Institutional Flow of Funds to Indian Real-Estate By Sunil Pareek

Institutional Flow of Funds to Indian Real-Estate By Sunil Pareek Chief Investment Officer Assetz Property Group where he talks about trends and progress.

Regulatory reforms (RERA, NGT notifications, TDR dynamics,), tax reforms (GST, approach to guideline values, FDI/FPI rules), increasing buyer awareness/expectations, over-leveraging by the industry (instances of leverage below inherent project value) and squeeze in liquidity flow (triggered by demonetization, ILFS/DHFL issues).

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Developers: The transition is evident in cities like Bangalore wherein the sales by highest 10 developers moved from a mere 20% of the market in 2013 close to 50% in 2018. The trend is expected to continue towards sales consolidation among 10-15 developers per city generating ~70% share of city launches/sales.

Developers with a strong prop book, current projects with at least 2x cash cover, long-term alignment with capital providers, product differentiation, robust delivery mechanism, projects across key micro-markets of the city and a scale of tied-up projects such that it can strategically plan release of inventory (launch at least 3-5% of total launches in cities like Bangalore/ Chennai/ Hyderabad) – are likely to emerge among the top club (say top 12) in the next 2-3 years in each city.

Capital Providers

The capital providers to the residential sector primarily (1) large FDI flows from sovereign funds/pension funds/insurance led funds prefer to align with limited developers; even the (2) domestic PE funds or the larger NBFCs are narrowing down to limited set of developers for project level exposures. Increasingly, (3) domestic family office funds too with support from professionals are evaluating projects in an organised way and structuring deals to suit the risk-return profile in this changing market.

The Institutional Triangle

Like in case of large format IT park developments, clearly, an institutional triangle of sorts is getting formed in the residential sector between capital provider-developer-land provider. Within the triangle are 10-15 developers per city (with 70%+ of the market) having stable/consistent alignment with limited set of funds/institutions (with more than 75% of deployable capital in the market) will attract majority of the landowners/land aggregators.

Key Funding Trends : Short-term

Cities like Bangalore would be preferred for funding on the back of record commercial space leasing and the market reskilling increasing the annual income levels of the target group. The impact of the NBFC/FIs liquidity position is expected to continue for the next 9-12 months. Funds and NBFCs that have adequately recapitalized themselves would continue to evaluate and fund new projects to a select few developers/cities meeting the endurance parameters. The level of refinancing deals which had led to an ever-mounting leverage build-up in the system would drastically reduce. FIs/Banks and larger NBFCs/NBFCs with corporate houses backing would refinance selected projects in the short term. Specialist funds/scheme of existing funds that entered the market recently to back developers in acquiring stressed projects would witness more closures thereby gradually infusing liquidity back in the system and add up to the overall pipeline of projects.

Long Term

To draw a parallel, funding scenario is expected to be somewhat like the organized warehousing/commercial sectors today. After the much-expected shake-out and consolidation in the next few years, sovereign/pension funds/Large FIs are expected to align to form residential platforms (like in commercial/warehousing) with key developers. Domestic and foreign PE funds would increase equity exposure to projects at greenfield level. NBFCs/Banks are expected to increase exposure to refinancing the equity deals to release funds back to the equity players for reinvestment/distributions.

Link: https://www.infrabuddy.com/institutional-flow-of-funds-to-indian-real-estate-by-sunil-pareek/