The rich home in on safe bets

Keen to beat the downturn, affluent investors are opting for conservative strategies to bet on property

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A sprawling estate in the countryside, a heritage bungalow, large tracts of farm land – these may seem the likely investments for high net worth investors (HNIs) seeking property purchases. But with the downturn striking, the truth is that HNIs have been getting pretty conservative with their real estate bets.

Non-resident Indians buying property back home, for one, hasn't been going in for uber-expensive options in recent times, note property market watchers. In fact, those investing from across the border shunned the exotic and preferred mid-sized homes, observes Kiran Kumar Kavikondala, Director, WealthRays Group.

This trend could have taken shape because mid-sized homes are more easily sold or rented out than large, multi-bedroom affairs. As demand for mid-sized accommodation never lets up even in tough times, once you invest, you get a steady stream of rent.

But buying property in large townships can be risky, cautions Balamurugan of Metis Family Offices, citing the regulatory hurdles faced by township projects such as Lavasa near Pune. An offbeat idea, he suggests, is investing in well-known developers putting up smaller projects in tier-2/3 cities.

The other strategy that HNIs have practised is to buy homes that are still under construction. Investing at the early stages of a project helps you bag good property at reasonable prices as the builder offers attractive deals for early booking.

Sums of say, ₹50 lakh to ₹1 crore may not help you bag really prime completed projects in big cities. But by getting in on the project in early stages of construction, you get low prices, says Bikram Sen, CEO of ArthVeda Fund Management. The main advantage of this strategy is that you can sell when the home is nearing completion..

Comfort zone Overseas investors are shunning the exotic and going for mid-sized homes

HNIs planning to buy property with significant outlays of ₹5 crore to ₹30 crore have found that dealing directly with the builder offers a good deal. For instance, last year, the housing market was depressed and many developers were willing to offer good deals to bulk purchasers, notes Rajesh Saluja, Managing Director and CEO, ASK Wealth Advisors. The risk is that the builder may delay handing over the house.

Pooling resources

If the investment amount is much larger, HNIs look at creating structured deals with builders, too. One popular route is where the wealth manager creates fixed return yielding unrated debentures (NCDs) with a two- to three-year tenure. The amount raised is lent to the builder. Interest rates range from 18 to 24 per cent and the property serves as the collateral.

This route has gained popularity in the last two years. Pooling with other investors may sometimes be required as the deal sizes tend to be large, at over ₹25 crore. While there is the risk of the builder defaulting, proper due diligence by the wealth manager helps lower the risk.

The other option is to buy residential land, which can fetch returns upward of 30 per cent. Land in gated developments is a safe choice. But, large purchases on the outskirts of a city may be more risky, but offer higher gains, notes Balamurugan.

Commercial space

What about swanky office space and high end street outlets? HNIs consider these options if the investment horizon is long. Commercial spaces earn rental yields of 9-11 per cent per year of invested amount. This is much higher than the 2-3 per cent earned in the residential space.

Unlike in the past, where one could only buy large spaces, even cities such as Mumbai now offer smaller units of space (500-1,000 sq. ft.) in Grade A buildings, says Ramesh Nair, COO - Business, Jones Lang LaSalle India. So, one need not shell out large sums of money. Developers are offering this option because of higher vacancy and pressure on pricing.

PE route

One other course HNIs have taken is to route their investments through real estate private equity (PE) funds. These however, require a minimum investment of ₹1 crore. The biggest advantage here is diversification. You don't leave the investment open to sharp price swings or a slump in one locality or city. PE funds may focus on specific themes and spread their investments across different locations.

While in the past PE funds have not delivered impressive returns, newly-launched funds seem to be more focused on shorter projects, particularly homes in metros. Returns can range from 18 to 25 per cent over four-five years.

Second home

Not all homes are bought with the intention of flipping them for returns.

HNIs also invest in bigger homes to replace or upgrade their existing ones in the same area or outside the city. Farm houses or a vacation homes are typically held for a long period and tend to appreciate in value. Similarly, homes bought abroad are usually meant for personal use.

There was an increased interest in overseas property after the global financial crisis, when home prices dropped abroad.

Purchases by Indians topped about $78-million in 2012-13, as per the RBI data.

But last year, the central bank changed the Liberalised Remittance Scheme (LRS) rules for overseas forex spending by individuals, disallowing overseas property purchases.