THE ECONOMIC TIMES | Industry
English Edition | 29 June, 2021, 03:38 PM IST | E-Paper

Covid-19 drives realty financing structure changes, portfolio deals acceptance

Synopsis
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Agencies

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The pandemic has started influencing the structures of financial transactions in the property industry, with entity-level buyout portfolio deals for yield-generating assets witnessing demand from both realtors and institutional investors instead of the usual debt or mezzanine financing.

These structures and bigger-ticket deals are also a sign of the property market maturing, with enhanced transparency.

"The platform level participation by institutional investors with debt and equity is driven by more transparency and governance that government initiatives like **RERA** have brought in and are also helping in terms of putting a mechanism around it," said Gautam Saraf, MD - Mumbai and New Business, Cushman & Wakefield. "The pandemic has pushed the acceptance of such deals that had started earlier as realtors need patient capital."

Uncertainty over income and yield stability of commercial properties due to the pandemic had led to a pullback in such investments over the last few quarters.

However, large global funds have used this as an opportunity to negotiate portfolio deals with developers that offered rent-yielding assets in cities with a high-quality tenant profile.

"Al though in terms of complexity of deals, I will still put India's **real estate** market at a nascent stage as compared to the US or Europe. Large operating partnerships, roll-up mergers and urban regeneration projects are still few," said Subbhash Hotchand Udhwwaani, founder of real estate-focused boutique investment bank Elysium Capital. "As Indian real estate gets the depth, we will witness increased complexity of transactions with increased deal sizes that can absorb the huge quantum of investment in various forms."

The proportion of buyout and growth capital closures climbed in the last two years from 10% to about 30% now, he said, indicating increasing maturity of the country's property market.

Investors have continued to show interest in **real estate financing**, but have also tweaked their strategies taking into account the pandemic's impact on commercial real estate.

"Many big investors have altered their strategies for commercial properties including offices and retail segments by recalibrating asset valuation models through more conservative policies. Some investors have also been adopting relatively tight financial covenants to mitigate the risks," said an advisor to a private equity fund.

Over the past one year, private equity majors such as **Blackstone Group** and **Brookfield Asset Management** have picked up income-producing office assets in India in record deals.

Apart from Blackstone and Brookfield, global institutional investors including Singapore's sovereign wealth fund, the Canada Pension Plan Investment Board (CPPIB) and Oaktree Capital have remained active in the Indian property market.
