

## **Real Estate Funds “Cracking Intrinsic Value in Housing”**

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## Index

Index	Page No.
How Private Equity has evolved in the Middle Income Housing	3
Real Estate Glory Days V/s Present Market Conditions	4
Investment Manager’s Outlook on Middle Income Housing	5-6
Typical Deal Flow in PE	7
Investment process followed by a PE for Housing / Real Estate project	8
Various stages from Investment to Disinvestment in a Real Estate Project	9
Value creation for the Developer viz a viz “Fund”	10

## How Private Equity has evolved in the Middle Income Housing

- Traditionally, real estate in India has been financed in an unstructured manner by HNIs. However, post liberalisation in real estate & dramatic reforms in India's FIs, the sector has witnessed a phenomenal development in the last **couple of years**. This is mainly due to real estate's flexible nature and its value appreciation over time.

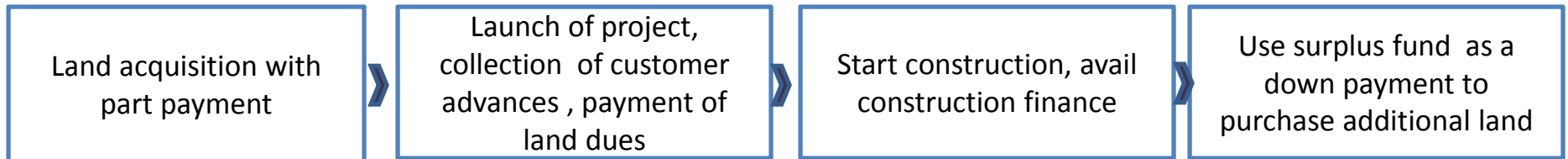
### *Market Scenario – Post 2005*

2005 – 2007	- New concept, surplus liquidity, easy availability of equity capital, flurry of equity transactions
<b>2008</b> – 2010	- Era of worse ever recession, tight liquidity, slowdown, vicious debt trap, distress sales
2010 – 2012	- Cautious and conservative approach, rationalized funding , strategic exits

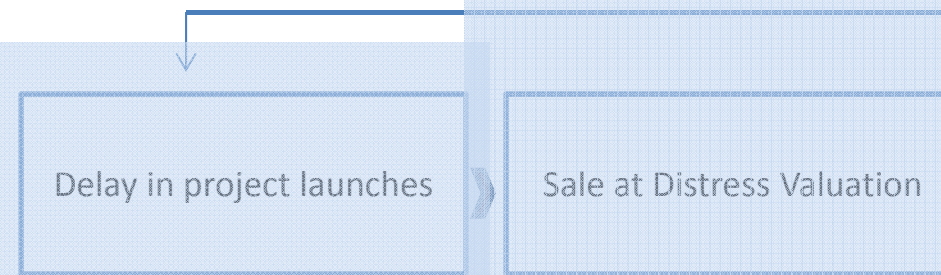
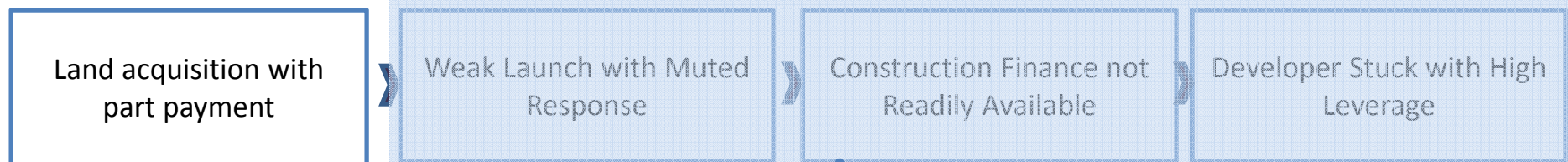
- Private Equity in Real Estate - A preferred funding option for the housing projects along with other sources such as - Banks, Equity Markets, Non-Banking Financial Companies (NBFCs) & End-User Advances.
- Prominent form of funding that fully participates in project risk along with the developer
  - Boon for real estate firms as it expedites project execution & absorbs risks related to a typical real estate project
- The real estate industry has been a mixed bag while decoding the returns delivered by the sector. **JLL** Analysis shows that real estate investment has been largely “in the money” at the time of exits. However, returns have been depressed by global recessionary trends.

## Real Estate Glory Days V/s Present Market Conditions

### Real Estate in Glory Days



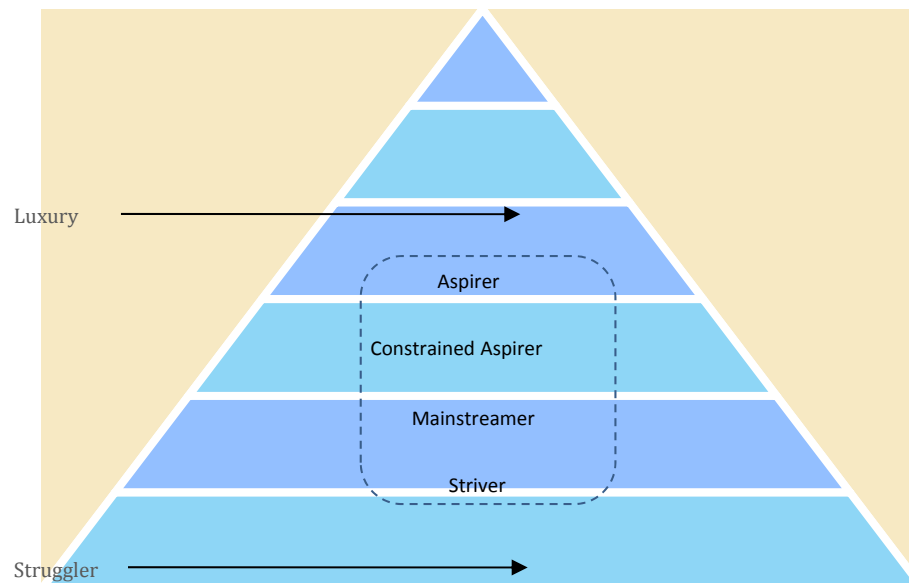
### Present Market Conditions



Under Present market scenario Entry/Backing of PE becomes critical for smooth execution of Real Estate Project

## Investment Manager's Outlook On Middle Income Housing

Middle Income Housing segment account for over 50 % of the overall housing market



Socio-economic Pyramid

### Characteristics of Aspirer

- ⊙ Socio-demographics (Midway generation~ 1960-80, Businessmen/Industrialists/Senior & Middle Mgmt Professionals, Graduate/PG, Married)
- ⊙ Income (Rs 10 lac per annum and above)
- ⊙ Needs (Want to be perceived as successful)
- ⊙ Usage of products (Statement and Lifestyle)

### Characteristics of Constrained Aspirer

- ⊙ Socio-demographics (Mostly Midway generation; some Liberalization generations~ 1960-80, 1980-90, Businessmen/Industrialists/Senior/Middle Mgmt Professionals, Graduate/PG, Mostly Married)
- ⊙ Income (Rs. 5 lacs – Rs. 10 lac per annum)
- ⊙ Needs (Want to be perceived as successful)
- ⊙ Usage of products (Statement and Lifestyle)

### Characteristics of Mainstreamer

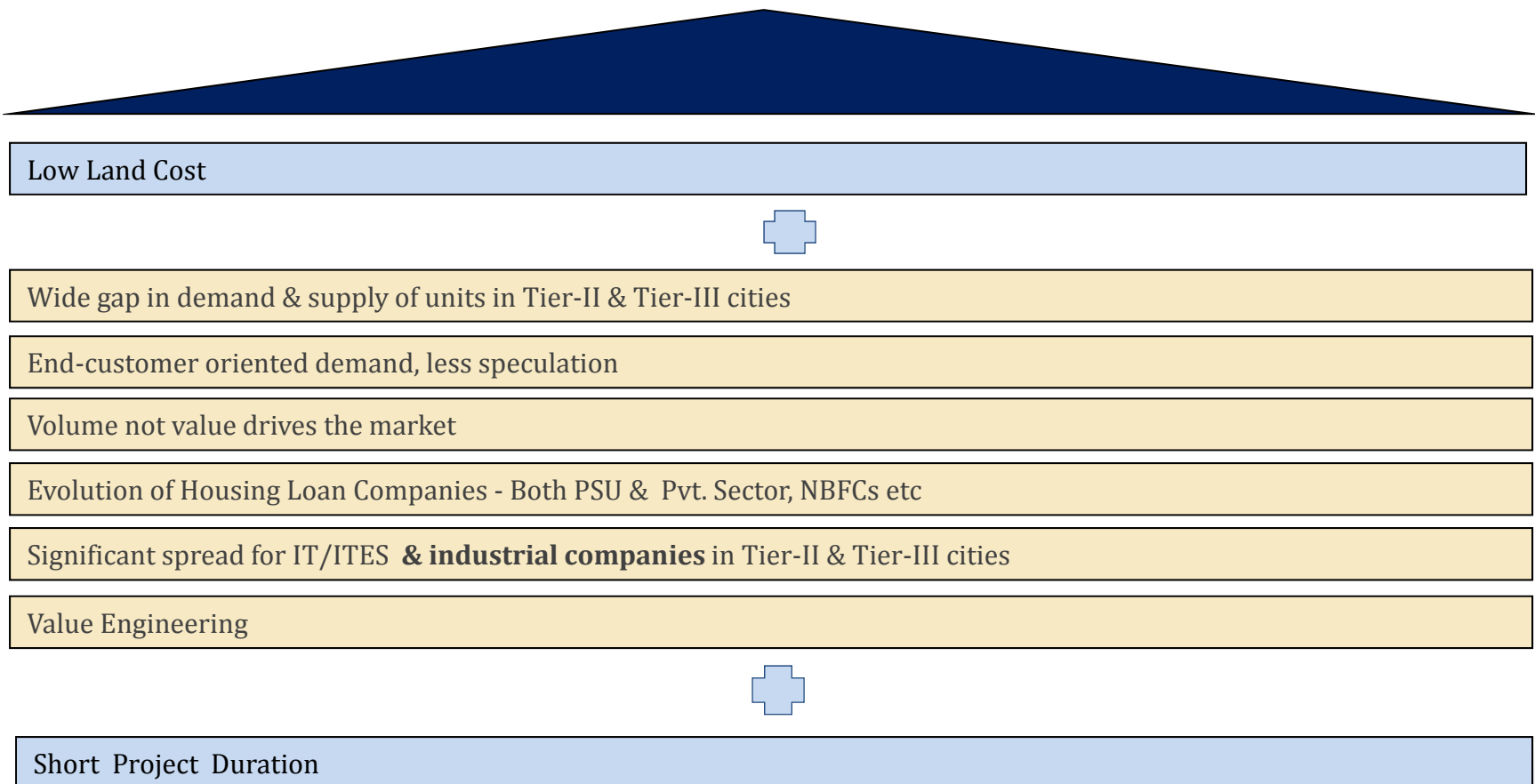
- ⊙ Socio-demographics (Midway generation~ 1960-80, Businessmen/Industrialists/Senior & Middle Mgmt Professionals, Graduate/PG, Married)
- ⊙ Income (Rs. 2 lacs - 5 lac per annum)
- ⊙ Needs (Security, value and social acceptance,)
- ⊙ Usage of products (Behavior is marked by conformity)

### Characteristics of Striver

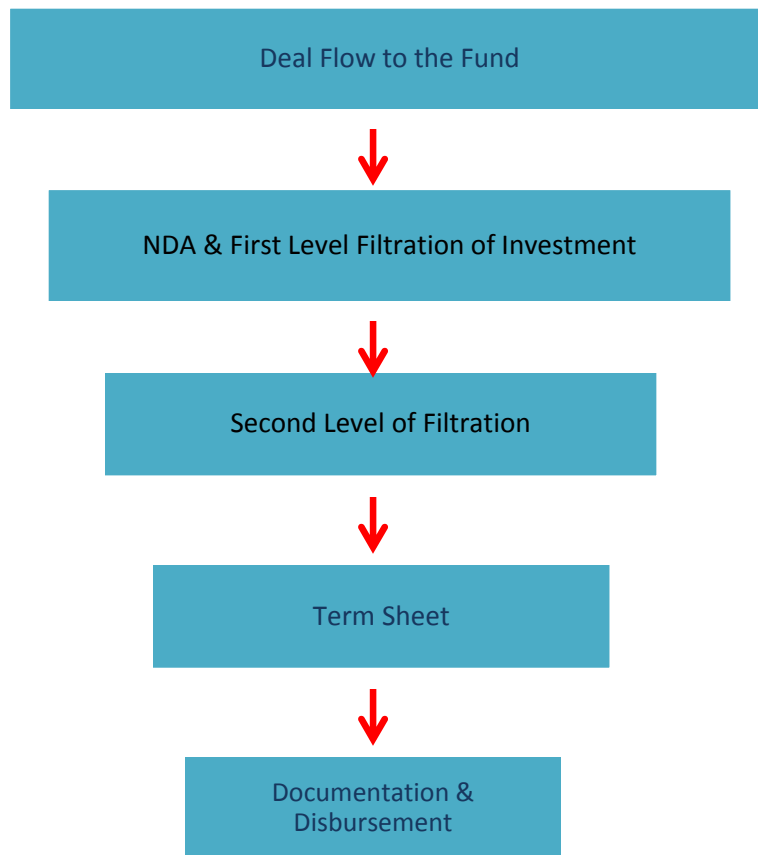
- ⊙ Socio-demographics (Midway and Liberalization generations ~ 1960-80, 1980-90 , Shop Owners, Petty Traders, Small Businessmen/Industrialists/Middle /Junior Mgmt Officers, Graduate/PG, Mostly Married)
- ⊙ Income ( less than Rs.2 lac per annum)
- ⊙ Needs (improvement and escape from hardships)
- ⊙ Usage of products (Better quality of life within limited budget)

## Investment Manager's Outlook On Middle Income Housing .. Cont

Target Returns To The North Of 25 %



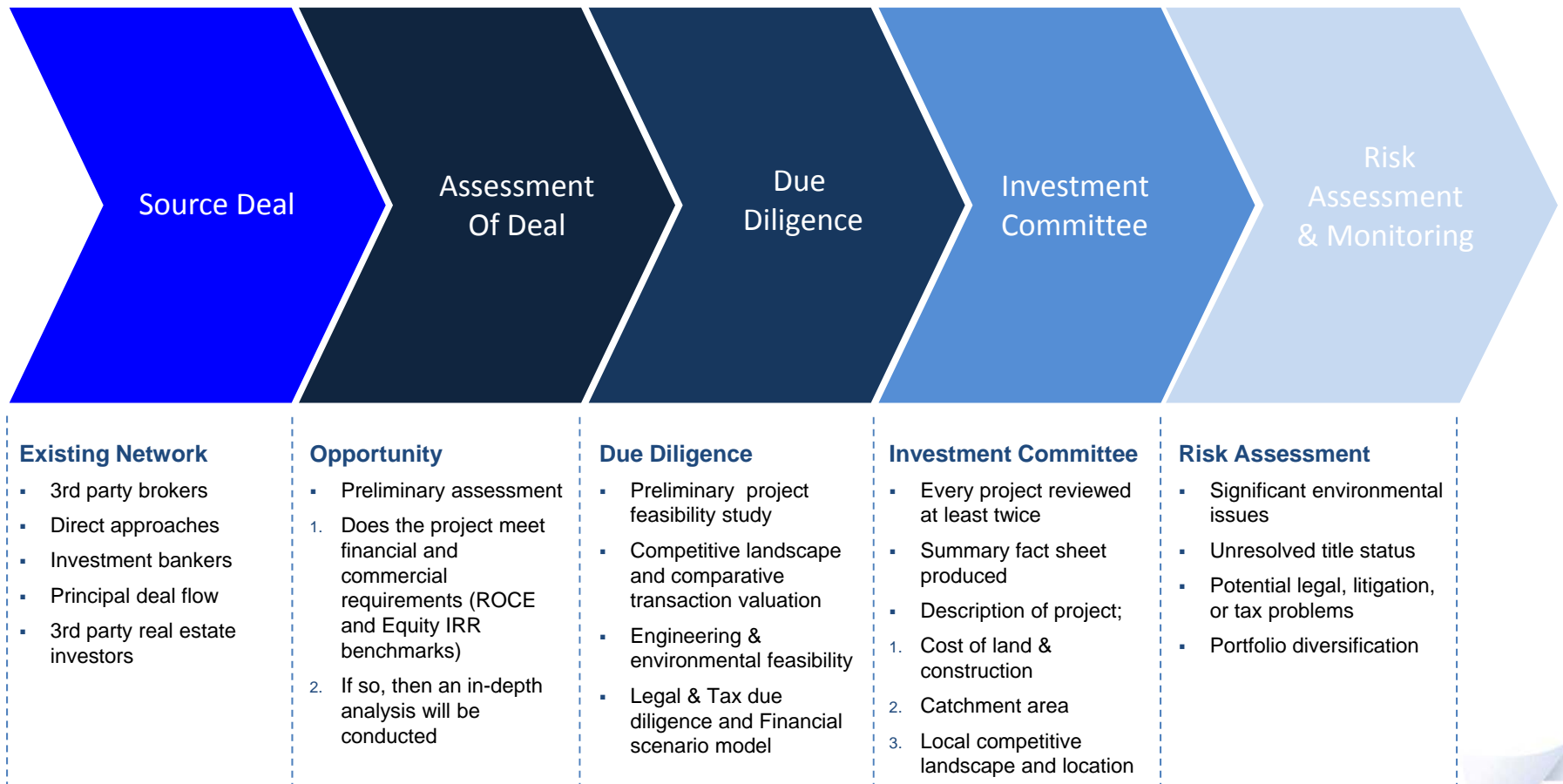
## Typical Deal Flow in PE



- Source of an Investment Opportunity
  - 3rd party brokers
  - Direct approaches
  - Investment banker
  - Principal deal flow
  - 3rd party real estate investors
  
- Proposals are outright rejected as they do not meet the basic criteria of PE
  - Size of the deal
  - Financial Feasibility
  - Poor Management team
  - Poor financial/regulatory reporting
  - Poor reputation of developer partner
  
- Low conversion ratio largely because of poor corporate governance, overstretched valuations and standards not in line with the **market view**

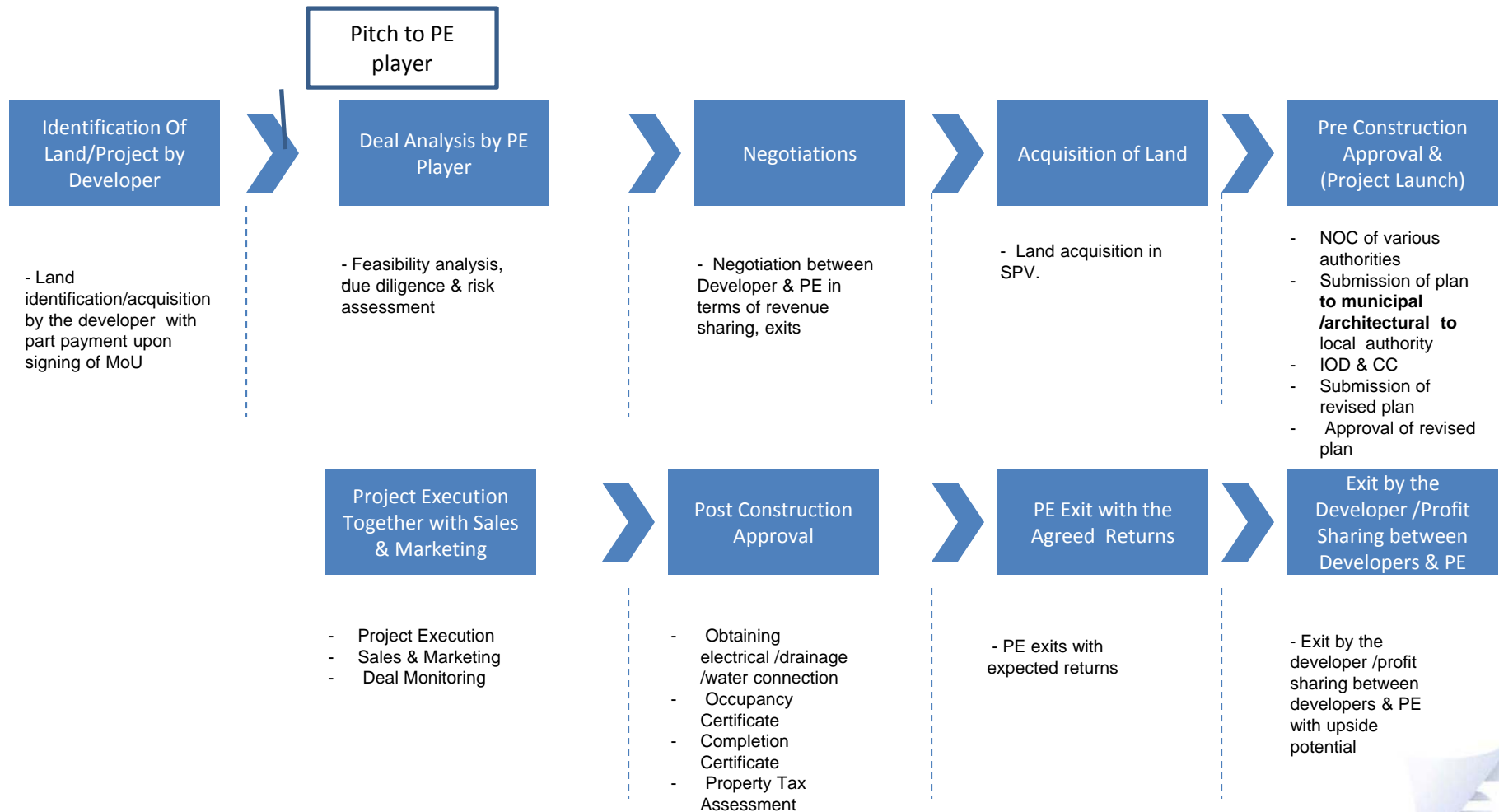


## Investment process followed by a PE for Housing / Real Estate project





## Various Stages from Investment to Disinvestment in a Real Estate Project



## Value creation for developers viz a viz “Fund”

*In 2008-09, owing to the liquidity crisis in the market lending norms of banks & other FI' became stringent. This created a pathway for Private Equity players to enter into the real estate market. This also introduced disciplined approach towards construction, timely delivery of the project and full transparency in the market.*



# Thank You .

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