



How Blackstone is using new strategies in India to ramp up real estate play

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26 September, 2017

Blackstone Group, the world’s largest private equity firm, is looking to open new growth avenues in India after scripting a success story in the commercial and retail real estate segments.

The New York-headquartered firm has recently been in news for its attempts to buy two private equity businesses—the fund manager of the \$525-million real estate-focussed [IL&FS India Realty Fund-I](#) and the Anand Jain-promoted [Urban Infrastructure Opportunities Fund](#).

Blackstone’s efforts to buy the two funds, both of 2006 vintage, hint that the firm is deploying new strategies to enhance its exposure to the Indian real estate sector, feel experts. These planned deals are on the lines of portfolio secondary transactions, where a PE firm or an institutional investor sell its entire portfolio of assets to another PE firm.

“It (Blackstone) is looking at funds that have exhausted their shelf-life and need to be sold to new managers,” said Shobhit Aggarwal, managing director for capital markets and international director at real estate consultancy JLL India. “Its aim is to manage these assets, sell them and exit to create value for the company.”

Amit Goenka, founder and managing director of PE firm Nisus Finance Services, agrees: “These are opportunity-driven buyouts that do two things for the company – add to its portfolio management skills and create value.”

For this new business, however, Blackstone is not looking to hire a new

team to manage the portfolios, but will rely on the resources it retains from the target funds.

Though IL&FS India Realty Fund-I and Urban Infrastructure Opportunities Fund are heavy on residential assets, the PE firm seems to be targeting the funds and not the underlying assets.

According to Aggarwal, the underlying assets could be residential, commercial or warehousing. “The focus is to pick up more such funds that are put on the block by fund managers. The market will throw up a lot of opportunities.”

Aggarwal’s views may have taken roots from the fact that the Indian real estate sector, which had received a huge inflow of cash between 2006 and 2008, had gone into a tailspin following the global financial crisis, trapping a major portion of the capital. Now, creating exits for these investments has become an uphill task for fund managers.

However, while there have not been too many attempts by PE firms and strategic buyers to buy out a real estate-focussed private equity fund, the market seems to be ripe for such transactions.

In fact, a number of distressed assets are up for grabs. For instance, PE firm Fire Capital, which had backed a slew of township projects only to change its strategy later, was up for sale and had elicited interest from Avenue Capital.

“The acquisitions may not help Blackstone in the immediate future, but it might be of help at a later stage as and when it ventures into residential-focussed private equity business. Value creation seems to be the main draw of its strategy in the short run,” Goenka said.

Market analysts are also of the opinion that Blackstone is trying to acquire distressed assets at a discount and turn them profitable. “The opportunity also gives them a chance to establish a connection with domestic limited partners and milk it at an opportune time,” said an analyst, on the condition of anonymity.

Email queries to the spokesperson for Blackstone for more information on its India strategy did not elicit any response till the time of filing this report.

Given the market situation, wherein demand continues to be sluggish and sales are painfully slow, debt players have also ramped up their presence, especially in the residential space, to aggressively finance and refinance projects.

And, a buyout of funds by peers, such as Blackstone, could instill a new-found confidence in commercial realty and give the otherwise subdued real estate market a new lease of life, say experts.

Portfolio secondary

India is a new territory for Blackstone when it comes to buying out portfolio of its peers. Globally, this seems to be one of the main pillars of its strategy across assets.

According to the firm's website, its arm Strategic Partners Fund Solutions is a key investor in secondary PE market. It offers individual and institutional investors an opportunity to monetise and manage their illiquid investment holdings.

From its start in 2000, the firm claims it has raised over \$28 billion of capital commitments, completed over 1,000 transactions and acquired over 2,850 limited partnership interests.

The Indian real estate market has seen hardly any portfolio secondary transactions so far. However, the private equity and venture capital segment has witnessed a bunch of such deals.

In 2015, for example, financial services giant JP Morgan bought the entire India portfolio of early-stage investor Canaan Partners for around Rs 1,260 crore. In 2016, Draper Fisher Jurvetson, an investor in Elon Musk's electric-car company Tesla and spacecraft maker SpaceX, sold its entire India portfolio to NewQuest Capital Partners.

Blackstone's India bets

The firm set up its India office in 2005 and has since invested about \$6 billion across private equity and real estate deals. It has pumped in about \$2.7 billion across 19 transactions in the real estate sector, and manages the largest portfolio of office parks in India.

Of late, it has also been aggressively creating a pool of retail assets in the country. Blackstone manages seven malls, operated by its retail subsidiary Nexus Malls, in cities including Ahmedabad, Amritsar, Indore and Pune.

In the commercial real estate space, it already owns over 30 million sq ft of completed and leased out office assets, and is in the fray to clinch some of the biggest transactions in the segment.

The firm was one of the two contenders for the mega stake sale in the rental arm of DLF Ltd, but subsequently lost out to Singapore sovereign wealth fund GIC. Recently, it had also bought into the commercial unit of Mumbai-based developer K Raheja Corp, besides picking up a space in a key Mumbai property, FIFC at the Bandra Kurla Complex.