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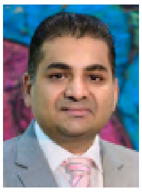
An excellent time to invest

Why is Real Estate a reliable and profitable modes of long-term investment?



VAIBHAV JATIA

For centuries, real estate ownership has been synonymous with prestige, wealth, and prosperity. Alongside precious metals, it has been one of the oldest and most secure modes of investment. Fast-forward to today, and we live amidst an assortment of investment options like fixed deposits, mutual funds, stocks, bonds, and even cryptocurrency, allowing investors to park their wealth in a multitude of ways.

However, real estate has withstood the test of time, retaining its position as a safe and profitable form of long-term investment. Despite hitting a few roadblocks due to the pandemic, the industry contributes a mammoth 6-7 per cent to India's GDP, and is expected to attain a market valuation of $1 trillion by 2030. In addition, real estate is an investment with inevitability written all over it, as everyone requires a personal space to call home.

With the industry set to evolve into a significant cash generator in the near future, now would be a great time to embark on an investment journey into the world of real estate. However, if you are hesitant to do so, here are a few reasons why it remains a seasoned investor's favourite despite the presence of numerous other options in the market today.

Low Element of Risk: There lies a considerable degree of uncertainty surrounding stocks and their derivatives. However, the real estate industry is far less volatile than other investment domains, owing to a low level of correlation with other asset classes, translating to greater returns for each unit of risk.

Optimal Capital Appreciation: The value of a real estate asset increases substantially over time, being a limited resource. With a strategically-driven investment, real estate investors can enjoy tremendous profits during its sale. Rents also typically increase with time, resulting in greater cash flow. Historically, the longer you retain your real estate, the more money you stand to make.

An Easy-To-Acquire Tangible Asset: Property, a tangible asset, can be easily leveraged to capitalise on various revenue streams while reaping the rewards of capital appreciation. Since real estate always holds high value, a sought-after tangible asset ensures long-lasting security, unlike investments options like stocks and cryptocurrency with negligible or no tangible value. Moreover, real estate is reasonably easy to acquire, given the availability of convenient financing options, provides significant tax benefits, and enriches your lifestyle considerably.

The author is managing director of Rhythm Group which has pioneered the innovative concept ResiTel, a kind of fractional ownership where resorts/hospitality units are sold

Inflation Resistance: Real estate inherits its inflation resistance due to its positive correlation with GDP growth. The demand for real estate grows proportionally with the rapid expansion of economies, driving higher rents and greater capital values. Even in the most uncertain of times, real estate prices typically return to a state of normalcy. In other forms of investments, like gold and the stock market, the probability of incurring losses is omnipresent, whereas the real estate market offers investors enhanced control over their investment.

How Should You Invest in Real Estate? While there are several ways in which you can invest in real estate, acquiring a rent-yielding asset could yield far greater returns than residential ones. Delving into rent yielding real estate primarily revolves around you as the investor making a profit on your property purchase through short-term rentals and strategic reselling at significantly higher rates to justify the acquisition.

The Emergence of Fractional Ownership: In recent years, fractional ownership has proven to be an excellent real estate investment option that enables investors to enjoy dual benefits in the form of conventional rental income and optimal capital appreciation. As the name suggests, this form of property ownership opens up an affordable opportunity wherein multiple investors can pool in their resources to collectively own a high-value asset. In addition to the previously mentioned benefits, fractional ownership also facilitates portfolio diversification if you intend to invest in many properties across diverse sectors and markets.

The ResiTel Model: The ResiTel model is an innovative concept that smartly combines the best features of a residence and a hotel. This business model involves the sale of individual suite units of a bustling luxury resort or hotel to individual retail buyers who can utilise the asset as a property investment and a maintenance-free vacation home. Following a fun-filled vacation, the unoccupied unit can be leased back to the hotel as room inventory, allowing investors to enjoy rental income yields of up to 10 per cent, and capital appreciation upon exit.

Bottom Line: Profitability and risk are two of the essential features of any investment. Real estate offers investors ample options for money capitalisation, promising great returns while also being a safe investment strategy. With real estate prices set to rise by 30-40 per cent in the next five years, now would be an excellent time to invest in property if you haven't done so already. •

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REAL ESTATE

Getting attractive

With new avenues emerging, real estate looks like an appealing investment option

The Indian real estate sector has undergone a major transition in the last decade-and-a-half. In fact, the last five-six years have been quite exciting following an array of events, led by implementation of RERA and other policy-related initiatives. While on the one hand, these measures have ensured a much greater degree of transparency, on the other, the domestic real estate market has become much more vibrant in terms of an investment avenue.

As the real estate market continues to evolve in India, various investment avenues have opened up for retail investors and that has made real estate a more attractive investment avenue. The entry of new investment tools such as REITs, in particular and new concepts like fractional ownership as also ResiTel, which allows retail investors to invest in hospitality-related assets like resorts and vacation homes in a convenient manner, are gradually making inroads into the domestic real estate market. Though currently at a nascent stage, these investment tools and concepts have the potential to usher in a new era for the Indian real estate sector. They allow retail investors to participate in real estate investments using an institutional approach.

Moreover, from being only limited to two broad-based investment avenues ie residential and commercial, domestic real estate, as an investment option, has become more diversified in nature. While today, the commercial segment is offering sub asset classes like logistics/warehousing, co-working, industrial and data centres; residential has got components like senior living, co-living, student housing and others, where one can invest for much better returns. Such diversified portfolios have the potential to offer 1-3 per cent more returns than those with only conventional real estate assets.

"No doubt, the Indian real estate has gradually emerged as a more attractive investment option with all these new concepts and avenues coming into play. The market is today offering a much more vibrant and robust investment climate and going forward, we will see more active participation by retail investors, even as institutional investors have continued to repose their faith in real estate," says Ambar Maheshwari, CEO, Indiabulls Assets Management Co Ltd.

Fractional ownership in commercial real estate is a new age investment class that offers access to institutional-grade commercial assets to individual investors. With passive income generation and long-term capital growth, it can provide portfolio diversification and a much superior yield compared to plain vanilla investments in residential properties.

The model enables like-minded investors to pool in their money together to purchase an ownership stake in a particular real-estate asset. Thanks to the model, the sector, which has largely been the playground for HNIs and institutional investors for years now, is emerging as an investment avenue for the aspiring middle class and retail investors.

Lucrative option

Besides regular rental income and long-term appreciation of a stable asset class, the model enables one to diversify his investments across multiple properties and locations and sufficient diversification thereby tends to reduce portfolio risks. Moreover, with no lock-in period, one can sell one's stake whenever through its resale platform.

"Popular in the US and Europe for over a decade now, fractional investment in real estate is emerging as a lucrative option for individuals to invest a small chunk of their savings in real estate without needing to invest large sums of money and it is also a good option for companies to maintain cash flows and liquidity. In the last two-three years, the concept has caught on in India as well since investors are finding it an attractive investment option to add to their portfolio," states Sudarshan Lodha, co-founder of tech-enabled real estate investment platform Strata, which allows investors to own and sell fractions of pre-leased, Grade-A commercial properties such as office spaces, warehouses, etc. Strata is funded by marquee investors, SAIF Partners, Mayfield Ventures, and Propstack.

By fractionalising commercial real estate and offering it on an easy-to-use online platform, Strata aims to democratise commercial real estate, making it accessible for a much larger investor base. Currently, it has an AUM of around ₹530 crore with an active investor base of 1,320 investors across 12 commercial (industrial, warehouses and offices) properties in Mumbai, Hyderabad, Bengaluru

Chennai and Jaipur. The investor can invest as little as ₹25 lakh. Strata looks to build an AUM of around $5 billion in the next five years.

"Post RERA and other structural changes in the real estate industry, newer investment options such as fractional ownership, REITs and ResiTel have now emerged. The idea of owning real estate is gradually turning towards earning rental yield versus capital appreciation. Fractional ownership options allow investors to own securities which own securities (typically convertible debentures or partnership units) of an entity (private limited company or LLP) which owns rent yielding commercial real estate," says Vaibhav Jatia, managing director of the Mumbai-based Rhythm Group, which is pursuing the concept of ResiTel, through its premium resort project, Rhythm Lonavala where units have been sold to individual retail buyers who can utilise the asset as a property investment and a maintenance-free vacation home. Innovative asset class ensures that one's real estate assets are used productively, both for family enjoyment as well as income generation, in a hassle-free manner.

"While REITs are a more sophisticated structure for fractional ownership, they are freely listed and hence the capital value of the investor's investment fluctuates as per the volatility that is typically seen in listed equity investments. On the other hand, the advantage of ResiTel is that the investor's investment while earning an income yield, is still in a real/underlying physical real estate asset directly and not indirectly as is the case with fractional ownership or a REIT," adds Jatia who has pioneered the ResiTel concept in India. Buoyed by the success of its Lonavala projects, the group is planning resort projects in Khandala, Coorg, and Kumarakom in Kerala.

As per Subhankar Mitra, managing director, advisory services (India) at Colliers, real estate investments continued to remain strong in India. Despite the second wave of Covid, investments worth $2.7 billion were made during the first half of 2021 and in all likelihood the momentum will be carried forward in 2022 as well, as the country moves on the path of economic recovery.

"Those who are looking at fixed income reruns can look for REIT units which typically pays out 7-9 per cent

returns annually. Investors of higher investment capacities can also opt for warehousing assets which can give more returns. Residential investors can expect 3-4 per cent as rental income with 5-10 per cent of capital value appreciation over the next few years. There are a few sunrise sectors such as senior living and co-living, which can give much higher returns than residential properties. This is applicable for both individual as well as institutional players," adds Mitra.

Immense growth

Experts are of the view that in the current scenario, REITs could be one of the preferred investment avenues for retail investors even as the ecosystem is gradually being built. Michael Holland, CEO, Embassy REIT stated that globally REITs are a $2 trillion asset class and are created for investors who want to invest in commercial real estate in lot sizes. REITs are well regulated and are also tax-efficient. In the past four decades, REITs have showcased a better performance than the S&P 500 by 2 per cent. In India, Embassy REIT has delivered a total return of 40 per cent since listing and has paid out quarter after quarter a predictable distribution totalling around ₹4,800 crore. This demonstrates that REITs are a resilient business through the pandemic and have growth from multiple levers – contractual escalation, mark to market, on-campus development, and acquisitions.

"The sector will further see immense growth at a steady pace as the policy changes that the government has incorporated of allowing FPIs investment will boost the confidence of retail investors as well. Further, the IT/ITeS sectors have recorded massive hiring which will increase the demand for office space. Overall, the sector will witness an upward trajectory and will be beneficial for all stakeholders," adds Holland.

"The real estate sector in India has seen an uptick when it comes to the growth graph even through the pandemic and hence it should be considered as a viable option when it comes to long-term wealth investment. Both the crucial arms of the real estate sector (ie residential and commercial) have shown resilience and healthy recovery in recent times. Investment in the real estate segment can turn out to be a profitable and reliable investment prospect to produce substantial returns," says Harresh Mehta, CMD of Mumbai-based developer, Rohan Lifescapes.

"Owning a home has now turned into creating a revenue stream that enjoys capital appreciation. For homebuyers-turned-investors, a constant income-producing real estate is an excellent source of passive income that also offers long-term financial security. Investment in real estate under multiple avenues, as historically proven, will always serve as a safe tangible asset to mitigate the risk in your portfolio," believes Hiral Sheth Gandhi of Sheth Creators.

No doubt, real estate will continue to be an integral part of one's investment portfolio as its intrinsic characteristics provide a great degree of stability. Since we are witnessing the emergence of multiple options within this segment, investors will increasing add this asset class to their portfolio to make it more robust. •

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