Opportunities and Challenges of investing in Indian Real Estate

By

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Submitted to the Center for Real Estate in Partial Fulfillment of the
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ABSTRACT

In recent years, global real estate investment has become an important component of efficient global mixed asset portfolios. Although these investments carry increased political, regulatory and currency risk, international real estate investment has been on the rise. Compelling macroeconomic and demographic trends along with improvements in structural and regulatory conditions and investment in infrastructure are driving strong real estate capital flows into the emerging markets. This thesis provides a study of the opportunities and challenges of investing in one emerging market, India.

With a population of over 1 billion, India has been a major beneficiary of the "Globalization of Real Estate". This thesis identifies the opportunities in India that have caused global capital to flow into Indian real estate and the key factors driving Indian real estate. It explains the challenges of investing in Indian real estate and seeks to provide strategies for navigating the real estate landscape in India.

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Chapter 1 : Introduction

1.1 Globalization and India

In 1981, the Noble Prize winner James Tobin was asked to explain the benefits of diversification in simple language. In response, he stated "Don't put all your eggs in one basket." Institutional investors cite diversification as one of the main reasons for globalizing their real estate portfolios. The key benefits of a well-diversified portfolio are: reduction of unsystematic risk, enhancement of returns and a hedge against losses.

Modern portfolio theory has had a marked impact on how investors perceive risk, return and portfolio management. Since the advent of the Modern Portfolio Theory, Real Estate has played an important role in investment portfolios worldwide. Real estate has a stabilizing effect on a portfolio of stocks because it does not fluctuate with the stock market as compared to other asset classes. Many global institutions have been investing in the emerging markets as part of the opportunistic component of their overall portfolio allocation strategy. The emerging market trend has accelerated in recent years in part due to the yield compression in the developed markets. Prudent allocation strategies that include emerging markets in a well-balanced global portfolio can enhance returns, improve diversification and decrease risk by providing exposure to growing economies not directly tied to the cyclicality of the western real estate markets. Various studies have shown that the share of inflows to emerging markets real estate still represents only a small percentage of global capital flows. However, given the growth potential and favorable demographics of emerging market countries, these countries are likely to play an increasingly important role in the global real estate context.

With a population of over 1 billion and forecasted GDP growth rate of 7.7%[1], India has been a major beneficiary of the "Globalization of Real Estate" (Pramerica, 2009). The Indian real estate market has experienced a dramatic surge in the past five to seven years, with growth rates estimated at close to 30% per annum. India's real estate boom owes as much to its booming economy and supportive demographic profile as it does to a greatly liberalized Foreign Direct Investment (FDI) regime. Real estate in India remained a restricted sector until 2005, when liberalization measures came into full force. In 2005, the Government of India issued a landmark policy document titled "Press Note 2 of 2005". This policy document considerably eased the restrictions on foreign investments in Indian real

[1] Source: economictimes.indiatimes.com

estate. Since 2005 however, restrictions have been progressively lifted or minimized. FDI in Indian real estate is now encouraged and this has gone a long way in further enhancing the accessibility of foreign investment into Indian real estate, compared with the far more restrictive environment just a few years prior. Data from India's Department for Industrial Policy and Promotion (DIPP) and Security and Exchange Board of India (SEBI) estimates that over $15 billion was invested by foreign investors in Indian Real Estate from 2005 till date. In the same period, total institutional investment into the Indian real estate market has exceeded $25 billion. (Jones Lang LaSalle Meghraj, 2008)

A study carried out by Ernst and Young, has analyzed the various factors driving real estate in India. (Ernst and Young, 2005) The study concludes that India's macroeconomic fundamentals are strong and the changing economic profile and demographics augur well for all segments of the industry. Some of the broad themes for each real estate sector are:

- Residential – changing demographics and access to cheap credit;
- Office Space – information Technology and business process outsourcing;
- Retail – new retail formats and entry of global retail brands;
- Hotels – domestic business travel and domestic tourism; and
- Industrial Warehouses- organized retail and organized logistical services.

1.2 Research Outline

The published academic literature focuses on "international diversification" and "Indian real estate opportunities" in isolation. This thesis addresses the above issues in conjunction by examining the central question "What opportunities in India have caused global capital to flow into Indian real estate?" The research seeks to understand the drivers behind recent capital flows into Indian real estate. Following from the main question, the thesis addresses the following related issues:

- What is driving Indian real estate? Is it primarily driven by global capital flows or are local investments the major driver?
- With respect to geography and property sectors, what were the opportunities and expectations that led people to invest in India from 2005-2008? Have the expectations been realized?
- What future advice can be provided to prospective investors in terms of investment sectors, investment structures and partnership formats?

Identifying the drivers behind real estate investments in India has huge implications for the future. These drivers might help dictate and direct, future investment flows into the different real estate sectors in India. This information would be very useful for:

- Foreign and domestic institutional investors, who can use this information to formulate their future strategies for direct and indirect investment into Indian real estate; and
- Real estate developers in India who want to understand what kind of investment the “money” is chasing.

1.3 Research Framework and Thesis Flow[2]

When analyzing opportunities in emerging markets, decision makers need to consider a variety of macroeconomic variables in addition to the microeconomics of individual deals. Global factors, as well as local factors, are relevant whilst providing context to an investment opportunity in an emerging market. The research framework used by the author of this paper revolves around three major topics as shown in Exhibit 1:

- Globalization of real estate and implications for India as an emerging market ;
- India economic analysis; and
- The Indian real estate opportunity.

[2] The author used the following papers to propose a research framework for this paper: Jose Camilo Otalora Castro (2008), Damien Chaviano (2008), Marianne Ganster (2007), Hasan Halkali (2006), Rokuhei Hayashi (2005), Jason Lee (2001), Kay Paelmo (2003), Morgan Deal and Carlos Rosso (2001).

Exhibit 1 : Research Framework

Global Capital Drivers, India Country Drivers and India Real Estate Drivers form three broad groups of external variables that combine to determine the attractiveness of the Indian real estate to foreign investors. These external variables are typically external variables that cannot be controlled by an investor. By combining all these variables, an investor can determine the risk profile of the investment and hence take appropriate steps to mitigate those risks.

The research framework (Exhibit 1) forms the basis of Chapter 2, 3, and 4 of this paper. Chapter 2 discusses the trends in global cross-border capital flows. Factors driving globalization such as diversification, returns, expansion of the real estate universe and hedging are examined. Thereafter, Chapter 3 profiles India as a global investment destination. A brief summary of India's economic growth is provided. Growth drivers, capital flows and country risks are reviewed. Chapter 4 addresses the real estate opportunity in India by highlighting the opportunity in various sectors. Risks and returns available in Indian real estate investments are scrutinized.

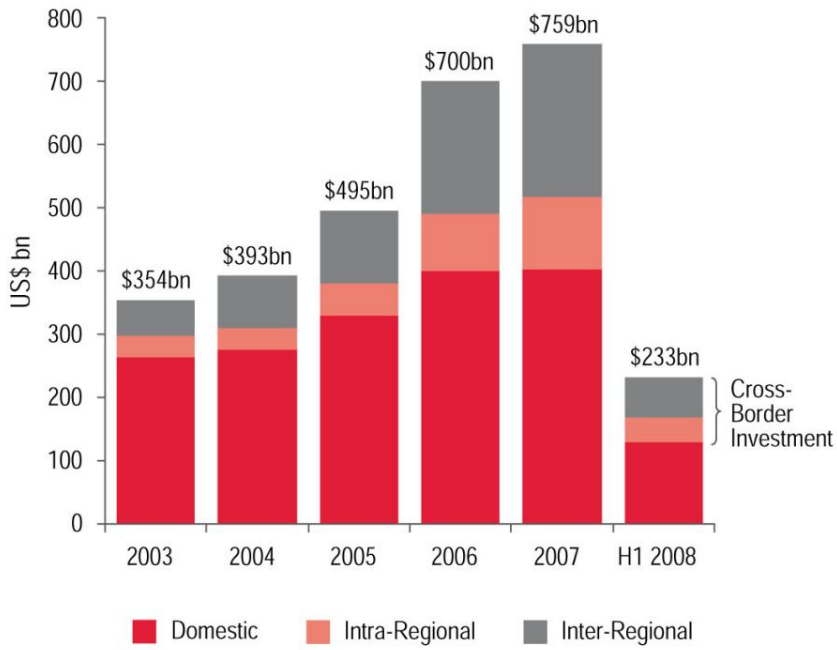
Interviews were conducted with foreign and domestic institutional investors in India to understand their investment logic and experience. The methodology is articulated in Chapter 5, and recurring themes from the interviews are consolidated and analyzed in Chapter 6. Chapter 7 summarizes the research and provides a set of recommendations to help future institutional investors navigate India's real estate landscape.

Chapter 2 : Globalization of Real Estate

In terms of global real estate investment, the world is indeed becoming "flat" (Friedman, 2005). Barriers to international real estate investment continue to come down. Investors around the world are thinking globally and have become more willing and even eager to own foreign assets. Real estate best practices in various countries are being transferred strategically to other countries by global managers. However, many aspects of real estate remain local, as significant differences exist in local conditions.

Prior to analyzing the drivers of global capital, it is important to understand the recent trends in global real estate capital flows. Capital flows have been steadily on the rise in the recent past (Jones Lang LaSalle, 2008). Cross-border investment as share of the total investment in global private commercial real estate has been increasing since 2003 (See Exhibit 2).

Exhibit 2 : Globalization of Commercial Real Estate[3]



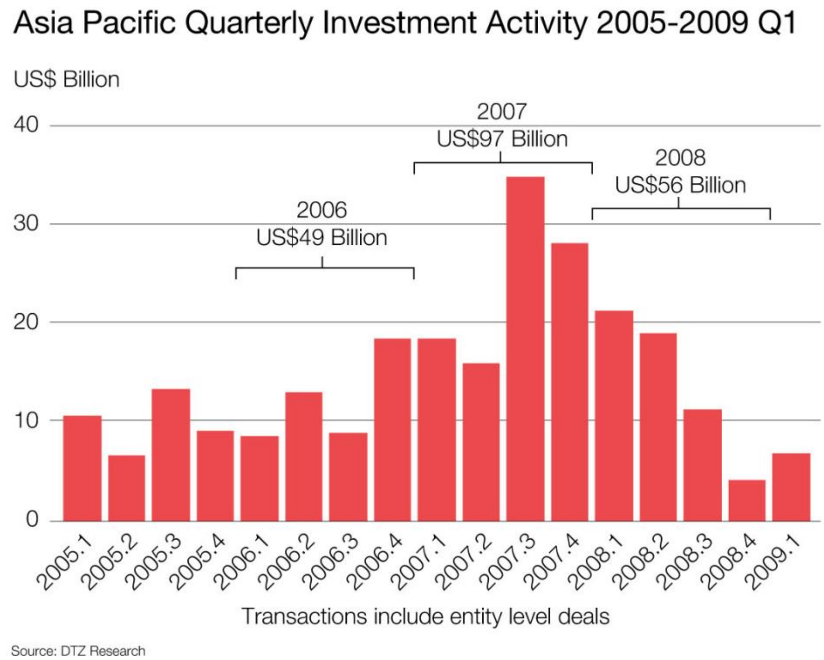
Source: Jones Lang LaSalle

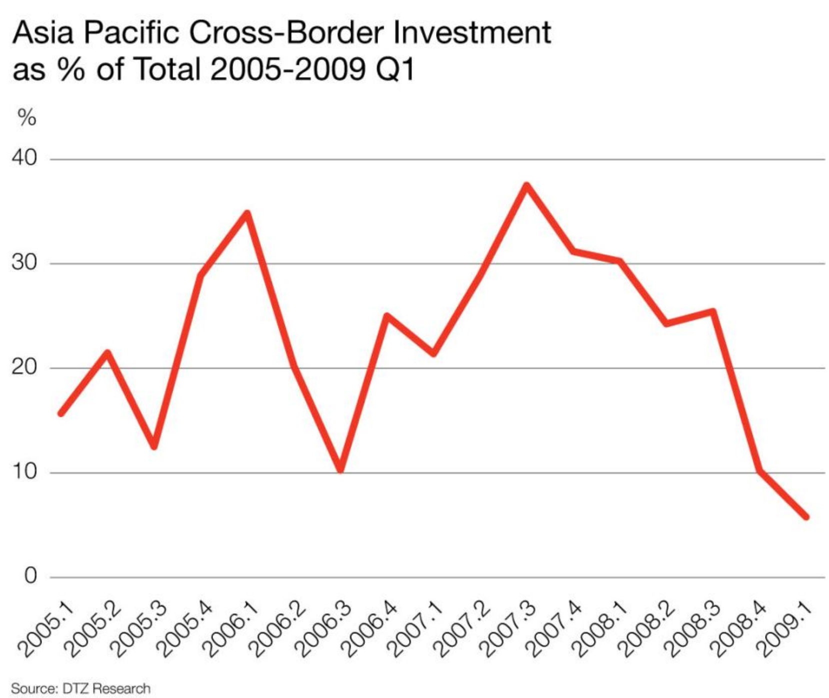
Global direct commercial real estate investment totaled a record USD 759 billion in 2007, an 8% rise on volumes in the same period last year. For the full year 2006, this figure was USD 699 billion. In terms of recipients of this flow, Asia Pacific real estate markets in particular witnessed a significant increase in

[3] Source: Jones Lang LaSalle, "Global Real Estate Capital", Volume 8, 2008

cross-border interest. According to the latest available data, cross-border investment activity continued to account for almost 30% of total transaction volumes as of early 2008. (See Exhibit 3)

Exhibit 3 : Asia Pacific Cross Border Capital Flows[4]



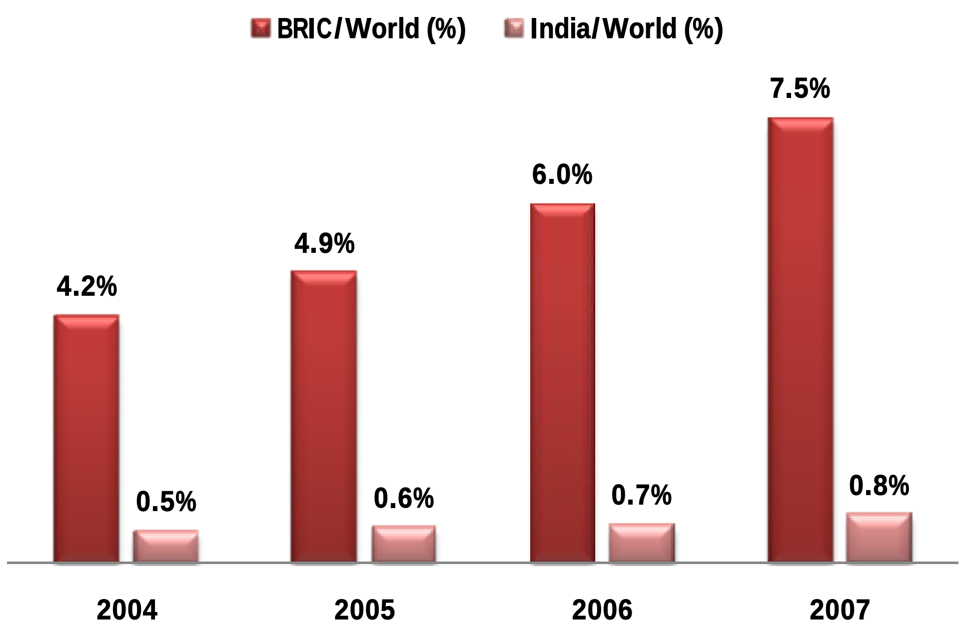


[4] Source: DTZ, "Money into Property Asia Pacific", 2009

The economic growth of emerging markets is one of the prime causes for these increased capital flows. In recent years, while the developed economies of the U.S., Europe and Japan have grown in the range of 2-3 percent, the emerging economies has grown at a far faster pace with China and India growing close to 10%. (Deloitte, 2008).

The top five countries by share – the U.S., Japan, Germany, the U.K. and France – comprise more than 55% of the total share of global real estate (Pramerica, 2009). Despite those numbers, global commercial real estate universe has been becoming less concentrated over time. Pramerica comes to this conclusion based on its 2003 study, wherein at that time the top five countries accounted for about 70% of the global real estate universe. A similar trend is seen with share of BRIC (Brazil, Russia, India, China) countries showing an increasing trend in recent past (See Exhibit 4).

Exhibit 4 : BRIC countries / India as % of the Global Real Estate Market[5]

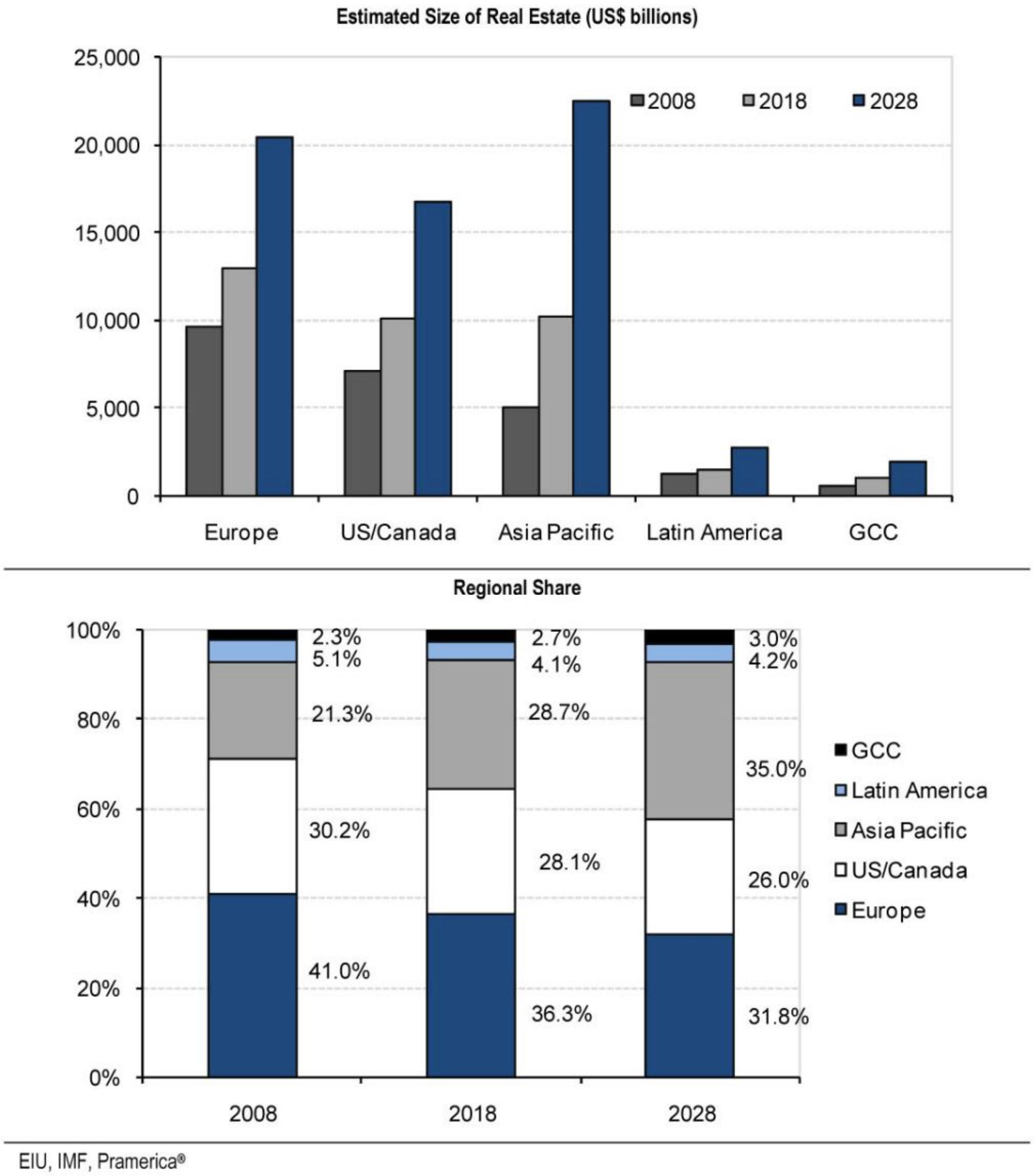


Source: EPRA

The regional distribution of global real estate is forecast to change significantly over the next two decades with Asia Pacific being the major contributor to the global pie of real estate in the future (Pramerica, 2009). (See Exhibit 5)

[5] Source: European Pension Real Estate Newsletters, Aug 2004 – May 2009

Exhibit 5 : Regional Distribution of Real Estate Over Time[6]



Similar to the study by Deloitte (2008), Pramerica's study concludes that the main reason for the shift is the relatively faster growth of the developing countries in comparison to the developed countries. Capital markets transformation in developing countries is also making it increasingly easier for foreign capital to flow to these countries.

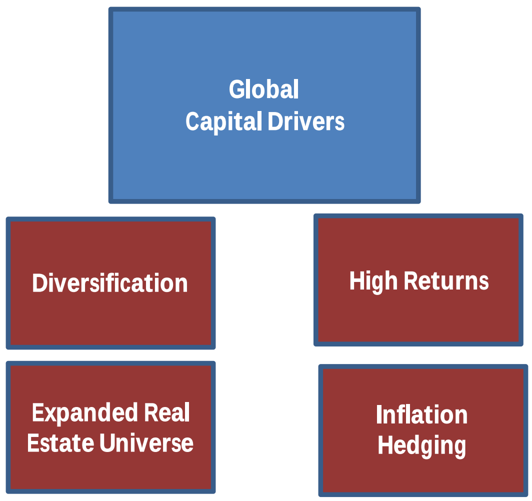
[6] Source: Pramerica Real Estate Investors, "A Bird's Eye View of Global Real Estate Markets", 2009

Real estate investment has clearly become a global endeavor in recent years. What are the main factors driving globalization of real estate? The factors are (ING Clarion, 2008):

- Increase diversification;
- Earn higher returns;
- Expanded real estate universe; and
- Inflation hedging.

These factors are depicted in Exhibit 6 and examined in this chapter.

Exhibit 6 : Global Capital Drivers

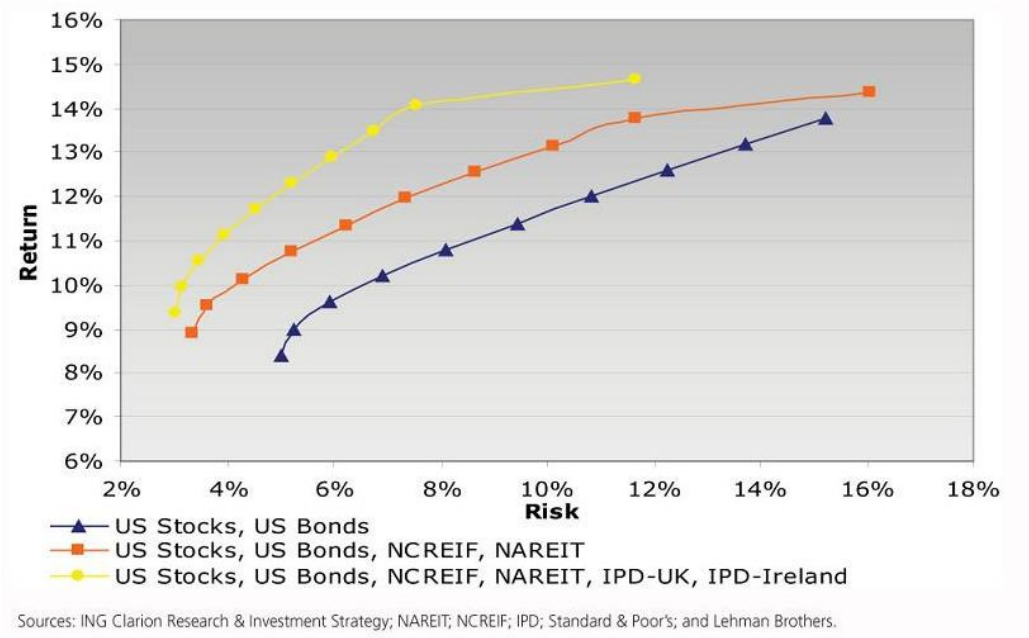


These factors have profound implications for the nature and source of global investment flows. Absence of any of the factors can potentially cause investors to reprioritize their allocations to any given international market. These factors can also possibly explain how real estate cycles in different countries can impact foreign direct investments. These factors are discussed in the remainder of this chapter.

2.1 Diversification Benefits

Traditionally international capital flows have largely been directed toward US and Western European opportunities. However, in the last several years, substantial interest has developed for markets in Asia. Exhibit 7 depicts the risk and return for portfolios with and without international real estate as expressed in efficient frontiers.

Exhibit 7 : Efficient Frontier with and without International Real Estate[7]



In the portfolio demonstrating the highest return and lowest risk, the inclusion of international real estate results in a better alternative than a purely domestic one.

Earlier studies on diversification benefits had similar conclusions. Asabere, Kleiman and McGowan (1991) found low positive correlations between US Real Estate Investment Trust (REIT's) and international real estate equities, suggesting that the addition of international real estate should improve portfolio performance. Gordon, Cantor and Webb (1988) concluded that there were diversification benefits in holding international real estate in a portfolio. A study by Eichholtz, Huisman, Koedijk and Schuin (1998) on international property diversification concluded that real estate diversification opportunities existed for both European and North American investors in the Asia-Pacific region.

2.2 Higher Returns

Investment opportunities in developed countries in the world are subject to different economic conditions than those prevalent in developing countries, leading to different returns by country. The degree of correlation of these returns has major implications for portfolio diversification. There is potential to seek higher average returns and lower volatility. Further, emerging countries provide capital growth opportunities rather than pure income generating opportunities. In faster growing

[7] ING Clarion, "The Benefits of International Real Estate Investment", 2008

economies, the demand for real estate rapidly expands, leading to significant unfulfilled demand in several sectors. This demand-supply mismatch causes properties to appreciate in value. In many emerging countries, the capital markets are typically underdeveloped. An investor with access to capital markets can make investments that a domestic investor with no, or limited, access to capital markets would be unable to undertake. Such opportunities typically offer very high returns due to lack of available market players to correctly price the given real estate opportunity.

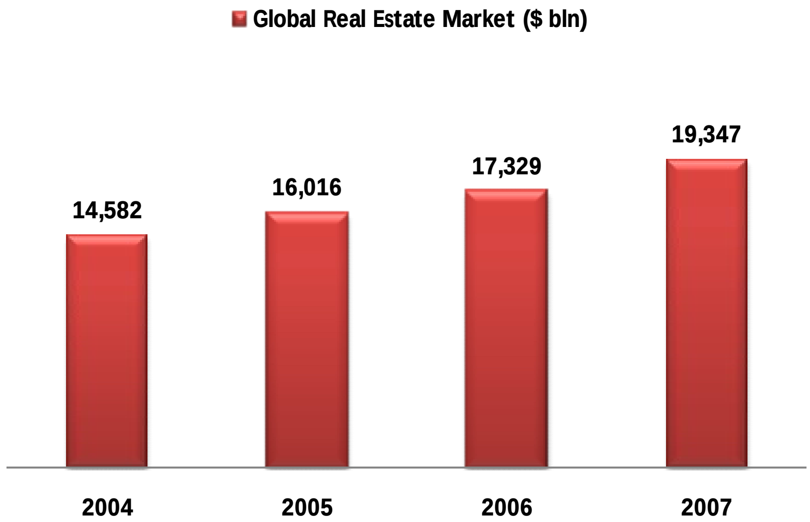
2.3 Inflation

An inflation hedge is a protection against the loss of purchasing power as inflation occurs. A hedge is effective when the real return of the asset is independent of the rate of inflation. Real estate appears to provide a good long term hedge against inflation. (ING Clarion, 2008 and Prof. Dr. Klaus Spremann, 2003). It is natural to conclude that domestic real estate is a better hedge against domestic inflation than international real estate. However, considering international asset classes, private real estate is a superior inflation hedge to other asset choices such as stocks and bonds (ING Clarion, 2008).

2.4 Expanded Real Estate Universe

Every investor seeks to maximize return over the long term. ING Clarion (2008) points out that sometimes domestic investors will be constrained by the size of their domestic markets. By consideration of international real estate, investors greatly increase their opportunity to maximize alpha. The pie of global real estate is continually expanding (See Exhibit 8).

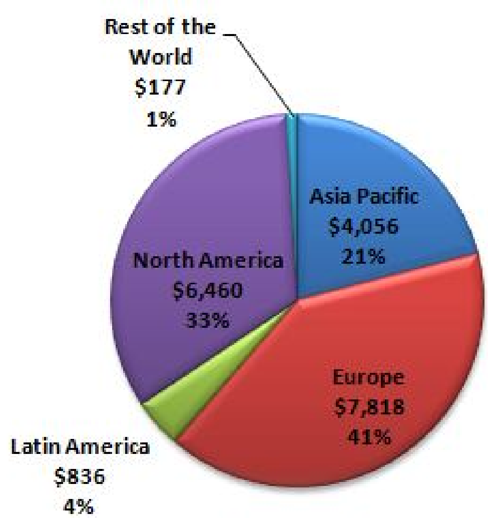
Exhibit 8 : Global Real Estate Market Size [8]



Source: EPRA

This provides the investor with a vast universe of investment-grade real estate throughout the world to choose from. (See Exhibit 9).

Exhibit 9 : Investment Grade Global Real Estate Geographic Distribution in 2007 [9]



Value are in $ bln
Source: EPRA

[8] European Pension Real Estate Newsletters, Aug 2004 – May 2009
[9] Ibid

2.5 Conclusion of Chapter 2

Cross-border investing has become much more common in recent years for a host of reasons with diversification and high returns being the topmost on the minds of institutional investors. The truly global nature of real estate will create opportunities in markets across all regions with the BRIC countries being the major beneficiaries of global capital flows in the long term. These countries hold tremendous promise primarily because of their forecasted rapid rate of economic growth.

In the next chapter, this paper shall examine why India has been attracting global capital. A brief summary of India's economic growth and growth drivers is provided.

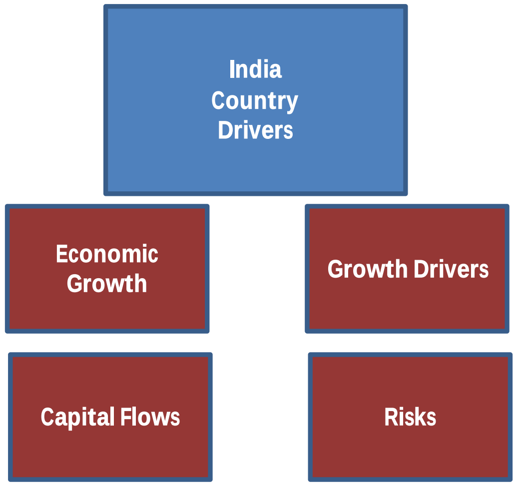
Chapter 3 : India Country Analysis

India occupies 3,287,263 sq km of land area (57% is agricultural and 16% forest). It is strategically located at the head of the Indian Ocean dominating the South Asian subcontinent. Its unique location places it at the heart of important Indian Ocean trade routes (See Exhibit 10).

Exhibit 10 : India Map

This chapter focuses on India as a destination for investment. The analysis in this chapter forms the second part of this paper's research framework. (See Exhibit 11.)

Exhibit 11 : India Country Drivers



India is known for the diversity of its culture, for the inclusiveness of its people and for the convenience of its geography. Today, the world's largest democracy has come to the forefront as a global resource for industry in manufacturing and services. Its pool of technical skills, its base of an English-speaking populace with an increasing disposable income and its burgeoning market have all combined to enable India emerge as a viable partner to global industry. India is a fast-growing economy with a robust financial system and stable policy environment. India's independent institutions guarantee the rule of law. (Investment Commission of India, 2008)

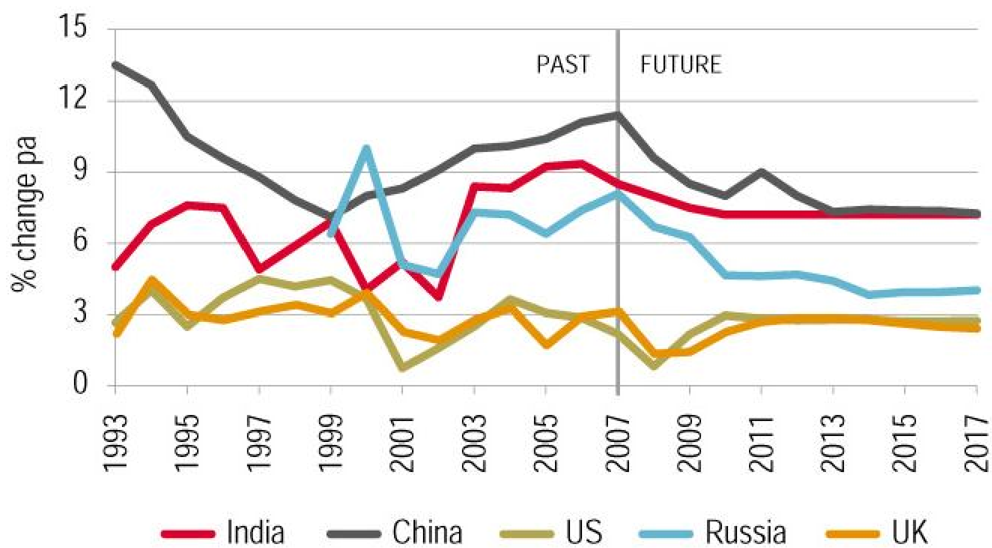
The main strengths of Indian economy are (Jones Lang LaSalle, August 2008):

- 7th largest country by area ;
- Largest democracy in the world;
- Economy is worth approximately US$ 3.4 trillion pa, 4th largest in the world on a PPP basis;
- Agriculture represents 18% of national GDP, industry 29% and services 53%;
- GDP per capita is circa $ 3,000 pa, significantly below the UK at $35,000 pa and US at $47000 pa
- GDP accounts for 4.6% of global GDP;
- 2nd most populous nation in the world with 17% of world population, 32% of the population is under 15 years of age, 60% are less than 30 years with just 25% older than 40 years;
- Density of 329 people per sq km, significantly above the US at 31 people per sq km;
- Labor force of 516 million, second highest in world; and
- 60% of workforce employed in agriculture, 12% in industry and 28% in services.

3.1 Economic Growth

In the early 1990s, India undertook a major a round of liberalization reforms. Prior to these reforms, socialist-oriented policies confined India's economy to the so-called Hindu rate of growth of about 3%. As a direct outcome of these reforms, India has been growing at nearly 8% every year since 2003/04, reaching a peak of 9.7% in 2006/07 (See Exhibit 12).

Exhibit 12 : India Past and Future GDP Growth[10]



Source: Jones Lang LaSalle, Experian

Although the initial reform process clearly propelled the economy to a stronger growth trajectory, further reforms have been carried out at an inconsistent pace due to the nature of India's coalition governments. Despite these limitations, strong domestic demand and increasing levels of domestic and foreign investment have ensured that the economy continues to perform well despite inevitable cyclical downturns. (Economist Intelligence Unit, 2008).

According to the IMF, India is the world's 4th largest economy when measured on a purchasing power parity (PPP) basis. In 1992 India accounted for 2.9% of global GDP, by 2007 this had risen to 4.6%. (IMF, 2009). Post-liberalization, India's credit score has also dramatically improved (See Exhibit 13).

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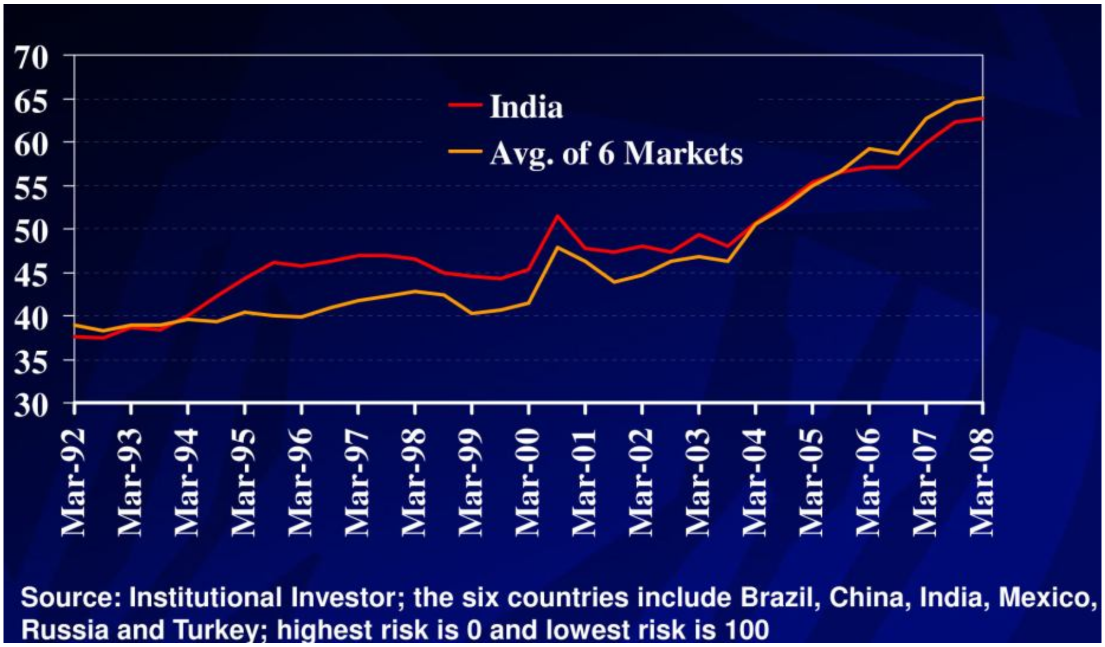
[10] Jones Lang LaSalle, “"UK-India Cross-border Residential Investment", 2008

Exhibit 13 : ***India Credit Scores***[11]



EIU forecasts India's GDP growth rate to come down to a modest pace of around 5-7%, compared with the 8.9% average recorded between 2003 and 2007. By 2013, India is expected to contribute around 5.6% of global GDP. Research by Goldman Sachs (2006) suggests that India will become the world's third largest economy behind the US and China by 2035 (in PPP-adjusted terms), based on an assumed growth trajectory of 5.3-6.1% per annum. India will overtake France and Italy by 2020, Germany, UK and Russia by 2025, and Japan by 2035. India is viewed as a key element in the ''BRIC'' (Brazil Russia India China) economies, which are seen as key emerging markets playing an expanding role in the global markets.

By 2050 India is predicted to be the most populous in the world with 1.6 billion people, overtaking China's 1.4 billion. The number of cities with a population over 1 million is expected to double to 70 by 2025 (Jones Lang LaSalle Meghraj, 2008).

[11] Prudential Real Estate Investors, "India in Global Perspective", 2008

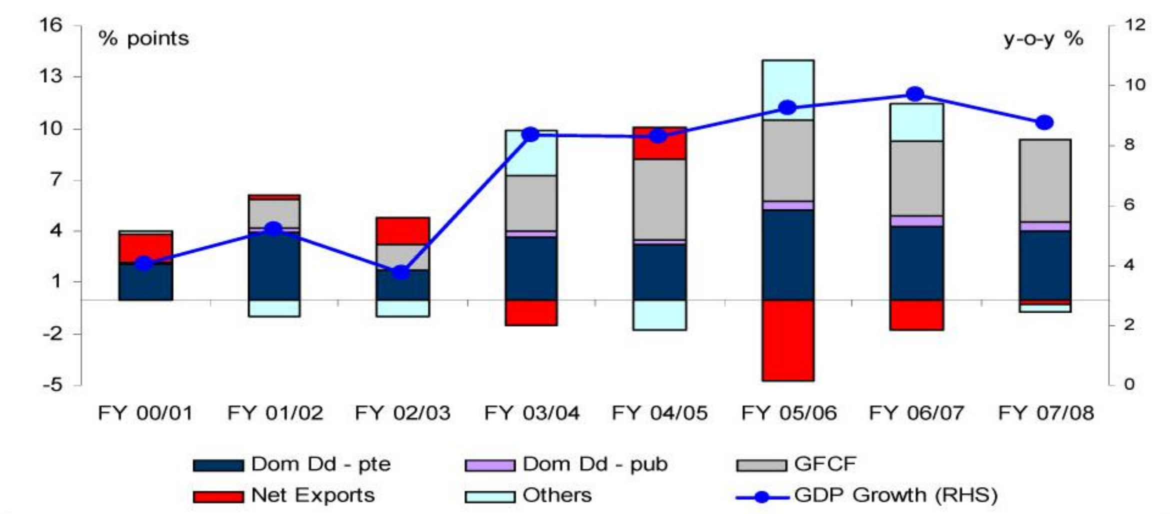
3.2 Growth Drivers

The key drivers of the Indian economy that are relevant from a real estate viewpoint are:

- Rising consumption;
- Knowledge and service economy;
- Demographic dividend;
- Urbanization and household formation; and
- Large foreign capital inflows.

Rising Consumption: India is a consumption-led economy (Kotak, 2008). The growth drivers are mainly related to domestic consumption (See Exhibit 14).

Exhibit 14 : India GDP Decomposition[12]



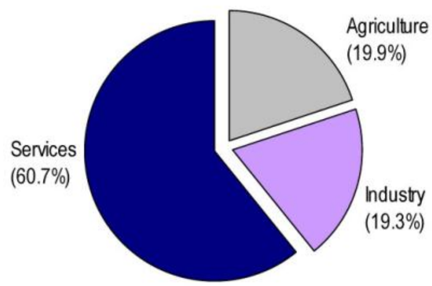
Source: CEIC

India has one of the largest young working populations in the world. Having benefited from the country's high economic growth, this population is more affluent, and has more means to achieve their ends than any of the previous generations. Even though India is known as the outsourcing destination of the world, its economy, unlike China's, is not highly dependent on its exports. Apart from the steady rise in consumer spending, there has been in a surge in fixed capital investments, mainly in rectifying infrastructural inadequacies. Collectively, these domestic factors account for a massive 90% of total GDP growth since 2003 (Pacific Star Group, 2008).

[12] Pacific Star Group, "India: Potentials, Promises and Pitfalls", 2008

Knowledge and Service Economy: According to the EIU, services form the bulk of the economy, at just under two-thirds of total GDP (See Exhibit 15).

Exhibit 15 : India Service Economy[13]



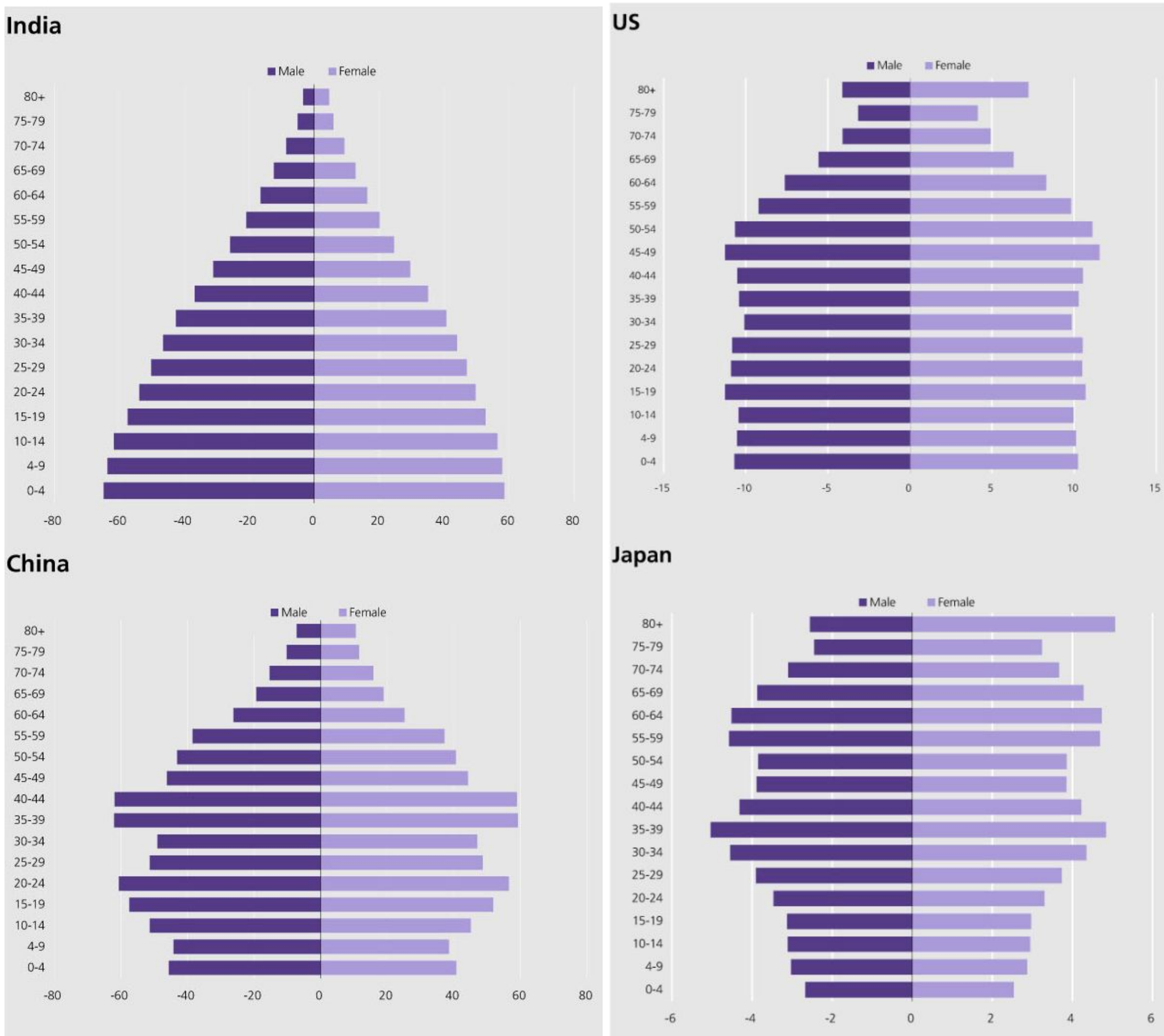
Source: CEIC

In comparison, manufacturing and agricultural output are relatively small contributors at under 20% each. Within the services sector, the Financial, Insurance, Real Estate and Business (FIREB) sectors are clearly the main contributors. (Pacific Star Group, 2008). FIREB's contribution to GDP growth has grown steadily, in part reflecting a surge in the entry of global financial institutions. The knowledge-intensive Information Technology (IT) and Information Technology enabled services (ITes) industries are also a growing contributor to India's economic growth. India has an impressive track record in the knowledge based IT industries. One-fifth of Fortune 500 companies have set up R&D centers in India. 220 of the Fortune 500 companies source software from India. The Indian IT industry is expected to grow to US$77 billion by 2010 (Investment Commission of India, 2008).

Demographic Dividend: India has the youngest workforce amongst the major nations of the world. The proportion of working age population of G8 countries has been going down since 2000, especially in Russia and Japan. Conversely, BRIC nations typically, have a young working population (See Exhibit 16).

[13] Ibid

Exhibit 16 : Population Pyramids of Certain Countries[14]



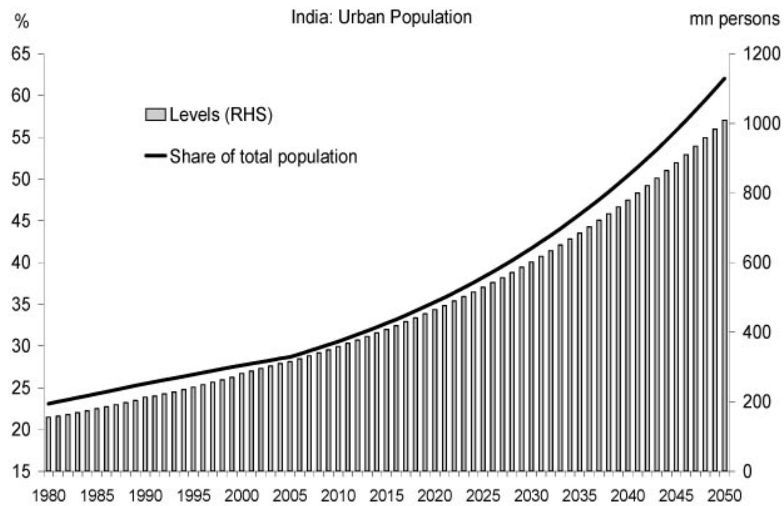
India's young work force is expected to peak in 2040. India will need to find jobs for its young people and these jobs will be an important economic driver for the next 40 years. The largely English-speaking population is also an advantage for India over China, as both India and China continue to engage the developed world for increased foreign capital injections and international trade (Kotak, 2008).

Urbanization: In India, urbanization adds about 1 percentage point to growth each year simply from productivity gains from the movement of rural workers to urban areas. The number of cities with populations above 1 million in size will nearly double by 2020, and may increase four-fold by 2050. An estimated 140 million people will move to cities by 2020, and a whopping 700 million will urbanize by

[14] Source: UBS Global Asset Management, "Emerging Market Real Estate Strategies", 2009

2050 (See Exhibit 17). (Goldman Sachs, 2007)

Exhibit 17 : India Impending Boom in City Life[15]



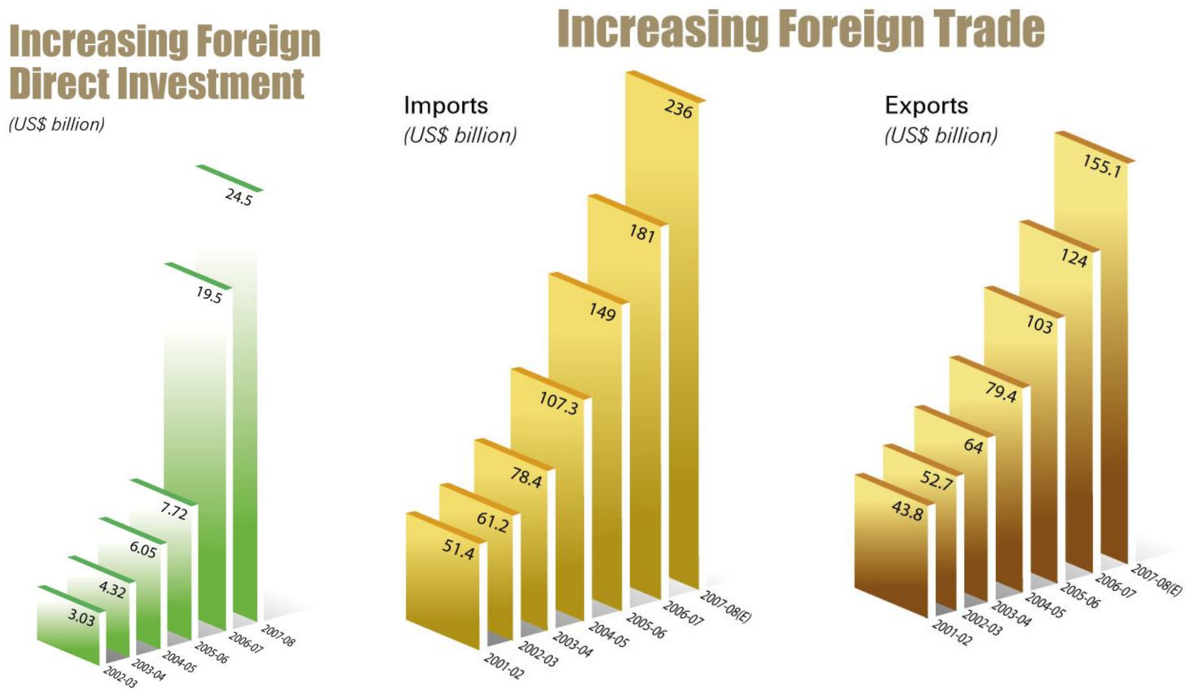
Source: CEIC, Goldman Sachs Economics Research.

3.3 Capital Flows

Reflecting the potential for India's growth, the world has woken up to the power of India. Lately, the country has seen large investment flows and increasing foreign trade (See Exhibit 18).

[15] Goldman Sachs, "India's urbanization: Emerging opportunities", 2007

Exhibit 18 : India Trade and Foreign Investment[16]



Roughly a third of Fortune 500 CEOs are coming to India every year to explore business opportunities. India is benefitting from globalization, (more trade, more capital imports and significant knowledge transfers) which has been pushing up growth rates. (Investment Commission of India, 2008)

3.4 India Risks

Although India has received significant investment flows, investing and operating in India is not without risk. Investing in an emerging market country such as India has significant risks attached. Generally, the main risks faced by investors whilst investing internationally in emerging markets are as shown in Exhibit 19. (UBS, 2004 and 2009):

[16] Source: India Investment Commission, "Opportunities in the world's largest democracy", 2008

Exhibit 19 : Emerging Market Risks[17]

Risk	Cause of Risk	Risk Mitigation
Country Risk	Sovereign risk	Country and asset selection. Returns should be truly attributable to the underlying asset rather than leverage
Political Risk	Possibility that a sovereign host government can unexpectedly change the rules of game under which companies operate.	Factor delays into time period of returns
Lack of Knowledge	Differences in culture, legal system, languages	Joint venture with local partner
Currency Risk	Differences in economic structures, inflation and interest rates	Hedging instruments
Illiquidity	Pace of market development	Country selection

However there are some risks that are specific to India that investors need to watch out for. The main risks attached to investments in India (Pacific Star 2008, Pramerica 2006 and Ernst & Young 2008):

Macroeconomic risks: Interest rate, inflation and exchange rate risks remain important, although volatility in these indicators has decreased significantly in recent years. India imports a large share of its oil from the global markets and hence global oil prices have a significant impact on its economy. Illiteracy (35%) and unemployment (10%) are pressing challenges that the India faces.

Market Risk: The needs of Indian customers are very different from those in developed markets. Investors should thoroughly research the price-sensitive Indian market before launching a specific product.

Bureaucracy and Corruption: Government officials have a reputation for asking for bribes to push paperwork even though things might be in order, thereby significantly adding to the costs of doing business. This also allows organizations and individuals to get away with almost anything as it is easy to bribe the system and escape. Foreign investors need to protect themselves against US Federal Laws such as “Foreign Corrupt Practices Act”. Reflecting this, the World Bank’s 2008 Ease of Doing Business Index ranked India at a lowly 120 (out of 178). Foreign investors need to shield themselves from corruption by

[17]Source: UBS Global Asset Management, "Emerging Market Real Estate Strategies", 2009
UBS Global Asset Management, “"Global Real Estate Investment Going Mainstream", 2004

making it explicitly clear to their local partners that the foreign entity cannot engage or promote corrupt practices and hence any joint venture between the foreign entity and local entity cannot pay such amounts. Most joint venture entities pass on the responsibility of dealing with the Indian bureaucracy to an entity controlled by the local partner. Foreign investors need to factor in delays for approvals and permits since invariably such permissions may be delayed due to non- payment of a bribe.

Lack of Infrastructure: India's infrastructure needs are extremely pressing. There are considerable inadequacies in India's social and physical infrastructure (ranging from oil and gas to bridges, railways and expressway networks). Despite the country's size, the highway system accounts for a mere 2% of India's road network. Energy and gas provision have also been problematic as growing industrialization outstrips production capacity. At the same time, the water sanitation system is nascent at best, and has yet to disseminate beyond the largest cities. Infrastructure facilities like wide roads, continues power supply are still not fully developed. And therefore, while choosing a development location, it is vital to make sure that the area does provide for at least basic infrastructure, or else lack of infrastructure may result in decreasing property values.

3.5 Conclusion of Chapter 3

India is expected to be amongst the fastest growing countries of the world. India growth drivers are extremely promising. Domestic consumption forms a large component of India's economy. This ensures that India, to a certain extent, is insulated from the economic cyclicality inherent in the developed economies. After averaging expansions of 8.9% per annum between 2003-2007, India's GDP growth is expected to moderate to a still-healthy 5-7% range in the coming years, yet significantly ahead of most other Asian economies except China. India's young working population ensures that the long term growth story in India is sustainable. Rapid urbanization will be help increase demand for real estate and consumer goods. Keeping the future potential in mind, foreign investors have been taking advantage of the India's liberalization policies to increase capital investments into India. As a precaution, investors should remember that investing in India does carry a high degree of risk. Investors should take precautions to mitigate these risks. Investors must research local markets and create products suitable for the local markets.

The next chapter examines the real estate opportunity in India and provides an overview of the flow of capital into Indian real estate.

Chapter 4 : Real Estate in India

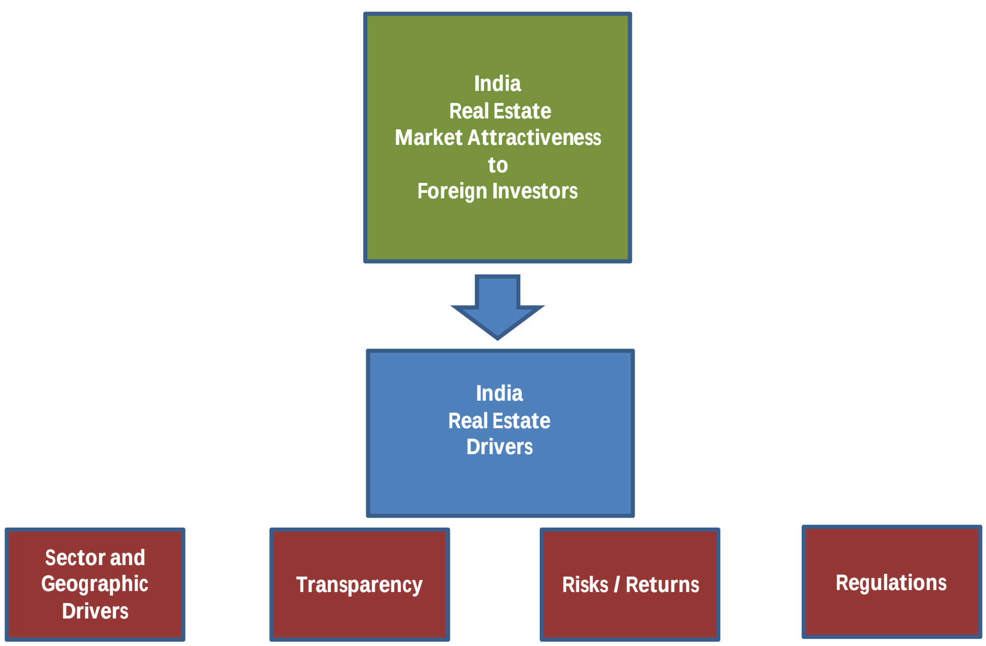
As discussed in chapter 2, investors are increasingly looking to the emerging markets as alternate global avenues for real estate investments. Chapter 3 described why India has emerged as a favorable investment destination. India's favorable demography and strong economic impetus have made the country an attractive place for property investors. This does not mean, however, that investment in Indian real estate is risk-free. In light of the overall economic picture and the rapid escalation in prices in real estate over the last few years, many real estate markets in India are currently undergoing a price correction. However, there still exists a fundamental demand-supply imbalance and real estate remains an attractive longer- term investment prospect. Now that India is on the radar of global investors, it is important to understand the opportunities and challenges of Indian real estate investments.

India has been attracting global real estate investors primarily on account of the following:

- Long term demand drivers in all real estate sectors;
- Improving market transparency;
- Attractive risk – return trade-off; and
- Liberalized government regulations.

This leads us to the third part of this paper's research framework as shown in Exhibit 20.

Exhibit 20 : India Real Estate Attractiveness



This chapter provides an overview of real estate market in India in the context of this paper's research framework.

4.1 Sector and Geographic Drivers

Cities form the hub of all development in India. According to the last official estimate by the Census of India, there were a total of 27 cities with more than one million inhabitants in 2001, in which nearly 75 million people lived. By 2005 this had risen to 35 cities with a population of more than one million and almost 500 cities with at least 100,000 inhabitants. The Mumbai and Delhi regions alone are home to almost 20 million people each. But these staggering figures must not be allowed to detract from two facts. First, India is still a predominantly rural society. While more than 300 million Indians now live in an urban environment, this means that nearly 800 million people are still at home in rural areas. The United Nations Population Division (UNDP) expects the degree of urbanization to grow over 40% by 2030, implying that urban population will grow by 2.5% per annum in the next 25 years. Hence, while the rural population increases only marginally, urban population will double by 2030 to around 600 million people. Land is a scarce resource in India – driven by very high population density. India's population density more than 10 times that of U.S. and more than twice that of China. Projected population growth of 54% in next 43 years (CAGR. 1%) and growing urbanization are expected to continue to drive the property price increases in India (See Exhibit 21).

Exhibit 21 : Population Density [18]

Country	Population (mn)		Area of Country	Population Density	Urbanization
	2007	2050	square km.	per sq km.	
China ex HK	1,318	1,437	9,571,785	138	44%
India	**1,132**	**1,747**	**3,287,576**	**344**	**28%**
Indonesia	232	297	1,904,561	122	42%
United States	302	420	9,629,047	31	79%
France	62	70	551,497	112	77%
United Kingdom	61	69	244,878	251	90%

For the purposed of this discussion, it is important to understand how Indian cities are categorized. Based on the maturity of the different sub-markets, cities are divided into 3 tiers (See Exhibit 22).

[18] Source: ICICI Venture, "India – Attractive Real Estate Investment Destination", 2008

Exhibit 22 : Indian Cities by Market Tiers[19]

Table 1

Category	Cities	Characteristics
Tier I	Bangalore, Mumbai and NCR	Fairly well established real estate market Demand drivers quite pronounced
Tier II	Hyderabad, Chennai, Pune and Kolkata	Growing real estate markets Experiencing heightened demand and investments
Tier III	Chandigarh, Ludhiana, Lucknow, Guwahati, Bhubaneswar, Jaipur, Ahmedabad, Surat, Nagpur, Indore, Goa, Visakapatinam, Mysore, Coimbatore, Kochi, Vijaywada, Mangalore, Trivandrum and Baroda	Real estate markets yet to establish Perceived to have substantial potential demand

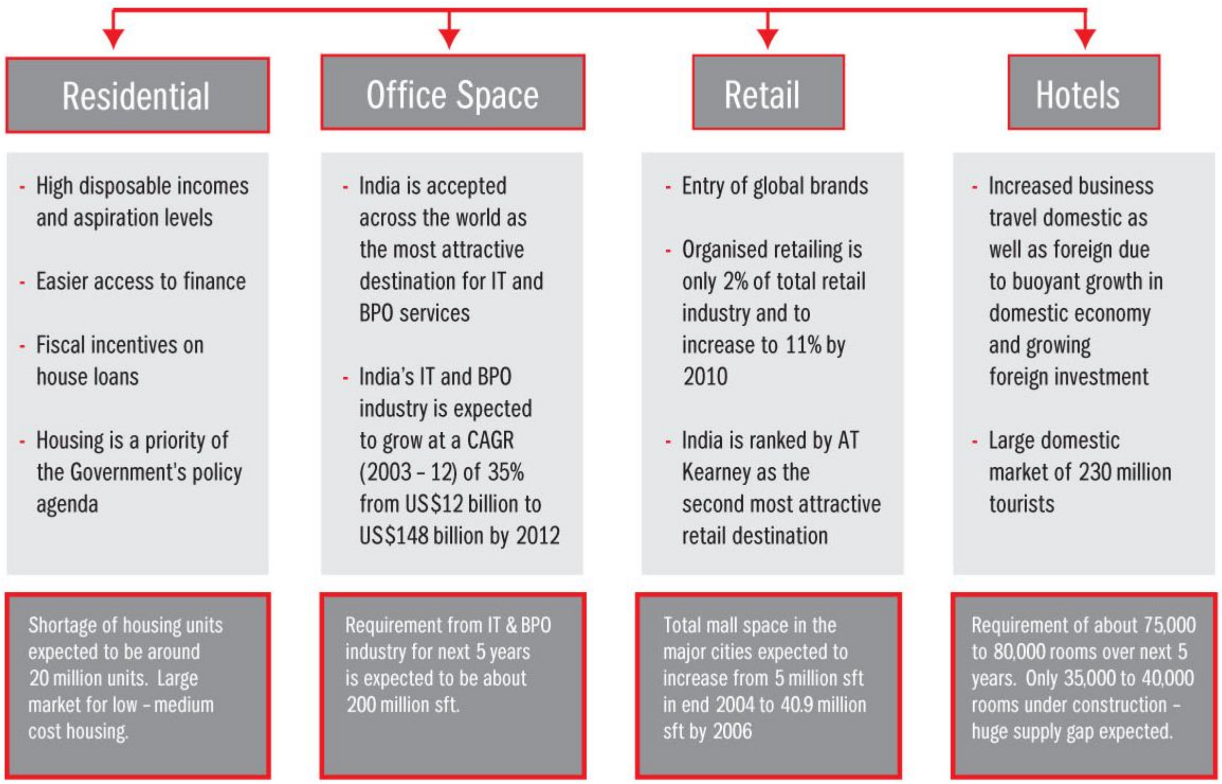
India's macroeconomic fundamentals are strong. The changing economic profile augurs well for all segments of the industry. The various factors driving Real Estate in India are (Ernst and Young, 2005 and Cushman Wakefield, 2008):

- Residential –changing demographics and access to cheap credit;
- Office Space – information technology and business process outsourcing;
- Retail – new retail formats and entry of global brands;
- Hotels – domestic business travel and domestic tourism; and
- Industrial Warehouses – organized retails and organized logistical services.

A detailed chart of key sector wise demand drivers and growth drivers is shown in Exhibit 23.

[19] Knight Frank, "Emerging Growth Centers", 2007

Exhibit 23 : India Real Estate Drivers[20]



The pan-India demand projection for 2008-2012 across various segments (excluding industrial) is expected to be approximately 1,098 million sf. The residential segment continues to drive real estate demand with 687 million sf, contributing 63% throughout the term under consideration. Despite the expected slowdown in the office market, the demand for commercial office space is projected to be 243 million sf, which is around 22% of the total demand projection for the next five years. The retail and hospitality segments are expected to constitute 95 million sf (9%) and 73 million sf (6%) of this total demand, respectively, driven by an increase in income levels as well as by accelerated travel in the domestic and international sectors. It could be inferred that since housing has a high certainty of exit and high latent demand, this sector will be in high demand by foreign investors. The top seven cities in India account for nearly 80% of the pan-India demand with a projected demand of around 877 million sf. (Cushman and Wakefield, 2008). For further details of this demand forecast, refer Exhibit 24.

[20] Ernst and Young, "The Indian Real Estate Sector - Opportunities for Australia", 2005

Exhibit 24 : Cumulative Real Estate Demand (2008 -12) by Sectors[21]

	Residential		Office		Retail		Hospitality	
	Rank	Estimated Demand (mln sf)	Rank	Estimated Demand (mln sf)	Rank	Estimated Demand (mln sf)	Rank	Estimated Demand (mln sf)
Bangalore	3	107	1	51	3	11	2	14
NCR	1	114	2	48	1	19	1	17
Chennai	2	108	3	33	5	6	4	8
Mumbai	5	41	4	23	2	15	3	12
Pune	4	67	5	21	7	8	6	4
Hyderabad	7	61	6	21	6	10	4	8
Kolkata	6	30	7	7	4	10	6	4

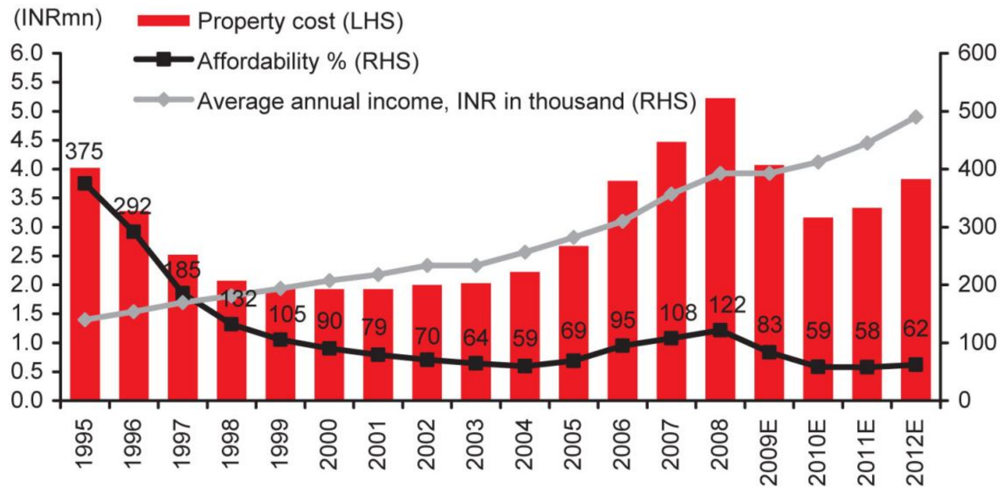
It is important to understand the demand drivers for each real estate sector in further detail (Cushman and Wakefield, 2008).

Residential: The total demand estimated for the residential segment is approximately 687 million sf across India, of which nearly 77% is accounted for by the top seven cities. NCR, Bangalore and Chennai are expected to make up the three largest markets for generating this demand. The growth drivers in the residential market are clear:

- Shortage of affordable housing supply;
- Reduction in household sizes as result of a structural shift from the joint family system to a nuclear family system;
- Improved affordability and availability of housing finance (See Exhibit25); and
- Enhanced urban infrastructure.

[21] Cushman and Wakefield, "The Metamorphosis: Changing Dynamics of the Indian Realty Sector", 2008

Exhibit 25 : ***Affordability Index of Property***[22]



Source: HDFC, ICICI Bank, Nomura Research

Commercial: The demand for commercial office space is estimated to be approximately 243 million sf. Commercial real estate demand is essentially driven by the IT industry and other general economic factors such as growth, infrastructure developments, availability of human resources and state level incentives to encourage investment. Bangalore, NCR (Delhi) and Chennai are expected to make up the three largest markets for generating this demand. Some of the key drivers for future office space demand are:

- Growth of IT and service sectors;
- Emergence of secondary growth centers/ integrated townships;
- Micro-pockets of undersupply; and
- Emergence of special export zones (SEZ).

Retail: The projected retail demand figures (essentially representing shopping mall development) depict a large variation in demand among the Tier I, II and III cities. India's retail sector is worth $350bln is growing 30%-40% per year. With the share of organized retailers is expected to jump from current share of 4% to around 10% by 2010, there exists immense opportunity for retailers to consider expansion plans in this sector. (Jones Lang LaSalle Meghraj, 2009). NCR, Mumbai and Bangalore are expected to make up the three largest markets for generating this demand. However, in the short term, many newly developed malls are likely to lie vacant due to an oversupply, critical lack of mall expertise

[22] Nomura, "India Property - Industry Update", June 2009

and supporting infrastructure (Pacific Star, 2008). India's mass consumer population is still overwhelmingly steeped in more traditional retail formats, including high street and other more localized shopping. The Indian retail sector is in its early infancy. The potential is huge, but unleashing it will be a mammoth challenge. The risk factors surrounding the retail investment decision in India are manifold.

Hospitality: The demand for the sector continues to be fuelled by the rising number of business and leisure travelers within the country as well as by a significant increase in foreign travelers coming to India. The major cities are likely to generate demand of more than 60 million sf over the next 5 years. Bangalore, NCR and Mumbai are expected to generate majority of the demand in this sector. Other cities, such as Ahmedabad, Kochi and Goa, too are expected to add a significant share with approximately 6 million sf of upcoming hospitality space in the rest of the country. This is largely due to the government's initiatives to promote tourism in the Tier II and Tier III cities of India. The total expected supply of hotel rooms in the country is estimated to be 52,000 for the top cities by 2011, while the existing stock stands at 64,000 rooms.

Industrial Warehouses: Demand for warehousing activities is driven by the demand for logistics activities. India's logistics sector is worth $100 billion and is expected to be worth $385 billion by 2015, growing at a rate of approximately 20 per cent per annum. Warehousing account for about 20 per cent of the Indian logistics industry and is growing rapidly at the rate of 35 to 40 per cent per annum. This market segment is estimated to grow from $20 billion in 2007-08 to about $55 billion by 2010-11. Over the next five years, approximately 110 logistics parks and 45 million square feet of warehousing space is expected to be developed across the country. Majority of these logistics parks are expected to be developed in close proximity to state capitals, with Mumbai, Kolkata and Chennai garnering the major share of these developments. The key growth drivers in the sector are (Cushman and Wakefield, 2008):

- Increased foreign trade and domestic manufacturing;
- Growth in organized retail;
- Increased outsourcing to organized logistical services by the way of Third Party Logistics (3PL); and
- Reduction in logistics costs by way of improvements in transport infrastructure and introduction of a simplified taxation regime.

4.2 Transparency

The results of Jones Lang LaSalle's 2008 global real estate transparency survey highlight India's gradual improvement over the last six years. India has shown steady improvement from being classified a "low transparent" market in 2004 to being a "semi transparent" in 2008. The improvements are closely linked to the forces of globalization, with foreign investors requiring much greater transparency. India scores highest with regard to the presence of listed vehicles. Its greatest challenges lie in the limited provision of high quality market information and investment performance indicators. However, this lack of reliable market information is not a feature of all sectors and cities. Reliable market data is available for the office and hotel sectors in India's primary and secondary cities, compared to limited data availability for other sectors and across tertiary cities. India is currently ranked in 50th position out of 82 markets globally with a ranking similar to China's ranking (See Exhibit 26).

Exhibit 26 : JLL Transparency Index[23]

Country	Transparency Level	2008 Score	Global Rank
Australia	High Transparency	1.20	2
New Zealand	High Transparency	1.21	4
Hong Kong	Transparent	1.55	11
Singapore	Transparent	1.55	11
Malaysia	Transparent	2.25	23
Japan	Transparent	2.39	26
Taiwan	Semi-Transparency	3.07	41
South Korea	Semi-Transparency	3.15	44
Thailand	Semi-Transparency	3.16	45
Philippines	Semi-Transparency	3.23	47
China Tier 1 Cities	Semi-Transparency	3.33	49
India Tier 1 Cities	Semi-Transparency	3.34	50
India Tier 2 Cities	Semi-Transparency	3.38	52
Indonesia	Low Transparency	3.51	55
Macau	Low Transparency	3.54	57
India Tier 3 Cities	Low Transparency	3.65	62
China Tier 2 Cities	Low Transparency	3.68	65
China Tier 3 Cities	Low Transparency	3.97	72
Vietnam	Low Transparency	4.29	77
Cambodia	Opaque	4.67	79

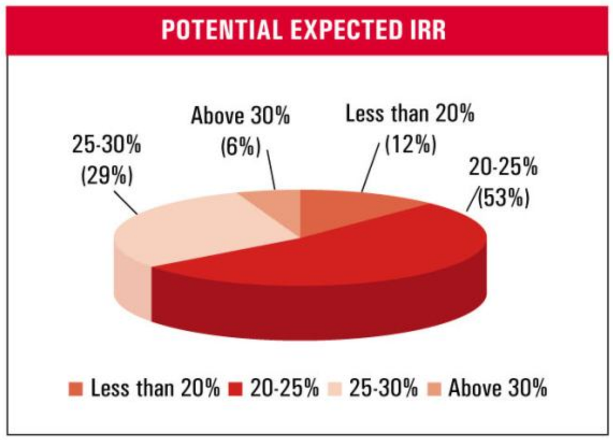
Source: Jones Lang LaSalle, LaSalle Investment Management

[23] Jones Lang LaSalle, "Transparency Comes of Age", November 2008

4.3 Risk / Returns

A majority of the institutional funds seek IRR's in 20–25% range given the present market conditions and the future risk expectations (See Exhibit 27).

Exhibit 27 : IRR Expectations[24]



Prior to 2005, new project developments were typically funded by Indian developers' own equity, some institutional debt funding and pre-sales. Exit from these assets was almost inevitably through sale of the product on a strata-titled basis to high net-worth Indian investors, Indian financial institutions and corporations. Some funds have created exit options by putting in place a "put option" on the local partner. On exercise of the "put option", the local partner is obligated to buy the equity stake of the fund for a given price that effectively gives the fund a 20-25% IRR on its investment. However, as the size of investments has grown significantly on the back of FDI inflows, more exit options have emerged, such as in the form of public listings on Indian or overseas stock exchanges such as Singapore and London AIM. In the future, it is possible that other exit routes might emerge such as secondary market sales to investors —like Real Estate Investment Trusts (REITs) or Real Estate Mutual Funds (REMFs) or Foreign Institutional Investors. There has already been considerable discussion regarding allowing REITs and REMFs in India, although regulations are yet to be formalized. Judging from the experience of other countries that have introduced REITs and REMFs, such a move helps in the development of a strong and liquid secondary market for real estate assets. A strong secondary market creates exit options for private equity funds as well increases the depth of the real estate market and its conjoint securities market. Until the time these new routes are allowed, institutions would have to be content with the

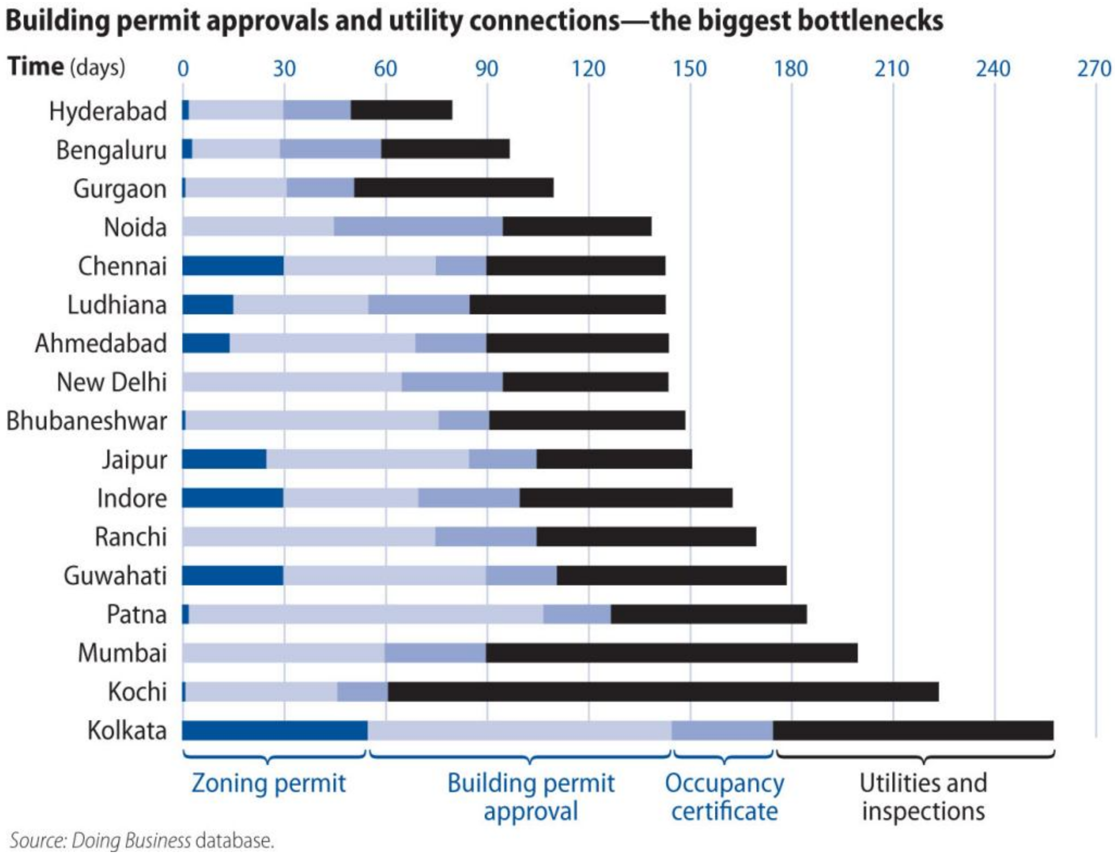
[24] Jones Lang LaSalle Meghraj, "Accelerated Transformation- Investments in Indian Real Estate", 2008

existing options of exit from their respective investments. (Jones Lang LaSalle Meghraj, 2008).

Although Indian real estate investments provide attractive returns, investors have to live with some significant risk. The main risks are (Ernst and Young 2005, Jones Lang LaSalle Meghraj 2008 and Deutsche Bank 2006):

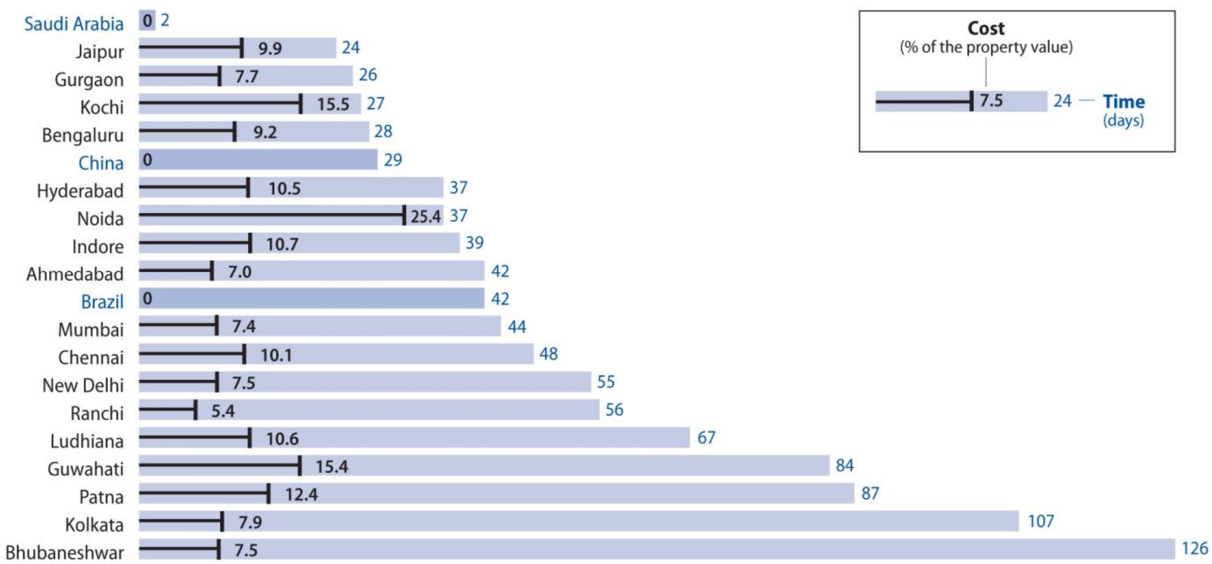
Regulatory Risks: Bureaucracy and corruption are the biggest bottlenecks and these hindrances may result in extra-ordinary delays in obtaining permit approvals, utility connections and property registrations. These delays affect the completion time of real estate projects. (See Exhibit 28).

Exhibit 28 : Bureaucracy – The Biggest Bottleneck[25]



[25] Source: World Bank, "Doing Business in India 2009", http: //subnational.doingbusiness.org

Time and cost to register property in India and selected economies



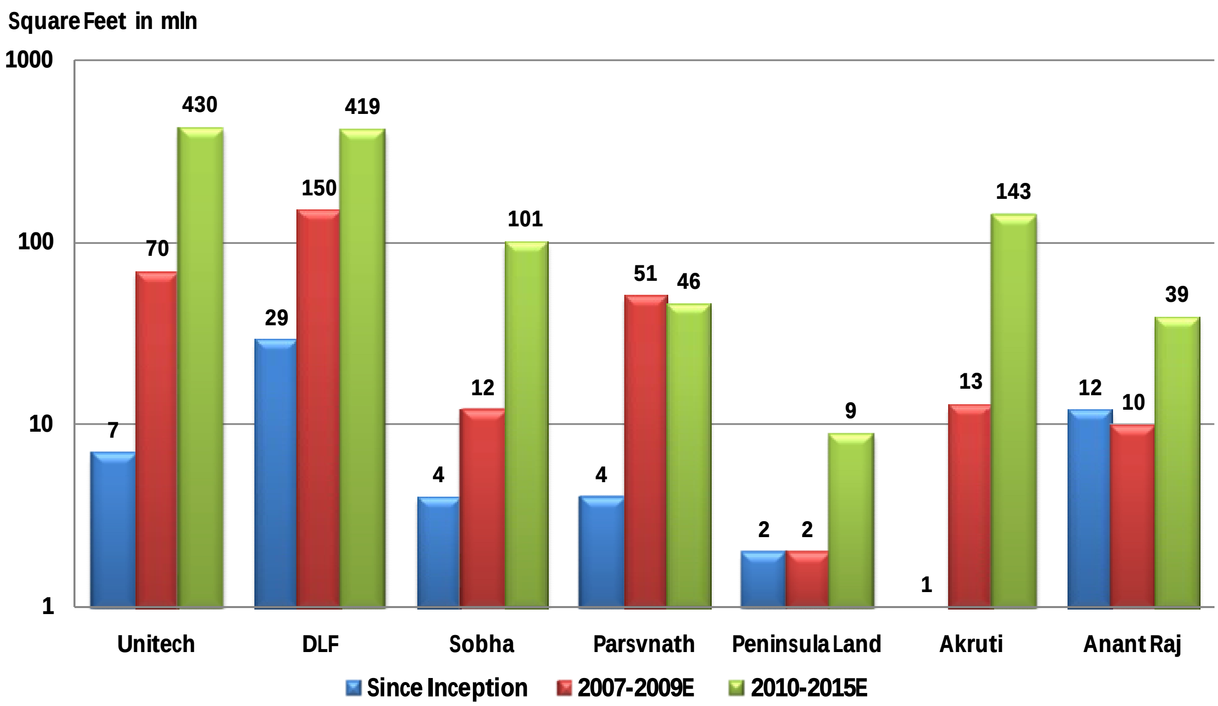
Source: Doing Business database.

Market Transparency Risk: Although market transparency has obviously improved, it is still hard to get reliable and consistent information on the Indian property market. India is a vast and heterogeneous country, It is evidently important to know whether a property is situated in a rapidly expanding or a stagnant region. More professional due diligence and valuation institutions are needed.

Liquidity Risk: The investment market is still in its infant stage. Investors face serious challenges in finding appropriate exit opportunities.

Developer Risk: This can be a boon or a bane as well, depending upon the product and the micro-market. Small developers are typically unorganized but can easily deliver a small project very fast and get the first-mover advantage in given area. The small developer can serve as a better partner at times compared to a large developer in terms of accessibility. However, small developers may not have the organizational backup to deliver large FDI compliant projects. On the other hand, large developers have undertaken projects at a scale never seen in the history of their existence (See Exhibit 29). Prior the partnering with a developer, investors must scrutinize the capacity of the developer to undertake further projects.

Exhibit 29 : Inadequate Execution Capability[26]



Delivery Risk: Construction is largely an unorganized sector in India. There is a perceptible shortage of quality skilled manpower in this industry. This shortage may causes delays in the delivery of large FDI compliant projects. Investment decisions should definitely account for this important aspect, whilst forecasting the completion time for large projects. Also building construction standards are not uniform across the country and not as stringent as in the developed countries.

Title Risk: The Indian real estate market is plagued by an acute shortage of clear land titles. The reliability of the available deed registers is patchy. There are no state guarantees of title or title registration systems. As a result, buyers need to assess over 30 years of title deeds. Most city survey records show only land, and not buildings erected on it. It is common to see encroachments by neighboring owners. Unlike in the US where investors are protected against any risk involving legal claims against property titles, investors in India as yet have no way of minimizing their title risks on a property deal.

[26] Source: KPMG, "KPMG India Real Estate Conference", 2007

4.4 Regulations[27]

Government regulations have had a tremendous influence on the real estate investment opportunity in India. The current regulatory regime restricts investments in certain sectors and in certain financial instruments. It is critical to understand the intention and spirit of the present regulations so that investments can be structured appropriately.

FDI Regulations: 100% Foreign Direct Investment ("FDI") is allowed under the automatic route to develop townships, built-up infrastructure and construction-development projects, including, without restriction, housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, and city and regional level infrastructure. A foreign investor must develop a minimum of 10 hectares for serviced housing plots and 50,000 sq. meters for construction-development projects.

The regulation prohibits repatriation of the original investment for a period of three years after capitalization. However, the foreign investor may apply to the Foreign Investment Promotion Board ("FIPB") for a waiver of this condition. The regulation mandates that 50% of the project must be developed within five years from the date all statutory clearances are obtained. The regulation also retains the condition of minimum capitalization of $10 mln for wholly owned subsidiaries and $5 mln for joint ventures with Indian partners. However, these funds must be brought in within six months of commencement of business.

Regulations have been established for hotel, industrial and special economic zones (SEZ) projects, wherein FDI up to 100% is permitted under the automatic route without the restrictions as stated above i.e. investors can invest in ready assets in these sectors.

Pricing: The price at which a foreign investor invests into an Indian company is regulated. Accordingly, shares in an unlisted Indian company may be freely issued to a foreign investor, subject to the following conditions being satisfied:

- The foreign investor subscribes to the Indian company's shares at a price that is not lower than the floor price computed on the basis of the "ex-CCI" (Controller of Capital Issues) formula

[27] Source: Nishith Desai & Associates, "Real Estate Investments", 2008, www.rbi.org.in, http://dipp.nic.in, http://www.sebi.gov.in

which is the equivalent to the average of Net Asset Value per share and Profits Earnings Capacity Value per share;

- The consideration for the subscription is brought into India prior to or at the time of the allotment of shares to the foreign investor.

If any of the above conditions are not complied with, then the prior approval of the Foreign Investment Promotion Board (FIPB) and/or the Reserve Bank of India (RBI) is required. However, if the foreign investor is a Foreign Venture Capital Investor registered with the Securities Exchange Board of India (SEBI), then the above pricing restrictions do not apply.

Debt – External Commercial Borrowings: Leveraging is a critical component in structuring of real estate investments into India. Foreign debt structuring would especially trigger certain additional compliances under the Indian exchange control regime. Any debt to be taken by an Indian company from foreign sources has to comply with the External Commercial Borrowing Guidelines ("ECB Guidelines ") issued by the RBI. Currently ECB can be brought in under the automatic route only in case of infrastructure projects, industrial parks and hotels. In case of integrated townships, ECB's can be brought in using the approval route. Hence for practical purposes, external foreign debt is inaccessible for most real estate projects.

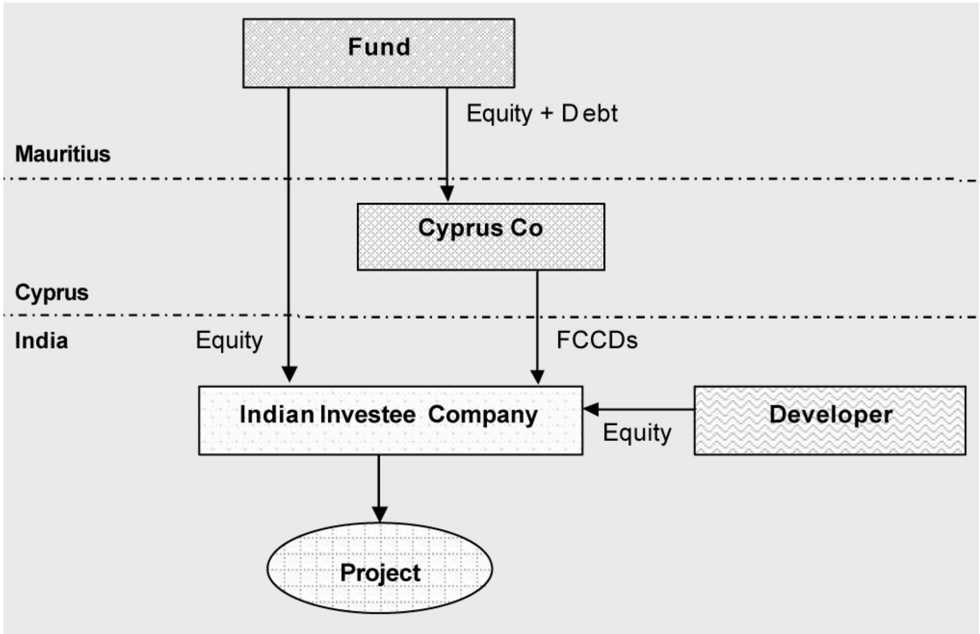
Financial Instruments: FDI can be routed into Indian investee companies by using fully and compulsorily convertible preference shares or fully and compulsorily convertible debentures. Non-convertible, partially convertible or optionally convertible preference shares and/or debentures shall be considered to be ECB and therefore, be subject to the aforesaid ECB Guidelines. These pseudo-equity instruments must be converted to equity prior to repatriation.

Venture Capital Regime: In April 2004, SEBI opened a small window for real estate investments under the Venture Capital Fund (VCF) and Foreign Venture Capital Investor (FVCI) regime. However, it is pertinent to note that since the last 2 years, the Securities and Exchange Board of India (SEBI) has not granted any FVCI approval to any of the foreign investors for investing in real estate sector in India. Also "Real Estate" is presently not included in the activities eligible to receive the much-coveted "pass-through" tax status. FVCIs benefit from free entry and exit pricing. SEBI has also exempted transfer of shares from FVCIs to the promoters from the public offer provisions under the Takeover Code. FVCIs registered with SEBI have been accorded "Qualified Institutional Buyer" status and would accordingly be eligible for subscribing to securities at the initial public offering of a Venture Capital Undertaking through the book-building route.

Structuring: Some of the jurisdictions commonly used for investment into India are Mauritius, Cyprus and the Netherlands. Singapore and the United Arab Emirates also have favorable treaties with India, but are less popular.

The India-Mauritius tax treaty can be used to maximize the capital gains tax exemption benefits arising from exit by the Mauritius Fund. The Mauritius route is by most investors to purchase equity shares and/or fully and compulsorily convertible preference shares (FCCPS) in the local investee company. This structure, besides being legally compliant, is also tax-efficient because, at the time of exit of the Investor, the capital gains tax as arising out of the transfer of the equity shares and/or FCCPS by the investor is exempt from tax on account of the India-Mauritius tax treaty. The India-Cyprus tax treaty can be used by an investor to purchase hybrid debt-equity instruments in the form of fully and compulsorily convertible debentures (FCCDs). This structure complies with the law and at the same time enjoys the tax deduction benefits available to debt instruments. As per the India-Cyprus tax treaty, the withholding tax rate on the interest paid on the FCCDs by the Indian company is reduced to 10% as against the standard domestic rate of 20%. By using the various tax-friendly jurisdictions, the following structure as shown in is one of the most popular legal, tax and exchange-control efficient structures for routing investments into India (See Exhibit 30).

Exhibit 30 : Mauritius – India – Cyprus structure[28]



The previous sections have described the opportunities available in various sectors, the improving transparency levels, the risk/return trade-off and the enabling regulations. It is pertinent to also understand the flow of capital since 2005 and the present state of investment environment.

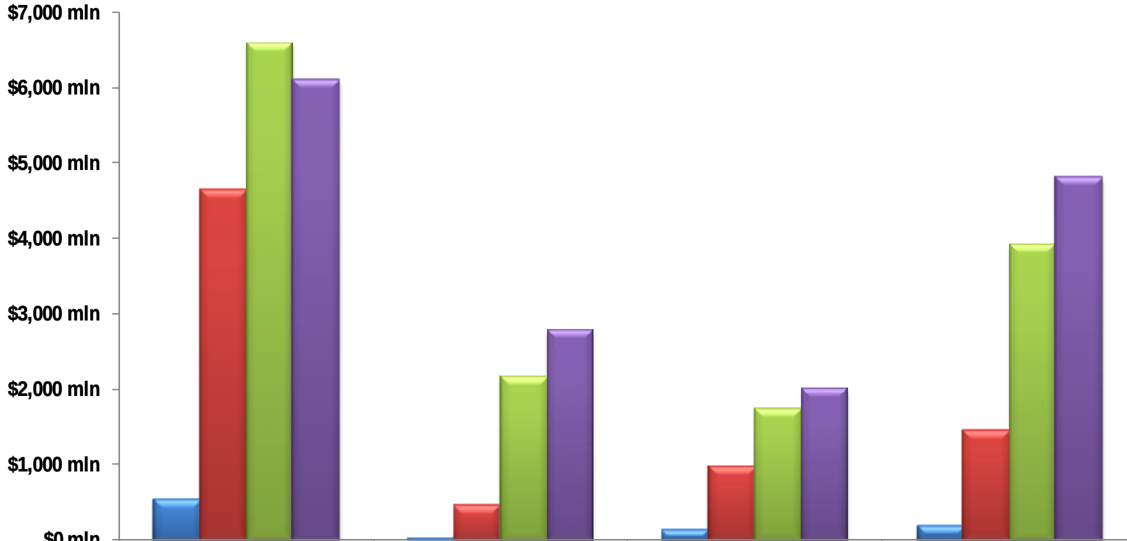
4.5 Real Estate Capital Flows

Pramerica Real Estate Investors estimates the total size of Indian real estate market at $182 bln (Pramerica, 2009). The European Public Real Estate Association estimates the size at $157 bln (EPRA, 2009). Institutional funds have come in through various routes, including private equity, public equity and private debt offerings.

Private Equity Capital and Foreign Direct Investment: **S**ince the liberalization of FDI in Indian Real Estate increased from $0 bln per year to approximately $4.5 bln in the year 2009. In spite of the worldwide credit crisis, the investment for the current financial year will be higher than the previous 2008 financial year. As per DIPP, the total cumulative FDI in real estate and construction since 2005 is $11.1 bln (See Exhibit 31). Total cumulative FDI in hotels, which is classified separately, is $1.3 bln.

[28] Ibid

Exhibit 31 : FDI in Indian Real Estate[29]



	Services	Housing and Real Estate	Construction Activities	Total Real Estate Related
2005-2006	$543 mln	$39 mln	$151 mln	$190 mln
2006-2007	$4,664 mln	$467 mln	$985 mln	$1,452 mln
2007-2008	$6,615 mln	$2,179 mln	$1,743 mln	$3,922 mln
2008-2009	$6,116 mln	$2,801 mln	$2,028 mln	$4,829 mln

2005-2006 2006-2007 2007-2008 2008-2009

The estimated number of private equity funds that are operational in India exceeds 150, with around two-thirds being in the 'active category'. A majority of global real estate investors including foreign pension funds and endowment funds have been investing through real estate funds rather than taking direct exposure in deals. Investors have invested using the following vehicles:

- Global Real estate Funds without specific India allocations (e.g. Merrill Lynch, Morgan Stanley)
- International India -specific Real Estate Funds (e.g. J P Morgan, AIG)
- Domestic Real Estate Funds (e.g. HDFC, ICICI, Kotak, IL&FS)
- Direct Investments in partnership with a local partner (e.g. Hines, Tishman Speyer)

Domestic and international private equity funds in India have been very active with a number of transactions taking place in the past three years at entity, portfolio and special purpose vehicle (SPV) level. However, most of the deals are still being done at the SPV level, as these investments are essentially individual projects. SPV level deals cater to a more focused investment approach apart from giving investors more control over the investment. (Jones Lang LaSalle Meghraj, 2008).

[29]Source: http://dipp.nic.in/fdi_statistics/india_fdi_index.htm

Public Equity Markets: Indian real estate companies on the public real estate markets have raised approximately $8.5 bln since 2005 (See Exhibit 32).

Exhibit 32 : Fund Raising for Real estate in Indian Equity Markets[30]

Y/E Dec	2006	2007	2008	Mid 2009
Total	$2,709 mln	$3,938 mln	$343 mln	$1,655 mln

Source: Deutche BanK

The present level of foreign investment in the public markets is estimated at $5.5 bln out of a total market capitalization of $25.5 bln (See Exhibit 33).

[30] Deutsche Bank, "India Property", June 2009

Exhibit 33 : Public Market Capitalization of Indian Real Estate[31]

Company Name	Market Capitalization	Market Capitalization in USD	Foreign Institutions %	Foreign Promoters %	Foreign Market Cap	Foreign Investment in USD	Domestic Institutions %	Domestic Institutions in USD
Indian Listed Companies								
DLF	Rs. 567,454 mln	$11,822 mln	6.9%	0.0%	Rs. 39,041 mln	$813 mln	0.5%	$57 mln
Unitech	Rs. 123,864 mln	$2,580 mln	5.5%	0.2%	Rs. 7,097 mln	$148 mln	1.8%	$47 mln
Lanco Infratech	Rs. 83,808 mln	$1,746 mln	11.5%	48.8%	Rs. 50,595 mln	$1,054 mln	4.6%	$80 mln
HDIL	Rs. 64,493 mln	$1,344 mln	10.9%	0.0%	Rs. 7,043 mln	$147 mln	1.3%	$18 mln
Indiabulls Real Estate	Rs. 58,264 mln	$1,214 mln	54.0%	0.0%	Rs. 31,463 mln	$655 mln	0.7%	$8 mln
Jai Corp	Rs. 39,367 mln	$820 mln	11.7%	13.9%	Rs. 10,062 mln	$210 mln	3.6%	$29 mln
Akruti City	Rs. 33,980 mln	$708 mln	1.9%	0.0%	Rs. 629 mln	$13 mln	0.5%	$3 mln
Anant Raj Industries	Rs. 30,174 mln	$629 mln	30.4%	0.0%	Rs. 9,161 mln	$191 mln	0.1%	$0 mln
BF Utilities	Rs. 26,237 mln	$547 mln	11.5%	0.0%	Rs. 3,017 mln	$63 mln	0.4%	$2 mln
Phoenix Mills	Rs. 14,231 mln	$296 mln	24.3%	0.0%	Rs. 3,454 mln	$72 mln	2.8%	$8 mln
Puravankara	Rs. 15,601 mln	$325 mln	8.3%	0.0%	Rs. 1,290 mln	$27 mln	0.9%	$3 mln
Omaxe	Rs. 14,970 mln	$312 mln	0.6%	0.0%	Rs. 90 mln	$2 mln	2.0%	$6 mln
Parsvnath	Rs. 17,112 mln	$357 mln	2.7%	0.0%	Rs. 465 mln	$10 mln	1.1%	$4 mln
Sobha	Rs. 13,840 mln	$288 mln	5.4%	86.9%	Rs. 12,776 mln	$266 mln	1.4%	$4 mln
Mahindra Lifespaces	Rs. 11,418 mln	$238 mln	23.7%	0.0%	Rs. 2,703 mln	$56 mln	10.4%	$25 mln
Brigade Enterprises	Rs. 8,251 mln	$172 mln	6.2%	0.0%	Rs. 509 mln	$11 mln	2.0%	$3 mln
Ajmera Realty	Rs. 20,989 mln	$437 mln	11.3%	0.0%	Rs. 2,365 mln	$49 mln	0.2%	$1 mln
Ansal Properties	Rs. 6,027 mln	$126 mln	14.2%	0.0%	Rs. 856 mln	$18 mln	5.0%	$6 mln
Orbit	Rs. 8,046 mln	$168 mln	14.6%	0.0%	Rs. 1,172 mln	$24 mln	4.4%	$7 mln
IVR Prime	Rs. 4,513 mln	$94 mln	9.3%	0.0%	Rs. 417 mln	$9 mln	1.8%	$2 mln
Kolte Patil	Rs. 3,900 mln	$81 mln	5.7%	0.0%	Rs. 222 mln	$5 mln	0.4%	$0 mln
Ganesh Housing	Rs. 2,498 mln	$52 mln	26.0%	0.0%	Rs. 649 mln	$14 mln	4.4%	$2 mln
BSEL Infrastructure	Rs. 1,512 mln	$31 mln	41.2%	0.0%	Rs. 623 mln	$13 mln	0.0%	$0 mln
DS Kulkarni	Rs. 902 mln	$19 mln	43.4%	0.0%	Rs. 391 mln	$8 mln	6.4%	$1 mln
Ansal Housing	Rs. 802 mln	$17 mln	19.5%	0.0%	Rs. 156 mln	$3 mln	1.1%	$0 mln
Foreign Listed Companies								
Indiabulls Inv Trust	SGD 660 mln	$454 mln				$454 mln		
Ascendas India REIT	SGD 555 mln	$381 mln				$381 mln		
Hirco Plc	£68 mln	$108 mln				$108 mln		
Unitech Corporate Park	£62 mln	$98 mln				$98 mln		
Ishaan	£62 mln	$98 mln				$98 mln		
Trikona Trinity Capital	£118 mln	$187 mln				$187 mln		
Yatra Capital	€ 75 mln	$106 mln				$106 mln		
Eredene Capital	£50 mln	$79 mln				$79 mln		
Alpha Tiger Property	£42 mln	$66 mln				$66 mln		
Naya Bharat Property	£17 mln	$26 mln				$26 mln		
Total in USD		$25,560 mln				$5,483 mln		$318 mln
Total %		100.0%				21.5%		1.2%

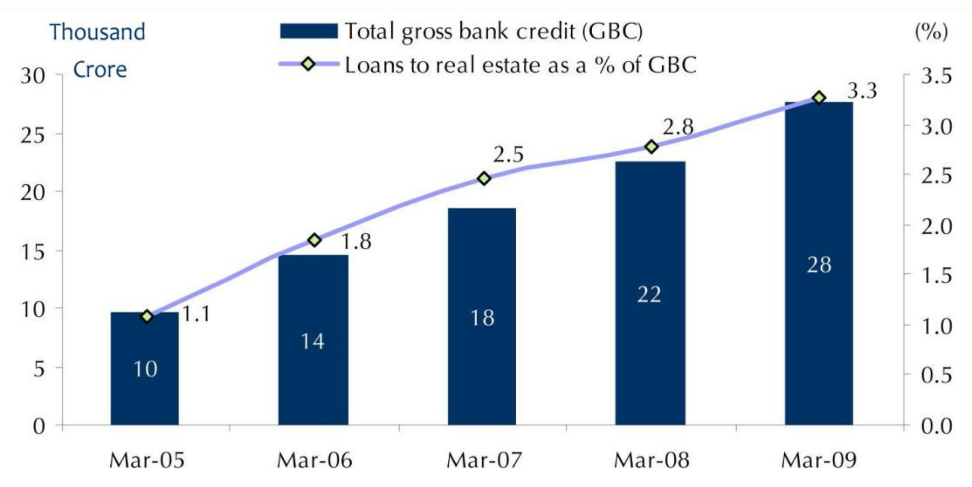
Prices and rates as of 17th July 2009
1$ = Rs. 48, 1 SGD = Rs. 33, 1GBP = Rs.79, 1 EUR = F Source: Moneycontrol.com, ISI Emerging Markets, Kotak Securities

[31] Source: Kotak Institutional Securities, "Kotak Real Estate Tracker", May 2009
Quotes from www.moneycontrol.com , http://site.securities.com

Venture Capital Funds: As per SEBI data available as of December 2008, the total real estate investment by foreign venture capital funds (FVCI) in India and domestic venture capital funds (VCF) was Rs 4,887 Cr and Rs 1,424 Cr respectively totaling Rs 6311 Cr or approx $1.35 bln.

Bank Debt: As on March'08, the outstanding gross bank credit (GBC) by scheduled commercial banks to the real estate sector stood at approx $12.5 bln, rising 40% from $9 bln in the previous year. In the financial year 2009, the GBC increased by 46% to $18bln. The total real estate exposure of banks also increased from 2.8% to 3.3% of gross bank credit in March '09 as the RBI relaxed certain norms for realty companies towards the end of the financial year 2009 (See Exhibit 34).

Exhibit 34 : *Indian Banks Credit to Real Estate*[32]



Source: RBI, RHH

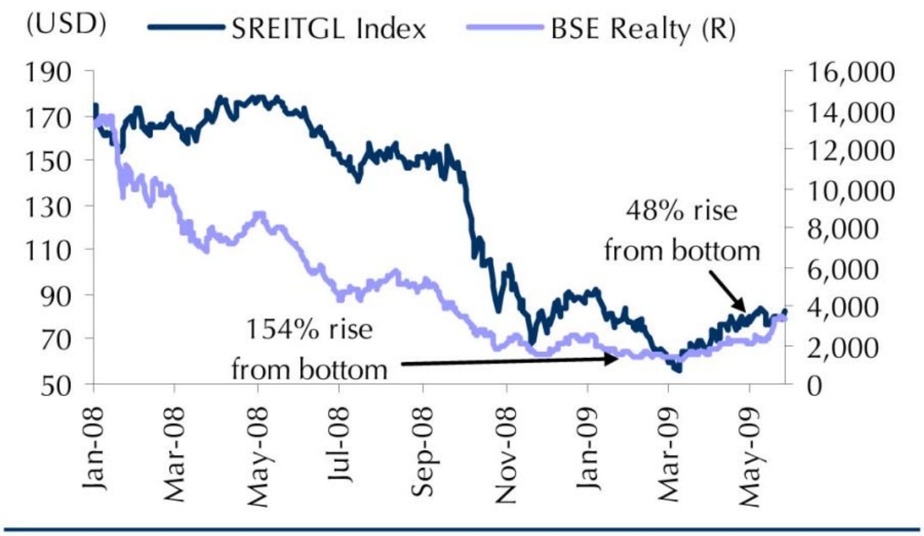
4.6 Current Environment

India's growth rate is expected to slow to 7% from 9% levels in previous years. There is a decline in foreign direct investment flows and bank credit in line with global trends. As a result of the slowdown, there currently exists an oversupply situation in almost all sectors. This has caused the markets to downward correct to the tune of 20-30%. Supply overhangs have been accumulating in some cities, although this appears to be most pronounced outside the key metros. This oversupply is most pronounced in the commercial and retail sectors. In the residential sector, there is a temporary loss of demand in the premium-housing segment but demand for affordable housing is stable. The hospitality sector is presently undersupplied. However, at present the market is in recovery (See Exhibit 35).

[32] Religare Hitchens Harrison, "On the road to recovery", June 2009

(Religare Hitchens Harrison, 2009)

Exhibit 35 : S&P Global REIT Index vs. BSE Realty Index[33]



Source: Bloomberg, RHH

Some developers and fund principals are facing an uncomfortable situation due of reasons such as (Deutsche Bank, 2009):

- Valuation of Land Banks: Many joint venture deals were done, based an assumed land bank valuation at the peak of the market cycle. Subsequently, prices have corrected significantly. Funds and developers will jointly need to address this issue going forward.
- Leverage Covenants: In many cities, the demand for real estate has drastically reduced and asset prices have fallen. This has led to delays in absorption, along with developers being in default of their debt to value covenants. Funds that have committed to a drawdown schedule are in a difficult situation whether to continue funding to the project.
- Asset Liability Mismatch: While inflows are now falling with demand, cash outflows are ballooning with a spike in costs, area under construction and payables to banks. This is aggravated by an asset liability mismatch in an era of tightening liquidity in the financial markets.

[33] Ibid

4.7 Conclusion of Chapter 4

The Indian real estate market is growing and there is significant untapped potential. The long-term demand drivers for real estate in all sectors are positive. One must always however remember that India is a very price sensitive and competitive market. Investments in affordable products have a stronger chance of success. An investor must have a long-term investment horizon whilst investing in this country. Improving market transparency and liberalized investment regulations have meant that institutional investors have already invested over $25 bln in the India's real estate sector with a view to secure annual returns upwards of 20-25%. But investors should also clearly understand the risks inherent in investing in Indian real estate. The opacity of the market, rampant speculation, procedural and infrastructural deficiencies mean that investors need to be especially discerning. New entrants need to have a clear understanding of the existing opportunities, the market players and the regulatory environment.

The next chapter describes the primary research portion of this paper. This chapter explains the objective and methodology of the interviews as well as provides a profile of the interviewees who participated in the study.

Chapter 5 : Data Collection and Methodology

5.1 Research Objective

In review, Section 1.2 lays out the main questions this thesis seeks to address. These questions were

- What is driving Indian real estate? Is it primarily driven by global capital flows or are local investments the major driver?
- With respect to geography and property sectors, what were the opportunities and expectations that led people to invest in India from 2005-2008? Have the expectations been realized?
- What future advice can be provided to prospective investors in terms of investment sectors, investment structures and partnership formats?

To address the above questions, this paper lays out a research framework (refer to Section 1.3). The research framework consists of three main topics.

- Global Capital Drivers;
- India Country Drivers; and
- India Real Estate Drivers.

Chapters 2, 3 and 4 each cover one part of research framework respectively. These chapters have relied primarily on research reports and white papers to provide a macro view of the India Real Estate investment opportunity. Most institutional investors have relied on similar data to formulate their investment strategies. Whilst research reports provide invaluable information regarding the investment scenario, it is important to gain firsthand knowledge about the actual investing experience.

5.2 Methodology

A broad representation of institutional investors participated in this study. Prior to actually conducting the formal interviews in India, the author visited India two times to meet with various international property consultants and institutions that had already invested in real estate opportunity in India. The author also attended the various real estate conferences to meet with both investors who had already invested in India and potential investors who were keen to learn more about the real estate opportunity in India. The objective of these visits was to connect with as many foreign and domestic institutions who had actually invested in India and to understand the kind of information that potential investors wanted to know. (See Appendix A for list of institutions)

Thereafter, the author contacted Housing Development Finance Corporation (HDFC) in India, to be a partner in this research paper. HDFC is India's leading housing finance company. Over the years, the HDFC group has emerged as a strong financial conglomerate in the Indian capital markets with a presence in banking, life and general insurance, asset management, venture capital and IT enabled services. The asset management arm, HDFC Asset Management Company (HDFC AMC), consented to assist with this research paper. HDFC AMC provided access to a proprietary database of all transactions announced by institutional investors since the Press Note No. 2 of 2005. This press note issued by the Government of India is the landmark policy document that considerably eased the restrictions on foreign investments in the Indian real estate market. (See Section 1.1.) The scope of this research is essentially the post 2005 period.

5.3 Institutions

The selection of institutions was based primarily on the transaction data provided by HDFC AMC. Criteria used to select institutions were:

- Majority of institutions having a fund size of at least $300 million;
- Balanced representation of global funds, regional funds and India specific funds;
- Representation of all major real estate sectors; i.e. residential, commercial, retail, hotels and industrial warehouses;
- Representation of foreign investors from different geographic regions of the world; and
- Representation of different investor types; i.e. global investment banks, specialist alternative investment managers, global real estate private equity funds, pension funds, international developers, traditional banks, family office organizations, new entrepreneurs.

27 institutions and 3 law firms accepted an invitation to participate in this study (see Appendix A). A summary of the 27 investment institutions is as follows:

- Represent 125 of 350 transactions in the database provided by HDFC AMC;
- 6 domestic institutions, 21 foreign institutions of which 13 have had prior business interests in India;
- 13 India specific funds, 3 Asia specific funds, 11 global funds;
- India specific funds have raised funds from domestic and international investors varying from $100 mln to $1.42 bln; and
- A detailed profile of these institutions is provided in Appendix C.

A summary of the interviews conducted is as follows:

- 25 of the 27 interviews were with a single person from the institution;
- 2 of the interviews were with a group of people from the institution;
- 20 of 27 interviewees are at Director/CEO/CFO/Partner level, and 7 of 27 interviewees are at the Vice President level;
- 25 of the 27 interviews were face-to-face interviews in Mumbai, New Delhi, Boston and London;
- 2 interviews with institutions in New York were telephonic;
- Typical time period for an interview was 60 minutes; and
- The 3 law firms' interviewees were partners.

5.4 Interview Questions

The interview questions were:

Global Capital Drivers and India Country Drivers

1. What made your organization invest in India?

India Real Estate Drivers

2. What has been the investment strategy?
    - Which are your preferred investment sectors?
    - Which are your preferred cities? Why?
3. What adjustments have you made since the time your organization has been in India?
    - Is there any deviation from your original business plan?
4. What types of transactions have you invested in or do you prefer to invest in?
    - What are the targeted returns?
    - Have these transactions been straight equity deals or structured deals?
5. What organization structure have you adopted to maximize the effectiveness of your governance?
6. What is the legal structure you have employed? What is biggest risk you perceive in this structure?
7. Whilst partnering with a local partner, what are most important criteria you look for? Is it returns, relationships, local experience or something else?

8. What do you see as the main risks affecting your investments?
9. What advice can you offer to prospective entrants?

The next chapter provides an analysis of the interviews conducted. Conclusions drawn from the interviews are also presented.

Chapter 6 : Data Analysis

The following sections summarize interviewee responses to the questions listed in the previous section. Identities of the interviewees have not been disclosed; however, a tabulation of the responses of each participant is provided in Appendix B. Frequency of responses is denoted in brackets throughout the analysis.

6.1 Global Capital Drivers and India Country Drivers

6.1.1 Reasons for investing in India

There seems to be a couple of key factors that influenced institutions to invest into India. Many (21 of the 27) institutions mentioned that global capital drivers were influential. On a macro level, global institutions increasingly made investments in the emerging markets to diversify risks. The BRIC report (Goldman Sachs, 2003) was an important catalyst.

A vice president of a leading global real estate fund explained,

> *"The investment bank had been actively investing in emerging markets. We were looking to invest in Indian real estate prior to 2004 in hospitality and IT Parks. The 2005 regulations were key to opening up India to global investors. As a global fund, we have a mandate to deploy growth capital where we deem fit."*[34]

A director of global real estate platform rationalized the decision to enter India very succinctly,

> *"We are a global real estate platform. We had no presence in India. We were approach by an Indian industrialist to join hands to create an Indian real estate investment platform. At that time, the global situation was extremely conducive to raising money for India. The BRIC story was oversold. Many of our global competitors were also raising money to invest into India."*[35]

A vice president for global real estate private equity firm explained,

> *"There was excess liquidity in the world in 2005. We had successfully invested in China and the strategy was to replicate the same model in India."*

[34] Interview with Institution #9 on 7th June , 2009 in Mumbai
[35] Interview with Institution #2 on 1st June, 2009 in Mumbai

A chief financial officer of one of India's largest real estate funds stated,

> *"The main driver was global investors wanted India on their global footprint. Regulatory changes in India enabled these investors to invest in the Indian real estate opportunity."*[36]

The interviewees' main considerations echo the analysis presented in chapter 3 and 4:

- High rate of economic growth;
- High proportion of economic growth due to internal demand and consumption ;
- Young population demographic ;
- Increasing urbanization trend;
- Easing of regulations; and
- High returns.

A chief financial officer of a UK based private equity fund explained,

> *"We believe in the BRIC story. India has great drivers for residential – young demography, middle class, availability of housing finance, demand-supply mismatch. Also our promoter has India links. So it was great investment proposition for our investors."*[37]

A fund manager for an emerging market private equity fund explained,

> *"We had already been in PE business in India for past 10 years. We have a deep understanding of the Indian markets. Our fund buys the India demand theory of housing shortage, per capital office space, GDP growth. Diversification of returns is an important reason for foreign investors to want to invest into Indian real estate."*[38]

A managing director of US based family office real estate organization stated,

> *"We have an emerging market focus. We didn't like China due to political risk, currency risk and unfriendly policies. India was a far more attractive proposition."*[39]

On a micro level, the long- term real estate opportunity was compelling. There existed a demand-supply mismatch in all sectors of real estate. Coupled with the inherent demand, there was a 10% spread between ex-ante returns in Indian real estate and ex-ante returns in western developed real estate markets. In India, institutions were able to target deals with a pre-tax 20-25% IRR in local Indian

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[36] Interview with Institution #27 on 26th June, 2009 in Mumbai
[37] Interview with Institution #13 on 22nd May, 2009 in London
[38] Interview with Institution #6 on 1st June, 2009 in Mumbai
[39] Interview with Institution #16 on 28th April, 2009 in Boston

currency. On the regulatory side, press note 2 of 2005 provided institutions the required access by the easing the restrictions on foreign investments in Indian real estate. Simultaneously, the Reserve Bank of India also restricted commercial bank lending for the acquisition of land. These factors created the perfect environment for channeling public equity and private equity into real estate projects.

A country manager for a global alternative investment management firm stated,

> *"India offered high returns with manageable risks. There was a wide spread between Indian real estate returns and US real estate returns."*[40]

A CEO of a global real estate investment and development firm stated,

> *"Our objective was to seek pure alpha."*[41]

A majority (13 out of 21) of foreign institutions interviewed, already had other business interests in India before expanding into real estate. Utilizing their local linkages, these institutions were able to rapidly deploy their funds. Institutions without prior linkages have adopted a more conservative approach and as a result made fewer investments. All the domestic institutions interviewed, by virtue of having strong local connections, have been far more optimistic and made a larger number of investments. To illustrate the point, the domestic institutions on average have done 10 transactions, foreign institutions with prior India business interests have on average done 4 transactions, and foreign institutions without prior India linkages have on average done 1 transaction.

6.2 India Real Estate Drivers

6.2.1 Investment Strategy

Initially, investors (17 of 27 interviewed) started out with an asset neutral strategy and intended to invest primarily in the Tier 1 and Tier 2 cities of Mumbai, Delhi, Kolkata, Chennai, Hyderabad, Bangalore and Pune. Institutions (11 of 27 interviewed explicitly mentioned it) have preferred Special Purpose Vehicle (project) level transactions rather than entity level transactions. Those institutions that invested in developer entities said that they were essentially looking at these entities as a portfolio of assets.

[40] Interview with Institution #7 on 3rd June, 2009 in Mumbai
[41] Telephonic Interview with Institution #17 in New York on June 9th, 2009

A chief financial officer of one of India's largest real estate funds explained,

> *"We leverage our existing lending relationship with developers to fund new projects. We were looking to invest in all asset classes in the top 7 major cities of India. However given today's environment, we are looking to only invest in residential projects in Mumbai and Delhi. Our strategy is to use existing knowledge of cost structures to ensure that our fund gets the best deal."*[42]

A vice president with one of the world's leading real estate private equity firms explained,

> *"We are not interested in 100 acre township projects. We prefer to invest in projects with a 3-4 years manageable timeframe to exit. We don't like to invest in minority positions. Our preferred sectors are hotels and office because of global synergies we have in those sectors. Presently we are averse to retail. Geographically we are focused on city center locations in the big 5-6 cities. We would like to invest in built and ready assets."*[43]

An executive vice president of a global private equity firm specializing in real estate investment explained,

> *"We have an asset agnostic strategy. We believe that all sectors have lifecycles. We like to enter specific sectors when the sector is near the trough in the cycle. In India, we prefer investing in cities with a population of 3 million or greater. We prefer co-investment with other funds. Co-investing helps in dividing the risks."*[44]

In some cases, entity level transactions were strategic transactions, intended to gain a first mover advantage in acquiring a sizable stake in well-known developer brands.

A vice president of a leading global real estate fund explained,

> *"It was our intention to do 10 large ticket deals. Given the size of the commitment, entity level deals were a natural extension of this strategy. It was a strategic board level decision that we should invest in strong brands and management. At the time, when the opportunity in FDI opened up, SPV level ticket sizes were not attractive. Our focus was Tier 1 city developers. Sector wise we like residential depending on the product and pricing. In the commercial sector, it is important to conduct micro market studies regarding IT sector demand, supply and stabilized absorption pattern. In retail, we feel that there are issues with tenant mix, retailer maturity, demand projections, asset complexity."*[45]

The market correction in 2009 has been an opportune time for investors to rethink their investment

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[42] Interview with Institution #27 on 26th June, 2009 in Mumbai
[43] Interview with Institution #12 on 25th June, 2009 in Mumbai
[44] Interview with Institution #21 on 10th June, 2009 in Mumbai
[45] Interview with Institution #9 on 7th June , 2009 in Mumbai

strategies. Post the market correction, institutions are underwriting transactions to stricter investment criteria. Whilst geographically, the target cities still remains tier 1 cities, the residential sector is clearly the most preferred sector (15 of 27 interviewed). In the commercial sector, oversupply and lack of exit options are cited as the primary reasons for deferring new investments. Presently, investors are also largely negative on retail (10 of 27 interviewed were explicitly negative). The most frequently cited reasons for this are inadequate number of retail anchors, maturity of retailers, exit options and oversupply.

A managing director of a US based private equity real estate investment firm explained,

> *"We are currently focused on residential development in the affordable segment. We aim to build projects where the equated monthly installment (EMI) is 40% of the local household income of the area. Our target cities are Tier 1 and Tier 2 cities with well-connected airports. We aim to diversify our investments across various cities."*[46]

A vice president with one of world's leading financial management and advisory firms explained,

> *"We will not invest in retail because of regulatory restrictions governing the project size. Plus there is an issue with oversupply, maturity of tenants, and number of available anchors. We are targeting warehousing projects in Tier 1, 2, 3 cities, hotels and commercial projects in Tier 1 cities, and residential opportunities in Tier 1, 2 cities. Presently, asset management is also a big focus."*[47]

A chief investment officer of a global investment bank promoted fund articulated their strategy,

> *"Our strategy is to invest into residential, office, IT SEZ, and hotel projects promoted by Tier 1 large developers. We aren't interested in retail projects because the mall format in India is not fully developed. Retail malls are plagued by strata-titles, inadequate parking and loading bays, inadequate anchor tenants, and lack of transparency in reporting of retail sales. One change from the time we started the fund is that black box investing is gone. Our investors want information about each deal that the fund is investing in".*[48]

In hospitality, investors generally prefer a portfolio rather than in just a single asset due to the significant marketing advantage enjoyed by hotel chains. Recent terrorism events have prompted investors to defer hospitality investments.

[46] Interview with Institution #15 on 3rd June, 2009 in Mumbai
[47] Interview with Institution #11 on 22nd June, 2009 in Mumbai
[48] Interview with Institution #3 on 9th June, 2009 in Mumbai

A director of an Indian real estate fund who has invested in two hotel chains explained,

> *"In hospitality, we like invest to only in hotel chains. Owners of single hotels get emotionally attached to their asset, effectively hampering business decisions."*[49]

Earlier the attitude was 'If you build it, they will come", however, today investors are more cautious. Market cycles and absorption schedules are topmost on investors' minds when considering new projects. Some of the institutions have adopted unique strategies to differentiate themselves from other players in the market by focusing on specific types of assets or specific type of developers.

A vice president with one of India's leading real estate funds explained their unique strategy,

> *"Our focus is affordable housing, commercial development in Tier 1, and warehouses on the outskirts of Tier 1 cities. The future focus will be on investments in ready assets. All the real estate that's getting built requires to be bought by somebody, we intent to be an aggressive player in this space."*[50]

A managing partner with one of India's oldest and largest private equity funds explained,

> *"We aim utilize our existing relationships with many developers. We like working with small developers who have the aspiration and drive to succeed. We are even willing to incubate young developers"*[51]

6.2.2 Transaction Structures

Investors generally seek risk-adjusted returns on their investments. Funds have been targeting returns ranging from 16% for ready assets to 35% for development details.

A vice president with one of India's leading real estate funds stated,

> *"On development deal we seek 25% IRR, on ready asset deals we seek 16% IRR."*[52]

A vice president with one of world's leading financial management and advisory firms stated,

> *"We seek 25-30% returns on most deals, but specific deals vary based on the risks involved. Preferred equity deals have been the trend in the recent past, since the liquidity crisis."*[53]

[49] Interview with Institution #22 on 5th June, 2009 in Mumbai
[50] Interview with Institution #26 on 25th June, 2009 in Mumbai
[51] Interview with Institution #25 on 16th June, 2009 in Mumbai
[52] Interview with Institution #26 on 25th June, 2009 in Mumbai
[53] Interview with Institution #11 on 22nd June, 2009 in Mumbai

As far as deal structuring is concerned, funds have deployed in a variety of structures. In 2005, the trend was pure equity deals primarily because there was an expectation of high growth in the markets. Developers were being chased by many funds, which meant that developers could pick and choose the funding sources.

A country manager for a global alternative investment management firm stated,

> *"We aim for 25% IRR. We like straight equity deals. Structured deals with hurdle rates affect developers' returns and priority."*[54]

Today, the scenario has changed. Due to reduced visibility in the markets, funds (15 of 27 interviewed) generally prefer structured deals with a preferred position in the capital structure. Promote structures are gaining ground to bridge the gap in valuations between funds and developers. Funds do not prefer to cash-out developers in order to keep interests aligned. Put options on developers are also fairly prevalent.

A chief investment officer of a global investment bank promoted fund explained,

> *"Earlier most deals were straight equity deals. There was visibility in the market at that time. Today, most deals are structured deals with hurdles and promotes. This is primarily because visibility in the market has diminished."*[55]

A chief financial officer of one of India's largest real estate funds explained,

> *"We have a 25% IRR target. We prefer structured deals only if we are providing construction stage financing. Our philosophy is that the developer should also be happy with valuation. We aim to provide a package deal of debt and equity to the developer. We are generally against cash out deals, but we have done such deals in the past."*[56]

6.2.3 Organization Structure

Funds have employed local teams varying in size from 3 people to 90 people depending on the investment strategy of the fund. Typically (14 of the 27 interviewed) the organization size is between 10 and 15 professionals with about 5 to 7 investment professionals, 2-3 project management and asset management professionals, and 5-8 members in legal, accounts and other supporting functions.

[54] Interview with Institution #7 on 3rd June, 2009 in Mumbai
[55] Interview with Institution #3 on 9th June, 2009 in Mumbai
[56] Interview with Institution #27 on 26th June, 2009 in Mumbai

A managing director of global real estate private equity fund opined,

> *"It is very important to maintain an India cost structure. One must follow the example of Unilever, P&G and Coke, who have set up local organization structures in the country and have been successful in assimilating their organizations into the local environment".*[57]

Since the nature of the opportunity in India has been development focused, funds have tried to ensure that their teams have development experience. Some funds (10 of the 27 interviewed) have gone to the extent of putting in place a dedicated project management team to monitor projects, also with the intention of creating a back up team to take over the development of projects in a worst case situation.

A director of global real estate platform revealed,

> *"Given the nature of the opportunity, the platform needs to have all the real development skills; i.e. acquisitions, project management, asset management, architecture, accounting and legal structuring."*[58]

A managing partner with one of India's oldest and largest private equity funds explained,

> *"Our team has experience in real estate and fund management. The organization must have ability to takeover a project and run it in a worst case scenario."*[59]

A vice president with one of India's leading real estate funds stated,

> *"We are a team of 40 people. 8 people in investment management, 15 people in project management. Our strategy is to actively manage projects jointly with our partners."*[60]

Foreign funds have put in place structures to utilize the service of global teams for deal structuring on a deal-by-deal basis.

A vice president with one of world's leading financial management and advisory firms stated,

> *"Our team has skills in investment structuring, market analytics, project management, and development. We hire third party consultants based on the specific requirements of each deal. We also utilize our Asia wide organizational resources to supplement our local resources."*[61]

The foreign funds have largely focused on acquisitions till date, however, the future focus for many (8 of

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[57] Interview with Institution #1 on 8th June, 2009 in Mumbai
[58] Interview with Institution #2 on 1st June, 2009 in Mumbai
[59] Interview with Institution #25 on 16th June, 2009 in Mumbai
[60] Interview with Institution #26 on 25th June, 2009 in Mumbai
[61] Interview with Institution #11 on 22nd June, 2009 in Mumbai

the 21 interviewed) of the foreign funds is portfolio/asset management. This is largely because the foreign funds are tentative on further acquisitions given the credit crisis in their home markets. However, the domestic funds have more aggressive plans. 4 of the 6 funds interviewed have plans to raise further capital in the near future.

A chief investment officer of a global investment bank promoted fund affirmed,

> *"In the past the focus was on deal sourcing and investments. Having been in the startup investment mode in previous years, going forward the focus is going to be on asset-management. We are ramping up our team to strengthen this function."*[62]

6.2.4 Legal Structure

For equity investments, Mauritius is most preferred route (26 of 27 interviewed) for routing foreign investments into India. Presently, investors do not consider the Mauritius route to be risky. The fact almost all foreign investments into India has been routed via Mauritius along with fact that there are supreme court judgments in favor of the treaty, leads people to believe that the government will not disturb the Mauritius treaty.

A country manager for a global alternative investment management firm stated,

> *"Mauritius is the preferred route for routing equity investments. The risk doesn't seem high given the quantum of investment that has flowed into the country through this route."*[63]

A director for one of India's largest private equity funds stated,

> *"There isn't much risk with Mauritius. The India government is forward looking. India requires $500 bln to its upgrade infrastructure. India is reliant on external capital. One needs to ensure that cash flows are genuine i.e. no round tripping of money from India."*[64]

Some private equity funds interviewed mentioned that had successfully exited investments in other industry sectors using the Mauritius route and hence considered this route as a tried and test tax efficient route.

[62] Interview with Institution #3 on 9th June, 2009 in Mumbai
[63] Interview with Institution #7 on 3rd June, 2009 in Mumbai
[64] Interview with Institution #23 on 10th June, 2009 in Mumbai

A vice president for global real estate private equity firm explained,

> *"We don't see too much risk in the Mauritius route. We have successfully used the Mauritius route for our investments in other sectors. If the treaty benefits with Mauritius are taken away, it will affect our carry structure."*[65]

However, the Vodafone case has led investors to re-evaluate their options for routing investments into India. In this case, Vodafone acquired Hutch in an offshore transaction; however the Indian taxation authorities have sought to tax this transaction, citing that the assets and control of acquired company were predominantly in India and that the transfer of controlling interest was taxable in India. Hence, as a risk-mitigation strategy, foreign investors have been projecting their local teams as pure advisory teams with view to convince the tax authorities that the real investment decisions are being taken in the offshore entities and hence such investments are not subject to capital gains taxes within India.

A fund manager for an emerging market private equity fund stated,

> *"The Vodafone issue is critical. AT&T/Idea case is also relevant. However, these cases apply to operating companies. It is important to maintain just an advisory presence in India."*[66]

Singapore is also an emerging destination used by investors for bring investments into India. In case of debt instruments, Cyprus is the preferred route (14 of the 27 interviewed explicitly mentioned this) due to low rate of withholding tax rate as per the India-Cyprus double taxation treaty. Presently, the FDI regulations require that all investments be made via the equity route only. In keep with this stipulation, most funds use compulsory convertible preference share (CCPS) or compulsory convertible debentures (CCD) to invest in an Indian entity.

6.2.5 Partnering Issues

Beyond doubt, partnering with local developers is the most important issue that funds need to pay attention to, whilst investing in India. For most of the respondents, partner selection is more important than the financial returns on the project.

The criteria that funds consider most relevant whilst evaluating a developer are:

- Execution track record capability (17 of 27 institutions explicitly mentioned this), and
- Reputation and transparency (10 of 27 institutions explicitly mentioned this).

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[65] Interview with Institution #5 on 2nd June, 2009 in Mumbai
[66] Interview with Institution #6 on 1st June, 2009 in Mumbai

A director of global real estate platform elucidated about partners,

> *"First you need to ensure that the he is not a crook. Most developers have bad reputations. He needs to have knowledge and operating experience in the local markets. Lastly, the partner needs to be transparent in all his dealings."*[67]

A managing director of a global real estate private equity fund contended that 3P's for partnering in India are,

> *"Project - should be in accordance with the market demand, developer capability, Promoter – should have the requisite execution capability, and Proposal – promote structure should be lucrative to all players"*[68]*.*

A country manager for a global alternative investment management firm listed,

> *"A partner needs to have credibility, reputation, execution capability. Land should have crystal clear title."*[69]

A vice president for global real estate private equity firm explained,

> *"Our philosophy is that a good developer will be able to attract premium prices. We seek comfort factor, personal track record, and a clean reputation. We like to support young people with desire to succeed. At an organizational level, we assess local knowledge, delivery capability, management and branding."*[70]

Funds want to ensure that their interests are aligned with that of the developers. Funds try to ensure that partner developers have enough "skin in the game" in the partnership structure.

A chief investment officer of a global investment bank promoted fund was unambiguous as to what the most important criteria in partnering,

> *"Skin in the game is key. We don't invest in projects to cash out developers. Our interests need to be aligned."*[71]

The other qualities that funds consider most relevant whilst evaluation a developer are:

- Past fiduciary experience;
- Local market skills including ability to access deals, aggregate land parcels and ability to deal

[67] Interview with Institution #2 on 1st June, 2009 in Mumbai
[68] Interview with Institution #1 on 8th June, 2009 in Mumbai
[69] Interview with Institution #7 on 3rd June, 2009 in Mumbai
[70] Interview with Institution #5 on 2nd June, 2009 in Mumbai
[71] Interview with Institution #3 on 9th June, 2009 in Mumbai

with local government authorities; and

- Experience in developing specific product types such as hotels, retail malls, etc.

A director of global real estate platform advised,

> *"Work with local partners who have a fiduciary background. The partner must understand to value and needs of external equity."*[72]

A director of a leading Indian Real Estate fund explained,

> *"We look at land acquisition capability. We prefer small local developers. For us, control is very important."*[73]

A fund manager for an emerging market private equity fund stated,

> *"We are not looking at top tier developers. Instead we look for mid tier reliable names in each regional market. Track record is required, but scalability is also important. The deal economics and personal relationships are both important."*[74]

A senior vice president of global shopping center developer explained,

> *"Choosing a partner is most important decision in India. The decision on the specific asset is dependent on vision and experience of the partner. We are looking to do only one major deal at one time. Decisions will be based on size, return and financing. We require partner to understand the strategic nature of our investment. We expect the partner to be honest and flexible in their approach."*[75]

Most developer organizations in India are family businesses. The "key-man risk"[76] is significant issue while dealing with most developers.

A managing director of a US based private equity real estate investment firm explained,

> *"We look for the quality and experience of the middle management of our prospective partners. The delivery track record is also vitally important."*[77]

Personal and social skills play an important role is developer evaluation. Personalities on both sides of

[72] Interview with Institution #2 on 1st June, 2009 in Mumbai
[73] Interview with Institution #24 on 11th June, 2009 in Mumbai
[74] Interview with Institution #6 on 1st June, 2009 in Mumbai
[75] Interview with Institution #20 on 12th June, 2009 in Delhi
[76] The (corporate) danger of over-reliance on one or a few individuals.
[77] Interview with Institution #15 on 3rd June, 2009 in Mumbai

the partnership need to be compatible to ensure the success of joint venture. Some funds prefer to deal with young developers with a drive to succeed and have developed incubation capabilities to handle such developers.

As far as legal negotiations on specific deals are concerned, the key issues that are keenly negotiated and debated are:

- Requirement of an affirmative vote of all parties in setting sale prices and rental rates;
- Non compete clauses;
- Degree of freedom for the developer to plan the project;
- Related party transactions;
- Put options on the promoters;
- Title representations and warranties;
- Future funding requirements;
- Appointment of directors; and
- Breaking deadlocks.

6.2.6 Risk Perceptions

The following were the most frequently cited risks affecting investments:

Execution Risk (9 out 27 interviewed explicitly mentioned this): Project completion within specified timelines is the biggest risk facing existing investments. Given the lack of experienced and organized building contractors, this is a factor than lends a lot of unpredictability to the schedule of the project. Most funds expect that their existing projects will not be completed within the original timelines thereby affecting the IRR of their investments.

A managing director of a US based private equity real estate investment firm explained,

> *"The execution ability of local construction companies is a huge concern. Delays in execution will affect the timeliness of the project returns. There are very few construction companies that have delivered 1mln sf in a year in the past. Hence projects exceeding 1 mln sf need to be scheduled and phasing carefully."*[78]

Market Risk (9 out 27 interviewed explicitly mentioned this): The 2008 slowdown in the economy has

[78] Interview with Institution #1 on 8th June, 2009 in Mumbai

affected the absorption schedules of many projects especially in the commercial and retail sector. Coupled with the slowdown, the recent downward revision in prices, has accentuated the potential problems being faced by developers. If the markets don't improve, there is the distinct possibility that investors will end up losing up to 50% of their investments.

A chief financial officer of one of India's largest real estate funds explained,

> *"The main risk is market risk. Slow absorption and oversupply affects our time period to exit."*[79]

An executive vice president of a US based real estate organization explained,

> *"Most importantly, there is presently a lack of market depth to scale our investments. It is difficult to deploy $1 bln in just development projects. The market depth will improve once foreign institutions are allowed to buy ready assets."*[80]

Liquidity/Exit Risk (9 out 27 interviewed explicitly mentioned this): Residential condominiums are self-liquidating; hence liquidity risk is not a concern in this case. In the case of commercial and retail property, liquidity risk is a real concern. As per current regulations, foreign investors are not permitted to invest and trade in ready real estate assets in these sectors. Also, since real estate mutual funds (REMF) and real estate investment trust (REIT) are not yet operational, potential targets for these assets are domestic funds, non-resident Indians (NRI) and domestic high net worth individuals (HNI). Since the target universe is restricted, it poses a serious concern for holders of these assets to sell these assets in a timely fashion.

A country manager for a global alternative investment management firm stated,

> *"Exit risk is our biggest concern – Our returns will be affected if we can't exit in a timely manner. The second is currency risk. Given the recent volatility in the rupee, we could make a 25% IRR, but with a 10% negative currency devaluation we won't be able to provide the desired return to our investors. Honestly in today's time, we'd be happy if we are able to just return capital back to our investors."*[81]

A CEO of a global real estate investment and development firm expressed caution,

> *"Without liquidity for investment grade property, it will be difficult to exit investments at the*

[79] Interview with Institution #27 on 26th June, 2009 in Mumbai
[80] Telephonic Interview with Institution #14 in New York on June 25th
[81] Interview with Institution #7 on 3rd June, 2009 in Mumbai

opportune time."[82]

Regulatory Risk (9 out 27 interviewed explicitly mentioned this): Many funds have partnered with developers at the land acquisition stage. Some projects require regulatory approvals for changing the use of the land. Funds believe these approvals are taking longer than originally expected. Lack of timely regulatory approvals for a project inevitably means that project will be delayed, thereby affecting the overall returns on the project. Enforcing legal obligations remains a very time consuming process in the country.

Transparency Risk: The absence of timely information regarding supply, absorption, prices and rents creates inefficiencies in the market. Absence of accurate market information makes decision making very difficult. There is also a shortage of professional due diligence and valuation institutions.

A managing director of a US based private equity real estate investment firm enumerated,

> *"Accuracy of demand-supply-absorption information is a huge concern. Failure to anticipate market situation impacts rents and prices that one will realize in the future."*[83]

Country Risk: The lack of adequate infrastructure such in transportation, education and health care is single biggest reason why the country has not developed as rapidly as other emerging markets such as China. Interest rates, inflation and exchange rate risks are important, but government and central bank policies have ensured that these measures remain in check. Terrorism remains a significant risk to India's security.

A vice president of a leading global real estate fund said,

> *"Policy and regulation can affect attractiveness of investment. It is very important that investors maintain a positive perception of India. This could potentially affect the investment appetite of global capital flows."*[84]

A chief financial officer of a UK based private equity fund explained,

> *"Infrastructure development needs to keep pace with urbanization. Without infrastructure growth, India's growth will be hampered."*[85]

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[82] Telephonic Interview with Institution #17 in New York on June 9th, 2009
[83] Interview with Institution #15 on 3rd June, 2009 in Mumbai
[84] Interview with Institution #9 on 7th June , 2009 in Mumbai
[85] Interview with Institution #13 on 22nd May, 2009 in London

6.2.7 Advice to New Entrants

Some important advisories given by participating institutions were:

Risk diversification: It is important to diversify risks. Investors should put in place strategies to diversify across different real estate sectors. Since the residential sectors forms the major part of the India's real estate market, it is natural that residential sectors will constitute a substantial part of a real estate portfolio in India. However, even in the residential sector, one can diversify risks by spreading investments across the major cities.

A country manager for a global alternative investment management firm advised,

> *"Listed stock is a good medium term option. If you want direct exposure, utilize 2 fund managers -- one global manager and one domestic manager. Make sure that you study the investment team. A large fund scale is important."*[86]

Market Strategy: Do your homework and execute to a well thought out strategy. The Indian market is very price conscious. Institutions should invest resources in studying the product that they are investing in and understand the target markets for a given product.

A managing director of global real estate private equity fund offered the following advice,

> *"Have a long term plan. Establish a strong local presence. Initially spend time studying the market. Thereafter, formulate a regional asset class strategy. And most importantly, execute based on your strategy and utilize global branding to your advantage. Do not change horses midway."*[87]

A vice president for global real estate private equity firm advised,

> *"Invest in ready properties. Invest with developers with proven execution skills. Study absorption schedules. Knowledge of local markets is important. Most important is to find the right partner."*[88]

Reputable Partners: Work with reputable local developers and partners. Reputable local developers command a premium in the local real estate markets and get access to best development deals. Work with such developers helps ensure a steady pipeline of future deals.

[86] Interview with Institution #7 on 3rd June, 2009 in Mumbai
[87] Interview with Institution #1 on 8th June, 2009 in Mumbai
[88] Interview with Institution #5 on 2nd June, 2009 in Mumbai

A fund manager for an emerging market private equity fund advised,

> *"It is difficult to be a passive investor in India. Look to work with reputable, active local managers."*[89]

A managing director of global real estate investment organization advised,

> *"One should be familiar with top 30 cities in India. Don't co-invest with other funding partners. Your local partner should have a credible presence. JV agreements must have checks and balances. Don't believe boiler plate numbers."*[90]

A director of a leading Indian Real Estate fund advised,

> *"It important to create a platform with a developer. The idea is to build a partnership that creates a pipeline of deals for the fund."*[91]

Execution risk: Focus on execution. Due to the unorganized nature of the construction market, most projects face the risk of being delayed.

A director of global residential and hotel development firm advised,

> *"Think long term. Setup local teams. Hire local consultants. It's important to put in place proper reporting structures. Make sure the partner's interests are aligned with your interest. Focus on price, value and execution."*[92]

6.3 Conclusion of Chapter 6

India real estate offers some remarkable investment opportunities. Largely, the first movers in Indian real estate were domestic funds and foreign institutions that had prior existing business links with India. The institutions had the advantage of local knowledge and hence were able to invest early and make a larger number of investments. Foreign institutions without prior links to India have rightly adopted a more tentative approach. The investment opportunity in India has broadly centered on the Tier 1 and Tier 2 cities of India. There are long term opportunities in all real estate sectors due to rapidly urbanizing population of the country. Investors can seek 20-25% returns on their investments. Structured deals that are standard in the developed world are becoming more prevalent. Mauritius is the most preferred route for routing foreign investments into the country due the India-Mauritius tax treaty that exempts

[89] Interview with Institution #6 on 1st June, 2009 in Mumbai
[90] Interview with Institution #8 on 9th June, 2009 in Mumbai
[91] Interview with Institution #24 on 11th June, 2009 in Mumbai
[92] Interview with Institution #19 on 12th June, 2009 in Delhi

capital gains from taxes. Choosing the right local partner is the key to long-term success in India. Investors must also recognize the risks affecting Indian real estate investments. Execution risks, exit risks and transparency risks are especially of concern to foreign investors.

Chapter 7 provides conclusions based on the research carried out in this paper. It also provides recommendations to help institutions make better decisions while investing in Indian real estate.

Chapter 7 : Recommendation and Conclusions

7.1 Conclusions

In review, the central question this thesis posed was, "What opportunities in India have caused global capital to flow into Indian real estate?" In conjunction, this thesis sought to address the following questions:

1. What is driving Indian real estate? Is it primarily driven by global capital flows or are local investments the major driver?
2. With respect to geography and property sectors, what were the opportunities and expectations that led people to invest in India from 2005-2008?
3. Have the expectations been realized? What future advice can be provided to prospective investors in terms of investment sectors, investment structures and partnership formats?

This thesis has sought to the address question 1 and 2 by examining Global Capital drivers, India Country drivers and Indian Real Estate drivers as put forth in the research framework. The primary drivers of global investments are the need for diversification, high returns and an expanded universe of real estate opportunities. As a result, global capital flows have been steadily increasing in the recent past. In Asia, cross-border investment activity continued to account for almost 45% of total transaction volumes as of mid 2008. The economic growth of emerging markets is one of the prime causes for these increased capital flows. The share of BRIC countries as percentage of the global real estate market rose from 4.2% in 2004 to 7.5% in 2007, and this trend is likely to continue in the future as these countries continue to grow at a rate far higher than the rest of the world (See Exhibit 3).

India, one of the BRIC countries, is expected to be a beneficiary of the globalization of real estate capital flows.

The Indian economy has captured the attention of global investors. As a result of the economic liberalization, India has been growing in the 7-9% range. The primary drivers behind this high growth rate are: rising domestic consumption, IT exports, young population and rapid urbanization. As a result, India has been attracting upwards of $25 bln in annual foreign direct investment in recent years. There are solid demand drivers in all real estate sectors. The heterogeneity of the Indian market means that players need to be clear on the segments that they need to target. In the residential sector, the total housing shortage is estimated at 24.71 million units. The pan-India demand projection across various segments is expected to be approximately 1,098 million sf in the coming five years. Government regulations have had a tremendous influence on real estate investment opportunity in India. In 2005, the government issued press note 2, which considerably opened up India's real estate sector for foreign investment. This move also catalyzed the creation of funds for collective domestic investment in the country. As a result, investors have pumped over US$ 25 billion into the Indian real estate market through public offerings, institutional placements and foreign direct investment.

The institutionalization of real estate financing in India has played a large role in promoting real estate development in all sectors. With the advent of REMF's and REIT's in the future, it seems that the trend towards greater institutionalization and transparency will continue.

Based on the above investment thesis, a variety of institutions have invested into India. The institutions are global investment banks, global real estate funds, pension funds, international developers and domestic institutions. Institutions have focused on the Tier 1 and Tier 2 cities and have invested across all the major sectors. The market correction in 2009 has forced institutions to rework their strategies. The residential sector is still clearly the preferred sector. In the commercial and retail sectors, the oversupply in the markets has forced institutions to study absorption trends more closely. The hospitality and industrial sectors continue to attract attention due to inherent demand-supply mismatch in these sectors. The structured investment model prevalent in private equity is gradually becoming more prevalent. Investors are still able to seek a 20-25% IRR on their investments. Institutions have focused on acquisitions so far, but asset management is expected to a play a larger role in the future. The local players are well entrenched in all market sectors and are extremely adept at managing the local environment. The present market correctional phase is welcome because it shows that Indian real estate is on its way to transforming into a strong and sustainable sector, thereby making India attractive for potential investors.

The success of Indian real estate investments is largely dependent on working with the right local players who have exceptional local market knowledge and execution capability.

7.2 Recommendations

Based on the research and conclusions presented in this thesis, the following recommendations can help institutions make better investment decisions while navigating the Indian real estate sector.

Investment Strategy

Institutions should first and foremost have a long-term outlook to investing in India. In India, real estate is a state government subject; hence regulations tend to differ state to state. This leads to great disparity in opportunities across the different states of India. There are essentially two approaches an institutional investor can take; i.e., the indirect approach or the direct approach. In the indirect approach, the experience and track record of the investment manager is of vital importance. It is preferable to diversify risks by investing a part of the funds with a global fund and the other part with a domestic fund. In the direct approach, it is important to understand the nature of the opportunity. The Indian real estate opportunity is presently largely focused on development projects rather than ready assets. Development projects typically take a long time and in India projects are generally subject to unforeseen delays. Ensure that there are no asset-liability mismatch issues while investing in development projects. Before investing, study the market and formulate an investment strategy. Thereafter, invest and follow an active management strategy. Investment in Indian real estate should not be treated like a black box. However, be careful not to get nervous midway and try to change strategy mid-course.

Sector Strategy

Apart from tracking local demand, supply, and absorption trends in the local markets, the following factors play a key role in determining a project's success in India:

- Residential – affordability and availability of infrastructure services;
- Commercial –transportation issues and demand drivers such as IT, Financial Services;
- Industrial – location in relation to distribution hubs outside major cities, ports and airports;
- Hospitality – experience of local partner in controlling capital costs;
- Retail – requirements of the local market, tenant mix, mall strategy.

New innovative products like apartment housing, studio apartments, student housing, serviced apartments and low budget hotels that reduce the cost for the Indian consumer are likely to prove successful in the future.

Transaction Structure

"Alignment of interests" and "skin in the game" are key mantras as far as structuring transactions are concerned. It is possible to target 12-16% IRR for ready assets and 25% IRR for development deals. While partnering with a developer, the exit strategy should be clearly agreed upon. It is recommended to avoid cash out deals wherein the investment goes to pay for the developer's investment profit in the land.

When there is high visibility in the market, pure equity is good investment option. Structured deals are ideal when there are differences in valuation or when the market has low visibility. Structured deals, which are standard business practice in the real estate private equity world, are recommended since the developer as an upside incentive in the form of a promoted interest.

Organization Strategy

Institutions setting up local teams should ensure that the local team has expertise in real estate investment, structuring, tax, asset management, project management and construction. Since projects faces high execution and absorption risks, asset management and project management teams will prove crucial in the ensuring the success of projects. Traditionally, investment institutions have largely focused on providing financial skills to the local teams. Planning and design are areas where global institutions can add tremendous value to the quality and execution speed of projects in India. Institutions that can provide access to global experts in urban planning, architecture and construction services will ensure greater success for their investments.

Partnering

It is important to choose a partner in a local market who has experience and execution capability in the given local market. Work with a partner that has a fiduciary background or one that has experience working with external capital. Budgets and reporting standards should be detailed upfront. Affirmative voting rights, default penalties, exit options and dispute resolution mechanisms should be agreed to prior to formally executing the joint venture agreement. Since the Indian judicial system is extremely slow, arbitration is most preferred option for dispute resolution. Be sure to hedge partner risk by working with multiple local partners if possible.

Summary

Fundamentally, the Indian economy is headed in right direction. Sam Zell aptly observed "India's greatest asset today is everyone's imagination…". The ever increasing foreign investment in the Indian economy is testament to India emerging as a credible global investment destination. Indian real estate offers significant opportunities in all sectors. The real estate opportunity in India, as compared to opportunities in other emerging markets, is driven by domestic consumption and urbanization. Hence, product localization is more important than conformity to international standards. Real estate in India must cater to local specifications and requirements. Regulatory risks are high in Indian real estate and therefore, the role of a local partner cannot be understated. However, low levels of transparency mean there is enough opportunity for high-risk premiums. In the past, the booming markets may have blurred the lines between real estate acumen and fortune. But the future holds no such promise. Today is the time to get back to the basics of real estate development. In the words of James A Graaskamp[93], think of "space consumers (the market), space producers (the expertise) and public infrastructure (the services)". It's time to stop thinking of Indian real estate as just a financial opportunity. It's an opportunity in civil engineering, architecture, urban planning, sustainability,… The list is endless.

[93] James A Graaskamp, 1992

Appendix A: List of Institutions

Institutions that participated in the formal interview process:

Foreign Institutions
Actis
AIG Investments
Amstar Global
Cadim
GID Capital
Ivanhoe Cambridge
J. P. Morgan
Merrill Lynch
Morgan Stanley
RREEF
SITQ
South Asian Asset Management Limited
Starwood Capital
SUN-Apollo
The Blackstone Group
The Carlyle Group
Vornado Realty Trust
Wachovia
Walton Street Capital
Plus 2 Institutions whose names are confidential

Domestic Institutions
HDFC
ICICI Venture
INDIAREIT Fund
Kotak Realty
IL&FS Investment Managers
Milestone Group

Law Firms
Amarchand & Mangaldas & Suresh A. Shroff & co.
AZB & Partners
Wadia Ghandy & Co

Disclaimer: The information presented in Appendix "C" was compiled based on information available in the public domain. The institutions listed herein above have not provided any of the information presented in Appendix "C". Therefore, the accuracy of the information presented in appendix "C" is not guaranteed.

Other institutions that aided in formalizing this thesis:

Institutions
AMB Property Corporation
Brookfield
Cushman Wakefield
Credit Suisse
Goldman Sachs
Forest City
Grosvenor
Hines
HSBC Private Equity
Jones Lang LaSalle Meghraj
Macquarie
Prudential America
UBS

Appendix B: Tabulation of Responses

	Institution #1	Institution #2	Institution #3	Institution #4
Description	A leading Global Real Estate Private Equity Fund	Global Real Estate Platform	Global investment bank	Large Global Bank
Interview Date	8th June, 2009	1st June, 2009	9th June, 2009	8th June, 2009
Interviewee Designation	Managing Director	Director	Chief Investment Officer	Vice President
Promoter Type	Global	Global India JV	Global	Global
Target Investors	Global	Global	Global - India Specific	Global
India Specific Allocation	No specific allocation	India specific fund	India specific fund	Asia specific fund
1. Reasons for investing in India	Global money was the key trend	Partner had India connection. Part of a global platform. Press Note 2. BRIC was oversold. McKinsey report. Trend was that money was being raised for India.	Emerging Markets. India on the radar of US investors. India economic story was strong. Tap into institutional appetitite.	Global trends and local factors
2. Initial Investment Stategy	Judicial Opportunities in Tier 1, Top 5-7 cities. Prefer short cycle investments. Asset agnostic. SPV level.	Residential / Office - okay. Retail - underlying model is an issue. Hotel - very capital intensive. Long term risk. Industrial - okay. SPV / Entity level okay.	All kinds of assets. Residential, Office and IT SEZ's. Primarily Tier 1 with large developers. Not Retail because of mall format is underdeveloped. Strata-titles, parking design, loading bays, not many anchor tenants, lack of transparency in retail sales figures.	Asset Agnostic. Primarily Tier 1. 40% in Hotels, Services apartments.
3. Strategy Adjustments	Residential	Stricter underwriting. Careful to track costs/slippages/overruns. Careful of unrealistic demand expectations. Careful about developers execution capability.	Today black box investing is gone.	
4. Transaction Structures	Earlier couldn't do structured deals. Far too many funds chasing deals. Today trend is structured deals. Promoters are far more flexible.	Mid 20's returns. 2X - Multiples.	2005 - no deals with promotes. Today most deals are with promote strucutures. Do not prefer to take out developers land contribution.	20-25% rupee returns. Mostly straight equity deals.

	Institution #1	Institution #2	Institution #3	Institution #4
5. Organization Strategy	Important to have a India cost structure. Product and services have been launched to Indian specifications. Since focus is primarily development / greenfield opportunities, good domain knowledge is important.	Organization has all necessary development skills - leasing, project management, architecture, asset management, accounting. This is due to the nature of the opportunity. Team size is 15 people - out of which 9 are in the investment team.	10 people. Presently acquisition focused. Future focus will be on asset management. Skills include Development and Engineering, Acquisitions, Asset Management, Project Management. Research is weak due to lack of availability of data.	17 people. Was investment focused and asset management. Typical global type of structure. In India, it should have been more project management focused.
6. Legal Structure	Mauritius. Organization is complying technically with the regulations. Future trend is that tax havens will be reduced.	Mauritius and Cyprus. Risk - Non private equity transactions, taxation risk.	Mauritius. Unknown how regulations will change.	Mauritius/Cyprus. Can't mitigate this risk.
7. Partnering with Local Partner	Project, Promter and Proposal are all equally important. Project - Target Market, Promoter - Execution, Proposal - Promote strucuture. Mistakes people made: 1. Focused only on finance. 2. Partnered with people who spoke flowery language 3. Myopic vision - thinking short term 4. Emotionally attachment to property	Developer's reputation, experience in local markets, execution capability, transparency	Skin in the game. Alignment of Interests.	Execution track record, integrity.
8. Risks	Changing horses mid way. Don't see execution risk, market risk and forex risk as issues. Always thinking that you are smarter than the market	Title risk, market risk, exit risk. Don't see fraud risk or other legal risks.	Market Risks, IT Companies, Land Acquisitions, complicated assets, construction financing.	Execution risk, market Risk, Tier 2 demand, skin in the game.
9. Advice	There are no easy pickings. Have a long term plan – 10 to 15 years. Local presence is important. Local cost center. Local strategy. Have a regional asset class focus. Use global branding.	Work with partners with a feduciary background. Local experience is key.	Regulatory risk. No forex issue.	Local expertise and talent is required.

	Institution #5	Institution #6	Institution #7	Institution #8
Description	Global Private Equity firm	Emerging Markets Private Equity fund	Global Alternative Investment Management Firm	Global Real Estate Fund
Interview Date	2nd June, 2009	1st June, 2009	3rd June, 2009	9th June, 2009
Interviewee Designation	Vice President	Vice President	Country Head	Managing Director
Promoter Type	Global	Global	Global	Global
Target Investors	Global	Global	Global	Global
India Specific Allocation	Asia specific fund	India specific fund	No specific allocation	India specific fund
1. Reasons for investing in India	China was major factor. Investors have appetite for emerging markets. Had invested in China, so the idea was to replicate model in India. In future, funds will raise money based on track record.	Has been in PE business in India for past 10 years. Have a deep understanding on indian markets. Fund buys the India demand theory of housing shortage, per capital office space, gdp growth, personal income. Diversification of return is important.	High returns, risk manageable. Relationship between spreads in India returns and US returns.	Have been doing business in India since 1965. have historic links. FDI opening was logical extension of the business.
2. Initial Investment Stategy	Earlier strategy was Asset agnostic. SPV level primarily.	Housing, Grade A Office, Budget Hospitality, Industrial. Do not prefer retail as too much supply. Tier 1 - Most preferable. Tier 2 - ok. Tier 3 - only a portfolio of projects. Prefer metros because of liquidity, market depth. Individual deals should be sizable based on the developer capacity. Only SPV level.	Residential, Commercial. Major metros and all sectors. SPV and Entity.	Not investing in land, landbanking, retail and change of user. Investment in cities after careful analysis of demand drivers.
3. Strategy Adjustments	Top 7 cities and Residential primarily. Risk of oversupply in target market needs to be carefully evaluated. Target today is mainly structured deals with downside protection. Project size should be sub 2million sqft or manageable to the developer.	No change. Short term strategy based on demand and supply.	No commercial. Entity exits are more risky. Strategic direction is alright. Timeline has shifted. Plan to invest $1bln.	
4. Transaction Structures	20% IRR. Now aiming for 30% IRR. Earlier most deals were straight equity. Last six months, deals have preferred equity structures.	25-30% return expectations.	25% plus. Straight equity deals. Hurdle rates affect developers returns and priority.	All kind of deals. Important to look at downside and upside in all cases.

	Institution #5	Institution #6	Institution #7	Institution #8
5. Organization Strategy	5 people. Support from overseas offices. Skills include investment management, asset management. Small team requires professionals to multitask. Project monitoring function will be typically outsourced.	3 people. Investment professionals, Asset Management. Don't require development experience. Real Estate experience is important. In Africa, team has actual development capability.	Experience in real estate acquisitions, asset management. Plan to hire a project manager. Use of global personnel resources.	11 people. 3 layers of management. Finance, Construction personnel.
6. Legal Structure	Mauritius. Carry structure will be impacted if tax treaty benefits are withdrawn. However, don't see major risk with Mauritius.	Mauritius/Cyprus. Vodafone issue is critical. AT&T/Idea case is also relevant. However, these cases apply to operating companies. It is important to maintain just an advisory presence in India.	Mauritius. Risk seems low given the quantum of investment that has flowed into the country through this route.	Mauritius. Risk is in post-facto changing the rules. One can't mitigate this risk.
7. Partnering with Local Partner	Right Partner, Right Deal are both important. Partner transparency, track record. Incentives should be aligned. Upside on the project should go to the developer. No fees and take-outs upfront. Capacity to build to schedule is important.	Not looking at top tier developers. Instead look for mid tier reliable names in each regional market. Track record is required, but scalability is also important. Economics and relationship are both important.	Credibility, reputation. Crystal clear titles. Deal structure. Execution capability.	Integrity, processes, track record. Take time to sign term sheet.
8. Risks	Regulatory risks. Market risks.	Regulatory risk leads to project delays. Likelihood of worst case of business plan scenario is high.	Exit Risk. Currency risk.	Leasing risk, absorption schedule, construction costs. Does not hedge forex risk. Growth rate and transparency is an issue.
9. Advice	Invest in ready properties. Invest with developers with proven execution skills. Study absorption schedules. Knowledge of local markets is important. Most important is to find the right partner.	It is difficult to be a passive investor in India. Look to work with reputable, active local managers.	Listed stock is an option. Utilize 2 fund managers. 1 global and 1 domestic. Size of investment team. Large fund scale is important.	One should be familiar with top 30 cities. Don't co-invest. Partners should have credible presence and agreements should have checks and balances. Don't believe boiler plate numbers.

	Institution #9	Institution #10	Institution #11	Institution #12
Description	Global Real Estate Fund	Global Bank	One of world's leading Financial Management and Advisory Firms	One of world's leading Real Estate Private Equity Firms
Interview Date	7th June , 2009	9th June, 2009	22nd June, 2009	25th June, 2009
Interviewee Designation	Vice President	Managing Director	Vice President	Associate
Promoter Type	Global	Global	Global	Global
Target Investors	Global	Global	Global	Global
India Specific Allocation	India specific allocation	No specific allocation	Asia specific fund	No specific allocation
1. Reasons for investing in India	Has been actively investing in emerging markets. Was looking to invest prior to 2004 in hospitality and IT Parks. 2005 regulations were key to entering into India. Global Fund has mandate to deploy growth capital using special situations fund.	Large bank. Wanted to have a presence in emerging market India. Strategic nature. Already had a local banking presence.	ML has other business in India. This was an extension of the global offering. India growth story, demographics were compelling.	India was a good emerging market story. Already had a private equity presence here, hence a natural extension to global business. Adopted a wait and watch strategy.
2. Initial Investment Stategy	10 Large ticket deals. Entity level was natural extension of this strategy. Strategic board level transaction. Strong brands and management. Opportunity at the time FDI opened up. SPV level ticket sizes are not attractive. Tier 1 cities. No self development. Industrial Sector - not much knowledge, Residential - product and pricing, Commercial - micromarket studies, IT specific, supply corrections, stabilized absorption pattern. Retail - issues with tenant mix, retailer maturity, demand projections, complex asset class. Entity only.	Primarily Tier 1. 75% in residential, 25% in commercial/retail. SPV/Entity level. Developer of track record in local markets. Urban zoned locations with strong demand.	Asset and geography agnostic. Prefer majority holdings. SPV level.	No 100 acre township projects. Prefer to invest in project with 3-4 yrs manageabe timeframe to exit. Don't like to invest in minority positions. Preferred sectors are hotels and office because of global synergies. Averse to retail. Focussed on big 5-6 cities and main city locations.
3. Strategy Adjustments	Asset level and portfolio level transactions. Exit and monetization. Still Tier 1. Cautious in short term. Fundamentals still need to get clearer.	\$500 mln is worth \$2bln. Choosing relationships and geographies. Expect business will show significant growth in the future.	Not retail because of rregulatory size, oversupply, maturity of tenants, number of available anchors. Warehousing - Tier 1,2, 3. Hotel and Commercial - Tier 1, Residential - Tier 1,2. Presently, asset management is the focus.	Avoid deals that have been rejected by others. More conservative stance. Focus on city-wise absoption trends. Prefer built and completed assets.
4. Transaction Structures	25%. EBITDA multiples.	Prop Book nature means primarily using CCD's. Not pure equity but with preferred return over developer.	25-30% Deal specific based on risk-return relationships. Preferred Equity deals in the recent past since the liquidity crisis.	Prefer all equity deals. Don't prefer structured deals. Prefer majority positions. Focus on structures that can enforced in local judicial system.

	Institution #9	Institution #10	Institution #11	Institution #12
5. Organization Strategy	10 people. China - asset management, architects. India - combination of asset management and corporate finance.	10 people. All 10 are real estate background. Asia level - similar strategy. Active involvement with the developer.	6 people. Team has skills for investment structuring, market analytics, project management, development. Hire third party consultants. Utilize Asia wide organizational resources.	3-4 real estate professionals. Skills for acquisitions, development, asset management.
6. Legal Structure	Mauritius/Cyprus. Treating shopping is an issue. The structure is still safe and rules are not expected to change overnight. Most P/E funds have used this route. Risk mitigation by always evaluating different options.	Mauritius. Not much visibility on the risk.	Mauritius/Cyprus. Don't see too much risk since 60-70% of FDI comes from this route. Intention is the avoid double taxation.	Mauritius/Singapore. Don't see too much risk, since a majority of India's $100bln FDI has come through Mauritius. Cyprus is dicey. Taking precautions to implement actual structure is practice, spirit and paper.
7. Partnering with Local Partner	Philisophy is that good developer will be able to attract premium prices. Comfort factor, personal track record, clean guy. Like to support young people with desire to succeed. Company level assessment of city knowledge, delivery capability, management and branding.	Track record. Whether developer can deliver 1m sqft. Ability to deal with local approvals, land issues. Good knowledge of product. Local geographical strength.	Reputation track record, experience in dealing with other institutions. Overall, the strategy is very partner focussed.	Deal terms are important. With a partner, one needs to take precautions not to have blind faith.
8. Risks	Key man risk - difficult to hedge. Market risk. Landbanking has uncertain future valuations. Absorption, construction times. Very few developers can execute 1 mln square feet a year. Policy and regulation. Domestic consumption. Very important is investor perception of India.	Delivery time schedule, supply-demand mismatch, local information, adjustments to phasing strategy, market cycles. Approvals are not risk but rather a time issue.	Market risk is affecting holding period, execution risk is not much of an issue based on partner selection.	Execution risk, lack of liquidity due to credit crisis, market risk, absorption trends.
9. Advice	Presence and competence of local team is important. One should execute to a strategy. Understand investment market. Country risk is not high. Don't see much regulatory risk. India is still a good story.	Understand local business. It's a long term business. Spend time to educate yourself. Skin in the game is key.	Be prepared for the long term, patience is important, ensure valuations are correct, select good developer.	Need to see exits in the future. Be wary of tier 2,3 cities with low demand drivers. Don't take zoning risk. Focus on price, value and execution.

	Institution #13	Institution #14	Institution #15	Institution #16
Description	UK based Private Equity Fund	US based Real Estate Organization	US based Private Equity Real Estate Investment Firm	US based Family Office Real Estate Organization
Interview Date	22nd May, 2009	25th June, 2009	3rd June, 2009	28th April, 2009
Interviewee Designation	Chief Financial Officer	Executive Vice President	Managing Director	Senior Managing Director
Promoter Type	Global	Global	Global	Global
Target Investors	Global	Global	Global	Global
India Specific Allocation	India specific fund	India specific fund	No specific allocation	India specific allocation
1. Reasons for investing in India	Believe in the BRIC story. Great drivers for residential - demography, middle class, availability of housing finance, demand-supply mismatch Promoter has India links.	Emerging market opportunity.	India's economic growth story was a major factor. Coupled with availability of attractive returns.	Emerging market focus. Didn't like China due to political risk, currency risk and unfriendly policies.
2. Initial Investment Stategy	Real estate specific private equity fund focusing on residential development in Tier II cities in India, commercial integrated business hotel development in CBD & SBD locations in India. Provide LP's with a focused strategy.	Class A office space, IT parks, Townships, Retail in 5-7 major metro cities	Residential. Catering to domestic demand and affordability. EMI should be 40% of household income. Tier 1 and Tier 2 cities with airports. Diversification across various cities.	Seeking to make investments in residential oriented real estate projects, new townships and/or operating companies in India. Aim is to be a specialist in residential development.
3. Strategy Adjustments	Seeking distress opportunities and higher returns on deals.		No change.	
4. Transaction Structures	30% plus IRR. Underwriting new deals at 40% IRR.	Prefer equity deals with a stake in the company.	Do prefer structured deals with preferred structures.	Seek structued deals with preferred equity structures.

	Institution #13	Institution #14	Institution #15	Institution #16
5. Organization Strategy	Residential	90 people, predominat focus on project and asset management	10 people. Investment and Asset Management professionals. Focus on asset management and research due to nature of local markets.	Need to have good project management focus. Hence have also invested in a local project management services organization.
6. Legal Structure		Mauritius. Don't see much risk.	Mauritius. Vodafone is an issue. However don't see major risk.	Mauritius / Cyprus. Don't see much risk.
7. Partnering with Local Partner	Have put in a place a development team on the ground, so development and execution is not a risk. Partnering is specific to the requirements of specific deal. Need to see transparency and vision in a partner.	Should be pleasant to work with. Prefer to keep peace of mind.	Quality of middle management. Track record.	Track record, reputation
8. Risks	Infrastructure development needs to keep pace with urbanization.	Market maturity for retail, Oversupply in IT parks, Lack of ability to scale investments.	Accuracy of information demand-supply information. Execution ability.IF the size of projects exceeds 1 mln sq.ft. Project management issues such as schedules, phasing. Poor infrastructure availability and delivery.	
9. Advice	Work with local partner who has a focussed strategy.	Housing is a good opportunity.	Local Presence. Important to utilize international expertise. Partner - documentation and trust. Investing in a fund is a good entry strategy because of compliance and feduciary issues.	

	Institution #17	Institution #18	Institution #19	Institution #20
Description	Global Real Estate Investment and Development Firm			Global Shopping Center Developer
Interview Date	9th June, 2009	12th June, 2009	12th June, 2009	12th June, 2009
Interviewee Designation	Chief Executive Officer	Managing Director	Director	Senior Vice President
Promoter Type	Global	Global	Global	Global
Target Investors	Global	Pension Fund	Pension Fund	Pension Fund
India Specific Allocation	No specific allocation	No specific allocation	No specific allocation	No specific allocation
1. Reasons for investing in India	Global Factors, Returns, Seeking pure Alpha.	Emerging market exposure was required.	Diversification requirements	Strategic decision to be a major player in India in the long term.
2. Initial Investment Stategy	Opportunistic. Focused on Hospitality. No SEZ, Residential since gestation is too long.	Delhi / Mumbai, Class A Office development	Not Tier 1. Tier 2 mid market. National partnerships. Residential and Hospitality.	Looking at greenfield development with reputable investor operators. Preference for already permitted land. Shopping Mall Development. Big cities preferably Tier 1 cities with underserved population.
3. Strategy Adjustments	Scaled back due to terrorist attacks.	Tap has stopped.	Local partnerships. Reviewing future plans.	Tap has stopped, but looking to invest $50 mln in first landmark project.
4. Transaction Structures	25% leverage returns. Have done primarily structured deals with preferred returns and promotes.	30-35%, 3-5 years. Preferred structures are a recent phenomenon.	30-35%, 3-5 years. Have implemented structured deals with preferred returns and promotes.	Looking at 50:50 JV. Prefer to develop and operate jointly.

	Institution #17	Institution #18	Institution #19	Institution #20
5. Organization Strategy	Partners with opertional skills in hospitality. Organization is similar to other private equity firms.	Active management	More hands off.	Lean local organization but will tap into global resources.
6. Legal Structure	Mauritius. Don't see much risk.	Mauritius/Cyprus. Expect issues in the future.	Mauritius/Cyprus. Expect issues in the future.	Mauritius/Cyprus
7. Partnering with Local Partner	Integrity, access to deals, ability to entitle properties and track record.	Execution capability, transparency. Amenable to working with foreign partner.	Local knowledge.	Partner is most important. Specific asset decision depends on partner's vision. Looking to do only one major deal at one time. Decisions will be based on size, return and financing. Require partner to understand the strategic nature of foreign companies investment. Flexibility is very important.
8. Risks	Exit risk, liquidity for investment grade property, availability of debt, yield expectations have increased.		Entilement delays. Timeline extensions. Undue optimism.	Penetration of competitor malls, India growth story, quality and speed of construction, regulatory risks.
9. Advice	Choose local partner wisely.	Local teams. Expect low transparency. Pay heed to early warnings.	Long term. Setup local teams. Hire local consultants. Put in place proper reporting structures. Make sure interests are aligned with partners.	Do your homework, take your time, choose reputable and transparent partner. Assume that investments are for the long haul.

	Institution #21	Institution #22	Institution #23	Institution #24
Description	A Global Private Equity Firm specializing in Real Estate Investment	A reputable Indian Real Estate Fund	One of India's largest private equity funds	One of leading Indian Real Estate fund s
Interview Date	10th June, 2009	5th June, 2009	10th June, 2009	11th June, 2009
Interviewee Designation	Executive Vice President	Director	Director - Investments	Director - Investments
Promoter Type	Global	India	India	India
Target Investors	Global	Global, Domestic	Global, Domestic	Global, Domestic
India Specific Allocation	No specific allocation	India specific fund	India specific fund	India specific fund
1. Reasons for investing in India	Global Pressure as well as India economic status.	Returns and diversification were requirements. Typical allocation 8-10% to real estate with 7-8% in emerging markets.	BRIC story. India economic story - urbanization, regulatory framework, economic growth, organized sector. Have been in P/E business. Had investment skill set. Required sectoral expertise. Have belief in India's being to a certain extent decoupled from western countries.	India growth story.
2. Initial Investment Stategy	Asset agnostic. Lifecycle investing. Do not prefer cities with sub 3 million population. Prefer co-investment with other funds.	Office, Residential, Land, JV, Ready Buildings in Tier 1 cities. Not investing in retail as market seems underdeveloped at present. Only hotel portfolios. SPV/Entity level. Prefer Local developers over national level developers.	Across Locations, across sectors. Land, commingled investments. SPV primarily.	Metro cities. No Tier 2,3. Residential 60%, Commercial and mixed use 40%. No standalone retail or hospitality. No leverage. Enter at land stage. Utiliza pre-sales.
3. Strategy Adjustments	Being cautious since it's a new market for the organization.	Only Delhi/Mumbai. Don't mind different price points as long as it is perceived to be reasonable for the given location. Present discount is more important. Concerned about elasticity of supply.		
4. Transaction Structures	Don't believe that promotes in India have been fully tested. Need to ensure that interests are aligned. Don't like cash takeouts.	Aim for 25% gross - pre carry pre fees. Have investing in pure equity deals. Promoter have littled understanding of promote structures.	20%-30% IRR. Have done a good mix of structured deals and plain equity deals.	20% IRR. Like preferred structures. No cashout to the developer.

	Institution #21	Institution #22	Institution #23	Institution #24
5. Organization Strategy	Currently 2 people. Looking to bring on asset specialists and asset management as deals progress.	11 to 12 people in Investment plus Asset Management , 3 to 4 people - Support Staff, 71 years of cumulative experience.	Core investment professionals 15-18. Normal PE plus focus on operating real estate, project management.	16 people. Have a development focus to the team.
6. Legal Structure	Mauritius. Being cautious. Waiting to go through one cycle of bringing in capital and taking out capital.	Mauritius. Well tested in the Supreme court. Vodafone issue is not much of a concern.	Mauritius. Don't see much risk. Government is forward looking, $500 bln required to upgrade infrastructure. India is reliant on external capital. Risk mitigation by ensuring that cash flows are genuine i.e. no round tripping.	Mauritius. Don't perceive much risk.
7. Partnering with Local Partner	Looking to build an investment platform for future investments. Important to build relationships. Strenght of local team in the given market. Experience of dealing with third party capital. Understanding of fiduciary responsibilities.	At a project level, valuations and supply-demand analysis is important. Promoter For Hotels - experience of operating and handling capex is important. Don't like promoters to get ego about assets. Hence prefer portfolio deals. For Office & SEZ's – Developer should have local experience. For Residential – Most developers have expertise.	Track record, experience in local market, execution capability, corporate governance procedures.	Land acquisition capability, prefer small local developers, control is important.
8. Risks	Execution, regulatory, entitlement.	Zoning and Regulation delays. Concerned about elasticity of supply. Demand / Price relationship, Exit Risk, Currency and execution is not such a big issue.	Commercial market slowdown, market risk, product risk - flexibility, over exposure to a sector. Forex risk is not important.	Regulatory, Delays, Oversupply. Don't favor landbanking approach.
9. Advice	Local presence, get a feel for all aspects of a deal, learn from other mistakes, grow team along with business, patience. Build an advisory team.	Enter through a fund with experience and local organization. Track record with LP's is important. Partnerships are critical.	Patience, long term outlook, market knowledge, demand, demography, value conscious.	Think long-term, expect delays, form partnerships, create investment platform.

	Institution #25	Institution #26	Institution #27
Description	One of India's oldest and largest Private Equity Funds	One of India's leading Real Estate Funds	One of India's largest Real Estate Funds
Interview Date	16th June, 2009	25th June, 2009	26th June, 2009
Interviewee Designation	Managing Partner	Assistant Vice President	Chief Financial Officer
Promoter Type	India	India	India
Target Investors	Global, Domestic	Global, Domestic	Global, Domestic
India Specific Allocation	India specific fund	India specific fund	India specific fund
1. Reasons for investing in India	Global money was always interested in India. No problem of raising money for credible fund managers.	Press Note 2 opended the floodgates. See huge appetite amongst domestic investors. Intention to gather more retail funds with a minimum corpus of Rs. 10 lakhs.	Regulatory changes. Global investors wanted India on their footprint.
2. Initial Investment Stategy	Utilize existing relationships with many developers. Opportunistic 60% residential, 20% commercial, 20% other assets. Target is small developer with the aspiration and drive. Willing to incubate developers. Willing to cash out developer as long as there is economic value at stake for the developer. Significant work on creating a pipe line of deals before raising a fund. Residential - Tier 1, Commercial - Tier 1 &2, Retail - Oversupply, Hospitality - only as a portfolio.	Residential, Commercial, Land Plotting - Tier 2 and Tier 3. Warehousing in Tier 1 and Tier 2.	Leverage existing lending relationship with developers to fund projects. All asset classes in Tier 1, Top 7 major cities. Strategy to use existing knowledge of cost structures to ensure that fund got the right deal.
3. Strategy Adjustments	Defensive, downside risk protection, more rigorous underwriting standards.	Affordable Housing, Commercial in Tier 1, Warehouse on the outskirts of Tier 1 cities. Future focus will be on investments in ready assets.	Only residential in Mumbai and Delhi
4. Transaction Structures	2005 - equity deals. 2008- more structured deals. Willing to give developer upside on profits.	Development Deal IRR's -25%, Ready asset deals - 16%. Preferred equity deals. Do not prefer cash take outs for developers.	25% IRR target. Prefer structured deals only if providing construction stage financing. Philosophy is that developer so also be okay with valuation. Try to provide a package deals with construction finance. Against cash out deals, but have done such deals in the past.

	Institution #25	Institution #26	Institution #27
5. Organization Strategy	16 people. Team with experience of real estate and fund management. Organization must have ability to takeover a project and run it.	40 people. 8 people in investment management, 15 people in project management. Strategy is to actively manage projects jointly with partner.	15 people. 3 C suite level ,4 investment management, 1 market analysis, 4 accounting, 1 construction operations, 2 support. Focus is on previous experience and synergies with parent organization.
6. Legal Structure	Mauritius. Safer than most other destinations.	Mauritius/Cyprus. Currently operate under the Venture Capital License scheme. Legal structuring for tax pass through status.	Mauritius. Don't see too much risk. Venture capital fund structure for domestic investors.
7. Partnering with Local Partner	Meeting of minds, comfort level, experience, project, locations. Returns is least important.	Reputation, past track record, vision, ability to aggregate land. Prefer to partner with developer at any early stage.	Reputation, credibility, experience. Prefer that partner has existing relationship with parent organization.
8. Risks	Execution risk, liquidity risk. All investments require active engagement and management.	Completion risk. Don't see absorption as a major risk. Ability to exit commercial projects is a risk.	Market risk, Slow absorption affects time period to exit. Don't see too much execution risk because of inhouse vetting procedures.
9. Advice	choose the right local manager and management.	Find a good local partner with proven execution capability. Invest in residential and warehousing.	It is key to have a local team.

Appendix C: Institution Public Profiles

<table>
<tr><td>Institution</td><td colspan="4">Starwood Capital</td></tr>
<tr><td>Fund Details</td><td colspan="4">Starwood Global Opportunity Fund VII, $1.475bln,
No specific India allocation, global investors,</td></tr>
<tr><td>Investment Strategy</td><td colspan="4">SOF VII is focused on investing in undervalued real estate and real estate-related assets and operating companies globally across all property types, including senior housing, residential, retail, office, hotel and land acquisition.</td></tr>
<tr><td colspan="5">Investment Details</td></tr>
<tr><td>Project Developer</td><td>Size</td><td>Location</td><td>Type</td><td>Project Details</td></tr>
<tr><td>Bengal Shriram Hi-Tech City Pvt. Ltd</td><td>Rs 5000Cr[94]</td><td>Kolkata</td><td>Residential</td><td>Integrated IT township and auto park in partnership with Walton Street Capital and Shriram Group, 33% stake</td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
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[94] Rs 1Cr = Rs 10mln, $1bln = Rs 5000Cr, $1mln = Rs 5Cr assuming $1 = Rs 50

Institution	Kotak Realty Fund			
Fund Details	Kotak India Real Estate Fund**,** $100mln, domestic investors Kotak Alternate Opportunities India Fund, $400mln, domestic investors Kotak India Realty Fund Limited, $281mln, global investors			
Investment Strategy	KRFG's investment strategy is focused on participating in the $45 - $50 billion expansion across the real estate sector in India. The investment strategy will involve partnering with professional developers in India who develop real estate assets that comply with global quality standards, opportunistically investing in a broad range of real estate assets in high growth cities.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Janapriya Projects		Hyderabad	Township	SPV Level, 5 million square feet across 32 acres at Kapra
Divyasree Developers		Chennai	Residential	Located at Old Mahabalipuram Road Chennai, 150 acres of land, aimed at top management of IT/ITES companies
IVR Prime Urban Developers Ltd	Rs 250Cr	Chennai	Residential	Located at Sriperumbudur, near Chennai, Spread across 600 acres
NDR Warehousing Private Limited			Entity level	Leading player in warehousing space
3C Group		Noida	IT Park	Project is located in Sector 62 Noida, 700,000 sq ft
Pentamedia Graphics		Chennai	Land acquisition	20.7 acres of land, Old Mahabalipuram Road, Plans to develop a mixed use project of approximately 2.1 mln sft
Lalith Ganga Constructions			Entity level	Startup venture in association with Mr. Girish Puravankara.
Sunteck Realty Ltd	Rs 140Cr	Mumbai	Entity level	Listed Developer, 9 projects under development in Mumbai and Goa, Flagship project is a luxury residential development i.e. Signature Island, at BKC in Mumbai
Clover Group		Bangalore	Township	Golf Community, located at Sarjapur - Attibelle link road
Sobha Developers	Rs 30Cr	Bangalore	Entity level	Listed Developer
K Raheja Constructions		Mumbai	IT Park	Goregaon (E)
Insul Electronics	Rs 140Cr	Mumbai, Pune, Nagpur, Chennai	Entity level	10% stake, Combination of equity & convertible pref shares
Pride Hotels	Rs 45Cr		Entity	11.11% in Pride Hotel chain
Lemon Tree Hotels	Rs 32Cr plus		Entity	Hotels across Tier I, II and III cities. Plus $30mln is partnership with Shinsei Bank for 5.9% stake.

Institution	Sun Apollo			
Fund Details	Sun Apollo India Real Estate Fund, $630mln, India specific fund, global investors			
Investment Strategy	Acquisition and development of western grade office and IT parks, development of upper and middle class residential units, development of modern shopping centers and hypermarkets, acquisition and development of high-end and middle-market hotels, investment in entrepreneurial real estate companies and developers			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Amrapali	Rs 300Cr	Noida, Jaipur	Township	35-40% stake in SPV to develop 200 acre township in Jaipur and a 15 acre high-end housing project in Noida.
Janapriya Projects	Rs 3,750Cr	Shamshabad	Township	65% stake for developing a township project at Madinaguda near Shamshabad.
Amrapali	Rs 300Cr	NCR, Noida	Residential	35-40% equity in an SPV of Noida-based realty firm Amrapali group, 200-acre township in Jaipur, 15-acre high-end housing project in Noida.
Shriram Properties Ltd	Rs 1,013Cr	Chennai	SEZ, Hotel, Serviced Apartments	Shriram Properties Limited, in an equal joint venture with SUN-Apollo, is developing a 4.8 million sf mixed use development project (of which 3.6 million sf will be under SEZ), called 'The Gateway' on the GST road in Chennai
Point Indu		Hyderabad	IT SEZ	Point Indu is a 7.8 million sq. ft. IT SEZ under development in Hyderabad
Keystone Developers	Rs 300 Cr	Mumbai	Entity	15 percent stake in Mumbai-based developer Keystone Realtors

Institution	JP Morgan			
Fund Details	JP Morgan India Property Fund, $365mln, India specific fund, global investors			
Investment Strategy	The Fund invests across asset classes that include residential, office space, SEZs, Hospitality, Retail and other real estate related areas. The India property fund targets key economic centers in the country including Mumbai, Bangalore, Chennai, Kolkata, Hyderabad and New Delhi among others, to develop projects along with local partners.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Alok Industries	Rs 154Cr		Entity level	33% stake in the company
BPTP	Rs 250Cr	Pan-India	Entity level	4% equity issue by BPTP, Citi had picked up 5.89% for Rs 322.5 Cr last year
Lodha Group	Rs 274 Cr	Mumbai	Residential	High-end residential complex called Lodha Bellissimo, a 50 storey tower in Central Mumbai
Core Hotel Ventures	Rs 113Cr	Hyderabad	Entity Level	Engaged in providing project management and hotel management services. It is also building two hotels in Hyderabad.
Arihant Foundations & Housing	Rs 200Cr	Chennai	Residential	45 acres at Maraimalai Nagar, 1.2mln sq ft of built space including villas and apartments

Institution	Citigroup			
Fund Details	Citigroup Property Investors Asia Fund, $1.3 bln, No India specific fund, Global investors, Citi Venture Capital			
Investment Strategy	CPI seeks real estate private equity investment opportunities throughout the Asia Pacific region, with a primary focus in Greater China and India. The team implements an investment framework focused on: Asia's Economic Growth and Stabilization, Emerging "Great Exchange" and Market Privatization, Improving Investment Environment, Securitization of the Real Estate Market.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Nitesh Estates	$55 mln	Bangalore	Hospitality	$125 million hospitality project to bring Ritz Carlton into Bangalore. Hotel will have 281 keys with high end retail.
Golden Gate	$100 mln	Bangalore	Entity Level	About 10% stake, Company Valuation at USD 1bn, Residential Developer
BPTP	$160 mln	NCR	IT SEZ	40% stake, 4 SEZs, Noida (25 acres), Greater Noida (100 acres), Gurgaon (27 acres), Faridabad (54 acres)
Shapoorji Pallonji	$300mln		Entity	Transaction in Dec 2007, 15% of stake for 6 projects in commercial, residential and shopping malls in Kolkata, Pune and Nagpur. In partnership with GIC Singapore
Indu Projects	150		SPV	Citigroup Venture Capital has bought 9% equity. Commercial and residential space totaling 28mln sf in Hyderabad, Pune, Coimbatore, Chennai.
Gera Developments	141	Pune	Residential	Total JV of Rs. 550Cr with area of 2 million sf consisting of 600 villas. Location is Kharadi
Emaar MGF Land Ltd	113		SPV	
Portman Holdings, HDFC			Service Apartments	

<table>
<tr><td>Institution</td><td colspan="4">Carlyle</td></tr>
<tr><td>Fund Details</td><td colspan="4">Carlyle Asia Real Estate Partners, $650mln, No India specific allocation, global investors</td></tr>
<tr><td>Investment Strategy</td><td colspan="4">Carlyle's Asian real estate team seeks value-oriented investments with repositioning or redevelopment opportunities and development projects in primary cities across China, Japan and India. The investment approach of Carlyle's Asian real estate team comprises the following four major principles:
Market-Focused Approach: Carlyle utilizes local market deal teams with a strong knowledge of local and global capital markets.
Proactive Deal Creation: By employing a proactive opportunistic investment strategy, Carlyle generates and evaluates highly selective deals on an exclusive directly negotiated basis with motivated sellers.
Active Management: Investment professionals devote a significant amount of their time working closely with local operating partners to create value through active management.
The Carlyle Platform: The team coordinates closely with other Carlyle funds, particularly Carlyle funds in Asia, to maximize the synergistic benefits of Carlyle’s global platform.</td></tr>
<tr><td colspan="5">Investment Details</td></tr>
<tr><td>Project Developer</td><td>Size</td><td>Location</td><td>Type</td><td>Project Details</td></tr>
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Institution	Walton Street Capital			
Fund Details	Walton Street Real Estate Fund VI, $2.5bln, No India specific allocation, global investors			
Investment Strategy	Walton Street invests and manages with the philosophy that real estate is a commodity subject to cycles, both in terms of its underlying supply and demand fundamentals and its pricing relative to other financial assets. In seeking to deliver attractive risk-adjusted returns for our investors, Walton Street employs several investment strategies, including: Single Asset Transactions, Complex Ownership Situations, Illiquid Assets, International Ventures, Targeted Development, Entity Recapitalizations, and Private Equity Platform Investments. Walton Street Capital India is planning to invest now in the affordable housing segment.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Shriram Properties	$100mln	Kolkata	Township	33% in a Rs. 5000Cr township project in Kolkata on a Hindustan Motors plant land in Uttarpara. Project will comprise 20 million sf of residential, retail, office and civic infrastructure.

Institution	Actis			
Fund Details	Actis India Real Estate Fund, $100mln, India specific fund, global investors			
Investment Strategy	In Asia, rapidly growing markets, a low stock of institutional grade properties and high yields with scope for compression, combine to form a compelling investment case. Actis typically invests between US$10 million and US$50 million of equity capital in office, residential, industrial, hotel and retail space either at the project or corporate level. While the main opportunity in the emerging markets is of a development nature, Actis will also acquire single assets or a portfolio of assets. In India, the strategy is to invest and partner with established local developers working in emerging business destinations and peripheral locations within large metropolitan areas where mid-market residential and commercial properties are in great demand.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Vaishnavi Infrastructure	$25mln	Bangalore	Residential	Rs. 350Cr development of 925,000 sq ft of high-end residential and retail space at Yeshwantpur. US$7.5 million will fund the construction of the Bangalore. The balance of the investment is for further projects to be developed by the Vaishnavi Group.

Institution	RREEF / Deutsche Bank			
Fund Details	RREEF Global Opportunity Fund, $3.3nln, No specific India allocation, global investors			
Investment Strategy	Opportunistic Strategy with equity investments in real estate asset including distressed properties and private growth companies. Seek to capitalize on economic, financial and property market dislocation. Moderate to High leverage. Capital preservation and local market insight are key tenets of the investment philosophy.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Nagarjuna Construction Co	$240mln	Hyderabad	Mixed Use	RREFF, 60% stake in a $400 million real estate project. 31 acre Greenfield site at Narsingi junction connecting IT zones of Madhapur and Gachibowli to the new international airport.
Ramprastha Promoters & Developers	$80 mln		Entity	Deutsche Bank, 40% stake. Group is primarily engaged in developing housing projects in NCR Delhi.
Lodha Group	Rs 1,700Cr	Mumbai	Residential	Deutsche Bank, 25% is SPV vehicle for Bellisimo project in Central Mumbai.
HCC	$127 mln	Pune	Township	Deutsche Bank, Lavasa project promoted by Hindustan Construction Company (HCC) for a 5% stake. Total project is worth Rs 10,000Cr. Size of project is 12,500 acres. Plans are to build hotels, convention centers, apartments and houses.
Golden Gate Properties Ltd	$70 mln	Bangalore and Hyderabad	Entity	RREEF, About 10% stake, Company Valuation at USD 1bn

Institution	AIG			
Fund Details	AIG Real Estate Opportunity XII – India, $400mln, India specific fund, global investors			
Investment Strategy	AIG Global Real Estate-India (GRE-India) actively invests in real estate projects in a variety of cities in India, encompassing various asset classes such as residential, commercial, industrial & warehousing, retail, and hospitality. GRE-India targets superior risk-adjusted returns for its investors by pursuing opportunistic real estate investments in India, and invests in development projects at the initial stage as per the existing norms for Foreign Direct Investment in the real estate sector in India. AIG Global Real Estate-India is investing substantial time and resources to establish strategic platform partnerships with select developer partners. GRE-India is investing in joint ventures with these partners for multiple developments across a mix of geographic locations. The partnership platforms are established after conducting detailed due diligence on the partners and their capabilities.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
RMZ	Rs. 394Cr		Entity	First project is Ecospace, Rajarhat West Bengal which includes eight office towers with 2.06 million sf built up area in 20 acres. Project will be LEED rated. Second project is 11 acre plot in Chennai for which the jv bid Rs 298.1Cr to build 1.5mln sf of office space.
Velankani	Rs.338Cr	Chennai	SPV	SEZ in Sriperumbudur. Development is proposed to be 8.5mln sf

Institution	Morgan Stanley			
Fund Details	MSREF, MSRE Special Situations Fund III, No specific India allocation, global investors			
Investment Strategy	Special Situations is a global diversified fund managed by Morgan Stanley Real Estate, makes non-controlling, minority investments in public and private real estate companies.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Mantri Developers P Ltd.	$68mln	Bangalore	Entity	Bangalore based developer focused on residential, office and retail.
IHHR (Hospitality)	$40mln	Delhi	Entity	15% stake. IHHR Hospitality runs Ananda and Ista Spa. IHHR Hospitality is also planning to open five business hotels under the Ista brand in Hyderabad, Bangalore, Pune, Ahmedabad and Amritsar.
Panchshil Group	Rs 213Cr	Pune	Office, Retail and Hospitality	- 49% stake in SPV for hotel, office, retail, - 15L sf of office space, 2 Lacs sf of retail, 250 room JW Marriott
Panchshil Group	Rs.35Cr	Pune	Hotel and service apartments	- 49% stake for 2 service apartments at Pune - Mundhwa, Near Band Garden road (Oakwood service apartment)
Alpha G Corp	$65 mln	Delhi	Entity	Company is executing townships, malls, office and residential developments in Northern and Western India.
Oberoi Constructions	$152 mln	Mumbai	Entity	10.75% stake. Mumbai based developer focused on residential, commercial, retail and hospitality.
Panchshil	Rs 293Cr		Entity	
Aparna Group		Hyderabad	Township	50:50 JV to develop “Aparna Laketown” in Nalangandla. Plan to develop 12 mln sf.

Institution	Wachovia			
Fund Details	Proprietary Book, No specific India allocation			
Investment Strategy				
Investment Details				
Project Developer	Size	Location	Type	Project Details
Vatika Ltd	1,000		Entity level	10.75% stake which values company at 9300 Cr. In partnership with Baer Capital and Goldman Sachs. Funds are to consolidate land banks, while the rest will be used for new projects, in cities like Pune and Nagpur and in the south, Vatika Group has projects worth more than $2.01 billion and land of around 2,500 acres under development.
Vipul Limited	Rs 234Cr	Gurgaon	Entity	15% stake. Vipul, a publicly listed company, is currently developing residential projects in Sohna Road in Gurgaon.
B Raheja	$45 mln	Bangalore	SPV	Funding is for two projects in Bangalore.
RMZ		Bangalore	SPV	Knowledge city in Bidadi

Institution	Amstar Global Partners,			
Fund Details	Amstar Global Property Fund I, $340mln , No specific India allocation, global investors			
Investment Strategy	Amstar Global Partners is initially targeting Russia, Ukraine, India, Turkey and Vietnam as well as other high-growth markets in the Commonwealth of Independent States and South Asia. It will establish strategic partnerships with local developers that have extensive market knowledge and strong real estate investment experience. Its equity investments typically range from USD 20 to USD 25 million and it opportunistic development returns on all property types including multi-family, office, retail, hotel, industrial, residential and mixed-use. In India, it aims to develop 3-star and 4-star hotels in supply-constrained Indian cities under a major international hotel brand. India currently has less hotel rooms than New York City and RevPAR has experienced aggressive increases over the past few years. Furthermore, new discount airlines are increasing domestic and international travel for both tourists and professionals further increasing demand for room nights.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Ager Hotels			Entity	4 Star Golden Tulip Hotel, Amritsar, 120 rooms 4 Star Golden Tulip Hotel, Bangalore, 273 rooms 4 Star Golden Tulip Hotel, Jaipur, 108 rooms 4 Star Golden Tulip Hotel, Vizag, 175 rooms 3 Star Tulip Inn Hotel, Goa, 150 rooms

Institution	ICICI Venture			
Fund Details	ICICI Venture Real Estate Fund, $562mln, India specific fund, global/domestic investors			
Investment Strategy	Target projects in growing cities in India with strong economic fundamentals. Establish partnerships with strategic developers and institutional investors. Capitalize on redevelopment opportunities. Invest in assets which can be closely monitored and utilize strong risk mitigation practices. Maximize value by making structured investments.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Kolte Patil	Rs. 200Cr	Pune	Township	Investment in a 400 acre integrated township in Hinjewadi,
		Pune	Residential	JV for 80 acres of land in Wagholi, Pune. To develop high-end residential villas & apartments.
		Pune	IT Park	12 acres of land in Kharadi. To develop a 1.2 mn sq. ft. IT park
Tishman Speyer, Nagarjuna Construction		Hyderabad	Township	400-acre integrated township at Tellapur. Outlay of $2 billion. 30 mln sf. development
Maytas Properties		Hyderabad	Residential	60% stake in a 6 acre property in Jubilee Hills.
Tishman Speyer JV		Hyderabad	Commercial	Gachibowli, Hyderabad. 2.2 mln sf of class A office space in SEZ
Entertainment World Developers	Rs 227Cr	Indore	Entity level	WDPL develops retail centers and townships in central India.
Lodha Group	Rs 100Cr	Thane Mumbai	Residential	25% stake picked up by ICICI Ventures in respect of project at Thane
Tishman Speyer JV		Chennai	Residential	113 acre land parcel in Chennai. To develop of a 4.90 mln sf residential township off National Highway 4
Arrow Webtex	Rs 140Cr		Entity	15% stake in Zia Mody promoted company
Express Towers	Rs 500Cr	Mumbai	SPV	49% in Express Tower building at Nariman Point, Mumbai
Cyber Gateway		Hyderabad	IT Park	Purchase of 106,000 sf in "Cyber Gateway" in Hyderabad from L&T Infocity Ltd
I-Ven Realty Limited	Rs 50Cr	Mumbai	Residential	ICICI Venture partnered with Oberoi Constructions Private Limited in a 50:50 JV. Purchase of 4 acre plot in Worli from Glaxo to develop residential complex.

Institution	INDIAREIT			
Fund Details	INDIAREIT Domestic Fund Scheme 1, Rs. 430 Cr, India specific fund INDIAREIT Domestic Fund Scheme 2, Rs 537.9 Cr, India specific fund INDIAREIT Offshore Fund 1 - $200mln, India specific fund, global investors			
Investment Strategy	Geographic concentration primary focus cities: Mumbai, Pune, Bangalore, Chennai & Hyderabad, Secondary focus cities: Kolkata, Delhi. Prefer entry at 'Development' stage to mitigates various land title risks. Well-defined caps for sectoral presence with maximum participation in any sector limited to 60%. Indiareit offers its expertise & network to empower all its investments in various facets of project development.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Suntec Realty	Rs 63Cr	BKC, Mumbai	Residential	0.22 mln sf, high-end
Srinivasa Shipping	Rs 28Cr	Devanhalli, Bangalore	Residential	0.35 mln sf gated community development of 33 villas.
Srinivasa Shipping	Rs 24Cr	OMR, Chennai	IT Park	0.34 mln sf IT/ITES campus
Neptune Group	Rs 115Cr	Mumbai	Commercial	1.41 mln sf. Site located on LBS Marg, Design by Norman Foster
Amsri Group	Rs 47Cr	Miyapur - Kukatpally, Hyderabad	Mixed-use	1.5 mln sf. 13 kms from existing airport, 9km from Gachibowli. Land area of 9.6 acres
Skyline	Rs 70Cr	Bangalore & Mysore	Residential	3.69 mln sf. 16 projects at Bangalore & 1 project at Mysore.
Paranjape	Rs 256Cr	Pune	Township	9.07 mln sf. To develop 138 acres township comprising an IT SEZ, residential, retail and a star hotel.
Amsri Group	Rs 111Cr	Hyderabad	Mixed-use	5.19 mln sf., 260 acre plot of land for residential and commercial use. Located at Outer Ring Road.
Amsri Group	Rs 20Cr	Nanakramguda, Hyderabad	Commercial	0.8mln sf, on 5 acres land, Near WIPRO & Infosys. Hotel included.
Amsri Group	Rs 29Cr	Manchirevula , Hyderabad	Residential	1.5mln sft. One km from the ORR, 14 acres piece of land
Sameera Realty	Rs 18Cr	Alibaug, Mumbai	Residential	1.92mln sft, 43 acres land. Second home destination
Neptune Group	Rs 300Cr	Pan-India	Entity level	15% stake. Currently developing projects in Pune, Hyderabad, Chennai, Vizag, Kochi and Nagpur.
Amsri Group	Rs 70Cr	Bachpally, Hyderabad	Mixed-use	9 kms from existing airport, area of 9.5 acres
Skyline	Rs 85Cr	Bangalore	Residential	Land of 100 acres at Whitefields
Skyline	Rs 4Cr	Mangalore	Mixed-use	Land of 160 acres, 6 km from NH - 17 and 6 km from Mangalore airport.

Institution	SITQ			
Fund Details	SITQ is a real estate development, management, and investment company. It is a subsidiary of the Canadian pension fund Caisse de Depot et Placement du Quebec. No specific India allocation.			
Investment Strategy	SITQ specializes in the investment and management of office buildings. Its property portfolio is located in various cities in Canada, the United States, France, the United Kingdom, and Germany. The fund is expected to focus on developing real estate opportunities in Delhi, Mumbai Bangalore and Hyderabad.			
Investment Details				
Project Developer	Size	Location	Type	Project Details

Institution	Cadim			
Fund Details	Cadim is a division of the Canadian pension fund Caisse de Depot et Placement du Quebec. No specific India allocation			
Investment Strategy	Cadim specializes in investments in residential and hotels asset. Well-known in the real estate sector for its innovative approach, Cadim relies on partnerships worldwide to rapidly take advantage of promising business opportunities			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Pacifica	$165mln		Entity	A 70% interest has been acquired in eight property development projects in five cities. Three hotels in Ahmedabad, Bangalore and Hyderabad; Four residential complexes in Ahmedabad, Bangalore, Pune and Chennai; and an office building in Chennai.
	$250mln		Entity	45% interest in a diversified real estate fund that will invest in major development projects in various cities of India. Two projects are already under way: a multipurpose complex in Gurgaon, a suburb of Delhi, and an office building in Mumbai. Two other partners are Vornado and The Chatterjee Group.

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<tr><td>Institution</td><td colspan="4">Ivanhoe Cambridge</td></tr>
<tr><td>Fund Details</td><td colspan="4">Ivanhoe Cambridge is a division of the Canadian pension fund Caisse de Depot et Placement du Quebec. No specific India allocation</td></tr>
<tr><td>Investment Strategy</td><td colspan="4">Ivanhoe Cambridge is a pre-eminent Canadian-based global property owner, manager, developer and investor. Our mission is to provide welcoming and entertaining regional and super regional shopping destinations to retailers and consumers. We are active in North America, Latin America, Europe and Asia.</td></tr>
<tr><td colspan="5">Investment Details</td></tr>
<tr><td>Project Developer</td><td>Size</td><td>Location</td><td>Type</td><td>Project Details</td></tr>
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Institution	IL&FS Investment Managers			
Fund Details	IL&FS India Reality Fund, $502 mln, India fund, global/domestic investors IL&FS India Realty Fund-II, $895 mln, India fund, global/domestic investors			
Investment Strategy	Parentage, local presence and extensive relationships, results in IIML's RE Funds being optimally positioned to identify and thoroughly analyze investment opportunities.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Ansal Properties and Infrastructure	Rs. 131Cr	Delhi	Township and IT SEZ	49% stake. Spread over 11 million sq ft of office and residential space would be constructed at an investment of $125 million.
eCity Real Estate	Rs 113Cr		Entity	26% in Subhash Chandra promoted entity in out-of-home entertainment business Funding 2 new projects, which will require a total investment of Rs 200Cr
QVC Realty	Rs 450Cr		Entity	This investment is the first venture capital-backed real estate start-up in India. Is promoted by Prakash Gurbaxani, formerly with Tishman Speyer JV
Mantri Realty	Rs. 75Cr	Nagpur	IT SEZ	The project will comprise of around 4.4-million sq ft of IT/ITeS space while 0.2-million sq ft would be used for retail purposes
JB Chemicals & Pharmaceuticals and HBS Realtors	Rs 75Cr	Gujarat	Pharma SEZ	30% Stake
Akruti City	Rs 200Cr	Ghatkopar, Mumbai	Residential	15% in Infrastructure Ventures India which is primarily a PPP project formed for developing housing infrastructure for the Mumbai police in Ghatkopar
ETL Infrastructure Services	$48.1mln		Entity	Equity stake.
DB Realty	$51.5mln	Mumbai	Entity	5.92% in DBR is a $1 billion special purpose vehicle, and is currently developing 12 real estate projects in central and outer Mumbai. DB has developed more than 13 million sq ft in and around Mumbai.
MK Malls				

Institution	Merrill Lynch			
Fund Details	Merrill Lynch Asian Opportunity Fund, $2.7bln, No specific India allocation, global investors			
Investment Strategy	Will invest across the spectrum of real estate investments, including direct real estate assets and real estate companies, with a primary focus in Japan, China, South Korea and India, and a secondary focus in Australia and Southeast Asia.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Salarpuria	75	Bangalore	Hospitality	50% stake in the Hotel which will comprise 250 rooms, on 300,000 sq ft, on the Outer Ring Road, between Sarjapur and Marathalli opposite CISCO office
DLF	$377mln		Residential	7 Housing Projects, 49% stake
BPTP	126		SPV	To invest in 4.5 acre IT plot on Gurgaon Expressway
Shree Rajlaxmi Group		Hyderabad		
DRS Group				DRS specializes in diversified supply chain solutions in India with presence in 40 cities of India

Institution	Milestone Capital			
Fund Details	Milestone Domestic Scheme - I - $65mln , India specific, domestic investors Milestone Domestic Scheme - II - $125mln, India specific, domestic investors IL&FS Milestone Fund - $125mln, India specific, domestic investors Milestone Fund LLC - $100 mln, India specific, global investors Milestone Private Equity India Build-out Fund - I - $100mln,			
Investment Strategy	Investments in both, development projects and existing, rental-yield assets. In all development projects Milestone seeks to partner with strong local partners with high quality corporate governance controls. Milestone brings effective competency through project management, property management, sustainable development consulting.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Unique	Rs 15Cr	Jaipur	Mixed use	Location –Ajmer Highway, 292,000 sf on 2.91 acre land plot
Ramaniyam	Rs 136Cr	Chennai	Mixed use	Nine Projects on total 17 acres of land, Project Area – 1,050,000 sf
	Rs 63Cr	Hyderabad	Mixed use	2.6 acres land located at Gachibowli, 750,000 sf
	Rs 18Cr	Nagpur	Residential	3 projects, 25 acre land size
	Rs 55Cr	Ahmedabad	Plotted Development	100 acre land at Sanatkadi Highway
		Rajkot	Retail	ISCON Mall, Project Area - 169,000 sf, Anchor Tenant - Westside, Cinemax, First multiplex mall in the city
		Bhiwandi	Warehousing	Project Area – 10,80,000 sf
		Kolkata	IT Park	Project Area - 95,000 sf Sole Tenant - IBM
Kumar Builders	Rs 139Cr	Pune	Office	Cerebrum II, Project Area - 250,000 sf, Anchor Tenant - Vodafone, Reliance Communication

Institution	The Blackstone Group			
Fund Details	Blackstone Real Estate Partners, $10.9bln, No specific India allocation, global investors			
Investment Strategy	Blackstone's real estate operations' approach to investing is guided by some core investment principles, many of which are similar to its corporate private equity operation, including global scope, significant number of exclusive opportunities, superior financing expertise, operations oversight and a strong focus on value creation. In addition, the real estate investment approach includes: Flexible Investment Strategy, Institutional Quality Assets with Temporary Flaws, Complex Situations Requiring Creative Solutions, Real Estate Asset Management Oversight, Joint Acquisitions with Corporate Private Equity, Theme-Oriented Investments, Public-to-Private Transactions, Hotel Repositionings, Global Opportunities			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Synergy Property Development Services Private Ltd	$18 mln	Bangalore	Entity	Synergy is now one of the top projects and construction management companies in India and currently has over 500 employees across nine Indian offices, with international offices in Dubai and Kuala Lumpur. Synergy, which is based out of Bangalore, has delivered over 20 million square feet of real estate and is presently managing over 100 million square feet across various asset classes including office, retail, residential, hotels and hospitals.

Institution	Vornado Realty Trust			
Fund Details	$500mln is a house limit for investment in India			
Investment Strategy	Vornado Realty Trust is a fully-integrated equity real estate investment trust.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Reliance JV	$250mln		JV	Condition Joint venture with Reliance Industries Limited (“Reliance”) (BSE:RIL) under which each partner will commit up to $250 million to the venture to acquire, develop and operate retail shopping centers across key cities in India. The shopping centers will contain 500,000 to 1,000,000 or more square feet and typically be anchored by a hypermarket to be owned and operated by Reliance.
Vornado Hinjewadi Township Pvt Ltd	$200 mln		Township	MOU with Maharashtra Government develop an integrated township
Uppal Group	Rs 200Cr		SEZ	263 acres, 50% stake in Manesar SEZ
Chatterjee Group	$185 mln		Entity	Vornado with local partner The Chatterjee Group to develop 10.8 million square feet on land already owned in India’s leading cities. To date, 1.7 million square feet have been completed. Vornado is a founder of the India Property Fund, which invests in office and mixed-use development throughout India. This $600 million fund is over half committed, and is sponsored by The Chatterjee Group and a Vornado affiliate, 75/25. Vornado’s commitment for these investments is $185 million, of which $90 million has been funded.

Institution	HDFC			
Fund Details	HIREF International - $800mln, India specific, global investors HDFC India Real Estate Fund - $200 mln, India specific, domestic investors HDFC IT Corridor Fund - $90mln, India specific, domestic investors			
Investment Strategy	Investments in unlisted equity and equity-linked instruments of companies engaged in real estate activities such as large mixed developments, IT parks, residential projects and commercial offices. The fund has also invested in rental income yielding commercial properties spread across major cities in India.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Nitesh Estates	Rs 100Cr	Bangalore	Retail	20%-25% into South India's largest central business district (CBD) mall developed by Nitesh Estates in Bangalore. 5.5 acres located in proximity to Hotel Leela Palace
Godrej Properties		Kolkata	Mixed-use	Commercial project at Salt Lake, Kolkata
Sterling Urban Developments	Rs 80Cr	Whitefield, Bangalore	Mixed-use	The developer is a joint venture with Bangalore based Sterling Developers. Total built-up of 20 million square feet at a cost of Rs 4,000 crore
Lodha Group	Rs 250Cr	Hyderabad	Mixed-use	45% stake. Project cost: Rs 920Cr, 2,200 residential apartments at 20% premium
Vascon Engineers	Rs 122Cr	Pune	Entity level	Bought 10% equity stake for funding land purchase and construction.
Ansal Properties and Infrastructure		Noida	SPV	SPV for a 33% stake in an IT Park on 75 acres of land with a built-up area of about 6.2 million sq. ft. at Greater Noida (UP)
Acme Projects			SPV	50% stake in Mumbai-based developer ACME Group's housing project in Thane. 1.1 million sq ft township will have 760 residential apartments and a small commercial space based on the eco-living theme.
Vascon Engineers	Rs 156Cr	Pune	SPV	Vascon has 11 million sq ft of development under progress in prime locations in and around Pune.
Paranjage Constructions	Rs 83Cr	Pune	SPV	10% stake in Paranajape Schemes.

Institution	GID Capital			
Fund Details				
Investment Strategy	GID is seeking to make investments in residential oriented real estate projects, new townships and/or operating companies in India. GID is interested in joint venturing with established local developers, who have site control, infrastructure and government approvals; ideally the sites can be developed in multiple phases.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Beekman Helix Partners				Made an investment in a real estate mortgage/merchant bank in India, located in Gurgaon with over 25 real estate professionals. The company focuses on providing real estate financial advisory services and preferred equity financing to developers and landowners in India. To date, BHIP has completed over $100 million in financing.
Piedmont Development Company				Will oversee all development and asset management activities relating to any projects in which Beekman Helix invests.

Institution	South Asian Real Estate			
Fund Details	SARE Fund -$450mln, India specific fund, global investors Duet Hotels - $166mln, India specific fund, global investors			
Investment Strategy	SARE's strategy is to invest in the underserved high growth residential real estate segment for the middle class in and around targeted Tier II Indian cities. SARE's strategy is to invest in the underserved high growth residential real estate segment for the middle class in and around targeted Tier II Indian cities.			
Investment Details				
Project Developer	Size	Location	Type	Project Details
Samaag Developers		Ghaziabad	Township	SARE 60% ownership, $290mln project, 73 acres, There will be 207 villas, 1,624 apartments and 366 dwelling units for lower income group and economically weaker section
Ramprashta Construction Pvt Ltd.		Manesar, Gurgaon	Township	SARE 50% ownership, $764mln project, Residential Township of 151 Acres, including Group Housing of 55 acres, Commercial of 12 Acres. The estimated development is 3,000 residential units, 550,000 sq. ft of commercial / built to spec office / retail space.
Brilliant		Indore	Township	SARE 50% ownership, $207mln project, 120 acre land, 1,576 apartments; 1,002 houses, 940,000 sq. ft of commercial / BTS office / retail
Impact Projects Pvt. Ltd.		Amritsar	Township	SARE 50% ownership, $341mln project, 120 acre land, 762 villas and 557 apartments
Jubilee Plots and Housing Private Limited.		Chennai	Township	SARE 65% ownership, $382mln project, 104.5 acre land, 779 villas and 508 apartments
Dawnay Day Hotels India	$33mln		Entity	Duet India Hotels 115 room hotel in Jaipur, Rajasthan 223 room hotel in Pune, Maharashtra 124 room hotel in Ahmedabad, Gujarat Joint Venture in Hotel Management Company - Ten Hotels

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