Twitter Thread by ET Money

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Imagine if you owned lavish office spaces.

You could earn lakhs as rent every month.

But it isn’t easy. Such properties cost crores.

You can, however, buy a part of them.

How? Through fractional real estate platforms (different from REITs).

A thread■

How does it work?

It starts with a company/platform identifying investable Grade A properties like commercial buildings or warehouses.

Such premium properties usually cost crores.

So, the company invites multiple investors to pool money.

After collecting money, the platform creates a Special Purpose Vehicle (SPV) to buy the property.

And the investors become shareholders in this SPV.

Examples of these companies/platforms include Strata, hBits, Property Share, etc.

How do these companies generate returns for investors? ■

There are two ways.

• One, they earn rent from the tenants, who are usually locked for a long-term lease.

• Two, capital appreciation from the property when they sell it.

What sort of returns can you expect?

Platforms like hBits and Strata promise 8-10% yearly rental returns on their listed assets.

Post capital appreciation, the overall average annual return they promise is 12-20% in the long term (typically 5 years).

Now, let's discuss the cost.

They could be of two types:

One, you need to pay an asset management fee of around 1%.

Two, the platforms may take in a share of the profits if your returns exceed a particular number (hurdle rate).

A word of caution now.

This appealing investment option isn't everybody's cup of tea.

For most platforms, the minimum investment amount starts from Rs 25 lakh.

In addition, selling your investments won't be easy.

Let's understand why. ■■

To exit your investments, you need to find a buyer.

Now, these companies allow you to list your share of the property on their platform.

But there's no guarantee that you will find one immediately.

So, liquidity can be a challenge.

There are several other risks that you need to know.

Like in the case of any property, fractional real estate ownership is exposed to risks like lease renewals, tenant defaulting on rent, occupancy challenges, etc.

Besides, there is no regulatory oversight.

How's it different from REITs?

By now, you must have figured out several differences between the two.

You can check more details in the table below.

Particular	REITs	Fractional real estate
Ownership pattern	Trade publicly listed REIT units on stock exchanges (like stocks of a listed company).	You become a shareholder of a Private Limited Company which owns the property
Minimum investment amount	1 unit of a REIT (currently around ₹ 300-400).	Around ₹ 25 lakh for most platforms.
Yield	Can vary based on your entry price.	Fixed
Volatility in returns	Subject to stock market volatility	Relatively more stable. Change according to ground reality (like default by a tenant, etc.)
Payouts	- The dividend payout cycle depends on the fund - Also, a REIT is only required to distribute a minimum of 90% of the net distributable cash flows.	-Payouts are pre-decided and typically made monthly or quarterly. -100% distribution of distributable cash flows.
Cost	Brokerage fee, Demat account charges, etc.	Around 1% asset management fees for most platforms + a part of profit after exceeding a hurdle rate
Type of investment	- Min 80% in commercial properties that can be rented out to generate income. - 20% of investment can be in under-construction properties (Non-revenue generating assets).	Typically, all assets are revenue-generating. (But no regulation stops them from buying under-construction properties).
Regulator	SEBI	No regulator

We have a detailed thread on REITs. You can read that as well. ■■

https://t.co/nvuo43oOeQ

In the past month, shares of Embassy Office Parks REIT have dropped over 5%\U0001f4c9

Will you benefit if you buy units of a #RealEstate Investment Trust(REIT) after such a fall?

The answer is not straightforward. #REIT units traded on the exchange don\u2019t work exactly like stocks

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— ET Money (@ETMONEY) October 4, 2022

How to look at it?

Fractional real estate offers an alternative to diversify beyond mutual funds, stocks, bonds, gold, etc.

But do keep in mind the risks.

It makes sense to invest only when you already have a sizable portfolio of market-linked investments.

We put a lot of effort into creating such informative threads.

So, if you find this useful, show some love. ❤■

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