

Private equity players size up India

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As the market for big initial public offerings dries up, Indian real estate increasingly is becoming the preserve of the private equity industry.

Real estate special focus

An example of the momentum is Red Fort Capital, a Mauritius and Delhi-based investment management firm specializing in real estate. A new offshore fund, its second, is expected to close in June with a corpus of Rs35 billion (\$800 million) to invest in the sector in India.

Red Fort India Real Estate Fund II targets everything from individual investors and pension funds to foundations and governments in Europe, the US and elsewhere. Its investment remit is similarly broad, covering residential, commercial, retail and hospitality sectors, provided they are compliant with foreign direct investment rules. In June the manager also expects to close a Rs10 billion domestic fund.

Red Fort's first fund allocated \$400 million to Indian property, including projects of Bangalore's Prestige Group and a township being developed by the Indu Group, from Hyderabad. Red Fort says that fund has generated 55% returns to international investors.

While Red Fort is a specialist, India's bigger banks are raising capital too. In May ICICI Bank began raising \$1.5 billion for a private equity fund and announced it was considering raising \$1.1 billion, which could rise to \$1.5 billion, for a real estate vehicle alongside, to invest in residential and commercial projects in India's major cities. This fund, like the Red Fort fund, plans to raise most of its funds from overseas, with the US, Europe, Japan, China and the Middle East targeted.

Also in May, Kotak Mahindra Bank announced plans to raise about \$1.2 billion for two new funds for India. Although it appears this will chiefly invest in infrastructure rather than other real estate, Kotak already runs an \$800 million real estate fund and might raise more.

It's not just local houses who see the opportunity. At the end of April Blackstone Group's real estate arm, Blackstone Real Estate Partners, announced it would invest approximately \$18 million in a minority stake in Synergy Property Development Services, a project and construction management company based in Bangalore and founded in 2003. The stake, although modest in investment size, comes with board representation.

Synergy manages more than 100 million square feet of office, retail, residential, hotel and hospital property, and plans to expand into infrastructure. Blackstone, whose Real Estate Partner VI reached capital commitments of \$10.9 billion to become the largest real estate opportunity fund ever raised, has a dedicated Mumbai office for its real estate group.

Indeed, Blackstone and others realized some time ago that real estate was one of the best ways to put money to work in India. Partly, it's because property represents an obvious growth area in India: there is not enough of any quality real estate in India to match its growth, whether it be houses, shopping centres, offices or airports. Also, it's an easier way to get in than to try to purchase meaningful stakes in India's growing companies, many of which have no need or inclination to give up much control.

Citigroup Property Investors, for example, closed a \$1.29 billion Asian real estate vehicle, CPI Capital Partners Asia Pacific, in February 2007, with India as part of its focus. The previous month it launched a partnership with Bangalore real estate developer Nitesh Estates to build a 250-room luxury hotel in Bangalore, and even that followed \$250 million of previous investments in India's residential and hospitality sectors. Earlier still, in 2006, Morgan Stanley Real Estate announced an investment in New Delhi-based real estate management company Alpha G:Corp Development, following it up the next January with a \$152 million investment in Oberoi Constructions, a real estate developer. Even further back, Tishman Speyer announced in 2005 a joint venture with ICICI Venture Funds Management to develop real estate projects in India.

More recently, Morgan Stanley has confirmed plans to start a private equity unit in India, with property expected to be part of its remit; and Deutsche Bank's RREEF Unit has said it plans to invest more than \$1 billion in the next three years in Indian real estate and infrastructure. Warburg Pincus has also taken a stake in a local developer, while 3i Group raised \$1.2 billion for Indian private equity investment in April, albeit not specifically for real estate.

In the meantime, the performance of Reliance Power – the world's largest ever private-sector IPO, but well below its issue price at the time of writing – has helped to put issuers off seeking new money from the public markets for the time being. The weak post-listing performance of DLF, considered the landmark real estate listing in India in recent times, has not helped, while there is still no sign of legislation emerging to allow for the formation of real estate investment trusts in India.