THE HINDU Business Line

Private equities slow down realty exposure

There is bad news for real estate players who are looking for funds from private equity players. PE players in real estate say that funds are drying up due to lack of investment expertise and developers should brace for other sources of funding.

Domestic funds, however, continue to be somewhat bullish on mid-segment residential and redevelopment projects.

According to private equity and venture capital database Venture Intelligence, the sector has witnessed 12 investments (amounting to $477 million across 10 deals) during the quarter ended March 2012.

"The pace of investments during the quarter was less than half that during the same period last year which witnessed 28 investments (with $1,523 million being invested across 26 deals). It was also lower compared to the immediate previous quarter which witnessed 18 deals (with $641 million being invested across 13 deals). Investment volumes have decelerated for the fourth consecutive quarter in Q1-2012," Mr Arun Natarajan of Venture Intelligence said.

The largest investment announced during this year's first quarter – and the only deal over $25 million reported during the period – was GIC's $100-million investment in a Godrej Properties office project in Mumbai's Bandra Kurla Complex.

Funds on their part are also keen on investing in pure equity investments in entry-level project deals or in structured obligation or debt-equity combination deals for investing in advanced projects

Mr Amit Bhagat, MD & CEO, ASK Property Investment Advisory, "Though there is requirement for funds PE players are unable to raise it. There was crowding of PE in real estate sector between year 2006-08. But now consolidation is happening in the market and PE funds have become more debt fund rather than equity based funding option".

He said the outstanding debt by developers to financial institutions was pegged at Rs 65,000 crore in 2008. However, this has risen to Rs 2 lakh crore in 2012. He said ASK has deployed funds in 10 investments amounting to Rs 550 crore in the mid segment residential projects.

A slew of projects are stuck due to lack of liquidity and exits are not happening. "Many fund houses which have brand value, good marketing and fund raising abilities but not investment expertise to match it will start facing difficulties and the ones who are good at investing will start getting recognised," says Mr Bikram Sen of Arthveda Fund Management, adding that PE funds flow will restart once there was clarity on issues such as GAAR and retrospective tax regulations.

Also, only a handful of funds have managed to clock 20 per cent returns in past five years. This has slowed the inflow into PE funds. Earlier, funds were able to raise liquidity within three months, now the average time is about one year.

Mr Ramesh Jogani, CEO and MD Indiareit, a Piramal-owned Fund, "Returns are not in line with the investment. No new money is being raised. Funding will be far less as 90 per cent of the funds has disappeared. The cost of capital is rising and going forward PE investments will be most active in smaller projects."