YOUR MONEY

Limit small and medium Reit exposure at 5% till they develop track record

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Two players, Propertyshare and Rudrabhishek Enterprises, have received licences from the Securities and Exchange Board of India (Sebi) to launch small and medium real estate investment trusts (SM Reits). The first SM Reits could debut as early as November.

SM Reits can invest in rent-yielding commercial and residential properties. Investors receive quarterly rental income and capital appreciation when the property is sold after 4–6 years. Their units will be listed on stock exchanges, allowing investors an exit avenue.

Option to choose property

Each SM Reit can offer multiple schemes. "Investors can check out the property and invest if they like it. Such a choice is not available in a Reit, where the investment team chooses multiple properties," says Kunal Motkan, director, Propertyshare Investment Trust.

"SM Reits offer a broader investment base by investing in commercial and residential properties, reducing concentration risk," says Shobhit Agarwal, managing director and chief executive officer, Anarock Capital.

Promoters must invest 5 per cent of the capital, aligning their interests with those of investors.

Commercial assets typically offer rental yields of 8 per cent and above. They could also offer annualised capital gains of 5-6 per cent on sale.

Re-leasing and other risks

Re-leasing risk is a key concern. "At the time of investment, the building must be leased. But there is a chance the tenant may vacate once the lock-in period, typically three years, ends. The investment manager may struggle to find a new tenant," says Motkan.

Fluctuations in property values may impact the Reit's share price. "SM Reits are a relatively new asset class, and their long-term performance is yet to be seen," says Agarwal.

How are payouts taxed?

An SM Reit's quarterly payout will consist of 20 per cent interest and 80 per cent return of capital. "The interest is taxed at the marginal tax rate, while there is no tax on return of capital," says Motkan.

Selling units after one year results in long-term capital gains that are taxed at 12.5 per cent, while short-term capital gains (on units sold within a year) are taxed at 20 per cent.

Who should invest?

SM Reits are for investors looking to diversify. "Investors with a long-term investment horizon and the risk appetite for fluctuations in property values may find SM Reits a viable option," says Agarwal.

Many investors are familiar with fractional ownership platforms. "They might now see them in a better light, now that they will become regulated entities," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors. According to him, SM Reits are suited for investors who cannot conduct due diligence on a property themselves.

Key checks

When considering an SM Reit, evaluate the property's location, building and tenant quality, and rental rates. If the rent is above market rate, the tenant may vacate it. High supply in future also increases the risk of tenant turnover. Check for upcoming infrastructure projects that could drive rental growth.

Assess the investment team's experience. Agarwal recommends monitoring the Reit's performance and also the broader commercial and residential rental market.

Most retail investors should stick to mainboard Reits for now. "Wait until this new product develops a track record and one has an idea of its liquidity," says Dhawan. Those who invest should limit exposure to five per cent of net worth (excluding primary residence) and enter with a minimum 10-year horizon.

SM REIT VS REIT

Reits: Minimum asset value ₹500 crore; SM Reits: ₹50–500 crore

- Reits can hold leased, under-construction properties, and some land; SM REITs can hold only completed, leased assets
- Reits have sponsors/developers who can put their own asset in a trust and sell shares to investors via an IPO; SM Reit only acts as investment manager and can't do related party transactions
- Reits hold multiple assets; SM Reits hold at most one or two assets
- Reits are listed perpetually; SM Reits sell assets after 4–6 years and return capital
- Reits are more liquid as the investment ticket size is smaller (equal to share price); in SM Reit minimum ticket size is ₹10 lakh

How to improve your credit payment history?

A good credit history allows users to enjoy lower interest rates, higher credit limits and loan amounts. To improve your credit payment history, take these steps:

Pay bills on time: Ensure you pay all your credit card bills, loan EMIs, and utility bills before the due date.

Set up automatic payments: Use auto-debit facilities for regular payments to avoid missing due dates.

Maintain credit utilisation below 30 per cent: Keep your card balance below the limit, ideally under 30 per cent of your total available credit.

Don't apply for multiple loans or credit cards: Too many credit inquiries in a short period can affect your score.

Keep old accounts active: Maintain long-standing credit accounts as they contribute positively to your credit history.

Avoid defaulting on payments: If you are facing financial difficulties, communicate with your lenders to explore options like loan restructuring.

Careful with co-signing: Avoid co-signing loans for others unless absolutely necessary, as their payment behaviour can affect your credit score.

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