

CONCRETE PERSPECTIVES

HIGH RISE RETURNS with a limited budget

Insights on the scope for investing in real estate and key options available to individuals

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Real estate usually amounts to a larger part of investment for a prudent investor. It fulfils the aspiration value for an investor and depending on asset class, it also generates significant yield based returns. It is a necessity and when smartly invested, yields into great returns.

How it compares to gold or the share market?

All investment instruments have their own positives and negatives which includes avenues such as gold or real estate. Though real estate traditionally has given steady returns and has never had a sharp impact, it is slightly a long term investment as compared to gold as far as liquidation is concerned.

It is also important to understand that in most cases there is an indirect impact like tax savings, etc., which are also allowable in real estate investment. Alternately, in high return targeted investments such as in equities or commodities, one will not yield these savings.

Where to invest?

In most of the cities, development has reached the periphery of the cities where budget homes are being constructed and where we can find easy entry points. Investors with limited budgets can take exposure in budget homes, which also have a tax saving potential.



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The REIT's regulations notified in the second half of 2014 has not found any takers so far. However, the Indian Government seems committed to this cause as is evident with the raft of changes, particularly from a taxation perspective, announced in the last 2 Union Budgets.

Real estate has always been the fancied asset class for Indian investors. However, the large ticket size and the segment's illiquid nature acted as a deterrent to an extent. For instance, until a few years ago, it was impossible to imagine for a small time retail investor to have a stake in actual real estate with a mere Rs 2 lakh in his kitty. This has however become a reality today with the announcement of the REIT regulations. Investors now will have options to invest and own portions of large annuity yield bearing assets - shopping malls, hotels, office buildings, something which was otherwise out of reach for most of them.

Besides the low entry cost, REIT's will help investors to:

- Diversify at reduced risk.
- Earn reasonable annuity income as the underlying assets would have long signed leases with its tenants.
- Liquidate investments within a reasonable time-frame as the REIT units will be listed.
- Avail professional asset management services and get spared from the hassles of due diligence, complicated paper-work and multiple taxes.

Dual benefits

Another key aspect which will eventually decide whether the retail investors

will find REIT's attractive is the expected return on investment. On this front, an investor is expected to get the dual benefits of annuity returns and potential capital appreciation on exit either due to upward revision of rental income or yield compression.

Presently, rental yields on good commercial properties in India average between 9 to 11% based on the quality of the asset, its location, developer, etc. As per its constitution, a REIT is required to distribute 90% of its income as dividends and to this end; the recent waiver of dividend distribution tax announced by the government has boosted the attractiveness of REIT's.



Good returns

The net annual return after all REIT's costs/charges in the hands of the investor is expected to be in the range of 7%-9% whereas the overall return is likely to be in double digits owing to capital appreciation. This makes REIT's quite attractive when compared to say bank deposits where the current long term returns are below 7.5% and expected to fall further as interest rates are on a downward trend.

Liquidity

From the industry perspective, REIT's specifically, will provide developers with an avenue to monetize completed assets and to raise capital. This will infuse liquidity in the system which will not only give a fillip to development of more real estate and infrastructure, but it should also help in bringing cost and consequently prices down.

Transparency

It may also increase the transparency in the sector which is infamously known for its difficulty in accessing information - REIT's will make it easier to get accurate information on property ownership, rentals and yields.

Thus, REIT's bodes well for attracting and sustaining foreign investment and creating a congenial environment for development of a structured real estate investment market in India. Perhaps, a new chapter is about to unfold.