

Rental arms of realtors big draw for global investors

As office rentals firm up, investors see this as an opportunity to pick assets and scale up their portfolio

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Large commercial property developers such as DLF, K Raheja Corp, Oberoi Realty, and Prestige are looking to raise \$3.5 billion by selling stake in their rental arms.

From investors' point of view, such a deal will offer them an opportunity to own marquee assets with good developers and build their portfolio. "It gives us scale and opportunity to buy more office properties. Though valuations have shot up, office markets are doing well and rents are rising. We see good opportunity in this space," says an executive with Blackstone who did not wish to be named.

According to property consultant Colliers, the Indian office market remained strong in the second quarter of 2016 with 10.4 million sq ft of office absorption, taking the total to 19.2 million sq ft year-to-date. The office absorption recorded an 18 per cent increase in the second quarter of 2016 on a quarterly basis.

Samar Sarda, senior analyst with Kotak Institutional Equities, agrees. "Although the yield spread is negative, current capital values are still better (lower) than replacement and, hence, attractive for long-term investors. Larger developers carry the brand equity and tenant attractability factor, which favour them," says Sarda.

The Blackstone executive quoted earlier says valuations have gone up 20 per cent in the past couple of years, as more buyers entered the fray. Investors such as Canada Pension Plan Investment Board, Abu Dhabi Investment Authority, Qatar Investment



Authority, Warburg Pincus, among others, have started investing in Indian office properties. "Those who missed the first round of buying are looking at it again," the Blackstone executive added. Kotak's Sarda says valuations have gone up in the past few years.

"Deals in FY11 happened at 11-12 per cent cap rates (in some cases higher); now they are at 8.5-9 per cent."

Cap rate means the rate of return on a real estate investment based on the income the property is expected to generate. An email questionnaire sent to Blackstone did not elicit any response.

Blackstone has invested about \$3 billion in office properties, which include marquee properties such as Express Towers and 247 Park in

Mumbai.

Blackstone along with its joint venture partner Embassy are planning to float a \$600 million real estate investment trust (Reit) soon and file intent papers with the Securities and Exchange Board of India.

It is also in the race to buy the promoters stake in DLF's rental arm DLF Cyber City Developers.

The stake sales will ensure price discovery mechanism, says a senior executive with a large South Asian sovereign fund. According to him,

since most developers except DLF are raising funds for expansion, they would get a stake in the expanded portfolio. "Since global investors participating in stake sale, practices and processes will get better. Markets will get deeper and investors can look for exits

through Reit, IPO etc."

Singapore's GIC and Temasek are actively looking to buy Indian real estate. GIC has invested around \$1 billion in Indian real estate and owns Nirlon IT Park in Mumbai and owns stake in Viviana Mall on Thane and R City Ghatkopar. It is also in the race to buy stake in DLF's rental arm.

GIC did not respond to an email query.

Temasek is said to be eyeing a 20 per cent stake in K Raheja Corp's office portfolio.

However, the executive from the sovereign fund feels since most deals are coming to market at the same time, there is a possibility of 'vintage risk' — valuations going down or up at a same time like investment in stock markets.

Many in the industry also feel the delay in Reit regulations has also forced developers looking at growth capital to do stake sale first and then

UPCOMING DEALS

- DLF promoters to sell 40 per cent in rental arm, to raise ₹12,000 crore to ₹14,000 crore; Blackstone, GIC believed to be main contenders
- Raheja promoters to sell 20 per cent in office company for \$500 million; Temasek, Warburg Pincus among six bidders
- Prestige to sell 40 per cent in rental arm for \$300 mn; bidders not known
- Phoenix Mills to sell stake in malls in Pune, Bengaluru; GIC, CPPIB likely bidders
- Oberoi Realty to set up mall joint venture; believed to be in talks with Morgan Stanley and others

go for Reits.

"There are still a lot of hurdles for Reit issues to become successful. However, from a buyer's perspective, accumulation of such assets is a step towards it (floating an Reit)," says Ajay Jain, executive director at Centrum Investment Banking. From a developer's perspective, having a marquee investor as a stakeholder also helps in attracting global investors to the Reit floated by him.

Ashish N Shah, chief operating officer at Mumbai-based Radius Developers, says the recent drop in repo rates and a possible downward trend in interest rates has a strong impact on returns on investment commercial real estate. "An investor benefits as the capital values (prices) of income yielding assets go up as the same steady income stream gets discounted by a lower interest rate."