White Paper

Future of Fractional Property Ownership (FPO) in India

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The Indian fractional ownership market is currently pegged at INR 4,000 Crores, growing from INR 1500 Crores in 2019. The market still holds a modest share in the global fractional real estate industry, sized at INR 39,000 crores. However, the underlying potential in the segment is vast. It can grow like the next big thing in the interest of investors like the mutual fund industry.

There are multiple benefits associated with the fractional market in India. Firstly, it will greatly democratize the space by allowing investors with a modest amount of 10-20 lacs to invest in real estate and other potential domain. In the past CRE investments were mostly run by the HNI investors and institutional investment houses. However, this will alter with the pick-up in demand for fractional investments.

Secondly, it will help investors and buyers easily diversify their portfolios. Through Fractional Property Ownership (FPO), investors can invest in multiple properties cutting across geographies and asset types thereby realizing diversification goals and objectives.

Thirdly, the potential to make returns is immense in FPO. Individuals can earn rental yields to the tune of 7-9% (or even more) in addition to higher IRRs in the medium to longer run. As FPO largely deals with income-generating prized commercial assets, the rental yield and capital appreciation potential are tremendous.

Looking at the potential the segment holds, the governing agencies are also undertaking proactive steps to bring the segment under increased regulatory ambits. SEBI has recently released a consultation paper asking various stakeholders to share their viewpoints about fractional space. The regulatory body is expected to deploy a detailed framework mandating the course of action for promoters and managers involved in the trade.

The step by SEBI is a welcome move, as it will bring increased transparency and structure alongside boosting the confidence levels of the investor community. Increased transparency can also set the stage for the active participation of bigger players in the segment, thereby enabling further growth in market size.

To further highlight the segment and offer valuable insights, we have prepared the thought leadership report. The report captures numerous facets of India's emerging fractional real estate market, with a strong focus on future opportunities.

The incisive analysis will be helpful for developers, institutional channel partners, property management companies, sovereign agencies, etc. to learn more about the emerging trends in the segment. Hope you enjoy reading the report. Feel free to share your valuable feedback.

Fractional Real Estate in India: The Dawn of a New Era

Ankush Ahuja
Co-founder and CBO

Indian real estate is set for quick adoption of fractional properties. What once looked like a fancy idea of investing in income-generating commercial assets, is now gaining prominence. In the fractional era, investing in commercial assets won't be limited to selected elites. Even common investors with a disposable income of INR 10-20 lacs can now invest in sought-after commercial properties and earn higher returns.

There are many asset types such as offices, malls, high streets, warehouses, cold chains, industrial plots, business parks, etc. that can be managed via the FPO route. Similarly, the concept can be further extended to other income-generating commercial assets such as co-working spaces, IT parks, rental villas, hotels, etc.

There is literally a sky-full of opportunities for the FPO market in India. Though there are a handful of online platforms that are operating in the segment, soon we will see bigger players entering the space that will give spurred growth. In the past, we have seen similar trends in the mutual funds industry and FPO may chronicle the same. The entry of larger players with a proven track record will also bring in better talent, expand the supply lines, result in efficient go-to-market strategies, and offer more credibility to the overall segment.

Meanwhile, another area that will be a game changer could be technologies such as predictive analytics and tokenization that will facilitate simple, coherent, and insights-backed transactions of FPOs across the web. Technology will also play a critical role in bridging the gap between fintech, proptech, and regulator tech, which will further help in the faster growth of emerging verticals such as FPO.

Above images use for showing different asset classes

1.0 Grade- A Office supplies in India

After facing muted demand, the office market in India started recovering in 2022, as most organizations started back-to-office initiatives, either fully or in a hybrid mode. This led to a shift in office absorption, which was also followed by an aggressive supply line. A healthy economic outlook, increased FDI investment, and thrust towards infrastructure development furthered growth in the office market in India.

The aggregate Grade-A office stock in India is presently pegged at 672 million Sq Ft. with the absorption of more than 37.5 million sq ft in the past 12 months. 60% of the absorption is managed by the three South India-based metros- Bangalore, Hyderabad, and Chennai.

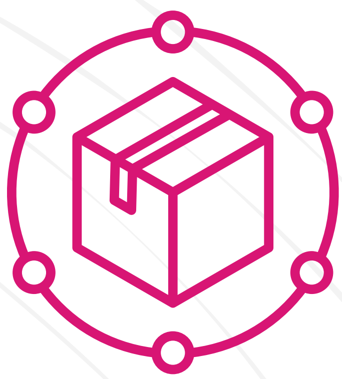
In terms of the supply line over the past 12 months, a total new supply **of 34 million sq ft** has entered the market. The South Indian market comprised around 64% of the new supplies, which was followed by NCR (21%). The cities in western India (MMR and Pune) contributed to 13% of the supply lines.

Average leasing rates have reached INR 90-95/ sq ft with vacancy rates to the tune of 14-17%. Despite an aggressive stance by occupiers, the dip in vacancy rate has been marginal over the years due to an increase in supply lines.

NCR has one of the highest vacancies to the tune of 28-30%, followed by MMR with a vacancy rate of 13-16%. Bangalore has the lowest vacancy of 7%.

In the foreseeable future, the office realty market in India will continue to look bullish with a supply line of 225 million sq ft. Around 25-30% of the future demand will emerge from the IT and ITeS sector followed by the manufacturing sector which will drive 15-20% of the demand. Other segments such as e-commerce, consulting services, & professional service companies will also fuel demand.

In the office segment, the co-working category is also set to grow at a scorching pace. Currently, there is a total of 19.5 million sq ft of coworking space in India, growing substantially from 2018 when it was sized at 2.1 million sq ft. There are a total of 2197 co-working players, which places it second after the USA, where there are over 3700 operators. In the times to come co-working will continue to expand in the country backed by a surge in start-ups, a thrust for a sharable economy, and many occupiers trying to optimize cost. Around 22-25% of the new supplies in the market will comprise shared office spaces and co-working units.

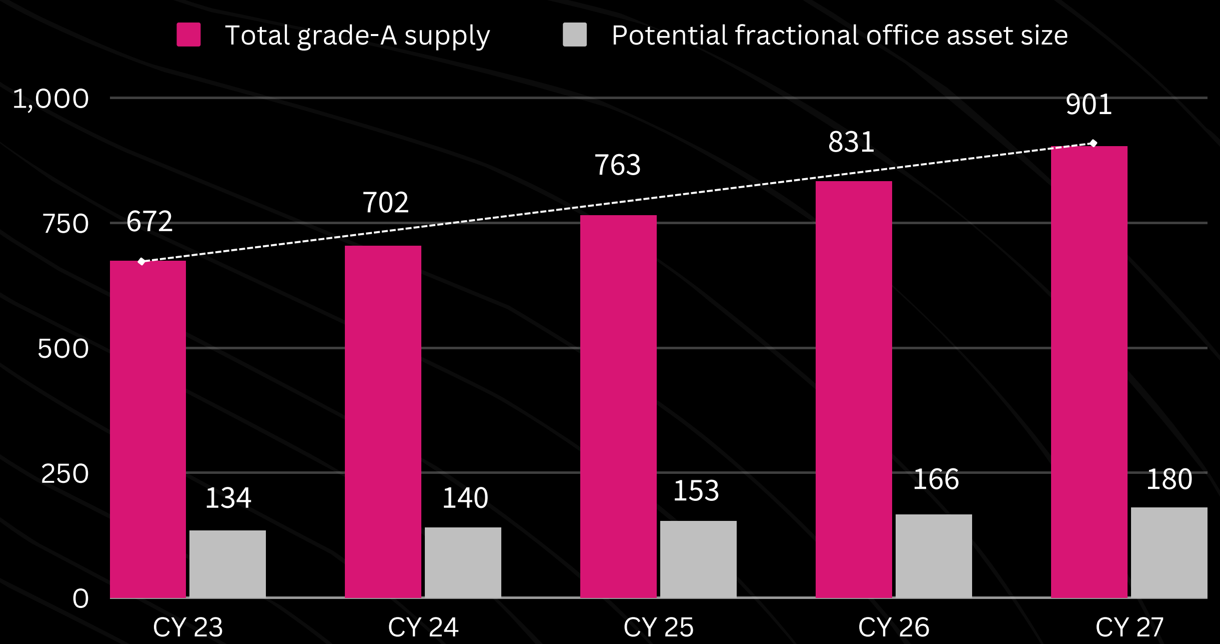


1.1 Fractional Real Estate Can Redefine Office Assets

Fractional real estate can redefine office asset investments in multiple ways

- It will reduce the barrier to entry in the office market. Through a fractional platform someone with a limited bandwidth of INR 10 lakhs can invest now in the office market.
- Alternatively buying an office property comes with a huge cost. A 15000- 20000 Sq ft. office space will cost around INR 30-40 crore in metros such as Gurgaon.
- Prior to fractional buying an office was limited only to HNIs and institutional buyers.
- An investor, even with a limited bandwidth of INR 10-20 lakhs, can earn an annual rental yield of 8-10%. If we include capital appreciation, the yield can be up to 15-20%.
- Via the fractional platform one can own multiple office assets across numerous cities there by diversifying their portfolio.
- Different geographies/ cities will have unique economic cycles. Investing in multiple markets thereby helps in optimizing the overall returns.
- By 2027, a total of over 225 million sq. ft of fresh office supplies are set to enter the Indian market (Major metros.) This will lead to an aggregate supply of over 900 million sq ft. office supplies
- Out of the total supply, around 180 million sq ft of space has the potential to be converted into fractional assets.

Indian Grade-A office supply (CY 23- 27)



Source: Media reports, 360 FRXNL analysis

2.0 Warehousing Industry in India

The Indian warehousing sector is growing at an unprecedented pace. In 2022, the warehousing absorption in India amounted to 46 million, taking the total stock in India to 333 million Sq Ft. This is slightly lower than the absorption of 49 million Sq Ft in 2021. The upward growth trajectory in the warehousing sector continued in H1 2023, with a total; absorption of more than 22 million Sq Ft. Around 70-75% of the absorption is focused in Tier 1 cities in India.

The warehouse industry in India will continue to thrive backed by a jump in manufacturing, e-commerce, and 3rd party logistics & freight forwarding companies. By 2030, the warehousing industry in India is set to reach 700 million Sq Ft, growing at a CAGR of 11.2%. Besides regular warehousing, the demand for cold chains is also picking up with demand emanating from food processing, dairy, Quick Service Restaurants (QSRs), and the pharma industry.

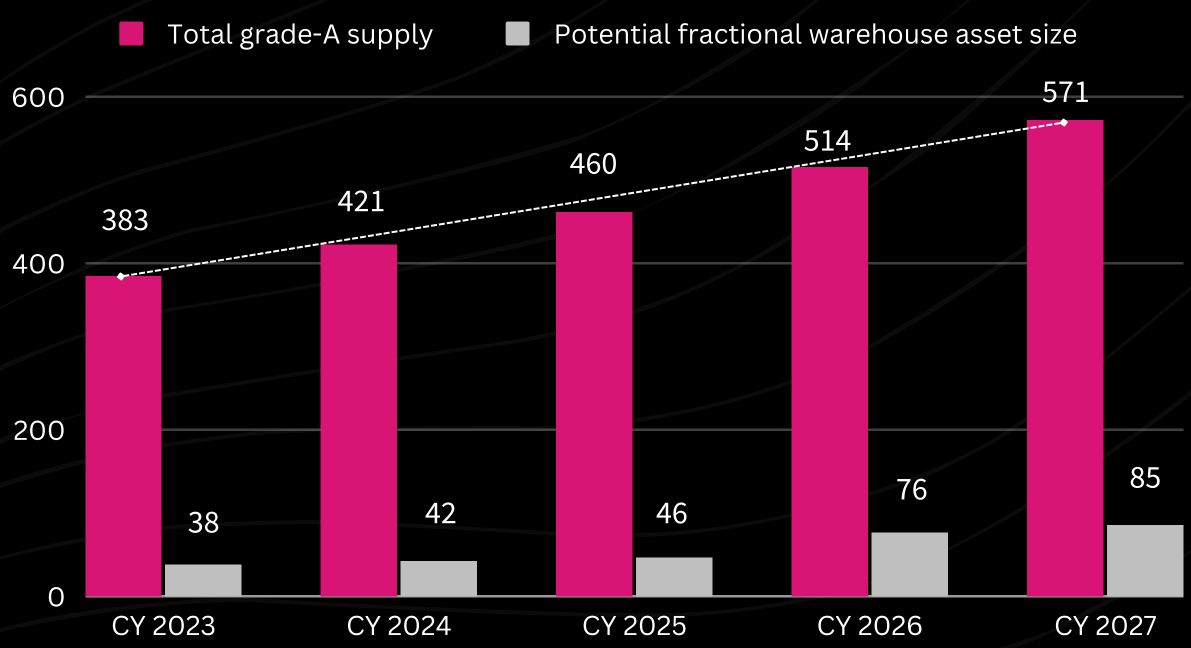
India presently has one of the highest freight costs, comprising 12-14% of the total GDP. However, with an objective to become a manufacturing powerhouse and play a larger role in the global supply chain, it is aiming to reduce the logistics cost to 6-9% of the GDP, at par with other major economies in the world. In this regard, warehousing will play an important role as it contributes 15-35% of the total cost of logistics.

To further boost the warehousing industry, GOI in partnership with the NHAI has unveiled a new warehousing policy, that will emphasize on the creation of new warehousing zones. The rental yield of warehouses in India is mostly in the range of INR 17-23/ Sq Ft (in metros) with a growth to the tune of 8-9% drawing attention from private investors.

2.1 Fractional can redefine warehousing investment in India

- As the warehousing industry is growing, there is renewed investor interest from the PE Players, ’HNIs, and UHNIs alongside regular developers.
- Meanwhile, given the nature of the industry it can also be transacted via the FPO route
- An SPV can be created, through which even with a limited investment of INR 15-25 lakh, one can partially own a warehousing space.
- The total rental earned will be transferred to the SPV, from where it can be delivered to the respective investors.
- Via the SPV, one can invest in warehousing assets and can easily earn an annual rental yield of 8-12%.
- The nature of warehousing, which involves relatively lower investment and long leases, also helps boost the yield.

Indian warehouse supplies (CY 23- 27, Mn Sq Ft)



Source: GOI data, media report, 360 FRXNL analysis

3.0 India’s recovering retail sector

The pandemic chronicled the viewpoint that in the face of rising digital retail, many malls, shopping centers, and high streets will soon retreat. However, the notion was farfetched, as the post-second wave dissipated, footfalls in malls and shopping centers, started growing by the midst of 2021. In 2022, the footfall reached 80% of the pre-pandemic levels, indicating a recovery in the sector.

In India, organized retail comprises around 18% of the total industry, which is sized at USD 1.2 trillion. Organized retail which includes shopping malls, shopping centers, high streets, and departmental stores contributes to a total of USD 216 billion market.

Presently, there are a total of 650 shopping malls and shopping centers in India. Out of this 286 are located in tier 8 metro cities.

Besides there are 360+ big & small malls, shopping centers, and arcades located across 130 Tier 2 and 3 cities.

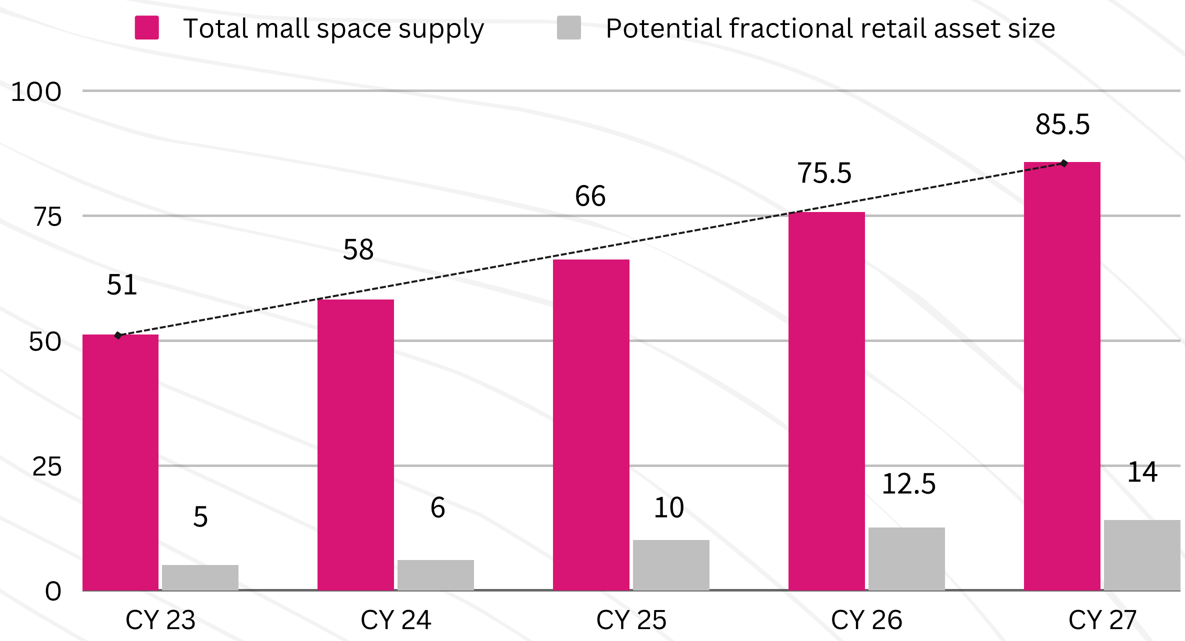
If we talk about big metros, the total size of the mall space in India is close to 51 million sq ft and there is a pipeline of 26 million sq ft with a total of 85 new malls set to enter the market by 2026. In the new supplies, 43% will be directed towards NCR and MMR. Around 40% of the new supply will be focused in major south Indian cities including Bangalore, Chennai, and Hyderabad.

Presently average occupancy in malls is close to 93% in major metros. The average rental rate is 276 (INR/ Sq Ft/ Month), growing at the rate of 6% annually.

3.1 Fractional can redefine retail real estate investment(s) in India

- India's high street and grade-A Retail stocks are proliferating, fueled by a surge, in disposable income, consumer spending, and the organized nature of the industry.
- While a major portion of the market will be run by large metros, smaller cities will also contribute to 35-40% of the growth.
- Like other commercial and industrial assets, retail is an expensive proposition and is beyond the reach of the average investor.
- Owning a 2000-square-foot shopping space in a key area in Gurgaon can cost over INR 10 crores. Owning a 500-600 square feet shopping space in Lower Parel or nearby region in Mumbai can easily cost INR 6-7 crores.
- In their individual capacity, an average retail investor can't invest in high-income generating yet very expensive retail properties.
- Alternatively, they can pool their investments via a fractional property platform and fractionally own an income-generating retail asset.
- Through the FPO retail investment route, an investor can make up to 8-9% rental returns.
- The potential of retail via the FPO route is vast. Close to 14 million sq ft of grade-A quality retail space can be transacted via the FPO route.

Indian mall supplies (CY 23-27, Mn Sq Ft)



Source: Media reports, 360 FRXNL analysis

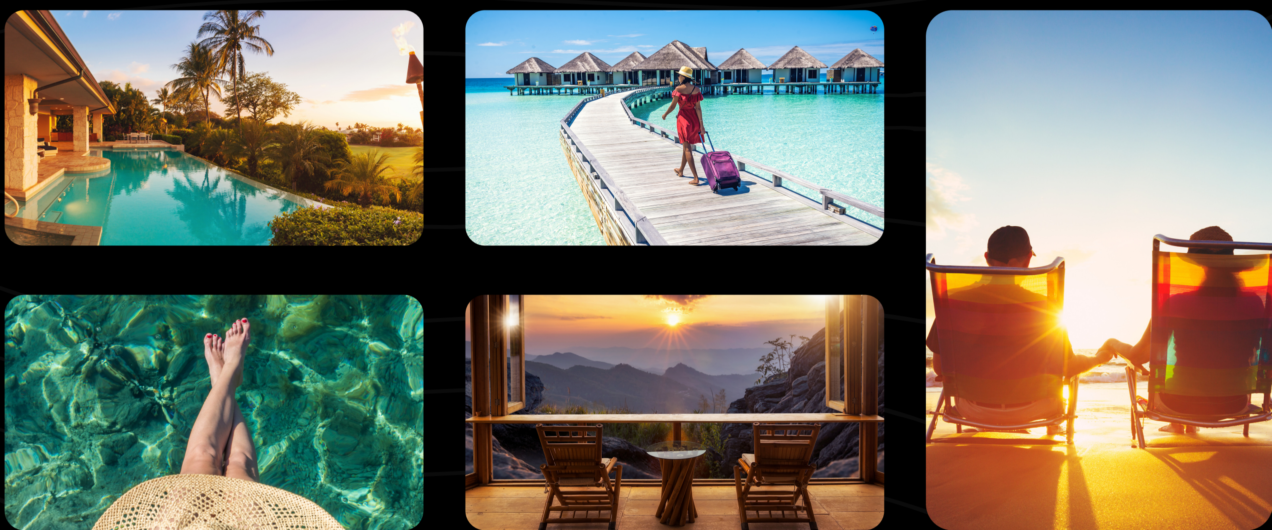
4.0 Holiday Homes in India

The holiday home/ second home/ vacation villa market in India is going from strength to strength. As Indian cities are growing vertically and becoming congested, the demand for taking breaks and spending time amidst nature has spiked in India. The pandemic has also been instrumental as increasingly people realized the importance of bonding with nature and spending quality time with friends and family.

In 2021, the total second home/ holiday market in India was pegged at USD 1.39 billion and is set to cross USD 4 billion by 2026, growing at a CAGR of 23.6%. If we include other allied verticals such as farmhouse stays, eco-resorts, and vacation bungalows, the size of the market is even larger.

The market is gaining momentum also on the back of the growing work-from-home or work-from-anywhere culture. Increasingly corporate honchos, entrepreneurs, lawyers, and creative junkies are shunning regular 9-5 offices and prefer to work amidst lush green tranquil environments, sea beaches, and hilly regions. The concepts of workcation and staycation are no longer just buzzwords but a new reality.

The lucrative nature of holiday homes is now also witnessing big developers entering the space, which is not just resulting in accelerated growth but also enriching the space. Today size holiday home communities are developed laced with swanky clubhouses, multi-cuisine restaurants, top-tier amenities, yoga studios, automated security systems, etc. There is also a growing uptrend of partnering of holiday home communities and hospitality and wellness players. It is not unusual to find rejuvenation retreats, wellness packages, Ayurveda sessions, and adventure sporting facilities inside second-home communities. In fact, these days many regular tourists prefer vacation homes rather than regular hotels and resorts.



Holiday Homes- Time Share

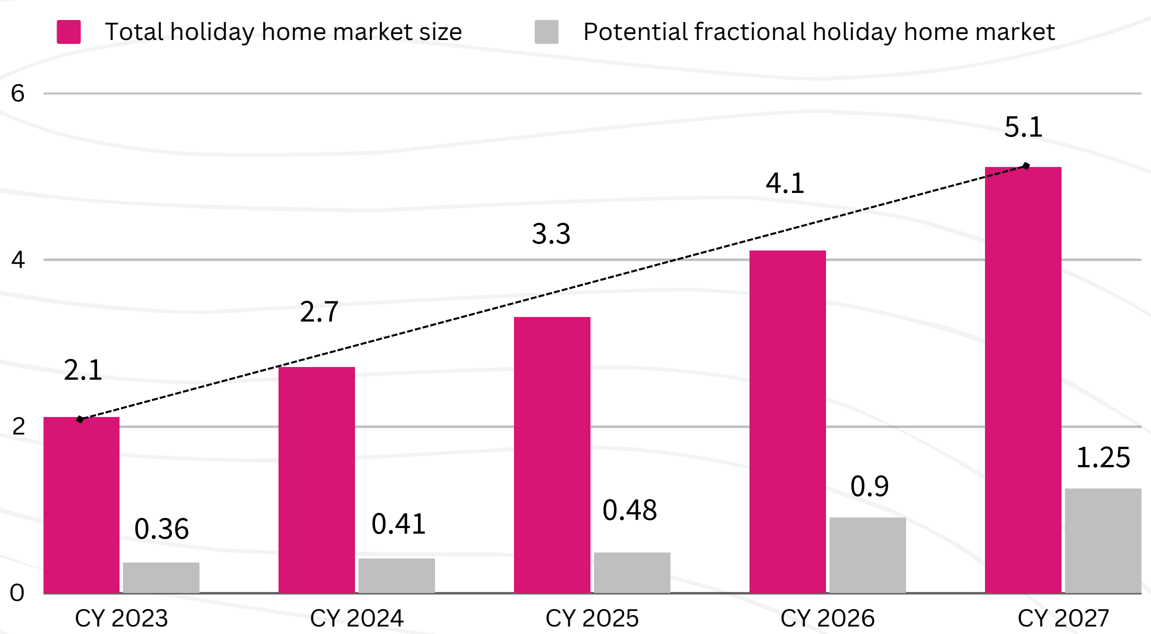
4.1 Fractional Can Redefine Holiday Home Investment(s) in India

Holiday homes are also a prudent investment choice with a multitude of benefits. Due to their rising popularity, many tourists as well as remote workers prefer to rent/ lease them thereby giving constant rental income to the tune of 5.5- 7.5%. This is much higher compared to residential yields in India, which is mostly pegged at 2.5- 3%.

Additionally, there are other benefits to investing in holiday home assets. It can be used for personal use as well. Likewise, it can be used for hosting parties and events with friends & and families. Holiday homes also come with attractive capital appreciation potential that can range from 8- 25% annually, depending on a host of factors.

- Besides standalone, one can also invest in the burgeoning space of holiday homes via fractional platforms.
- The pooled investment can be a great way to earn rental income through homestays, banquet services, and other functions.
- Investing in a holiday home asset can also help with personal use via the time-sharing option.
- Corporates can also invest in such properties as it can help in conducting business travel trips.
- At a later stage the property can also be sold out provided a majority of investors have agreed upon it. This can give smart appreciation to the investors.
- Presently the size of the fractional holiday home market in India is close to USD 360 million and is poised to reach USD 1.25 billion by 2027.

Indian holiday home market (CY 23-27, USD Billion)



Source: Media reports, 360 FRXNL analysis

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