

Long-term equity funds may edge out debt investments

By Ravi Teja Sharma, ET Bureau | 16 Jan, 2016, 06.36AM IST

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NEW DELHI: As the slowdown separates the men from the boys in India's [real estate](#) sector, the kind of money it attracts is also set to change, from short-term debt over the past five-six years to mature equity money. Some of this is longterm patient capital, with tenures as long as 12 years, which could alleviate some of the stress builders have been facing. With investors partnering pedigreed builders, the residential segment could see more than \$2 billion (about Rs 13,500 crore) being pumped in over the next two-three years, according to industry estimates. ET had reported earlier this week that an arm of India's largest mortgage lender HDFC is raising a Rs 5,000 crore, 12-year equity fund to invest in mid-income housing projects. So far it has raised Rs 2,700 crore.

Kotak Realty Fund is in advanced discussions with a few large investors, including sovereign and pension funds, to raise a \$250-350 million equity fund with a tenure of up to eight years, said an investment banker, who did not wish to be identified. ASK group is raising two equity funds - a \$200 million offshore fund and a Rs 1,500 crore domestic fund.

Arthveda Fund Management, an associate firm of Dewan Housing [Finance](#) Corp Ltd is also raising a \$250 million offshore equity fund for housing projects. Apart from the [private equity](#) route, foreign investors are partnering established builders to put in equity. Over the past 12-18 months, international developer Hines and Abu Dhabi Investment Authority (ADIA) have reportedly set up an equity platform to invest \$250-300 million in housing projects and Singapore's GIC and Brigade have agreed to set up a JV to invest Rs 1,500 crore in projects in south India. Earlier Dutch pension service provider APG had shook hands with [Godrej](#) Properties to invest in new mid-income housing projects.

"India is a long-term growth story and market will go up and down, but over a period of time when the market balances itself out, the trajectory will always be upwards," said Yash Gupta, managing director of Hines, without confirm Hines' partnership with ADIA.

Ankur Srivastava, chairman of Gen-Real Property Advisers said the entry of this kind of mature and patient capital is a sign of market maturity that can be seen at all levels - builders, fund managers and LPs behind the funds. "They are now clear about the asset class they want to invest in, the time frame, the risk return equation in Indian real estate and the partner they want to work with," he said. Karan Bolaria, head of Godrej Fund Management said investors understand the [Indian market](#) much better now. "India is a growth bright spot in a generally slower global growth [environment](#), which makes it interesting to institutional capital," he said.

Consider the case of GIC. It recently picked up 50% stake in two housing projects of India's largest developer DLF in Delhi for Rs 1,992 crore.

The Opportunity Deepak Parekh, chairman of HDFC said that equity is the need of the hour in Indian real estate today. "Developers would ideally prefer equity where the risk gets shared with the fund," he said.

The debt given to builders by funds as well as non-banking finance companies (NBFCs) in the past six years or so is usually for a shorter term and the interest meter starts ticking immediately, putting the builder under immediate pressure. Initially builders wanted shortterm money in the hope that the market would bounce back soon, but the wait has turned much longer. "Over the next three years, equity opportunities will be more interesting," said S Srinivasan, chief executive officer of Kotak Realty Fund. "We engage in ongoing discussions with institutional investors with new ideas. The fund you are referring to is also on the cards," he said about the \$250-350 million equity fund Kotak Realty Fund is planning to raise. Srinivasan said that it is a matter of time before land values correct just as has been the case with apartments.

"The risk-return ratio for equity [investments](#) in real estate will turn favourable over the next 18-24 months. Hence, we believe it is the right time to discuss equity funds with our LPs," he said. The problem for builders is that the public [equity market](#) too isn't giving any money to real estate companies.

Debt is not the best option because development takes a long time in India. "Today, the cost of debt is very high in the sector and being



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obligatory in nature along with regulatory delays is making the real estate development sector sick," said Saurabh Chawla, senior executive director (finance) at DLF Ltd.

This has given rise to buyer activism over the past few years, with scores of cases being filed against builders in consumer courts, with the Competition Commission of India and in other forums.

Amit Bhagat, managing director and CEO of ASK Property Investment Advisors said this is an interesting countercyclical opportunity where distress deals are available for long-term patient players to invest as equity.

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