

Note ban may help realtors get higher valuations for rental arms



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Demonetisation could help developers of commercial properties such as DLF, K Raheja Corp and Phoenix Mills get higher valuation for their rental subsidiaries. These companies are looking to sell stake in their commercial rental arms to raise around \$3 billion from investors.

"With interest rates set to go down, yields are coming down. I believe valuations of commercial properties will go up," said V Jayasankar, head of equity capital markets and origination at Kotak Mahindra Capital Company.

Jayasankar said the stake sale plans of real estate developers would progress as planned. "Demonetisation would not impact commercial properties though residential rates may drop. Commercial properties have blue chip clients and long leases and they are unlikely to get impacted."

DLF promoters are selling 40 per cent stake in the company's office rental arm and are in advanced talks with Blackstone and GIC, and are planning to raise ₹12,000 crore. Although DLF said the promoter stake sale might spill over to FY18 from the tar-

get of FY17, sources in the company said it was due to size and complexity of the deal. Mumbai-based K Raheja Corp is also looking to sell a 20 per cent stake in its rental arm and is in talks with investors. Similarly, Phoenix Mills is in talks with investors such as Canada Pension Plan Investment Board to sell stake in its malls in Bengaluru and Pune.

"We don't see valuations or transactions getting affected between commercial real estate players and private equity investors in the wake of demonetisation. The move may just pave the way for players to speed up forming real estate investment trusts (Reits)," said Ajay Jain, head of real estate group and executive director at Centrum Capital. While the Embassy-Blackstone combine has filed an intent letter for doing Reits, Panchshil-Blackstone, DLF, K Raheja are other contenders for floating a Reit in the country. However, Jain said investors would be in a wait-and-watch mode till January next year to assess the impact of demonetisation.

"If interest rates go down, it will be really good for the Reit market as Reits are linked to yields and interest rates," said the head of a US-based investment bank, who did not

RENT IT OUT

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- Phoenix Mills is in talks with investors such as CPPIB to sell stake in its malls in Bengaluru and Pune
- Oberoi Realty planning to float a joint venture for malls

wish to be named.

Even promoters are hopeful of their deals going through as planned.

When contacted, a source in DLF said: "We'll go ahead as planned as we're in advanced stages of the deal. Commercial properties are doing very well and rental growth is strong."

A source close to Raheja said: "With rates set to come down, yields will compress and valuations would go up."

Although gross leading volumes went down seven per cent in the third quarter of this calendar on a quarterly basis, consultant Colliers believes the growing office demand will outstrip the supply in the technology sector driven markets such as Pune, Bengaluru, and Hyderabad.

"This should, therefore, lead to downward pressure on vacancies and an upward pressure on gross office rents in these markets. In contrast, traditional commercial markets such as Mumbai and national capital region are likely to remain stable in terms of rents and vacancy due to a stable demand and supply scenario," Colliers added.