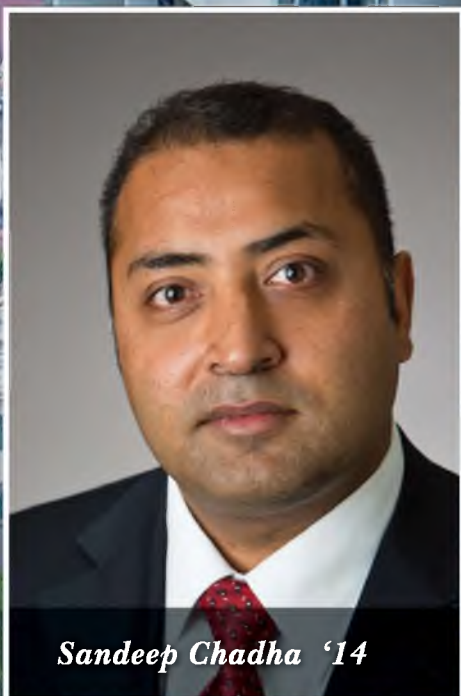


# Alumni Highlight: Sandeep Chadha

*Author: Tiya Jain*



*Sandeep Chadha '14*

Sandeep Chadha is a Partner at Milestone Capital Advisors (AUM \$800 million) and has 14-plus years of experience in fund raising, investments, asset management and divestments. As a part of senior management at Milestone, he oversees the private REIT portfolio including investments and asset management. Sandeep is responsible for setting up a domestic private REIT focused on investments in commercial assets. His past assignments include managing 25 million square feet of commercial real estate for Unitech and asset management of assets for Everstone Capital and IL&FS Milestone Realty.

Sandeep has been an executive member for NAREIM (National Association of Real Estate Investment Managers) and is a ULI member.

### **1. WHAT ARE THE BROAD DIFFERENCES YOU PERCEIVE IN HOW THE REAL ESTATE MARKET FUNCTIONS IN INDIA VERSUS THE US?**

While working in the US, I did my internship with Kroll Bond ratings, where we evaluated properties across the country and ascribed ratings for CMBS securities. We were able to quickly evaluate these deals and, at times, come out with ratings within a span of 20-25 days. This was possible due to the availability of data such as valuation reports, environmental reports, technical information and micro market information. This is because the data required to make such investment decisions on those deals was readily available. The brokers co-operated and provided all the information that was pertinent to the process. In the US, the data required to make such decisions is easily available, whereas deal makers in India have to rely a lot on brokers and local agents along with their intuition. Some documents pertaining to the land are not readily available, and this forces financing institutions to rely on word of mouth and close connections with authorities and local brokers in order to make deals. Title insurance is also not easily available in India. Though JLL, Cushman & Wakefield, Colliers etc. are present in India, it is difficult to find reports on comparative transactions. There is also a stark difference in the amount of brokerage fees charged on a transaction. In the US, brokers typically charge high fees whereas in India, the fees are limited to 1%-2% of the transaction value.

The US is no.1 on the JLL transparency index for 2016, whereas India ranks 36th. In addition, the US is a mature market whereas India is still evolving at the moment. This is also a reason why opportunistic bets can be made to secure higher returns.

### **2. WHAT ARE SOME OF THE MAJOR DIFFERENCES IN DETAILS SUCH AS VALUATIONS METHODOLOGIES AND ASSET MANAGEMENT STRATEGIES?**

The valuation methodologies more or less remain the same across borders, such as Discounted Cash Flow (DCF), replacement cost, and comparables. The difference arises in the asset management strategies. My current company, Milestone, tends to be more hands-on in its asset management approach. Overseas funds tend to outsource asset management, especially leasing, to International Property Consultants (IPC) to manage assets in India. Milestone works with several different IPCs given their different strengths.

### **3. WHAT LEADERSHIP ADVICE CAN YOU GIVE THE BAKER PROGRAM STUDENTS?**

In my tenure with Milestone, I have worked on several exits to large institutions, one being to Blackstone for approximately \$ 200 million. The Baker Program afforded me the institutional mindset required for such assignments. I was well-versed in various aspects of real estate before coming to the Baker Program, but the courses prepared me for my role at Milestone. As a fund manager, I am responsible for raising money through institutional sovereign funds and insurance companies, both domestic and international. Baker enabled me have a broader and international perspective on the real estate investment process.

I also recommend courses at the Johnson School focused on private equity. From a fund perspective, it is important to understand the decision-making pertaining to private placements, asset management, expenses, documentation and, most importantly, how returns are calculated at the fund level. Ultimately, students seeking employment with funds should know the how the fund structure works and how to operate within the given confines of the structure in order to make money for the entity.

### **4. WHAT ADVICE WOULD OFFER ON INCULCATING LEADERSHIP FOR STUDENTS OF THE BAKER PROGRAM?**

The ability to making quick decisions is the key to success in real estate. With the given information for a particular deal, you are required to figure out if the deal is to be done or not. The opportunity to meet the sponsor may exist only once and, in the given time frame, you have to decide whether to proceed or not.

With every deal, I have grown. I have also learned from my mistakes. Also, never say no to new learning experiences; always keep learning and growing. As long as you are passionate and focused, you will achieve success. Another important lesson in order to be a successful leader is to develop the ability to delegate responsibility and uplift your colleagues.

### **5. WHAT PART OF YOUR CURRENT POSITION AT MILESTONE DO ENJOY THE MOST? IS IT BUSINESS DEVELOPMENT, MANAGEMENT, OR ANY OTHER ASPECT?**

In my current role at Milestone, I am responsible for multiple facets of the business. As a fund manager, I decide on the allocation of Milestone's resources to various deals. An



equally important function is to raise capital for Milestone. We are currently in the process of raising Milestone's 11th Fund and 4th Private REIT. I have been travelling extensively for road shows, which involve meeting institutions, HNI's, family offices, insurance companies, and banks.

#### **6. WHAT EFFECT IS DEMONETIZATION GOING TO HAVE ON THE REAL ESTATE MARKET IN INDIA?**

Demonetization is a positive step in terms of bringing a lot of transparency to the system. In the long run, the reduction in the circulation of black money will result in greater transparency and more accountability. There has been a correction in the residential market to reflect true values, but that is just a short-term phenomenon. This will in turn increase sales for the market that was slow due to the inflationary prices. Also, demonetization has resulted in an increase of the flow funds to various banks and financial institutions, which has motivated them to reduce home loan rates by 100 basis points. This will have positive results and sales velocity should pick-up.

#### **7. DO YOU THINK INDIA / ASIA WILL BE LEADING THE WORLD IN TERMS OF HIGHEST RETURN ON INVESTMENTS?**

Asian countries currently have higher interest rates and inflation compared to the west. In the past, when the US has gone through a similar period (for example WWII), the returns on real estate have been high. India as well as other Asian countries are experiencing high growth in real estate due to urbanization, domestic consumption and increased GDP figures. In the past, the funds that we have offered returns of upwards of 20% to investors. India has the 3rd highest GDP growth rate of 7.67% and China has a GDP growth rate of 6.5%. Of the top ten fastest growing economies, seven are in Asia.

#### **8. WHEN DO YOU EXPECT THE REIT MARKET TO PICK UP PACE IN ASIA, SPECIFICALLY INDIA?**

The public REITs will be a reality this year. Blackstone and Brookfield have already both filed for public REITs with the SEBI (governing body), and they should be listed by June of this year. For Milestone, we are planning on establishing a Private REIT which will be listed by 2019. This will not only provide liquidity to our existing investors but also provide a way of exiting our investments.

#### **9. MILESTONE IS RATED VERY HIGH ON GOVERNANCE AND BUSINESS PROCESSES. WHAT STEPS WERE TAKEN TO ACHIEVE THAT?**

Milestone is an ISO 9001 rated fund and has had excellent guidance through its Board of Directors on governance and compliance policies. The Board has had as Independent Directors some the most successful individuals in India,

including the ex-chairman of largest insurance company in India, the ex-chairman of Bank of Baroda, and the ex-chairman of Voltas, an Indian Corporation. This added credibility provides added comfort to investors as well.

#### **10. CAN YOU RUN US THROUGH THE KIND OF HIGH YIELDING STRUCTURED DEBT PRODUCTS CONTAINED IN THE MILESTONE REAL ESTATE HIGH YIELD DEBT SERIES – II?**

Typically, the debt investment is made in the form of mezzanine loans. The sponsor or the developer is lent the money only after the land is acquired and necessary approvals are obtained. The funding is made at the rate of 21% to 24%. This is a 2-2.5X cover of security along with escrow of receivables, etc.

#### **11. HOW DOES MILESTONE CIRCUMVENT THE CORRUPTION AND RED TAPE PREVALENT IN INDIA?**

The situation on the ground has changed considerably in the last few years. Milestone has had 47 exits out of 58 investments across its funds and returned 4000 crores, or nearly \$600 million dollars, to its investors. The provisions that are put in place for safeguarding our investments work efficiently, such as escrow provisions, carve-outs, and personal guarantees. These all help to ensure the sponsor will be on schedule.

The government action by way of demonetization, Real Estate Regulation Act (RERA), several business-friendly notifications, and REITs have aided the industry in moving forward towards ease of business and transparency. The real estate industry in India was not regulated, and the introduction of RERA will not only protect home buyers, but also financial partners against misuse of funds by sponsors. This is a great time to enter the Indian real estate markets.

#### **12. THE FUND IS SEEN TO BE MOVING AWAY FROM EQUITY DEALS TO SAFER INVESTMENTS VIA PRELEASED CORE ASSETS. DO YOU THINK THE MARKET MAY BE VOLATILE OR HEADED FOR A CORRECTION?**

Milestone is and will continue to have an equity interest in deals. The rationale for raising a commercial fund at this time is to take advantage of falling interest rates and exploit the supply demand mismatch warranting a 20-21% gross return on core and core plus assets over a period of 5 years. India is moving toward a low interest rate regime. In the last 2 years, there has been a deduction of 100 to 125 basis points in interest rates. Even in such scenarios, the entry yields for commercial assets are coming in around 9-9.5%, which is at least 200 basis points over bank debt. The opportunity to lock in regular attractive payments in the form of dividends helps investors balance their fixed income returns.