft)	337
Vacant Stock (Mn Sq Ft)	68.8
Vacancy Rate (%)	17.0%

Pan India	4Q14
Stock (Mn Sq Ft)	71.6
Occupied Stock (Mn Sq Ft)	59.0
Vacant Stock (Mn Sq Ft)	12.6

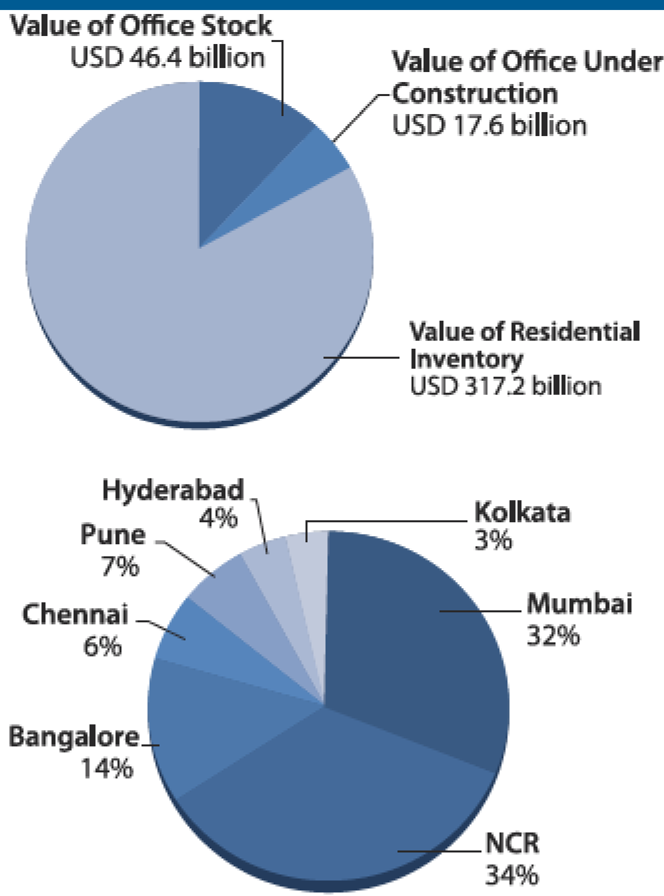
Retail Space

Source: Real Estate Intelligence Service (JLL), 4Q14

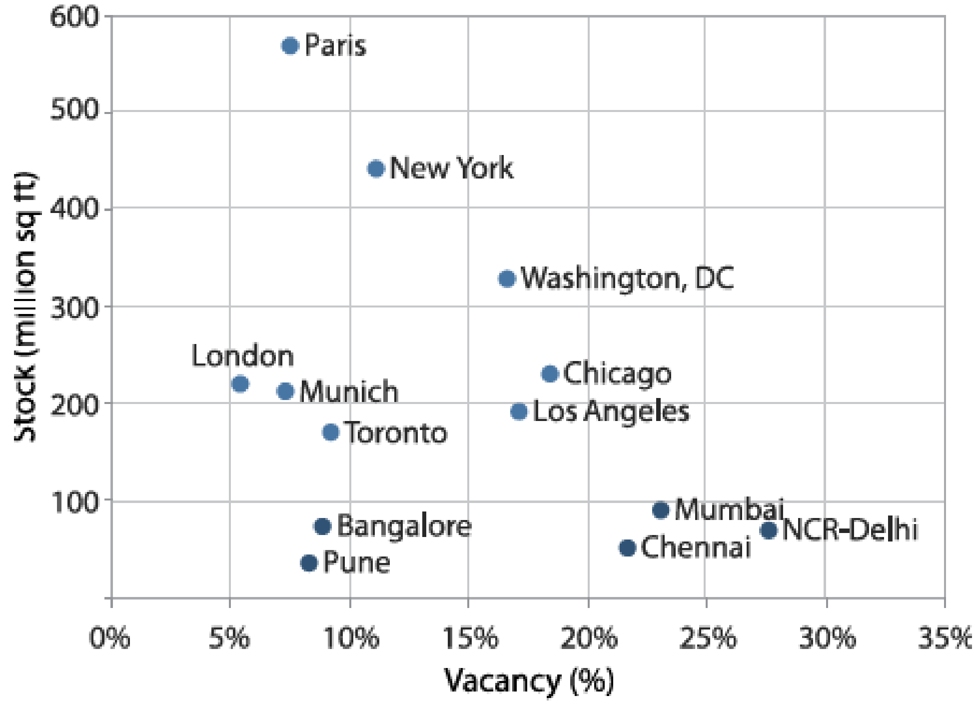
There has been an addition of approximately 100 Million sqft of office space every 2 to 3 years since 2006 and approximately 500 million sft of residential space launched annually since 2010

Comparison – Office stock

Size of Indian Real Estate – An Investment Perspective



Comparison of Global Business Hubs



Source: Jones Lang LaSalle-REIS, Brookfield Financial

The market value of investable RE in office and residential sector is circa USD 381.3 billion; of which 83% is the market value of unsold residential inventory and remaining is market value of operational stock (USD 46.4 bn) and under construction projects (USD 17.6bn) in office sector.

Conventional sources of Funding

Banking Institutions	Non-Banking Financial Companies (NBFCs)	Listed Equity Capital Markets
USD 23.3 billion	**USD 2.4 billion**	**USD 12.5 billion**
Outstanding bank credit to Commercial Real Estate (includes residential projects developed by private builders), as of December 2013	Real estate allocation of 16 Active NBFCs focused on lending to Indian real estate	Market Capitalization of top 25 real estate developers and vehicles listed offshore holding Indian Assets, as of March 2014

Source: Brookfield Financial

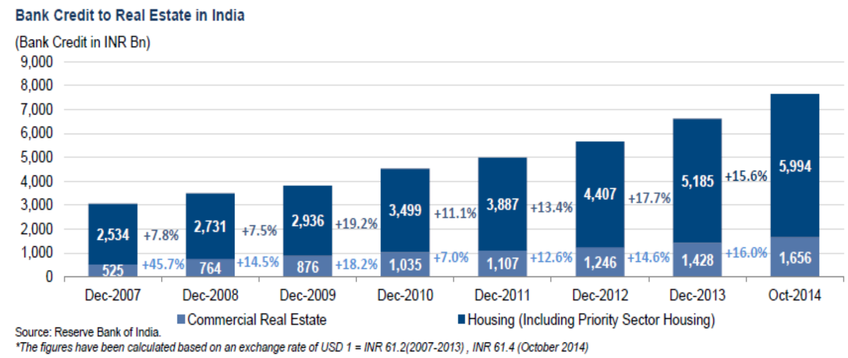
Bank Credit- still a tip of iceberg as compared to mature markets

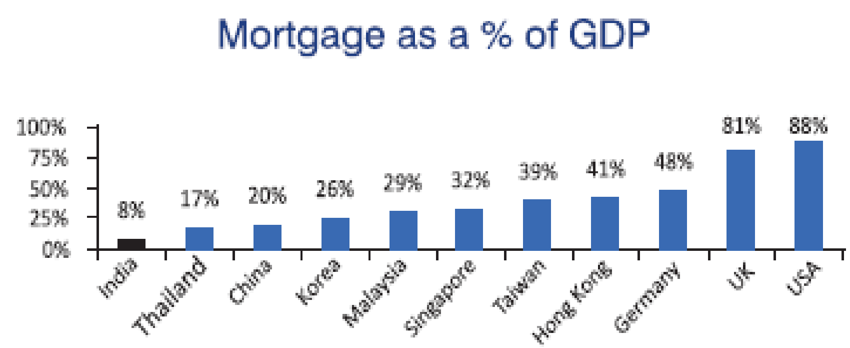
- As of December 2013, banks have an outstanding credit of USD ~24 billion in the commercial real estate sector and USD 97 billion in the housing sector.

- During Jan to Oct 2014, the outstanding bank credit increased by 16% and 15.6% in the Commercial and Housing sector respectively.

- Due to the sensitive nature of the commercial real estate, the central bank has prescribed high standard asset provisioning norm for such loans.

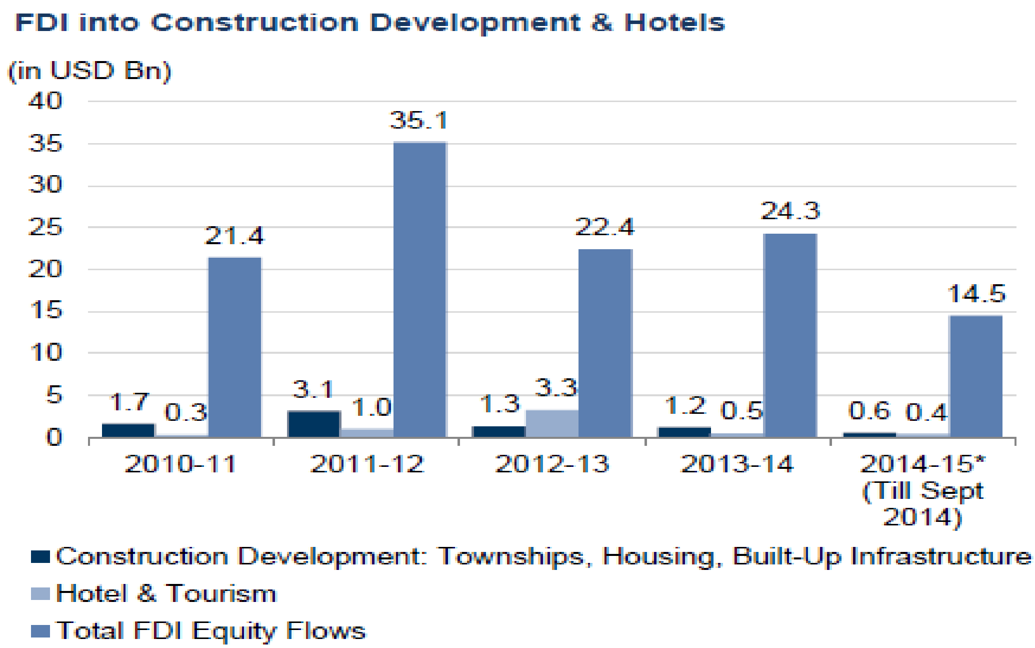
- RBI has discouraged advance disbursal products such as 80:20 and 75:25 schemes that are likely to expose the bank as well as home loan borrowers to additional risks.





Private Equity in Indian real estate

- Total Private Equity Investments into construction development sector in India through FDI is USD 23.9 billion
- The sector ended the year attracting PE investment worth around $1.84 billion spread across 68 deals, against $1.29 billion spread across 45 deals in 2013,
- PE investment in the Indian Real Estate is the highest since 2008. In the good old days of 2007-08, close to 100 deals were struck two years in succession worth $4-5 billion each.



What prompted alternative structures in Private Equity/ Importance of Asset Management

1. Governance

   Under pressure from regulators and investors the board of asset management companies and funds have/ask for greater oversight responsibilities than ever. Firms are increasing by responding by rethinking their governance models, increasing executives' and directors' responsibilities.

2. Risk

   The financial crisis and its aftermath revealed the true extent of asset managers' are beginning to place more emphasis on emerging investment risk, additionally they are also taking enterprise-wide approach to risk. There is enhanced requirement of Group level data beyond the spv level.

3. Regulatory Complexity

   Evaluate the issue of list of approvals required in a real estate project. This issue is further compounded with the element of lack of clarity in certain aspects of FDI regulations.

   New regulations are creating complex web of regulations around the globe, just as national regulators step up their scrutiny and enforcement procedures. Firms will want to review the operation, resources and effectiveness of compliance programmes, especially in key risk areas

What prompted alternative structures in Private Equity….cont

4. Operations and Technology

   Evolving regulatory regimes, combined with greater and more <u>complex transaction structures and volumes</u>, and stretching front, middle and back office systems. Asset managers are implementing a range of initiatives including outsourcing, workflow management and improved data management. The knowledge and learning on the <u>concept of waterfall</u>

5. Global information reporting

   New tax and regulatory requirements, investor expectations, the globalization of AM and mounting product complexity are <u>all increasing information reporting</u> needs. The challenges around on-ground quality data remain, which make the task of AM difficult.

6. Trust and Transparency

   Asset managers are finding that greater transparency enhances trust. The <u>change in mindset</u> is required by certain developer/project teams.

7. Strategic M&A

   While M&A volumes have failed to meet expectations, asset managers have good strategic reasons for making acquisitions. The M & A and <u>secondary market is virtually non existent</u>.

What prompted alternative structures in Private Equity…..cont

8. **Organic Growth**

   Growth is struggling against the headwinds of economic uncertainty and market volatility. Future growth will depend largely on <u>execution</u>.

9. **Human Capital**

   As signs of tentative market recovery continue, asset managers are investing in <u>recruiting and retaining talent</u>

10. **Regulations**

    With the markets becoming more, matured there was <u>certain relaxation of FDI policies.</u> Also listed NCD as a finance option.

Most of the times, there is Infinite developer appetite to acquire new projects with "other peoples money" – Developers appreciate Debt…..How many developers appreciate and understand 'Equity money'.

Bas itna sa afsaana hai!

Total Private Equity Investments into construction development sector in India through FDI is USD 23.9 billion.

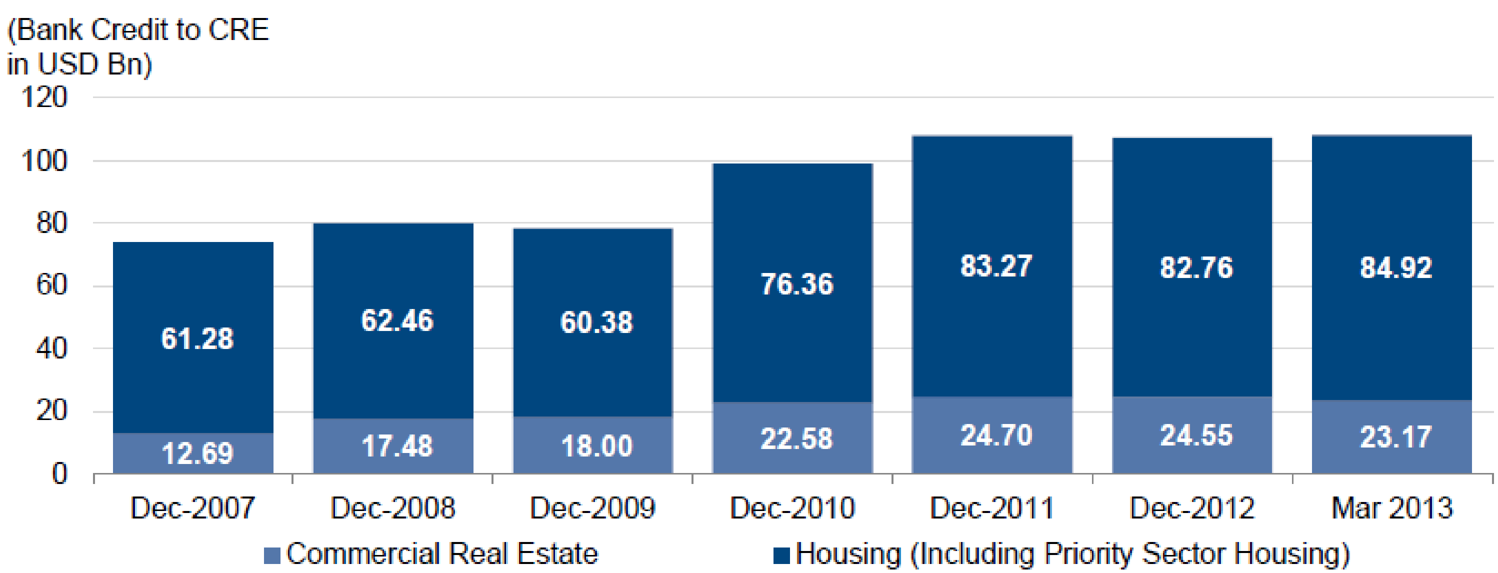
Of the total institutional PE capital deployed until March 2014, nearly a fifth amounting to USD 6.9 billion has been exited by PE funds.

An insight into Mezzanine Finance

Bank Credit- still a tip of iceberg as compared to mature markets

- As of March 2013, banks have deployed credit of USD 23 Billion in the Commercial Real Estate Sector and USD 84 Billion in the housing sector (including priority sector housing)
- In FY 13, bank credit to commercial real estate projects grew by 11.5% compared to overall credit growth of 14.3%
- Due to the sensitive nature of the commercial real estate, the central bank has prescribed high standard asset provisioning norm for such loans.
- Banks have to make 1% cent standard asset provisioning requirement for CRE loans while for residential CRE loans the requirement is 0.75%.

Bank Credit to Real Estate in India



Source: Brookfield Financial

Mezzanine /Structured Debt Financing- An emerging trend

- **Essence of Press Note 2- "FDI for development of real estate"- Is it compromised?**
- **Mezzanine finance typically is a structured debt-like instrument, earning mid/high yields, through a combination of cash coupon and terminal yield and/or equity linked components, such as warrants and convertibles.**
- **It bridges the financing gap in a company's capital structure and occupies a place between senior debt and equity, both in security and total returns**
- **Presently 8 out of 10 deals in real estate finance - through structured finance, as compared to 5 – 6 deals in 2011-2012 and may be 1 out of 10 in 2006- 2007**
- **The Mezzanine Finance done through CCDs in pre Lehman-era has been replaced with NCDs which provide better security/charge creation. The CCD deals were done with a call/put options where the coupon was serviced regularly and the exit was structured through call option premium.**
- **Some of the PE players have set up an NBFC arm to undertake mezzanine finance and debt deals.**
- **Mezzanine funding generally provides for a coupon/preferred consolidated return of 19% to 22%. Most transactions provide for a waterfall structure on the Equity component now.**
- **The collateral backing where finance is done through NCD route is through collateral of land and project receivables along with standard covenants of debt.**

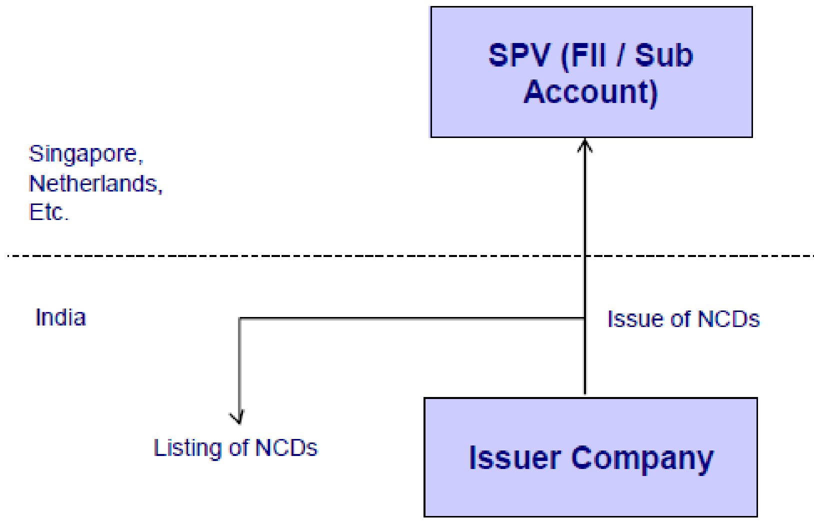
Economic Times – June 4, 2015

Foreign Realty Investors Can't Press for Assured Returns: HC

Court upholds FDI in sector can be made only by way of equity and not debt instruments

Non Convertible Debentures Issuance Procedures and Regulations

- NCDs are Rupee denominated instruments, hence ECB regulations won't apply as ECB regulations deal with foreign currency
- Issuance of NCDs to any foreign person including an FII would not attract the provisions of Deposit Rules
- No prior approval of RBI is required to remit principal, coupon and redemption premium payments to the FII or sub account which holds the NCDs
- Prior approval of RBI may be required for making any payments pursuant to the enforcement of the security by which the NCDs are secured



Non Convertible Debentures Issuance Procedures and Regulations (Listed)

- FEMA Issue Regulations allows Permitted Investors* to subscribe to NCDs issued directly by an Indian Company, provided such NCDs are committed to be listed in 15 days of investment
- Permitted Investor is required to immediately dispose of the NCDs by sale to a third party or to the Issuer if the NCDs are not listed within 15 days of issuance
- Issuer required to make certain disclosures in the Information Memorandum to be filed with the stock – exchange along with listing application
- The disclosures to be provided are MOA, AOA, necessary resolutions, audited financials, resolutions related to security creation
- Credit rating from at least one agency registered with SEBI to be obtained - ICRA, CARE, Brickwork
- In-principle and final approval for listing to be obtained from the Stock Exchange
- Trust deed and security documents to be executed and the issuer to maintain 100% asset cover sufficient to discharge the principal amount at all times for NCDs
- Can include all types of securities including immovable properties, movable properties, receivables, cash flows, pledge of shares and other securities
- All such security to be created in favour of Debenture trustee

Permitted Investors- Non-resident Indians, FIIs, QFIs or any other person resident outside India that are specified under Schedule 5 of the FEMA Issue Regulations

PE Exit in Indian Real Estate

- **Of the total institutional PE capital deployed until March 2014, nearly a fifth amounting to USD 6.9 billion has been exited by PE funds.**
- **As per JLL, returns from Indian Real Estate for Private Equity Investments with vintage of 2006 stand at 1.1 times compared with the global average of 0.86 times.**
- **Performance in the last six years is even better at 1.34x.**
- **The residential sector accounted for over 58% of the exits and the office sector 24%.**
- **85% of the exits were through Promoter buybacks.**
- **Some of the Challenges that were witnessed in Private Equity exit are –**

    Partner Issues

    PN2 ambiguities

    Unenforceability of put/call options

    Litigation

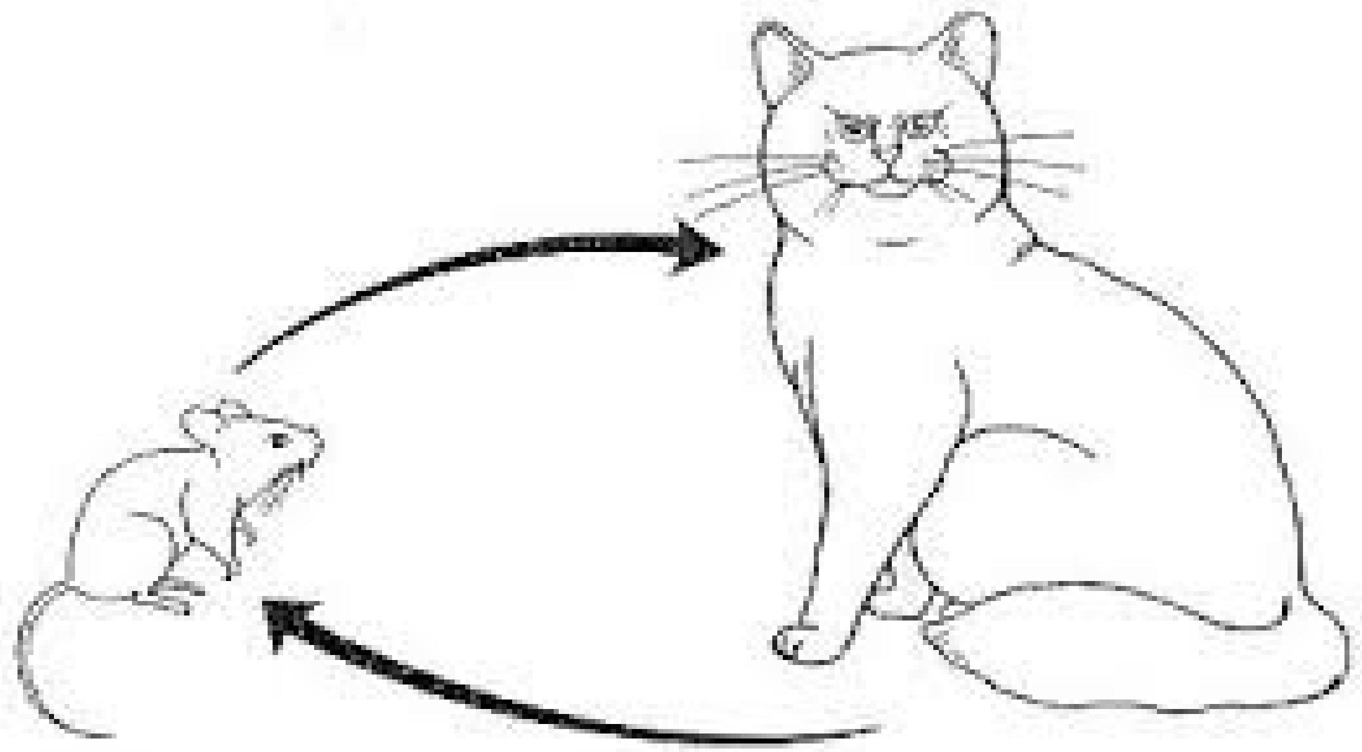
    Project delays

    Markets- demand, absorption, underwriting issues

Controls, evaluation and management

- Changing mindset of all stake holders
- Project Management
- Addressing delivery bottlenecks
- Preparation of annual business plan highlighting cash flows from various projects
- Accessing different sources of finance to ensure sufficient liquidity and capital in the Project
- Improved transparency, reporting and Corporate Governance

Life - Has it achieved full circle? When will that happen? Will it ever happen??



Disclaimer

This presentation contains high level, condensed and prima facie views including certain data and facts from the information available largely in public domain.

The views expressed are not binding on any authority, and hence, no assurance is given on its accuracy and that a position contrary to the opinions expressed herein, will not be asserted by any authority and/or sustained by an appellate authority or a Court of law.

This presentation his purely indicative and has been prepared for the benefit of and from the perspective of The Institute of Chartered Accountants of India and does not address any other perspective.

Thank You

For any queries/comments, please feel free to contact:

puneet.bhatia@capitedge.com

Sources of Capital at Various Stages in Project, Dynamics of Private Equity Funded Real Estate Transactions

Session By: Puneet Bhatia

Institutional forms of Investments in Indian Real Estate

Private Equity

Pure Equity - partnership of risk and return

Investment horizon of 5- 7 years

Mezzanine Finance

CCDs (Pre 2008 - call and put options)

NCDs (offshore investments (listed), creation of security)

Structured debt- expensive, generally done for a short term period- 2-5 years

NBFC lending

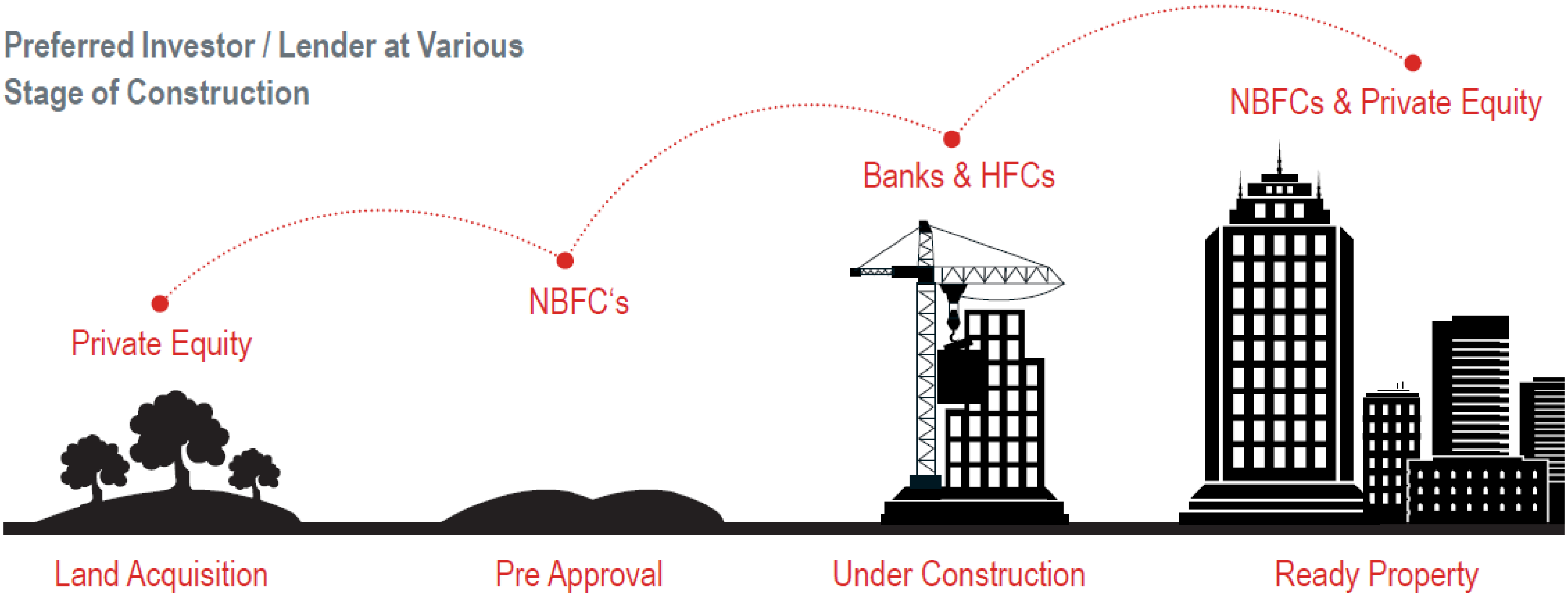
Security cover - 1.75x to 2x

Creation of charge and standard debt covenants. Generally done for 1-3 years.

The nature of Equity funding has changed with expectation of equity returns on debt like instruments with complete security cover.

Is Equity coming back?

Sources of capital - various stages



Source: JLL, REIS & Capital Market Research

Changing sources of Institutional real estate finance

Major Financing Channels –

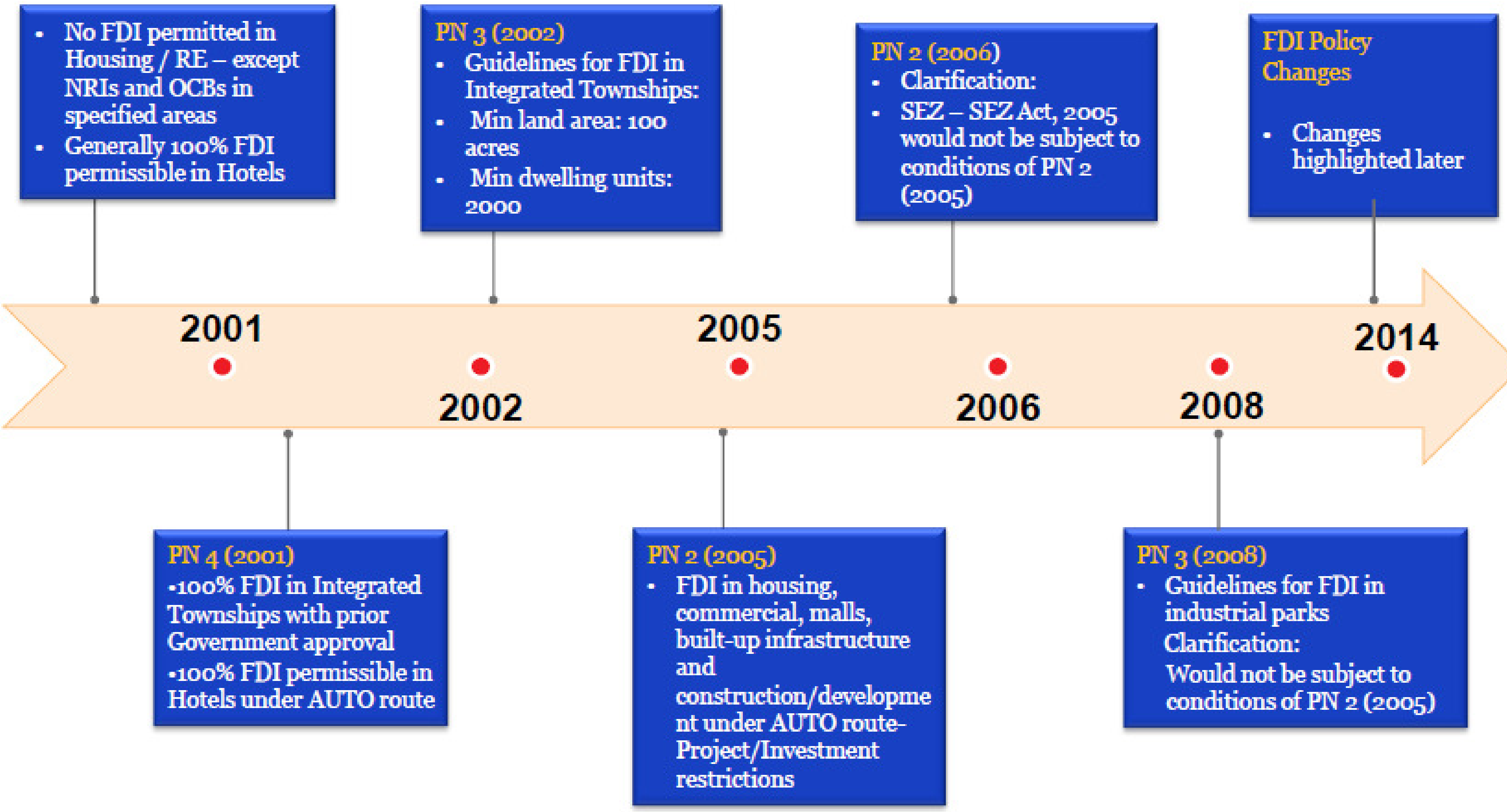
Pre-2005	2005-2007	2008-2009	2010-2011	2012-2013
		Offshore Listing	Offshore Listing	Offshore Listing
	Offshore Listing	**QIP**	QIP	QIP
	IPO	IPO	IPO	IPO
Offshore Listing	**PE Funds**	**PE Funds**	PE Funds	**PE Funds**
IPO	ECB	ECB	ECB	ECB
NBFC Lending	NBFC Lending	**NBFC Lending**	**NBFC Lending**	**NBFC Lending**
Bank Lending	Bank Lending	**Bank Lending**	Bank Lending	Bank Lending
Private Lending	Private Lending	**Private Lending**	**Private Lending**	**Private Lending**

Level of Activity	High	Average	Low/None

Source: JLL Capital Markets Report

- **Financing channels for the real estate sector in India have become limited and expensive**
- **Bank lending for end-use has been restricted and risk weightage increased by RBI**
- **Advance Disbursal Facility and 80:20 schemes etc. have been discouraged by RBI**
- **Developers/land owners are financially stressed due to stretched debt levels, delays in project approvals, diversification in non-core areas etc.**
- **Most of the deal in 2014-2015 in Residential asset class are structured Debt deals.**

FDI in Real Estate- Journey so far



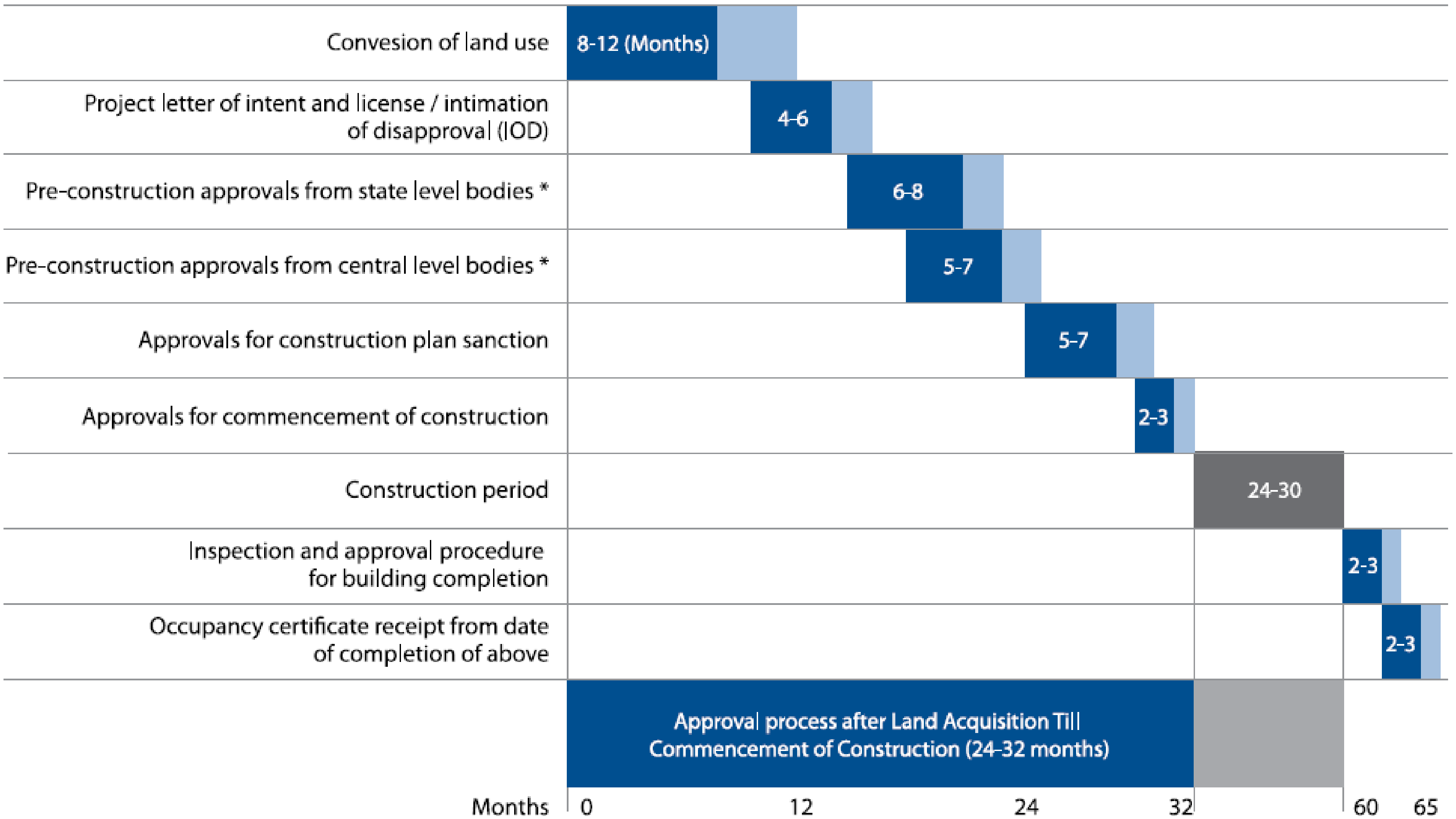
What happened in PERE- Challenges

- Approvals have taken a long time resulting in delay of Projects
- Large projects have taken a long time to come to market
- Money has been impatient- the time value of money
- Delay has hurt the bottom line
- Local Partners have valued their existing land bank in excess to the market
- Cash-out to the landholder leaving no skin in the game
- Restricted management bandwidth
- Large Projects have not been very successful
- Funds have been diverted from the project
- Slow sales combined with large capital outlay and fund diversion have made some project financial un-sustainable
- Title insurance

Maturity has emerged in the developer/fund relationship- Views may vary

Inefficiencies in the process of Project life cycle

Figure 6: Approval Process for Real Estate Development in India



Source: CREDAI-Jones Lang LaSalle Real Estate Transparency Survey 2011

Reality of Realty Index

BSE Sensex vs BSE Realty Index (August 9, 2010 to August 6, 2015)

As on 6th August 2015,
Sensex – 154.74
Realty – 40.03

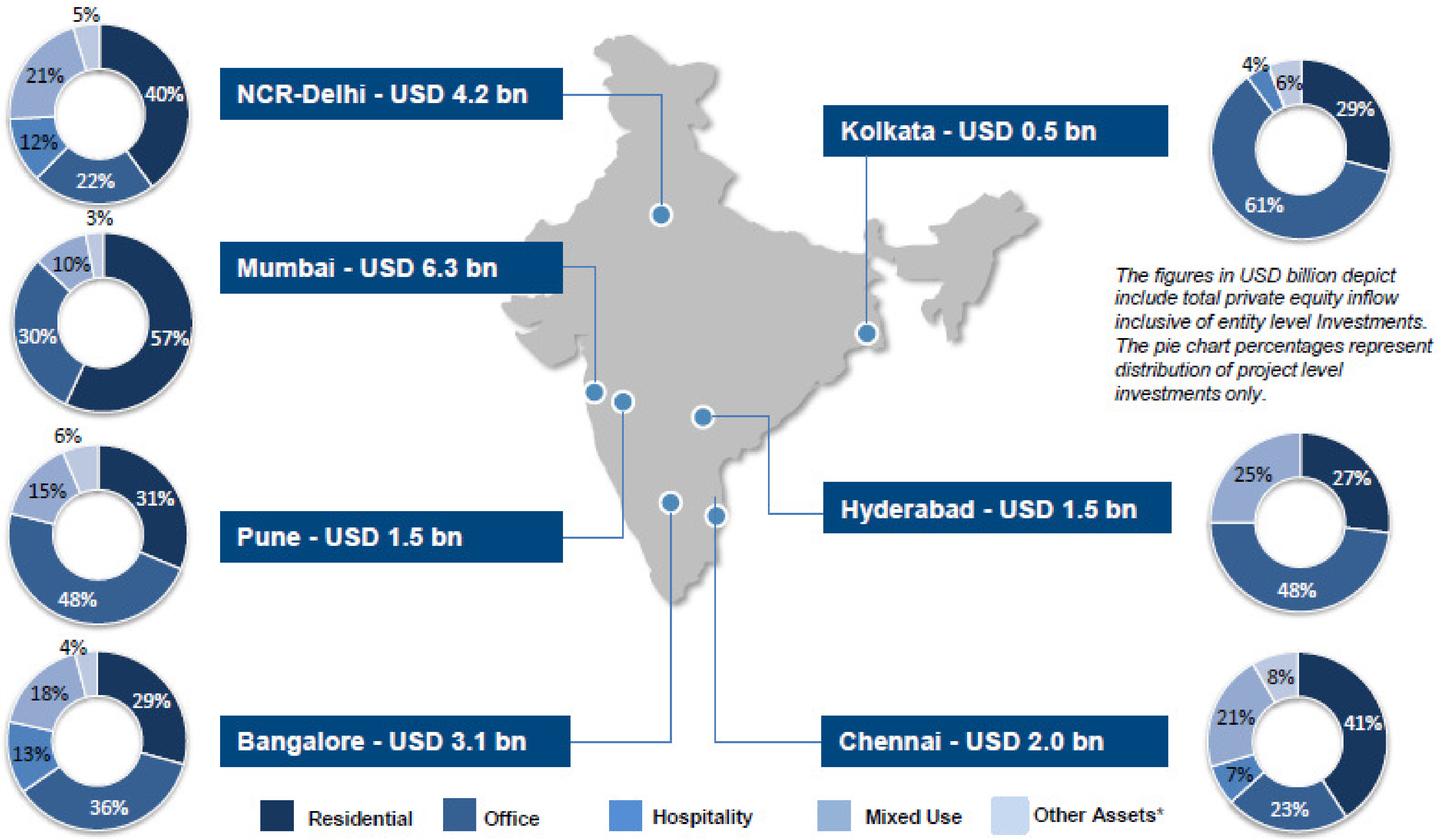
Sensex and Realty Index movement for last 5 years. Sensex has increased by more than 54% while Realty Index has decreased by more than 55%.

Capital commitment on the basis of Geography

Figure 21: Management of Private Equity Capital in Indian Real Estate by Geography

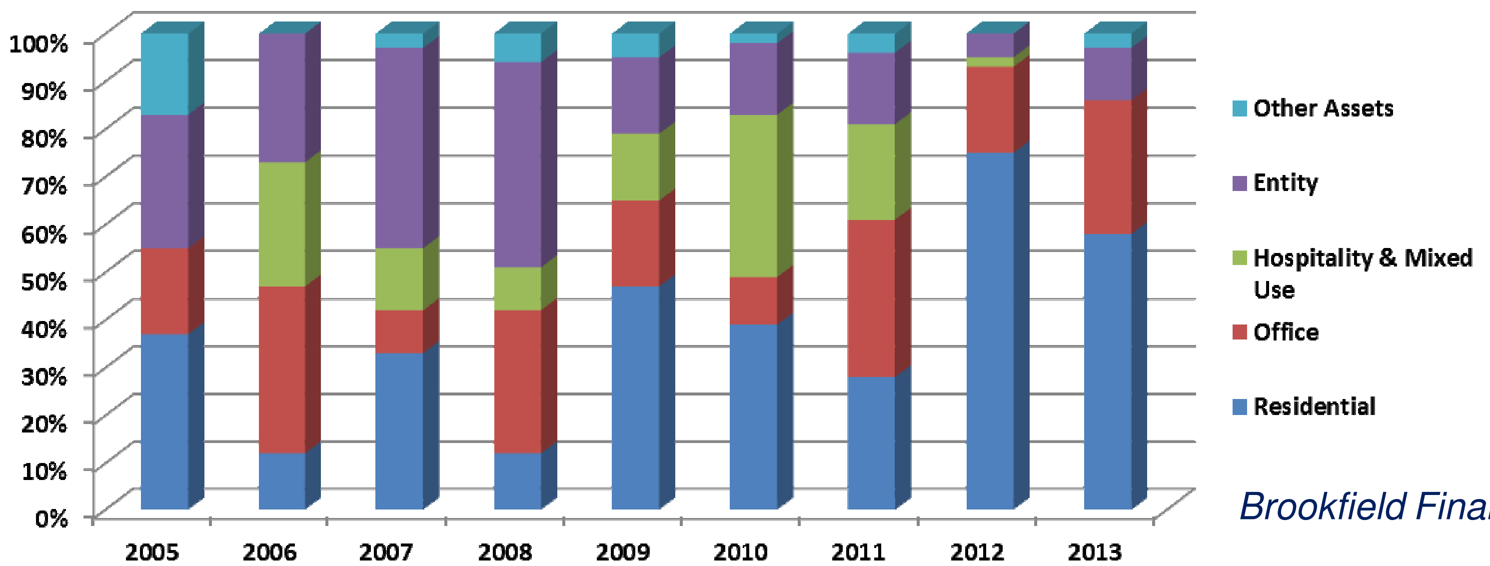
Source: Brookfield Financial

PE Investment Spread



Source: Brookfield Financial

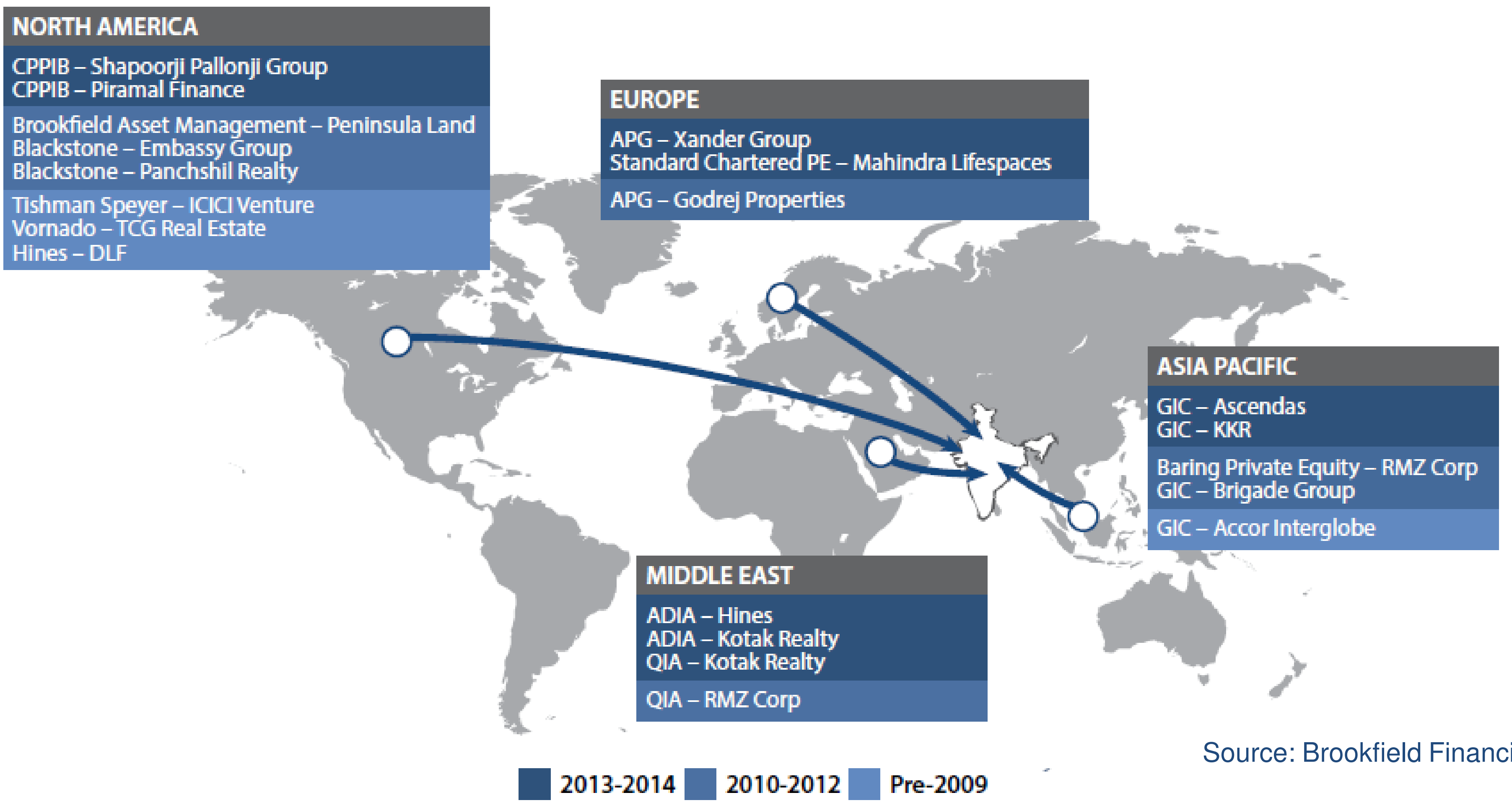
PE Investment Spread



Brookfield Financial

- As the investment controls are mire with greater visibility on the Project level cash flows, most of the funds are preferring to invest at the Project level instead of entity level
- Investment in Commercial Real Estate gained momentum post economic recovery
- Is story of PE investment into Tier -2 and Tier -3 cities over?

Strategic Partnerships in Indian Real Estate



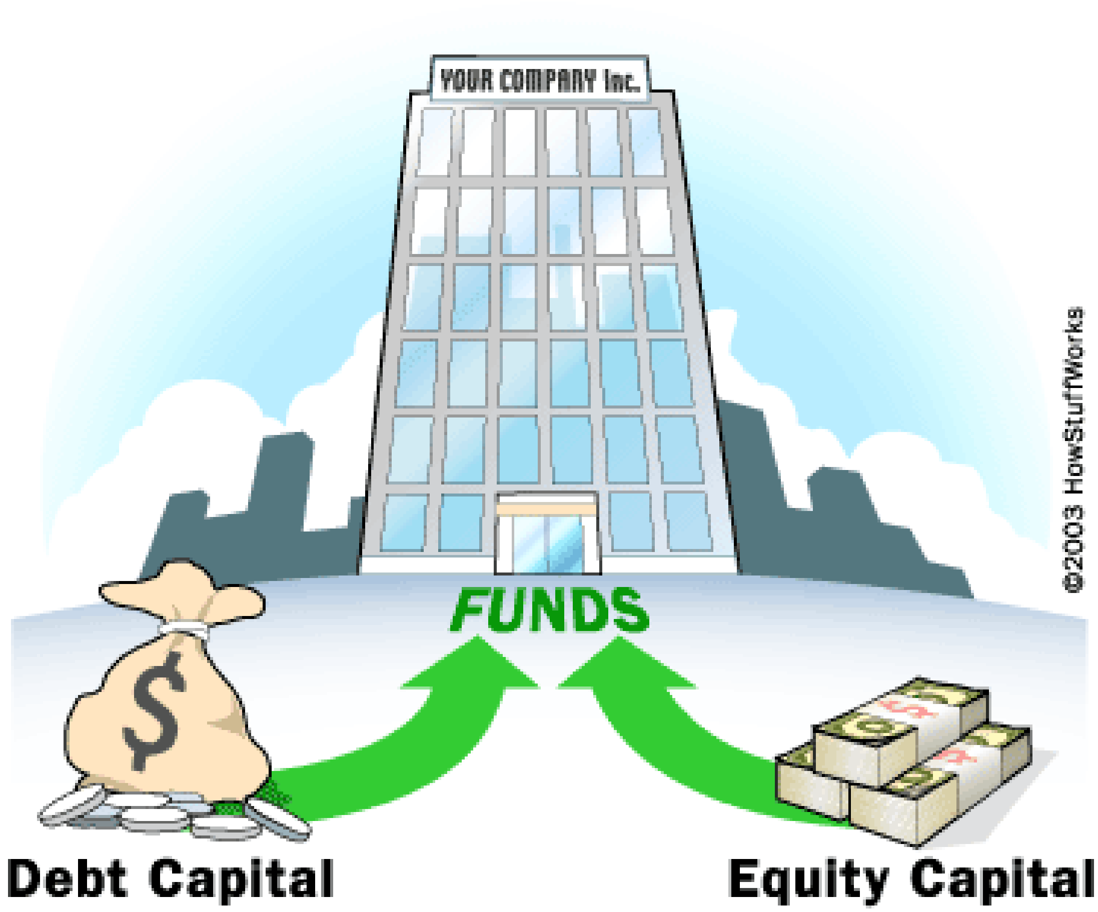
Source: Brookfield Financial

Changes in FDI policy in real estate

	Previous Conditions	Amendments	Rationale & Impact
	MINIMUM AREA REQUIREMENTS		
Serviced Plots	10 hectares of minimum land area	No minimum land area	Increase the universe of FDI compliant assets especially in city centric locations
Construction Development	50,000 sqm of built-up area	20,000 sqm of floor area	
	MINIMUM CAPITALIZATION		
Minimum Capitalisation Norms & Timelines	USD 5 Mn for Wholly owned Subsidiaries and USD 10 Mn for JVs. Capital to be brought in within 6 months of commencement of business	USD 5 Mn in all cases within 6 months of commencement of the project (date of approval of building plans). Subsequent tranches within the next 10 years.	Effective tax structuring and optimization of returns for investors by minimising the equity portion of investment Favours investment in smaller projects / projects in Tier II cities
	LOCK IN PERIOD AND EXITS		
Exit by Development of Trunk Infrastructure	Not permitted to sell undeveloped plots. Completion Certificate mandatory from local authority for sale of plots. 50% minimum development to be done within 5 years from the date of obtaining statutory clearances.	Permitted to sell plots for which trunk infrastructure (roads, water supply, lighting etc.) has been made available.	Enable exit from projects lying at a land stage by development of trunk infrastructure (Yet to be clarified, whether applicable retrospectively on existing investments)
Repatriation of Capital & Exits	3 years from the date of minimum capitalization or last tranche of investment, whichever is later.	Foreign investor will be permitted to exit: (a) Upon completion of the project; or (b) After 3 years of the date of the final investment in the project, subject to the development of trunk infrastructure.	Enables exits from even smaller projects upon completion. Smaller projects offer lower risk and shorter investment lifecycle. Enables exit on project completion of even subsequent tranches of investment till the last mile.
Transfer of Stake from NR to NR (Non-Resident)	Not explicitly included in the Regulation	Permitted Under Approval Route on a specific case basis	Enables exit at an offshore jurisdiction. In case of a NR to NR transfer, the lock-in condition reapplies to the incoming investor.
	ASSET CLASSES AND PROJECT STATUS		
Completed Assets	Not permitted except in the case of projects qualifying as Industrial Parks. Completed retail malls not FDI Compliant.	Permitted in completed projects for operation and management of townships, malls, business centres.	The upcoming REIT legislation may create a need for FDI regulations to allow investors to also own completed assets.
Asset Classes & Mixed Use Projects	Restrictions not applicable to Hotels, Tourist Resorts, Hospitals, SEZs, Educational Institutions and Senior Living.	Addition of projects having 30% of the total project cost towards low cost affordable housing, that get an exemption from complying with the minimum area and minimum capitalization requirements.	Increasing emphasis on affordable housing beyond the existing list of excluded sectors and incentivizing developers developing large mixed use projects (100 Smart Cities Plan)

What will be the investment flavor in 2015-2016?

Mezzanine Finance(Structured Debt) and/or Private Equity



Mezzanine /Structured Debt Financing- An emerging trend

- **Mezzanine finance typically is a structured debt-like instrument, earning mid/high yields, through a combination of cash coupon and terminal yield and/or equity linked components, such as warrants and convertibles.**
- **It bridges the financing gap in a company's capital structure and occupies a place between senior debt and equity, both in security and total returns**
- **Presently 8 out of 10 deals in real estate finance - through structured finance, as compared to 5 – 6 deals in 2011-2012 and may be 1 out of 10 in 2006- 2007**
- **The Mezzanine Finance done through CCDs in pre Lehman-era has been replaced with NCDs which provide better security/charge creation. The CCD deals were done with a call/put options where the coupon was serviced regularly and the exit was structured through call option premium (conversion at minimum DCF value).**
- **Some of the PE players have set up an NBFC arm to undertake mezzanine finance and debt deals.**
- **Mezzanine funding generally provides for a coupon/preferred return of 19% to 22%. Most transactions provide for a waterfall structure on the Equity component now.**
- **The collateral backing where finance is done through NCD route is through collateral of land and project receivables along with standard covenants of debt.**

Comparison of various Jurisdictions- key points

HEAD OF TAXATION	MAURITIUS	SINGAPORE	NETHERLANDS
Capital gains tax on sale of Indian securities	Mauritius residents not taxed. No local tax in Mauritius on capital gains.	Singapore residents not taxed. Exemption subject to satisfaction of certain 'substance' criteria and expenditure test by the resident in Singapore. No local tax in Singapore on capital gains (unless characterized as business income).	Dutch residents not taxed if sale made to non-resident. Exemption for sale made to resident only if Dutch shareholder holds lesser than 10% shareholding in Indian company. Local Dutch participation exemption available in certain circumstances.
Tax on dividends	Indian company subject to DDT at the rate of 15%.	Indian company subject to DDT at the rate of 15%.	Indian company subject to DDT at the rate of 15%.
Withholding tax on outbound interest	No relief. Taxed as per Indian domestic law.	15%	10%
Withholding tax on outbound royalties and fees for technical services	15% (for royalties). FTS[43] may be potentially exempt in India.	10%	10%
Other comments	Mauritius treaty in the process of being renegotiated. Possible addition of 'substance rules'.	There are specific limitations under Singapore corporate law (e.g. with respect to buyback of securities).	To consider anti-abuse rules introduced in connection with certain passive holding structures.

The investor decision may not be limited to these comparisons and depending upon their business plan may decide to invest through specific jurisdiction.

Non Convertible Debentures and Compulsory Convertible Debentures

Particulars	CCD – FDI	NCD - FPI
Equity Ownership	Initially debt, but equity on conversion	Mere lending rights; however, veto rights can ensure certain degree of control.
ECB Qualification	Assured returns on FDI compliant instruments, or put option granted to an investor, may be construed as ECB.	Purchase of NCDs by the FPI from the Indian company on the floor of the stock exchange is expressly permitted and shall not qualify as ECB.
Coupon Payment	Interest pay out may be limited to SBI PLR + 300 basis points. Interest can be required to accrue and paid only out of free cash flows.	Arm's length interest pay out should be permissible resulting in better tax efficiency. Higher interest on NCDs may be disallowed. Interest can be required to accrue only out of free cash flows. Redemption premium may also be treated as business expense.
Pricing	Internationally accepted pricing methodologies	DCF Valuation not applicable
Security Interest	Creation of security interest is not permissible either on immoveable or movable property	Listed NCDs can be secured (by way of pledge, mortgage of property, hypothecation of receivables etc.) in favor of the debenture trustee who acts for and in the interest of the NCD holders
Sectoral conditionalities	Only permissible for FDI compliant activities	Sectoral restrictions not applicable.
Equity Upside	Investor entitled to equity upside upon conversion.	NCDs are favorable for the borrower to reduce book profits or tax burden. Additionally, redemption premium can be structured to provide equity upside which can be favourable for lender since such premium may be regarded as capital gains which may not be taxed if the investment comes from Singapore.
Administrative expenses	No intermediaries required	NCD listing may cost around INR 10-15 lakh including intermediaries cost. In case of FPI, additional cost will be incurred for registration with the DDP and bidding for debt allocation limits, if required.

Right time to invest in commercial office asset class?

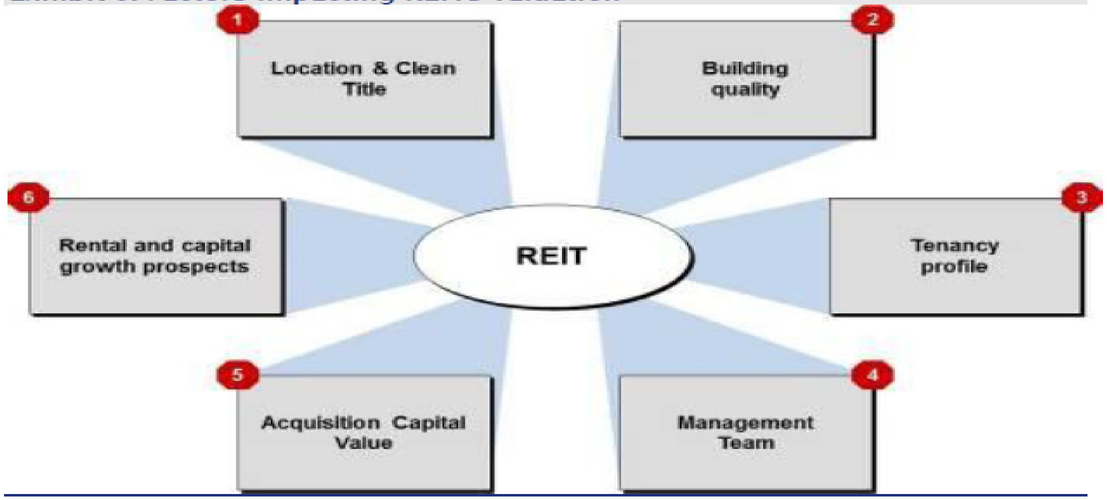
- Office markets in the top seven cities in the country, are yet to regain their peak, whilst absorption levels had gone up in 2014
- Many cities are offering lease earning office properties below replacement cost, though supply of quality leased assets still remain a challenge.
- Very interesting trends in variation on vacancies in micro-markets- What?
- For an investor, this provides an excellent investment opportunity, as these properties have reduced the key risks – land acquisition risk, approval risk, construction risk and marketing risk
- Long term investment with horizon of 7- 10 years -long term investors like pension funds
- FDI compliant stock is roughly 45% of the investable Grade A stock of 375 mn sft. However, lack of quality grade A assets with considerable leased portion available for sale.
- Concept of 'ERV- Expected Rental value' /global vacancies being factored by some of the investors in their financial models.
- CMBS (Commercial Mortgage Backed Security) is a new route, DLF has successfully closed first CMBS transaction
- Some of the players who are actively seeking to invest in commercial real estate asset class are SP- CPPIB group, Blackstone, Ascendas, GIC and Xander.

REIT- An idea whose time has come?

- Real Estate Investment Trust(REIT) is a company that owns and manages investment grade and income producing real setae properties such as office buildings, residential buildings, shopping malls, healthcare facilities,. Returns from REITS re primarily derived from two sources- dividend yield and share price appreciation. Most REITS re listed and traded in stock exchanges.
- REITs invest in completed, revenue generating commercial properties and distribute a major portion of the earnings among investors.
- Of the 375 msf of Grade A office market across top seven cities, 80-100 msf could be up for REIT listing once it is introduced. Cap rates have already been compressed and it is also expected that the cap rates will compress further by 100 bps to 125 bps.
- REIT has a potential market size of USD 10 -15 Bn in medium term
- REITs bring in increased transparency in the sector by adopting better corporate governance, disclosures and financial transparency practices.
- While on anvil since 2008, greater policy support in form of removal of double taxation of dividends and tax on capital gains is essential for success of I-Reits.
- Currently most leased assets have LRDs on them, which leaves little for distribution as dividend.
- SEBI REIT regulations allow for foreign participation provided “that in case of foreign investors, such investments shall be subject to guiles as may be specified by RBI and the government from time to time”. Currently FDI policy (press note 2 and notifications/ amendments) does not envisage REIT structures.

Size of REIT market/ Factors impacting REIT valuations

Exhibit 9. Factors impacting REITs valuation

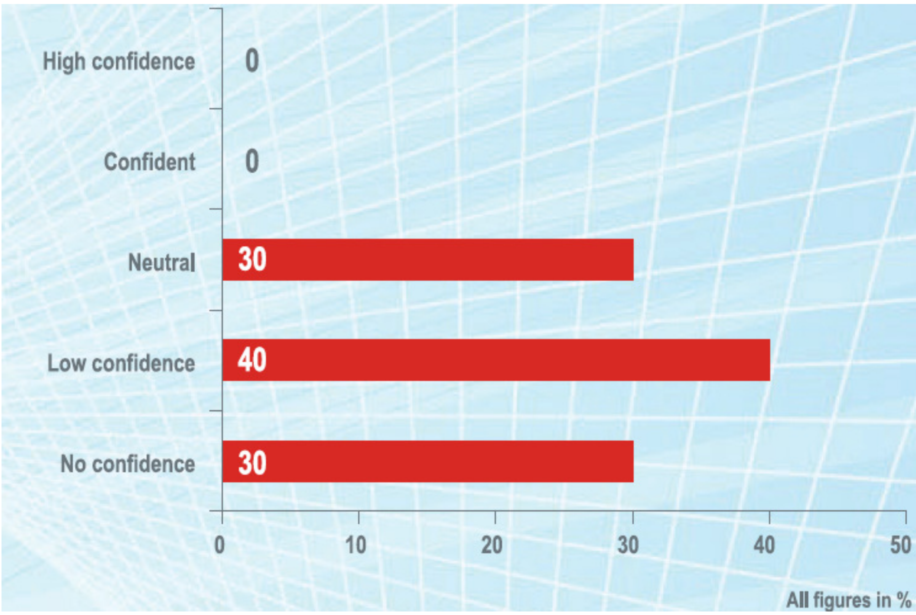


Source: JM Financial

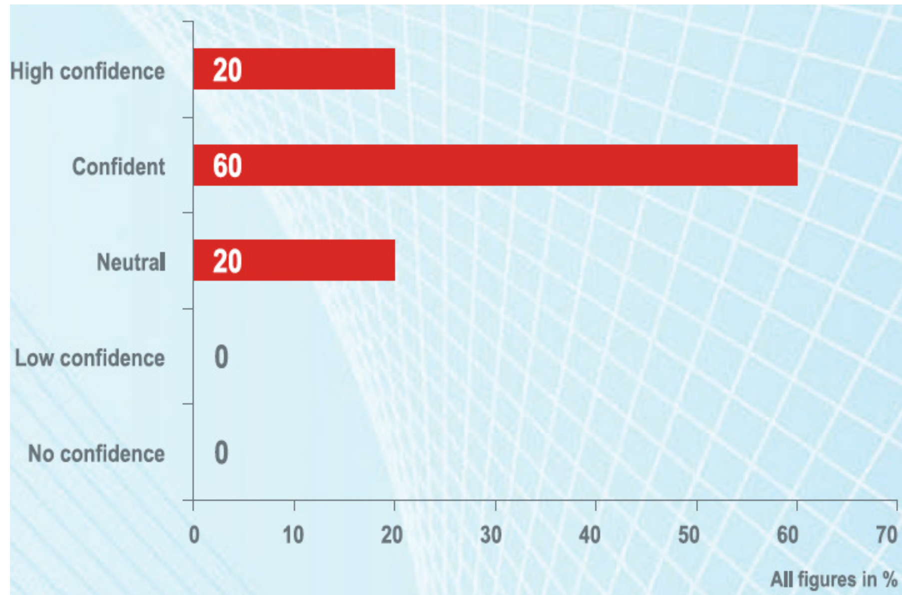
Probable REIT listing in next 3 years		
REIT compliant office space in top seven cities	203	million sq ft
Expected REIT listing in first 3 years (50%)	102	million sq ft
Average rent	60	INR / sq ft / month
Total rent	7,308	INR crore / annum
Cap rate	8%	
Valuation	91,350	INR crore
Exchange rate	60	INR / USD
Valuation	15	USD billion

Source of table: JLL REIS

REITs Confidence Index



REIT will be a success in short term (next 3 years)

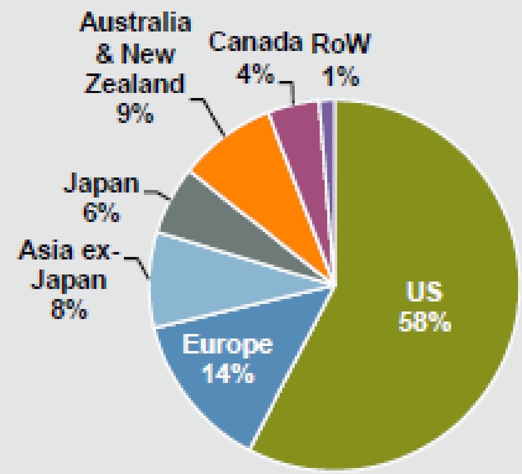


REIT will be a success in long term (next 10 years)

Source: JLL, REIS & Capital Market Research

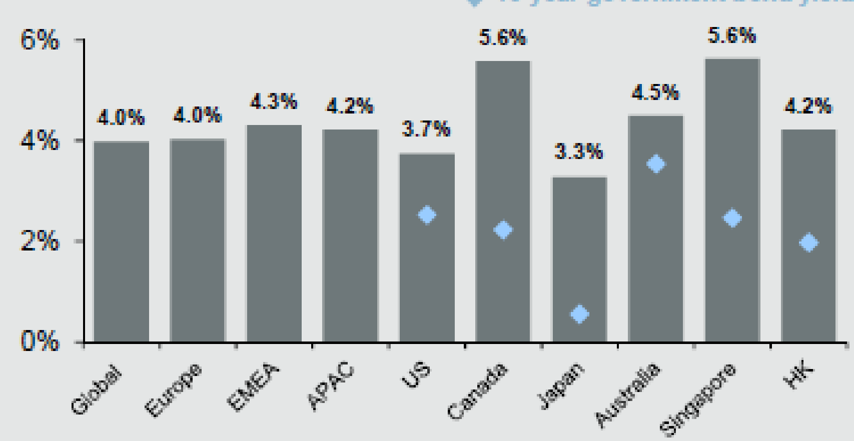
Global REIT Performance

REITs' Market Composition



	Market Cap (USD Billions)
US	621
Europe	148
Asia ex-Japan	90
Japan	64
Australia & New Zealand	92
Canada	49
Rest of World (RoW)	14

REIT Dividend Yield



Few case studies

- Case studies
  - Asset class- South India
  - Product mix sizes- North India
  - Change in product- South India
  - Mismatch of intrinsic value and valuations in a company- North India
  - FDI lock-in- 3 years

Affordable Housing

As per the "Consolidated FDI Policy Circular of 2014", affordable housing project is defined as

Projects using at least 40% of the FAR/FSI for dwelling unit of floor area of not more than 140 square meter will be considered as Affordable Housing Project for the purpose of FDI policy.

Out of the total FAR/FSI reserved for Affordable Housing, at least one fourth should be for houses of floor area of not more than 60 square meter.

Following conditions of the FDI policy will not apply to the investee/joint venture companies which commit at least 30% of the total project cost for low cost affordable housing –

In case of construction development plots, a minimum floor area of 20,000 sq. mtrs.

Investee Company will be required to bring minimum FDI of USD 5 million within 6 months of commencement of Project.

- **Promoting the construction of affordable housing - Allocation of INR 4,000 crore (~USD 655 million)**
  - **Steps taken:**
    - Through the National Housing Bank, funding will be disbursed to banks / lending institutions at a lower interest rate.
    - Loans for affordable housing will be available at 1.5-2.0% cheaper than market rates.
  - **Expected impact:** Incentivise developers to construct more affordable homes.
- **Relaxation in norms for FDI into the affordable housing sector**
  - **Steps taken:**
    - Requirement of minimum capitalisation and construction area of projects reduced by half.
  - **Expected impact:**
    - Land parcels that are small in size, but have a high land value, can also attract FDI.
    - Increase quantum of investments going into the housing sector.
- **Further tax benefits offered on repayment of principal as well as interest payments**
  - **Expected impact:**
    - In combination with cheaper home loan rates, absorption to increase.

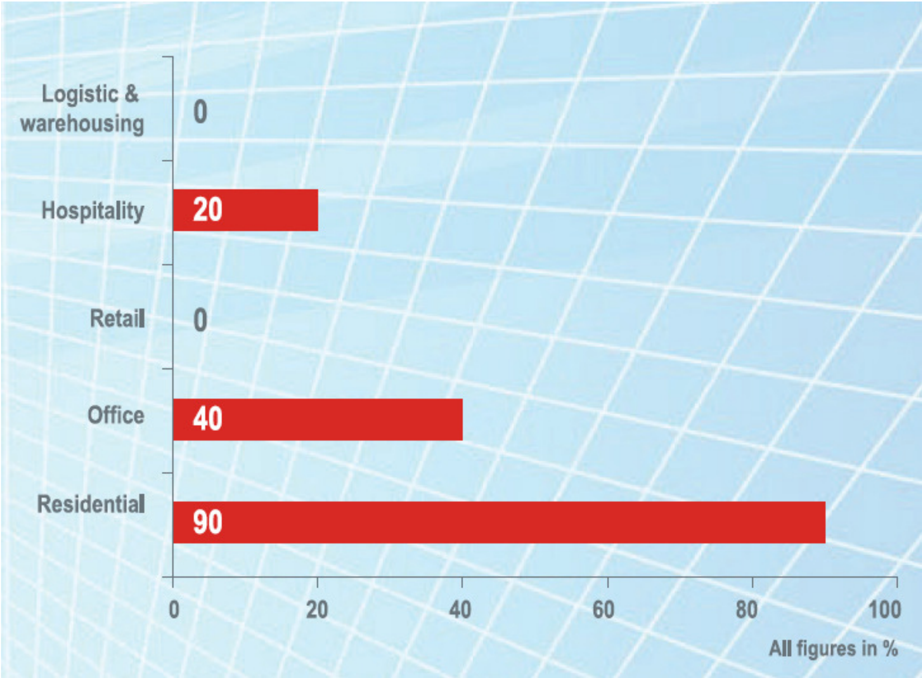
Source: JLL, REIS & Capital Market Research

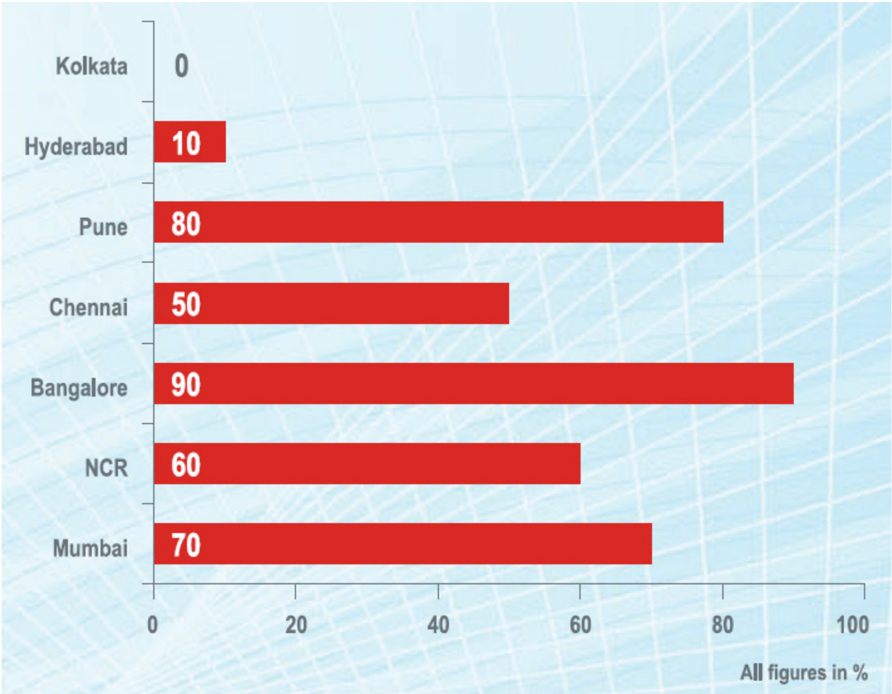
Some announced deals- what do they highlight on Investors appetite?

- The biggest deal was sealed when AIM-listed Unitech Corporate Parks (UCP) sold its stake in project JVs to Brookfield Property Partners for £205.9 million (Rs 2,049 crore or $347 million).
- In the buy-out space, Blackstone bought two IT parks from IDFC Alternatives for Rs 1,100 crore ($178 million). Blackstone also bought 24* 7 asset in suburbs of Mumbai from HCC and Milestone.
- GIC struck a deal to buy 39 per cent in Nirlon, which owns an IT park in Mumbai, for around $110 million. It has also made an open offer which can push the deal value to around $200 million.
- Blackstone did the first deal in Residential asset class through NCD
- Xander Group collaborated with Dutch pension fund manager APG Asset Management for a $300 million venture that will buy income generating, institutional grade commercial assets across India's main office markets.
- Piramal Enterprises Ltd and Canada's CPPIB joined hands to invest $250 million each in the residential real estate of India.
- Singapore's sovereign wealth fund GIC tied up with Bangalore-based Brigade Group to invest to invest ($247 million) in southern residential market.
- GIC formed two JVs with North based Vatika Group for residential projects.

Source: Press /various

Future outlook- asset class and preferred cities





Source: JLL, REIS & Capital Market Research

Future landscape

- Platform level deals with global Institutions- skin in the game
- Enhanced involvement and controls in the decision making by Investors
- Risk mitigation and controls
- Commercial RE investments (core/core plus) - yield generating- Emerging asset class
- Mezzanine finance- continue to be preferred
- ‘Forward purchase’ transactions- largely by domestic funds- wholesaler approach
- Hybrid structures- Debt with Equity kicker
- Equity will see a comeback- matured investor
- Focused Funds- Rehab fund/ NCR Fund
- Enhanced focus on asset management
- Shorter cycles- investments in smaller projects
- Research driven approach to investing
- Investments with partners which have demonstrated exits
- Leadership and teams with demonstrated track record
- Emergence of Secondary markets – exits

Where are we headed?

Source: Internet/ JLL Report

Disclaimer

This presentation contains high level, condensed and prima facie views including certain data and facts from the information available largely in public domain.

The views expressed are not binding on any authority, and hence, no assurance is given on its accuracy and that a position contrary to the opinions expressed herein, will not be asserted by any authority and/or sustained by an appellate authority or a Court of law.

This presentation is purely indicative and has been prepared for the benefit of and from the perspective of The Institute of Chartered Accountants of India and does not address any other perspective.

Thank You

For any queries/comments, please feel free to contact:

puneet.bhatia@capitedge.com