



JLL Research

Affordable housing and logistics in India to become more attractive to sovereign wealth funds

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Sovereign wealth funds are increasingly looking at investments in India. The recently announced measure to grant 100% tax exemption on interest, dividend and capital gains income to sovereign wealth funds investing in infrastructure will further drive investments in affordable housing and logistics. Moreover, a shift in investment strategy is expected with an increasing number of funds preferring the direct investment route.

The genesis

Sovereign wealth funds (SWFs) are state-owned investment funds commonly established with revenues generated from trade surpluses, central bank reserves, currency operations, privatisations and transfer payments. SWFs aim to earn risk-adjusted returns while achieving the objective of economic development, fiscal stability and long term savings.

In 1953, Kuwait Investment Authority, the first SWF was established to invest surplus oil revenues. Between 2008-18, assets managed by SWFs grew at a CAGR of 10% (Exhibit-1) driven by the increasing surplus from rising oil prices, creation of new SWFs and the increasing wealth derived from non-oil sources. Asia garnered the highest share (42%) of AUM, driven by investments in infrastructure.

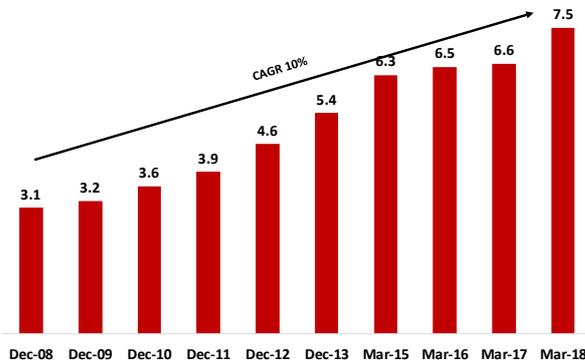
As of 2019, 88 SWFs with an estimated AUM of USD 8.1 tn¹ are active globally,

¹ Sovereign Wealth Fund Institute

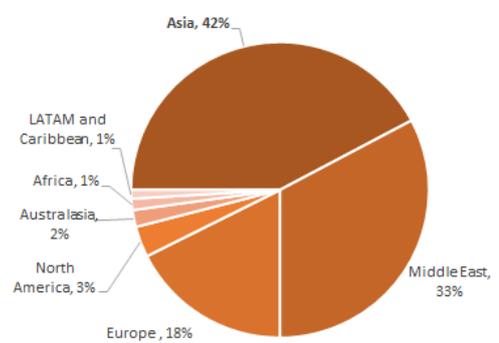
Exhibit 1

Robust growth in AUM with an increasing focus on Asia

Cumulative Sovereign Wealth Fund AUM, 2008 - 2018 (USD tn)



Region-wise share of AUM (as of March-2018)



Source : Preqin

Investment trends

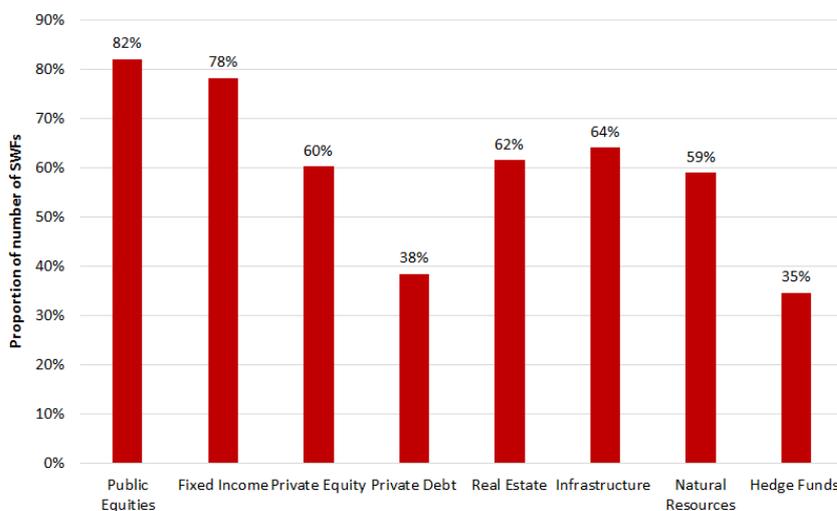
The investment strategy adopted by various SWFs is reflected in the preference for asset classes (See Exhibit 2). Out of the 88 SWFs operational, most SWFs still prefer investing in traditional asset classes like public equities (82%) and fixed income (78%).

As these funds gain more experience, they diversify to achieve higher returns. With more funds looking to diversify, infrastructure (64%) and real estate (62%) have emerged as the next preferred asset classes. These assets offer better risk adjusted returns as compared to traditional asset classes while meeting the development goals of domestic economies.

Exhibit 2

Real estate and infrastructure are preferred options for diversification and returns

Proportion of Sovereign Wealth Funds Investing in Each Asset Class in 2018



Source : Preqin

India - Emerging as SWFs favourite

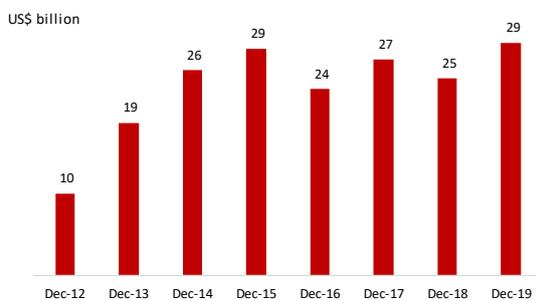
Investments by SWFs in India improved sharply post 2013 as various policy measures were introduced to attract foreign investments. In addition to opening up of various sectors for foreign investments under automatic route, tax concessions and legislation for real estate investment trusts & infrastructure investment trusts led to an increased inflow of foreign institutional investments.

In India, SWFs hold USD 29 bn of assets under custody (AUC) as of December 2019. Of these, real estate and warehousing account for 22% of the AUC, amounting to USD 6.6 bn² (Exhibit 3). It is pertinent to note that the reforms introduced in the real estate sector post 2014 have resulted in more than 80% of the investments being made in the last five years (Exhibit 3).

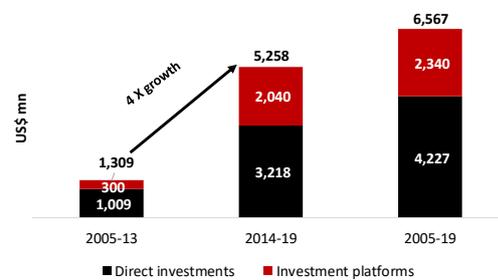
Exhibit 3

Strong interest of SWFs in India

Asset under Custody held by SWFs



Sharp growth in SWF investments in Real estate and warehousing during 2014-19



Source : National Securities Depository Limited, Securities and Exchange Board of India and JLL Research

Increasing focus on infrastructure

The Union Budget for 2020 further incentivizes SWFs to invest in infrastructure by providing them a 100% tax exemption on interest, dividend and capital gains income in respect of investment made in infrastructure and other notified sectors before 31st March, 2024 with a minimum lock-in period of 3 years. The resultant increase in potential returns is expected to boost investments by SWFs in affordable housing as well as logistics & warehousing which have been accorded infrastructure status. Moreover, the lock in period of 3 years for these investments align with the gestation period of such projects.

Additionally, the investment strategy of SWFs is expected to change. An increasing trend of SWFs investing through investment platforms/joint ventures with credible developers and funds was being observed in the past few years. A commitment of USD 2.0 bn through various platforms/joint ventures was made between 2014-19. Now, SWFs would be more inclined to use the direct investment route as compared to investment platforms.

² Data provided under Foreign portfolio investors/ Foreign institutional investors category by National Securities Depository Limited