

The theme of this presentation is to understand and explore the returns and risks involved in investing in commercial properties, and in particular Bangalore. Real Estate is one of the most common investment classes for everyone from HNIs to multinational private equity firms. In Real Estate, one of the major long term investments that is popular is investment into commercial assets (in this presentation the term “commercial assets” is meant to include office properties only).

What makes commercial assets attractive is:

- Long term asset
- Yields annuity income
- Can be leveraged or used as collateral
- Inflation hedged
- Strong branding opportunity for owner

In developed countries exposure to such assets are easy and liquid, when in the form of listed securities of Real Estate Investment Trusts (REITs) or Real Estate Mutual Funds (REMFs). In India though, the market is still un-organized and investments in commercial assets are in the form of purchase of portions of/complete properties from the owner of the assets. Hence the understanding of the risks and returns involved in such investments is critical.

SIGNIFICANCE OF CAPITALIZATION RATE

Capitalization rate is the ratio of income from an asset to the total value of the property. Capitalization rates are generally calculated on projected steady income and market value of the asset under discussion. It can also be defined as the discount rate for a perpetual income

RISK PREMIUM - REAL ESTATE STOCKS

Risk premium in the case of traded instruments is benchmarked to a diversified index which is constituted of stocks from across all industries. It is measured as the volatility of the price of the stock over the period investment as compared to the volatility of the benchmark index

FACTORS AFFECTING CAPITALIZATION RATES

Factors that impact capitalization rates are:

- Quality of Asset
- Brand Value
- Lock in Period
- Escalation
- Location
- Tax Breaks

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