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HNIs return to realty, this time via new route

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Investments are increasingly coming in through rental yield funds

Mumbai, May 10:

Over the past 12-18 months, HNI investors have been slowly returning to real estate as an investment option, according to private wealth managers. However, given how they burnt their fingers back in 2008, this time around, the investors are more interested in lending to developers rather than buying equity.

More structured debt now

Abhijit Bhave, CEO, Karvy Private Wealth, said he's observing a selective return of rich individual and institutional investors to this asset class. "But now, the investment is increasingly coming in through rental yield funds. Earlier, around 2007 for instance, investors bought pure equity in real estate projects or created a special purpose vehicle for these investments. Now, it's more structured debt with an equity kicker involved," he added.

"To put it in layman's language," Bhave explained, "a private equity fund may lend money to a builder at say 18-20 per cent interest. That's the debt component.

"Then, if the plan was to sell, say 100 apartments at ₹20,000 a sq. ft. and he ends up selling them at ₹30,000 a sq. ft., the fund earns a part of this profit as well — that's the equity kicker."

A recent report by global real estate consultancy Cushman & Wakefield found that inflows in the sector increased 40 per cent in the first quarter of 2016 at ₹3,840 crore, with both the total number of deals and average deal sizes rising year-on-year.

Karvy's India Wealth Report 2015 said total assets under real estate funds were estimated to be ₹10,976 crore in FY15. Of this, individual contribution was expected to be ₹3,622 crore, about 8 per cent on a rich individual investor's investible surplus.

In the new arrangement, Bhave added, even when real estate is doing badly, the lender makes money, since "a rental yield fund is more an indirect financial investment in real estate.

"Though the asset class is primarily real estate, it's debt exposure. The true blue real estate funds of the past are not back yet."

Ashish Bhalla, Senior Vice-President and Business Head, Arthveda Fund Management, which focuses on affordable housing for middle- and low-income groups, said real estate is increasingly becoming an HNI game, with the minimum investment at ₹1 crore.

"We've been able to deliver 30 per cent CAGR in the last three years. We see the market picking up further as the first REITs are introduced." Real Estate Investment Trusts are structured as capital market instruments, where an investor can buy a unit in a listed real estate project the same way he buys a share on a stock exchange.

Finding tenants, a big issue

"The biggest risk with a rental yield fund is that the asset might not find tenants," Bhave concluded.

"But real estate investors say the market bottom is behind us, and in three to four years, we will see an upturn in the market again. With a rental yield fund, investors get a return of anywhere between 8 and 12 per cent, but that depends on location and your luck."

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