Seeking a fresh start

CASHING IN

Ultra-high-net-worth individuals are choosing to invest in real-estate start-ups instead of physical property as they offer easy exit policies and a chance at diversifying portfolios

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SHUTTERSTOCK

When year-old real-estate start-ups Fella Homes and MyCuteOffice were looking for investment, they were pleasantly surprised — instead of the usual seed funding, much of their total financial requirements were fulfilled by ultra-high net-worth individuals (HNIs) keen on the real-estate sector.

Realty consultancy Knight Frank defines this income category as those whose net worth, excluding their primary residence, exceeds $30 million (about Rs 200 crore). Given their disposable income, these individuals, traditionally looking to park their money in property, are instead turning to real-estate start-ups.

For instance, 12 such individuals invested in MyCuteOffice, a booking portal for flexible commercial spaces. Together, they raised Rs 1 crore in the company's first round of funding in September 2015. Fella Homes, a network of ready-to-move-in rental homes, saw three individuals invest, of which the majority investment came from one HNI.

HNIs traditionally continue to be large investors in real-estate, says Deep Kantawala, CFO at ICS Group, a real-estate and financial services company. "With inflated property prices and low yields, they are using their knowledge of the sector instead to bet on start-ups that have a promising business model," he adds.

Typically, HNIs would take smaller positions in such ventures and invest as little as $25,000 to $100,000 (about Rs 16 lakh to Rs 66 lakh), going up to a few million dollars. Other realty aggregator start-ups such as Zenify, co-working spaces firm Wired Hub, home rental platform NestAway and others like Property Share, NoBroker etc. have recently received or are in the process of receiving funding from HNI investors.

For 60-year-old professor at MDI in Gurugram, Dhruv Nath, who invested up to Rs 10 lakh in MyCuteOffice, realty start-ups are cleaner options than conventional real-estate. "The market is very messy and prices are unlikely to come down," says Nath.

Founder of Fella Homes, Digendra Singh Rathore says that HNIs prefer to invest in real-estate because it is an age-old domain, as opposed to other industries. "There are fewer perceived risks," says Singh. His investor, 29-year-old entrepreneur Kunal Singh, put in approximately 80% in the first or seed round. Singh says, "Real-estate as an asset class is not looking good in recent years because of the slowdown in the sector." He adds, "An exit of previous investment in conventional real-estate has become difficult and offers lower returns."

Many start-ups involved in the marketing of end-products like housing have become successful in the past couple of years and attract a lot of investments, says Santhosh Kumar, CEO- operations and international director at realty consultancy, JLL India.

Fertile field

The start-up wave is booming in India, but it is important to understand what drives it — innovative concepts, say experts. If a concept is unique enough to conceivably draw a lot of customers, it is bound to attract investments from institutional and HNI angel investors.

"Many start-ups that commenced operations in the later part of the previous decade have already become medium-sized or large companies. This growth is bound to increase over time," says Kumar of JLL.

Real-estate at the moment is one of the very fertile fields with great investment potential, say experts. "Like every other sector, the stakeholders involved are willing to be part of the new wave of technological innovation," says Vivek Agarwal, co-founder of realty consultancy, Squareyards. "Hence, aligning with a real-estate start-up at the moment can include some great learning and enriching experience for an individual investor," he adds.

Agrees Nath, one of the investors in MyCuteOffice: "We don't contribute only financially, but also lend support in the working of the company, deciding marketing strategies, innovating with ways to scale the business. This also gives us first-hand information about the business and helps us decide whether to fund the second round," he adds.

While investing in start-ups involves a higher risk, the capital needed is typically lesser than that for a property purchase. "Also, the real-estate sector is less complicated for an HNI, who may or may not be familiar with business models of other technology businesses and platforms," says Shubhika Bilkha, business head at the Real Estate Management Institute. "However, given the limited number of investment opportunities available by way of real-estate start-up investments, this segment can only serve as an additional portfolio diversification rather than a substitute to investments in real-estate," she warns.

Taking a chance

To invest in a start-up is a personal choice, and depends on a multitude of factors such as investment appetite and past experiences with the business.

As an investor of a startup, your money is blocked and can be a minimum of Rs 5 lakh to Rs 10 lakh. "But remember that it is not just your money — you're involved in running the show," says Agarwal. "There is no guarantee on profits in the immediate future. But those who do well can do phenomenally well," he says.

Sonam Chandwani, managing partner, KS Legal and Associates has been assisting start-ups with legal and financial advice; she says she has seen investments in realty start-ups grow over the past two years. "Due diligence is necessary, though. While start-ups give you heavy returns and one can exit easily, one has to start with checking the idea and analyse how successful it will really be," says Chandwani. "Get a chartered accountant to look over the finances and let the legal department take care of contracts, vendors, suppliers, trademarks, patent and technology."

As an investor, though it is important to have expectations, they must be set at the right level. "Don't expect too much too soon," says Nath. One must give the company at least two to three years to show results. "Also be careful about not allotting your primary money meant for important investments such as insurance payments, weddings etc into the start-up," says Nath.

Singh says that generally, investors look for a 10x return on their investment within five years. "Therefore, there should be a well-planned exit strategy. One ought to understand how fast the money is being spent, and how long the business can survive before another round of investments is required," he adds.

LOOKING TO INVEST? TAKE STOCK

- Understand the investment opportunity and the sector
- Understand whether the start-up is need based and will have enough demand
- Investors should undertake their own research on the sector and business prior to making any investment commitments
- Get comfortable with the financials and the business plan through a financial and commercial due diligence exercise that includes seeing contracts, patent, suppliers etc.
- Understand the track record of the founder and the founding team
- Get comfortable with the controls and processes already in place, especially with respect to managing and deploying funds to the start-up

SOURCE: SHUBHIKA BILKHA, BUSINESS HEAD AT THE REAL ESTATE MANAGEMENT INSTITUTE