



APRIL 2024

Private Equity In Indian Real Estate

# RISING OPPORTUNITIES

savills

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## 1. Introduction

In recent years, the global economy has struggled against a sea of challenges and overcome most of them. There remain a host of residual challenges though, partially reflected in ongoing disruptions and elevated inflation. India too, has had its fair share of hardships over this period, but a bunch of measures seem to be pulling it out of the deep and accelerating it better than most other comparable economies.

The Indian economy demonstrated remarkable resilience, achieving a growth rate of 7.2% in FY23 with even higher growth projections for the next year. Expanding manufacturing and services, as well as robust GST collections are powering the economy. According to the January 2024 edition of World Economic Outlook published by the International Monetary Fund (IMF), India is anticipated to maintain its position as the fastest-growing major economy, with a projected GDP growth rate of 6.7% in FY2024, underscoring its endurance. Forbes expects India to be the third largest economy by 2027.

The real estate sector, with an approximately 7.3%<sup>1</sup> share in India’s GDP, has undergone significant transformations, particularly in its financing landscape post the pandemic, as private equity funds regained confidence. Policies and reforms have further bolstered this environment, facilitating private equity investors’ deployment of capital into the real estate sector.

Consequently, traditional asset classes like commercial office, retail, and residential have witnessed continued private equity investments in recent years. This trend has set in motion a virtuous cycle of development, with fund inflows growing in tandem with the sector’s expansion.

While the past has witnessed positivity amid uncertainties, the future looks secure and more interesting. There is clear evidence of investor confidence as they increasingly favour alternative assets, such as industrial & warehousing, life sciences, data centres and student housing real estate. This report endeavours to illuminate the emerging trends within private equity investments and the opportunities that lie ahead for discerning investors.



<sup>1</sup>Indian Real Estate Industry, India Brand Equity Foundation, December 2023



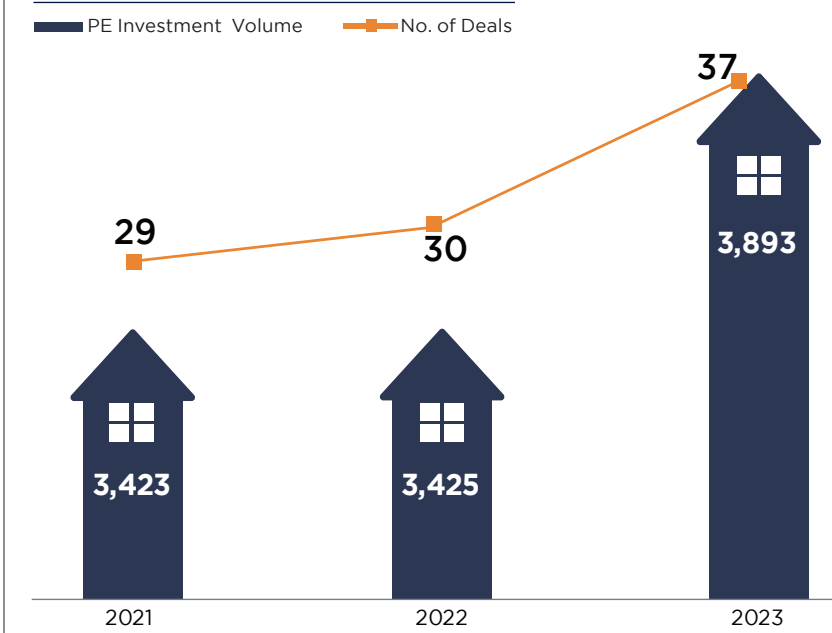
# PE Investments in Indian Real Estate



The real estate sector in India has experienced the power of policy support in the last decade. Initiatives like RERA (Real Estate Regulatory Authority), FDI (Foreign Direct Investments) relaxations, GST (Goods & Services Tax), and bankruptcy codes have transformed the sector, making it better regulated and structured. This drew foreign investments, initially into the office and residential segments, and more recently, into new-age asset classes, all of which are good signs of a growth economy. Sustained economic growth with continued policy reforms catalysed these investments further, especially the private equity investors that invested USD 10.7 billion (INR 843 billion) in the last three years (2021-2023), spread across just under 100 deals.

The initial years of the current decade witnessed about 30 transactions each year, which has progressed over 25% in numbers as well as by 13.7% in investment value, reaching USD 3.9 billion. The average deal sizes across the years have been in the range of USD 100-120 million (INR 8.3-9.9 billion) during 2021-2023.

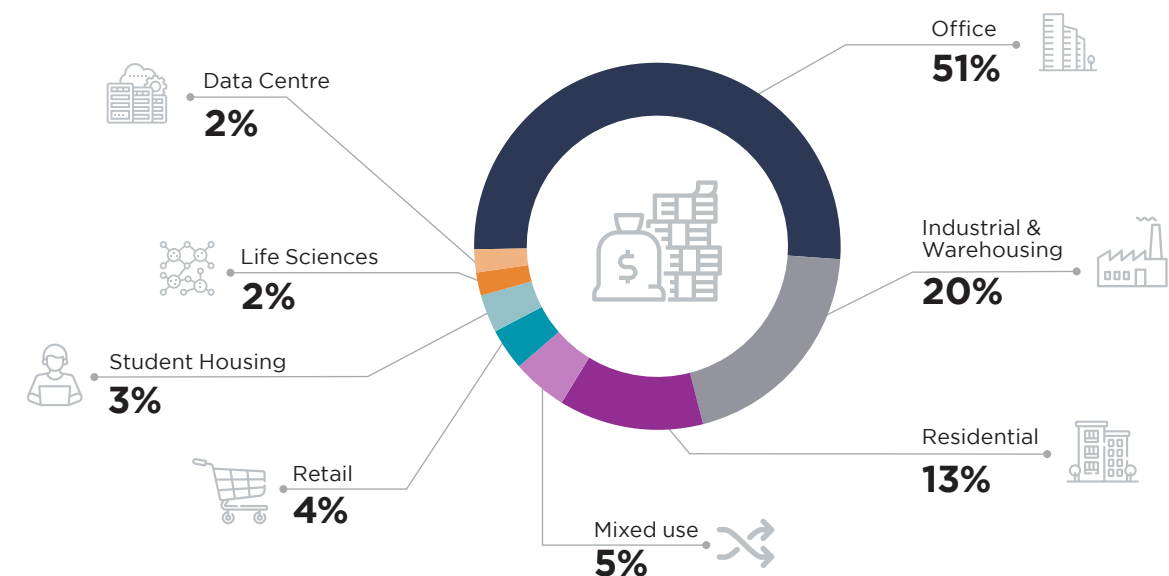
**PE Investment in Indian Real Estate**  
(USD Million)



Source: Savills India Research  
Note: USD1 = INR82.7

The office segment, a well-established asset class in India, garnered the maximum share at 51% over the last three years, followed by industrial & warehousing at 20%. As investors shifted their focus onto other asset classes, investments diversified into sectors like data centres, life sciences, student housing etc.

**Split Of Total PE Investment (2021-2023)**



Source: Savills India Research



# Emerging Trends




India's real estate market saw a sustained growth post-COVID with an all-time high demand for office spaces in 2023. This was complemented by robust end-user interest in the residential segment. The industrial & warehousing segments witnessed a

growth in the post-pandemic period as well. Importantly, there is a notable shift in investment avenues. Whether it is the source of funds or its destination, the Indian private equity investment market is displaying some interesting trends.


## Recent Trends in PE Investment Landscape

- 1 Rising interest in land transactions**


Share of land transactions in the overall PE investments rose from 5% in 2021 to 26% in 2023.


- 2 Diversification into alternatives**

During 2021-2023, India witnessed USD3.1 billion (INR238 billion) of PE investments in alternatives, constituting about 29% share in the overall investments.


- 3 Heightened interest by Asian investors**

Share of investments flowing in from Asian investors grew from 15% during 2019-2020 to 47% during 2021-2023.



Source: Savills India Research



### 3.1 - Rising Interest in Land Transactions

Against the backdrop of limited availability of investible core assets and potential for growth in the Indian real estate market, PE institutional investors have diversified their investments in land deals. This scarcity of core assets coincides with expansions by Real Estate

Investment Trusts (REITs) and increasing retail participation through fractional ownerships. As a result, the market is witnessing a sharp uptick in land acquisitions by leading PE institutional investors. This is a clear sign of a renewed perspective which will eventually lead to

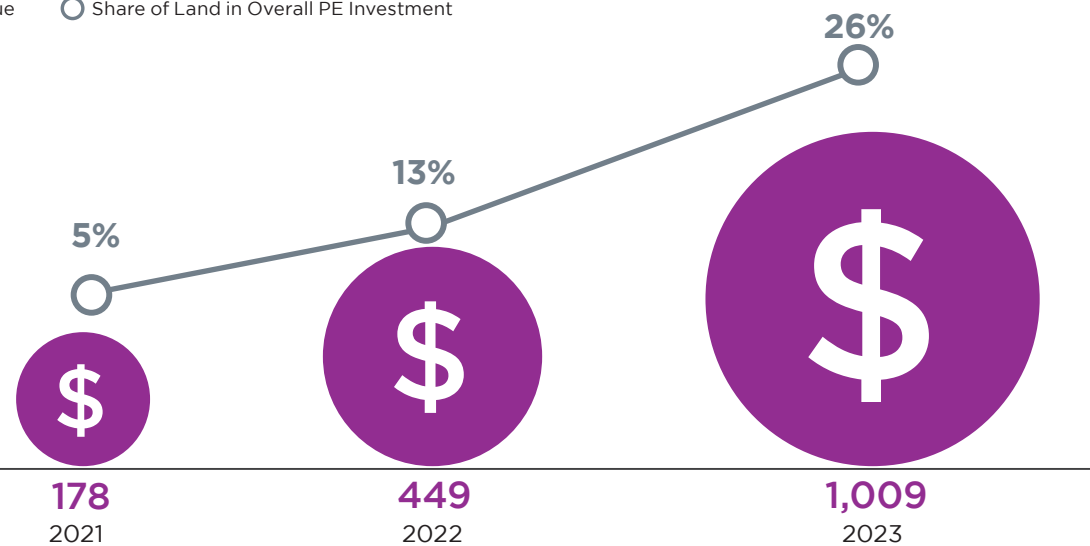
investments in new assets.

The share of land transactions in overall PE investments in the Indian real estate market has increased from a mere 5% in 2021 to 26% in 2023. In absolute terms, the quantum of land deals has grown 6 times in 2023 from that registered in 2021.

#### PE Investment Trend in Land

(USD Million)

● Investment Value ○ Share of Land in Overall PE Investment



Source: Savills India Research

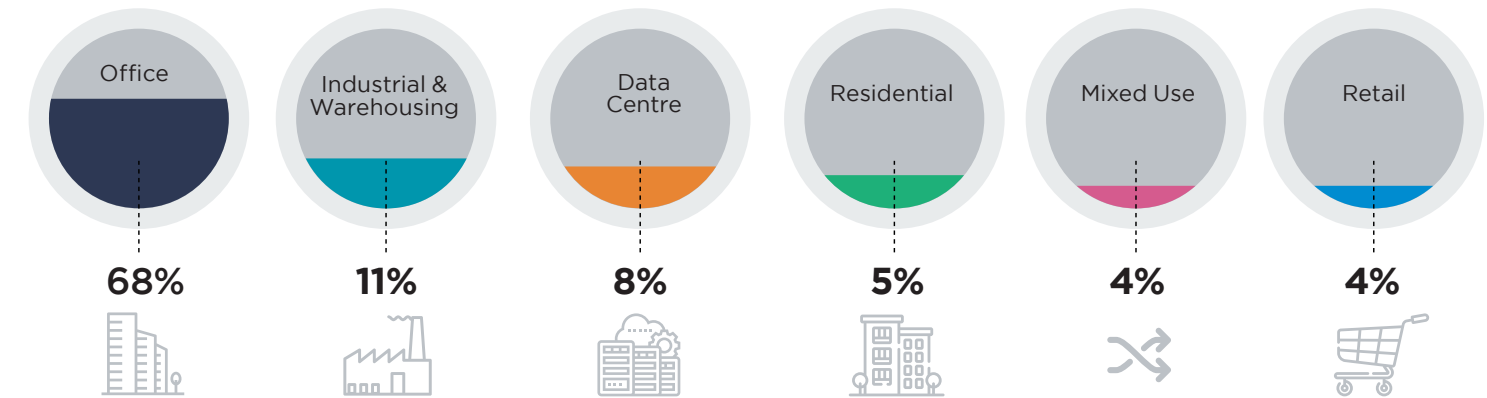


While a significant majority (68%) of investment volume towards land is designated for office development, we also see a sizeable share (19%) for alternative sectors such as data centres and industrial & warehousing. In terms of cities, Mumbai remains high on investors' radar. About 57% of cumulative investments

during 2021-2023 towards land was concentrated in Mumbai. Unlike the office segment being the maximum beneficiary of investments in the top six cities<sup>2</sup>, asset classes like retail and industrial & warehousing remained investors' preferred choices in select Tier II cities<sup>3</sup>. During 2021-2023, these Tier II cities

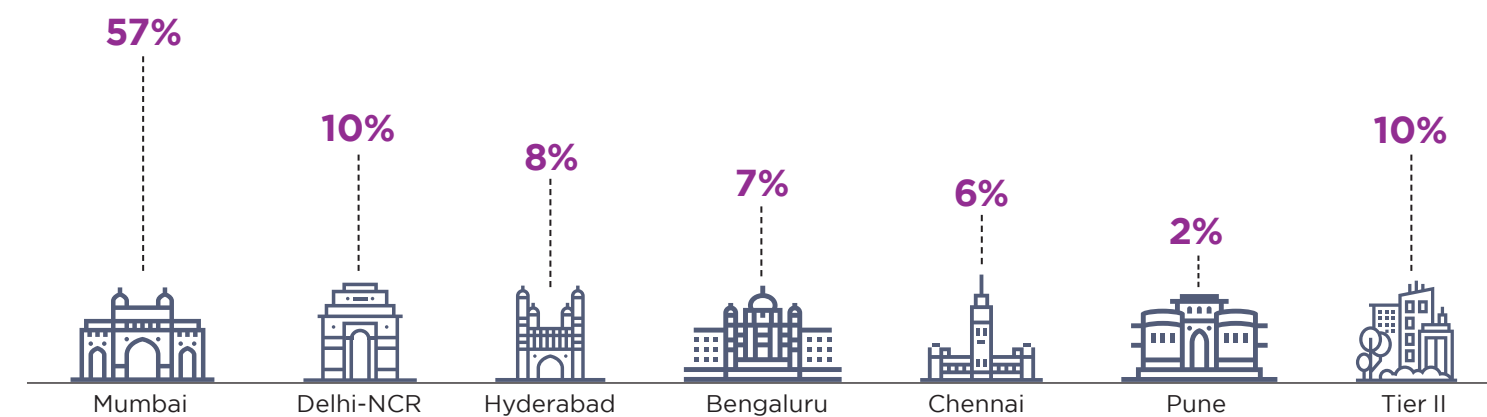
received USD 167 million (INR 14 billion) of PE investments for land acquisition. Notably, all of this was invested in the development of retail and industrial & warehousing assets, indicating a proliferation of these segments beyond Tier I cities.

#### Split of Purpose of Land Investments (2021-2023)



Source: Savills India Research

#### City-Wise Cumulative PE Investments in Land (2021-2023)



Source: Savills India Research

<sup>2</sup>Bengaluru, Delhi-NCR, Chennai, Hyderabad, Mumbai and Pune  
<sup>3</sup>Tier II cities: Aurangabad, Cuttack, Hosur and Surat

### 3.2 Diversification into Alternatives

Private equity institutional investors are implementing diversification strategies as they look beyond the traditional asset classes of office and residential sectors in India. Against the backdrop of emergence of alternative segments (including industrial & warehousing, data centres, life sciences and student housing) there has been a significant growth in allocation of funds to these segments in the last few years. During 2021-2023, India witnessed USD 3.1 billion (INR 238 billion) of PE investments in alternatives, constituting about 29% share in the overall investments.

Split of Total PE Investments (2021-2023)



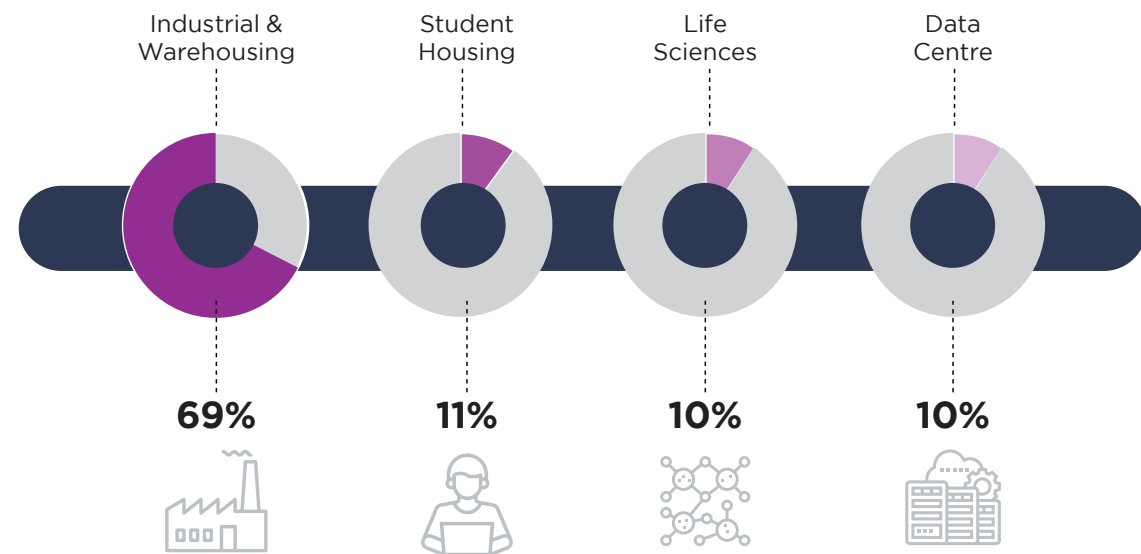
Source: Savills India Research  
 Alternatives include industrial & warehousing, life sciences, data centres, student housing

With a strengthening manufacturing sector along with rising demand from e-commerce players, the industrial & warehousing segment received consistent investments across cities. In the last three years, this segment commanded a

69% share in total funds invested in the alternatives sector, highlighting growing demand. On the other hand, the life sciences segment picked up momentum owing to robust availability of talent pool for Research & Development,

India's strong position in the global pharmaceutical industry as being the largest producer of generic medicines and vaccines, and favourable policies. This led to investments of USD 300 million (INR 23 billion) by PE funds during 2021-2023.

Split of PE Investments into Alternatives (2021-2023)



Source: Savills India Research

### 3.3 Heightened Interest from Asian Investors

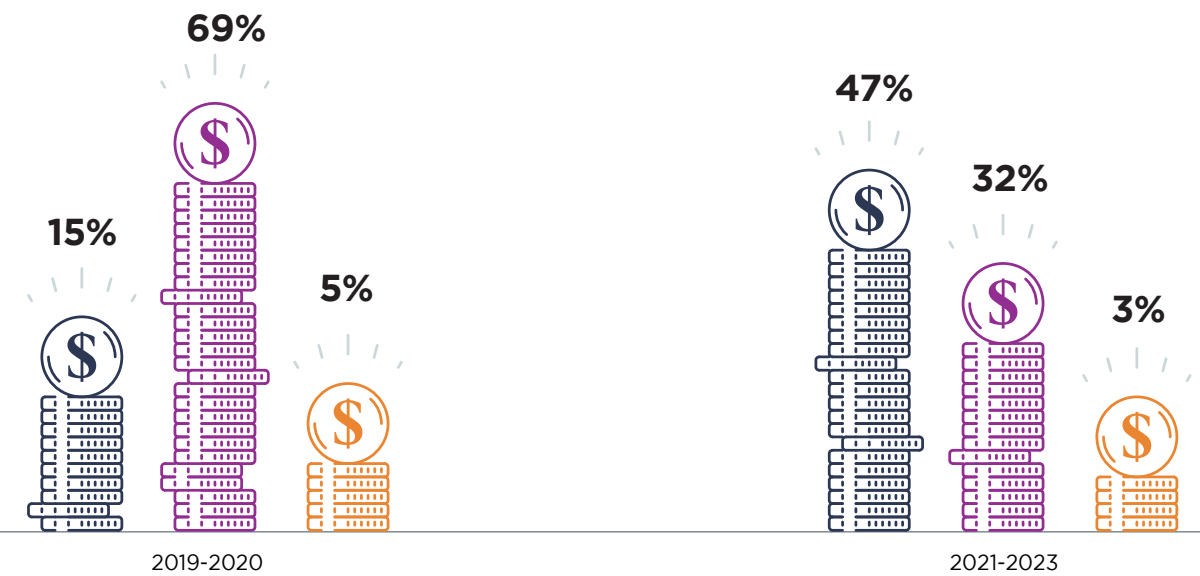
Indian real estate has been constant recipient of foreign investments over the last decade on the back of growing demand and policy support. While investors from the USA and Canada had

been the primary source of capital in India earlier, there is increased traction from Asian investors now, mainly from Singapore, Japan and Hong Kong. The share of investments flowing in from

Asian investors grew from 15% during 2019-2020 to 47% during 2021-2023, indicating a substantial rise in investor confidence from this region.

Source of Funding for PE Investments in India

Legend: Asia (Purple), North America (Pink), Europe (Orange)



Source: Savills India Research, MSCI Real Capital Analytics





# 4 Opportunity for Investors



India's position in the investment universe is remarkably distinct. The Indian real estate sector holds a plethora of opportunities across the

most prominent office sector and for the growing alternatives, for various stakeholders. In this section, we present our estimates of investment opportunity

in commercial offices, industrial & warehousing as well as the life sciences segment.

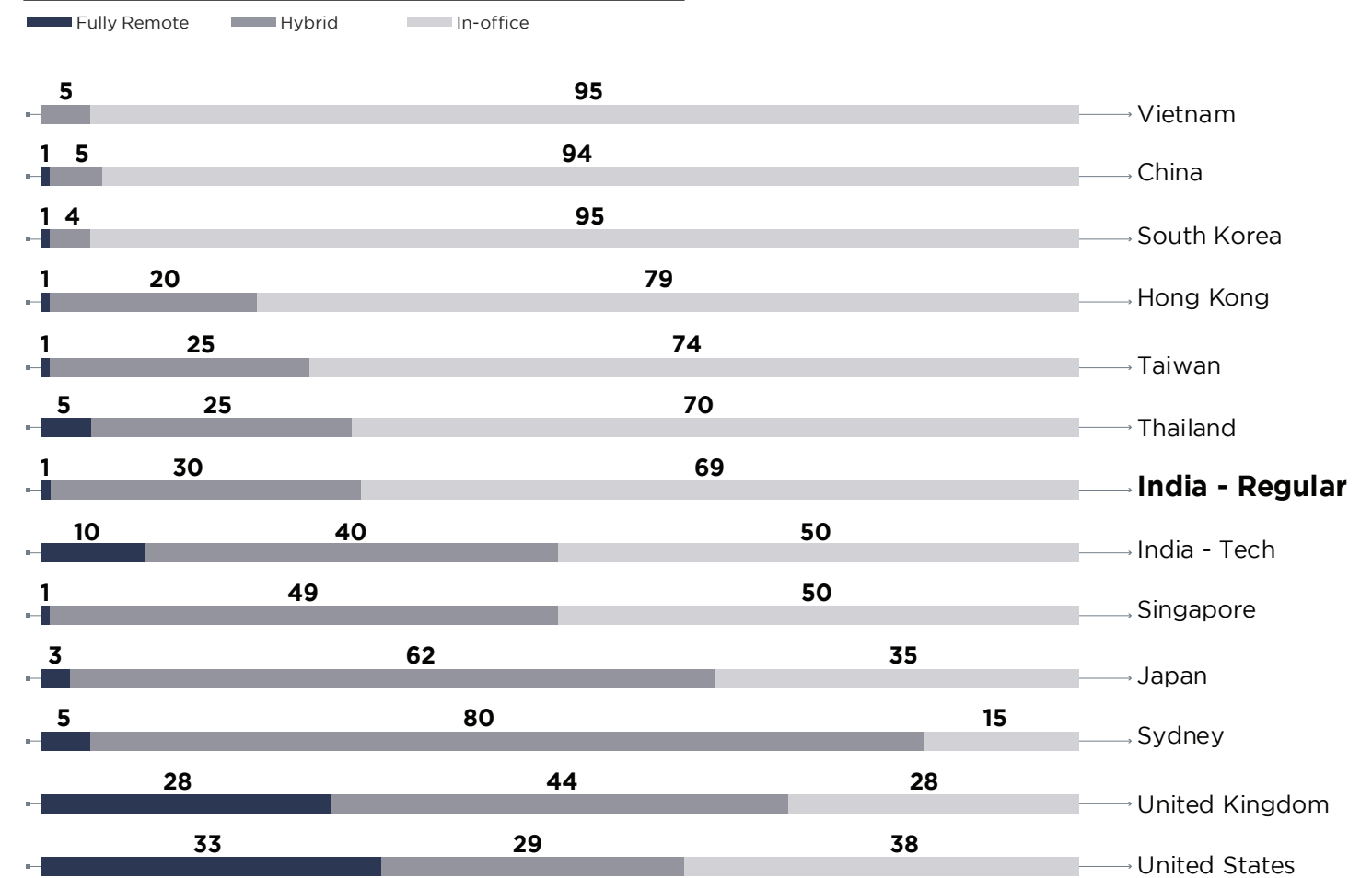
## 4.1 Investment Opportunity in Office Real Estate Segment

The Indian office market has shown remarkable recovery after the disruptions caused by COVID and other global headwinds. India resumed pre-pandemic ways of working much quicker than many other global markets. Per Scoop

Flex Index, 70% of general offices in India (excluding technology) are back to in-office working model, with the remaining 30% in hybrid mode as of December 2023. However, tech sector in India is returning to office slower than

the rest. With increasing return-to-office leading to rising office occupancies, office absorption in India is catching up fast and has reached pre-pandemic levels of activity in 2023.

Working Model of Key Office Markets, as of December 2023

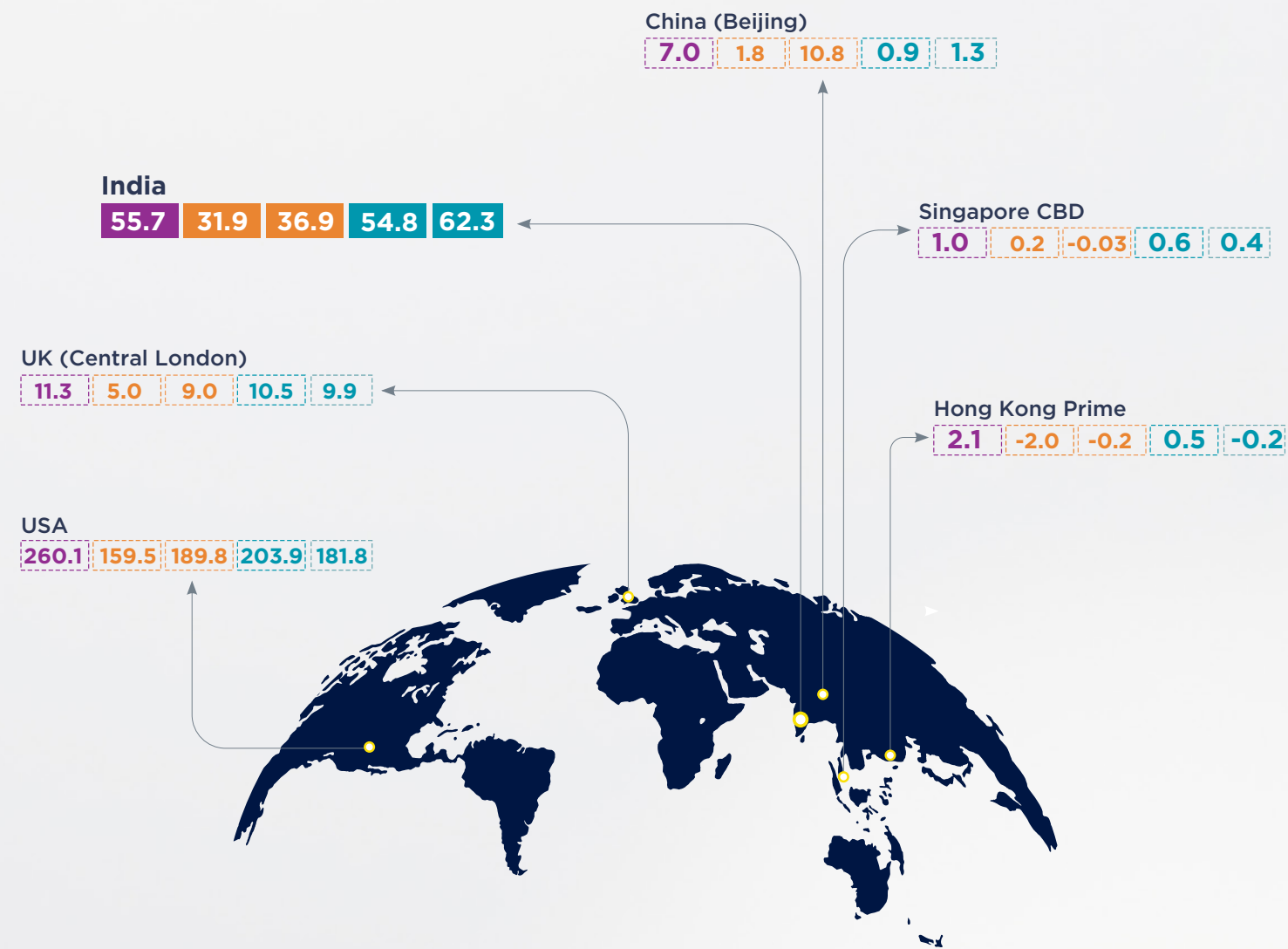


Source: Scoop Flex Index, Savills India Research

Office Absorption Trend

(million sq. ft.)

2019 (Pre-COVID)	2020 (During COVID)	2021 (During COVID)	2022 (Post-COVID)	2023 (Post-COVID)
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Source: Savills India Research

Note: Numbers for China, Hong Kong and Singapore are reflective of net absorption





The demand for office real estate in India is driven by economic growth translating into occupiers' confidence and expansion plans in the market. Given this inflection point, we have endeavoured to present three scenarios estimating the investment potential of the segment.

Scenario Assumptions

	Assumption Rationale	Key Factors at Play	Assumption Metric
1. Realistic Case	The average annual gross office leasing has been in the range of 50-55 million sq. ft. The segment will continue to witness a similar pace of leasing.	<ul style="list-style-type: none"> <li>GDP growth trending at current levels</li> <li>India interest rates (G-Sec) trending at current levels</li> <li>Continued current levels of IT outsourcing</li> </ul>	Average annual office gross leasing: 55 million sq. ft.
2. Optimistic Case	A favourable shift in the economic environment leading to a rise in occupier confidence resulting in higher office leasing.	<ul style="list-style-type: none"> <li>GDP growth trending higher than current levels</li> <li>India interest rates (G-Sec) trending lower than current levels</li> <li>Increase in IT outsourcing</li> </ul>	Average annual office gross leasing: 70 million sq. ft.
3. Conservative Case	An unfavourable shift in the economic environment leading to a drop in occupier confidence resulting in lower office leasing.	<ul style="list-style-type: none"> <li>GDP growth trending lower than current levels</li> <li>India interest rates (G-Sec) trending higher than current levels</li> <li>Decline in IT outsourcing</li> </ul>	Average annual office gross leasing: 40 million sq. ft.

Source: Savills India Research

Indian office real estate has consistently witnessed gross leasing of approximately 55 million sq. ft. on an annual basis (barring the COVID impact) as per our Realistic scenario. The segment would require an equivalent amount of office stock to be introduced perpetually on an annual basis to be able to meet the demand. This demand may range between 40 million sq. ft. and 70 million sq. ft. based on our Conservative and Optimistic scenarios.

We estimate the investment potential in office real estate in India to range between USD 2 billion (INR 175 billion) and USD 4 billion (INR 305 billion) on an annual basis, based on our Conservative and Optimistic scenarios. Realistically, as per our estimates, office real estate in India holds the potential to attract institutional investments amounting to USD 3 billion (INR 240 billion) on an annual basis. This can be jointly funded by private equity investments, developers' own funds, or joint-development agreements.

“ As per our estimates, institutional investment potential in the Indian office real estate segment on an annual basis: USD 3 billion ”



#### 4.2 Investment Opportunity in the Industrial & Warehousing Real Estate Segment

The industrial & warehousing segment in India has recorded an impressive growth over the years owing to greater emphasis on the manufacturing sector along with penetration of e-commerce beyond Tier I and Tier II cities. The demand has been on an upward trajectory in the last three years recording an average annual absorption of 46 million sq. ft. While the absorption in 2023 recorded a growth of 12.7% compared to 2021, Tier II and Tier III cities<sup>4</sup> registered a robust growth of 44% during the same period, indicating

a growing demand beyond Tier I cities. This healthy growth in demand has been led by growth in the manufacturing sector, the contribution of which to overall absorption increased from 14% in 2021 to 24% in 2023. Similarly, the retail sector's contribution rose from 8% in 2021 to 14% in 2023.

The Indian industrial & warehousing real estate segment has witnessed leasing of approximately 46 million sq. ft. across Tier I, Tier II and Tier III cities on an annual basis. Assuming the

pace of leasing to continue, the segment would require an equivalent amount of stock to be introduced perpetually on an annual basis to be able to meet the demand. As per our estimates, industrial & warehousing real estate in India holds the potential to attract institutional investments amounting to USD 1.2 billion (INR 99 billion) on an annual basis. This can be jointly funded by private equity investments, developers' own funds or joint-development agreements.



As per our estimates, institutional investment potential in the Indian industrial & warehousing real estate segment on an annual basis: USD 1.2 billion



<sup>4</sup> Tier I cities include Ahmedabad, Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai and Pune  
Tier II and Tier III cities include Guwahati, Bhubaneswar, Patna, Hosur, Coimbatore, Rajpura, Lucknow, Jaipur, Nagpur, Surat, Indore, Kochi, Hubli, Vizag, Belgaum and Anantapur

#### 4.3 Investment Opportunity in the Life Sciences Real Estate Segment

We expect the life sciences industry in India to benefit from strong demand drivers and the current market environment encompassing favourable regulatory policies, rich demographic dividend in terms of large skilled workforce and cost efficiencies in terms of manpower cost and real estate rental cost. Over the next decade, we estimate the requirement of life sciences research and the development real estate universe in India to grow significantly. As per our estimates, India has the potential to create a demand for approximately 96 million sq. ft. of life sciences research and development real estate from 2021 till 2030. This could provide institutional investors with ample opportunity to increase allocations to the sector, especially in the development space.<sup>5</sup> As per our estimates, the life sciences research and development real estate universe in India holds the potential to attract private equity institutional investment amounting to USD 18 billion

(INR 1,350 billion) over the 10-year horizon of 2021-2030.

The life sciences real estate segment in India has been witnessing tremendous growth recently. This is evidenced in addition of capacities in terms of life sciences parks and significant uptick in expansion plans by life sciences firms.

Some real estate developers are considering entering into development of life sciences parks, besides their conventional business of constructing offices, residential projects and retail malls. Many of them are also looking at expanding their capacities across cities in India. For example, a leading life sciences infrastructure development company is expanding its footprint in Bengaluru (approximately 2.5 million sq. ft.) and Mumbai (approximately 1.5 million sq. ft.), already having a presence in Hyderabad (approximately 2.5 million sq. ft.). Further, in February 2024, the Telangana government announced plans to build

the next phase of 'Genome Valley' in Hyderabad, to expand the cluster for life sciences R&D and clean manufacturing activities involving an investment of USD 242 million (INR 20 billion) in 300 acres of land<sup>6</sup>.

The market is witnessing robust demand for life sciences parks as occupiers realise the importance of customised infrastructure solutions suitable for pharmaceutical and biotech firms. This is also reflected in significant expansion by life sciences firms lately. In 2022 and 2023, several companies including Slayback Pharma, Gland Pharma, Syngene, Aurigene Pharmaceutical Services and Bharat Serums and Vaccines, among others, announced their investment plans in expanding real estate capacities in life sciences parks in Hyderabad. Further, in March 2024, GV Research Platform leased 130,000 sq. ft. in Nextopolis (life sciences park by Rx Propellant), Hyderabad<sup>7</sup>.



As per our estimates, private equity institutional investment potential in the life sciences R&D real estate segment during 2021-2030: USD 18 billion



<sup>5</sup> Savills India Report - [On a Booster Dose: Life Sciences Real Estate](#)

<sup>6</sup> <https://www.moneycontrol.com/news/india/telangana-to-develop-next-phase-of-genome-valley-with-rs-2000-crore-investment-cm-reddy-12364101.html>

<sup>7</sup> <https://economictimes.indiatimes.com/industry/services/property/-construction/rx-propellant-leases-1-3-lakh-sq-ft-rd-facility-nextopolis-to-gvvp-in-indias-largest-life-sciences-real-estate-deal/articleshow/108298774.cms?from=mdr>



# 5 Afterword

The ascent of private equity investments in India's real estate market is noteworthy. In order to draw greater investments, concerted action is necessary. The market needs to create a larger pool of assets and the ecosystem must create a bridge for investments to find the market attractive.

**Investible Asset Pool:** This entails developing new investible assets and elevating existing stock to sustainability benchmarks, pivotal for exceeding historical private equity inflows.

**Policy Bridge:** Implementing enabling policies, such as simplifying regulations for land acquisition and approvals, is critical in enhancing investor confidence. Moreover, customised policies targeting sector-specific hurdles can unleash private equity investment prospects by addressing challenges and encouraging development in underserved sectors. Policy formulation to reinvigorate demand across sectors such as recent provisions from SEBI (Securities & Exchange Board of India) for establishing SM REITs (Small and

Medium Real Estate Investment Trusts) should be emphasised.

The promising outlook of the Indian economy over the next few years, added with quality real estate and an enabling environment will assure multifold growth in investments into the real estate sector.







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### Research

#### Diksha Gulati

General Manager  
Research & Consulting  
diksha.gulati@savills.in

#### Raghudeep Ganugu

Senior Manager  
Research & Consulting  
ganugu.raghudeep@savills.in

#### Shashwat Srivastava

Assistant Manager  
Research & Consulting  
shashwat.srivastava@savills.in

#### Megha Maan

Director  
Research & Consulting  
megha.maan@savills.in

#### Arvind Nandan

Managing Director  
Research & Consulting  
arvind.nandan@savills.in

### Central Management

#### Anurag Mathur

Chief Executive Officer  
Savills India  
anurag.mathur@savills.in

#### Kaustuv Roy

Managing Director  
Business Solutions  
kaustuv.roy@savills.in

#### Naveen Nandwani

Managing Director  
Commercial Advisory & Transactions  
naveen.nandwani@savills.in

### Media Queries

#### Chinmoyee Kalita

Corporate Communications Lead  
chinmoyee.kalita@savills.in

### Regional Management

#### Sarita Hunt

Managing Director  
Bengaluru  
sarita.hunt@savills.in

#### Rajat Johar

Managing Director  
Delhi-NCR  
rajat.johar@savills.in

#### Anup Vasanth

Managing Director  
Chennai  
anup.vasanth@savills.in

#### Sesha Sai

Managing Director  
Hyderabad  
sesha.sai@savills.in

#### Naveen Raina

Executive Director and  
Interim Head Pune  
naveen.raina@savills.in

#### Kaustuv Roy

Managing Director  
Business Solutions  
Mumbai  
kaustuv.roy@savills.in

### Gurugram

3-A, Second Floor, Building 9B  
DLF Cyber City, Phase 3  
Sector 24, Gurugram 122 002  
Haryana, India

### Bengaluru

Vaishnavi Tech Park, WM9C+995  
Sarjapur Main Rd, Bellandur  
Bengaluru 560 103  
Karnataka, India

### Hyderabad

5th Floor, DivyaSree Solitaire, Plot No. 14 & 15  
Software Units Layout, Sy No 64, Madhapur,  
Serilingampally Mandal, Hyderabad 500 081  
Telangana, India

### Mumbai

Unit No 2604, 26th Floor, B Wing  
One Lodha Place, Senapati Bapat Marg  
Lower Parel, Mumbai 400 013  
Maharashtra, India

### Chennai

Savills, 5th Floor, North Wing  
Harmony Square, New No. 48 & 50  
Praksam Street, T. Nagar  
Chennai 600 017  
Tamil Nadu, India

### Ahmedabad

INC-02, The First Commercial Complex  
B/S Keshavbaug Party Plot, Vastrapur  
Ahmedabad 380 015  
Gujarat, India

### Bengaluru

15th Floor, SKAV SEETHALAKSHMI  
Corporation No.21, Kasturba Road  
Bengaluru 560 001  
Karnataka, India

### Pune

Unit #4, 13th floor  
Phoenix Fountainhead Tower 2  
Phoenix Market City  
Viman Nagar, Pune 411 014  
Maharashtra, India

### Kolkata

Apeejay Business Centre  
15 Park Street, Apeejay House  
Block-A, 8th Floor, Kolkata 700 016  
West Bengal, India





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