

Press Clipping

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Why real estate continues to be hot property for investors

THE real estate sector has always been a favourite with Indian investors as they are comfortable putting their money in an asset class that offers them the 'touch and feel' benefit. And there seems to be every reason to continue to repose faith in the realty sector as it has been growing at around 30% per annum, with most reports generated by reputed banks and institutions making encouraging predictions for the sector.

However, certain sections of investors fear that the property market is overheated and is due for a correction, at least in the short term. In such a scenario, what is the stance that wealth managers — who deal with high networth individuals (HNIs) — are adopting?

The golden rule of avoiding speculation and staying invested for a longer-term seems to hold sway among wealth managers. Like Jaideep Hansraj, executive vice-president, wealth management, Kotak Mahindra Bank, says: "Tips are for the short term. You have to be in for a longer haul if you want to enjoy the fruit." Supplements B Gopkumar, senior VP and head, financial planning group, Kotak Securities: "We are very bullish on the real estate sector. Even among investors, there is certainly a lot of interest regarding this segment. While property prices could soften on a quarterly basis, the long-term prospects are strong. With the Indian economy growing at around 9%, realty is bound to grow."

Agrees Sutapa Banerjee, senior vice-president and head, private banking, India, ABN Amro Bank: "Real estate is an important asset class in the Indian context and will continue to remain one. From a long-term perspective, it is a very good investment avenue. Staying invested in realty for 5-7 years is likely to yield positive returns."

Adds Anup Bagchi, head, global private banking, ICICI Group: "Real estate has traditionally been an attractive asset class for HNIs, thanks to its psychological tangible and medium risk-return characteristics. It also continues to be an important part of their wealth allocation." He is of the opinion that at this stage, the prices are quite steady, and hence this is not an opportune time to enter the market with a short-time horizon. It is a great asset to invest in from a medium-to-long-term perspective. There is a belief among investors that while property may offer relatively modest returns compared to equities, the volatility is comparatively low as well.

Of late, the trend has been towards investing in commercial properties. "Investments in commercial properties

are increasingly looking attractive from the good rental yield perspective," says Mr Bagchi. With the economy growing, the demand for space required to set up offices, ATMs, shops etc has also picked up. Moreover, the hyperactivity in the retail sector is also expected to contribute to the upswing. Tier-II cities have emerged as hot properties and are being looked upon as productive avenues.

Apart from investing directly into physical properties,

there are indirect methods too — investing in realty stocks and mutual funds. Since the industry as a whole is doing well, one need not fret about which stock to buy, provided you have a reliable advisor, feels Mr Hansraj.

Property funds are expected to yield returns of around 20-25%. Realty

funds also eliminate certain limitations pertaining to physical properties. "Direct investment in real estate comes with the overhead of managing the property. In addition, there will be a concentration risk owing to the lumpy nature of investment. By investing through funds, one gets the benefit of diversification as well as reduced hassles of property management. This is best suited for those

HNIs who do not have the time or set-up for such management," explains Mr Bagchi. On the flipside, it does not boast of the touch and feel factor and comes with a lock-in period. However, most wealth managers are unanimous in saying that it is a sound investment avenue, and will attract more interest going forward. While speculation on the direction that property prices would take in the near future could continue, the real estate juggernaut — like the India growth story — looks set to roll on, doling out handsome returns to investors along the way.

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