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PEs may pump in more money in real estate this year

By Sachin Dave & Ravi Teja Sharma, ET Bureau | 2 Jan, 2016, 06.35AM IST

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MUMBAI/NEW DELHI: [Real estate](#) companies are expected to raise more money from [private equity](#) funds in 2016 than last year after the government simplified foreign direct investment norms for the sector last year.

Experts say PE [investments](#) in real estate could even surpass the \$4.8-billion fund infusion seen in 2015. While the way PE investments are structured could see a change, the money is set to be invested in selected cities and projects, they say.

"Anywhere between \$3 billion and \$4 billion are either raised or close to be raised by funds that are real estate focussed.

Taking an average investment cycle of eight years, these funds will have to deploy all the money in next four years, which means at least \$1 billion will have to be invested in 2016," said Rajashri Datta, asset management lead, Acquisory Consulting, an M&A advisory and asset management firm.

Experts say the additional \$1 billion that could be invested in the sector is over and above investments made by PE firms which are already sitting on funds.

However, the way investments would be carried out in 2016 is likely to be different from what has been happening in past few years.

"In 2015, a large part of the investment in real estate was debt or structured transactions. This is expected to continue in 2016, but it would be complemented by equity deals in the later half of 2016 — with the government easing [FDI](#) norms for the construction development sector," said Sanjeev Krishan, transaction and private equity leader, PwC.

According to data obtained from Venture Intelligence, about \$2.94 billion (Rs 19,420 crore) have already been raised by some real estate focussed funds. Industry trackers say at least \$1 billion would be raised in the first three months of 2016, which would be

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invested in the same year.

Ankur Srivastava, chairman of Gen-Real Property Advisers, says the limited partners or investors in the PE funds would ideally want funds to be deployed in the first 12-24 months wherever the tenure of the fund is around 5-7 years.

This means the first year is likely to see 35-40% of about \$3 billion being deployed.

Analysts say money will continue to pour in at residential projects with consistent cash flows as well as corporate real estate where there will be an opportunity for the investors to optimise rentals. Other asset classes like warehousing will also provide opportunities.

"If you look at the number of good real estate properties where investors would get good returns, this is limited to Mumbai, NCR (National Capital Region) and Bengaluru. So while investment may not impact prices of real estate across the spectrum, it could see some movement in some specific pockets," said Datta of Acquisory.

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