

Real EstateEDGE

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AI Fs – An opportunity to capitalise on India's Real Estate potential

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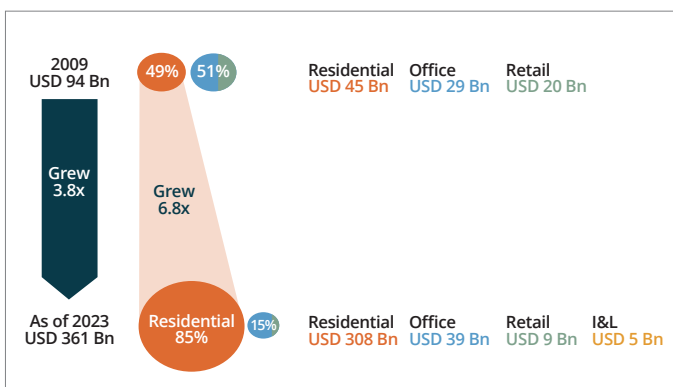
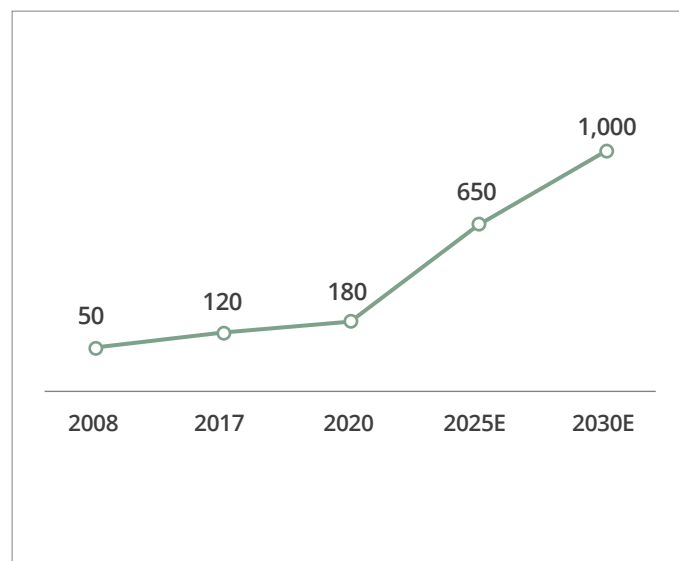
Real Estate Growth:

Market Size to Reach USD 1 Trillion

India's real estate sector is poised for significant expansion, with robust macroeconomic factors, favourable demographics, rapid urbanisation, and massive infrastructure development driving multi-decade growth. The market is expected to grow from USD 180 billion in 2020 to USD 1 trillion by 2030 translating into a compounded annual growth of 19%.

The residential real estate has been the flag bearer of the overall growth in the real estate industry. From 2009 to 2023, the value of under-construction projects in the real estate industry increased by 3.8 times, while the residential segment grew by 6.8 times.

Burgeoning India RE: Market Size (USD Bn)

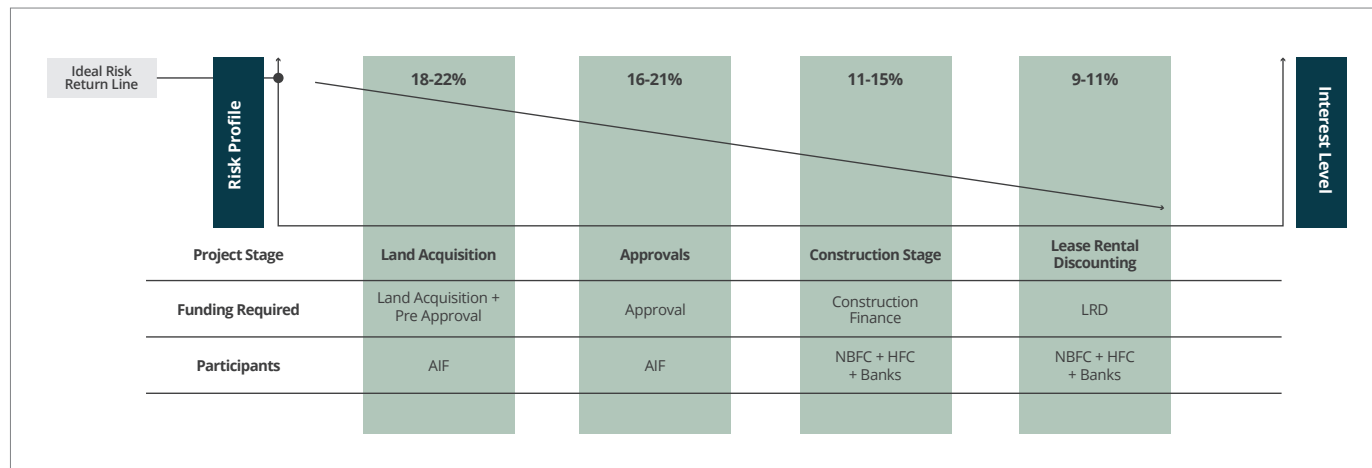


Alternate Investment Funds (AIFs):

Bridging the Funding Gap in Real Estate

In India, banks, NBFCs/HFCs are limited to providing construction finance or lease rental discounting leaving a significant funding gap during the early stages of development, such as land acquisition and approvals. This gap presents a compelling opportunity for HNIs and UHNIs to participate in India's real estate growth story through Real Estate Alternative Investment Funds (AIFs).

Returns across stages of funding



Source: JLL Research & Propstack, ASK Property Fund

AIFs typically provide funding at rates ranging between 16-22%, depending on the development stage and terms.



Real Estate AIFs:

A Regulated and Transparent Investment Avenue

Real estate-focused AIFs, regulated by SEBI, pool investor capital to invest in project companies of real estate developer, providing an alternate route to participate in real estate markets without owning the underlying assets. These AIFs fall under SEBI's Category II and offer transparency, governance, and investment protection through SEBI's robust regulatory framework, which boosts investor confidence.



Key Advantages of AIFs:

Diversification

Real Estate AIFs allow investors to diversify across geographies, developers, and segments like affordable, mid-income, and upper-mid-income housing. With an investment of INR 1 crore, investors can participate in multiple projects, diversifying risk and safeguarding against market/segment specific slowdowns (if any).

Expertise and Due Diligence

AIFs are managed by professionals having deep expertise and extensive experience. In addition to this, as per the regulation, the sponsors (that set up the fund) are required to have a continuing interest of either 2.5% of the entire corpus of fund, or INR 5 crores, whichever is lower to maintain a “skin in the game.” Sponsors typically contribute 5-10 per cent of the fund size.

AIFs undertake a detailed pre investment due diligence exercise which include an in-depth research and analysis of the location/geography, developer, average capital values, demand-supply trends and future demand drivers etc. Besides, a detailed technical, financial and legal due diligence exercise is also undertaken to ascertain any plausible risk.

Investors thus, tend to benefit from the professional expertise, processes followed, and due diligence undertaken by Real Estate AIFs.

Risk and Asset Management

AIFs play a pivotal role in managing risk effectively through a well-defined Risk and Asset Management Framework through periodic monitoring.

They actively track the construction cost/status, sales and collections post investments and work closely with developers to address issues if any. The overall objective is to ensure they generate superior risk-adjusted returns for the investors.



Unlocking Real Estate's Potential with AIFs

As India's real estate sector enters a transformative phase of multi-decade growth, AIFs provide a unique opportunity for investors to bridge the funding gap and capitalize on this potential. However, thorough due diligence of an AIF's investment strategy, track record, and processes is critical. Real Estate AIFs empower investors to diversify their portfolios and achieve risk-adjusted returns while participating in India's real estate success story.

For further information, please contact:

DIPALI GANDHI

Head-New Initiatives, Research and Communication

ASK Property Fund

dipali.gandhi@askinvestmentadvisors.com

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