Twitter Thread by JST Investments

JST Investments
@JstInvestments

A product which provides a fixed income which is better than FD & an upside like equity.

Should you invest in Real Estate Investment Trusts (REITs)?
A Thread ■■

1/ REITs are a vehicle to invest in income-producing real estate properties managed by professionals.

2/ In India, we have REITs primarily focused on commercial real estate properties having 7-9% rental yields.

In listed REITs, Most of the completed properties are pre-leased to big companies.

Why no residential? As yields of 1-3% make them unattractive to investors.

3/ How do you get the benefit of such yield?

REITs have to distribute at least 90% of their taxable income to their shareholders.

Both listed REITs trade at 6-7% dividend yield (which is also tax-free)

4/ Moreover, 80% of their total value must come from completed & income-generating properties + it must avoid speculative land acquisitions.

What about debt then? There's a restriction there too.
Not more than 49% of the total equity.

5/ Looking interesting, right?

REITs are traded on the exchange (like stocks). Yes, Instant liquidity in a very illiquid product (Bulky Commercial Real Estate)

An investor can take part by buying 200 units at a time (60-70k rupees)

6/ let’s talk tax.

Under the current structure, Dividends remain tax-free (6-7% yields vs pre-tax FD yield of 5%)

On capital gains, while selling your units:

STCG of 15% on gains (if sold in less than 3 years)
LTCG of 10% on gains (if sold after 3 years)

7/ what makes us optimistic?

US REITs have 5 decades of history behind them & they have continued to outperform the broader equity markets

Interesting fact: US has 194 listed REITs with a combined market cap of $1.3Trillion

8/ Interestingly, Rents of both the listed REITs are at a 30-40% discount compared to the current market rents.

This leaves an upside potential once contracts expire.

Moreover, REITs have contractual escalations of 10-15% every 3-5 years.

9/ This is getting a bit complex, Let's talk about an alternative?

Directly buying RE? Get ready for ■

- Huge Ticket Size (vs limited capital)
- Hassle of managing operational cost
- No valid data source
- Illiquid investment with high transaction costs

10/ Convinced already, things that must be tracked:

- Committed Occupancy & collections efficiency (higher the better)
- Weighted Average Lease Expiry (WALE)
- Sector Concentration (lesser the better) & Quality of tenants
- Healthy Balance Sheet
- Upcoming portfolio

11/ Will WFH kill the Commercial Real Estate business?

No (in the context of India)

- Rents are a fraction of global rents
- Indian Outsourcing is a big opportunity given the resilience & performance in COVID
- Young Population needs direction via physical interactions.

12/ Due to the hits from Demonetisation, RERA, GST, IL&FS crisis & COVID-19

Commercial RE supply is hit, especially for Single Building Projects, Speculative construction, Strata Title assets

Most are facing a cash crunch

Great for future rent scenario, if demand increases

13/ Risks with Investing in REITs

- Slowdown in Commercial RE (follow vacancies)
- Oversupply: Renegotiation at lower rates
- Concentration risks (tenant & location wise)
- Difference b/w REIT yield & FD rate
- Broader stock market movements will have an impact on unit price

14/ 2 REITs are already listed & 3-4 lakh crore worth more REITs could be listed.

REITs allow developers to

- Raise money & deleverage
- Provide liquidity to shareholders
- Increases market value due to increased transparency

As an investor, you are ready■