



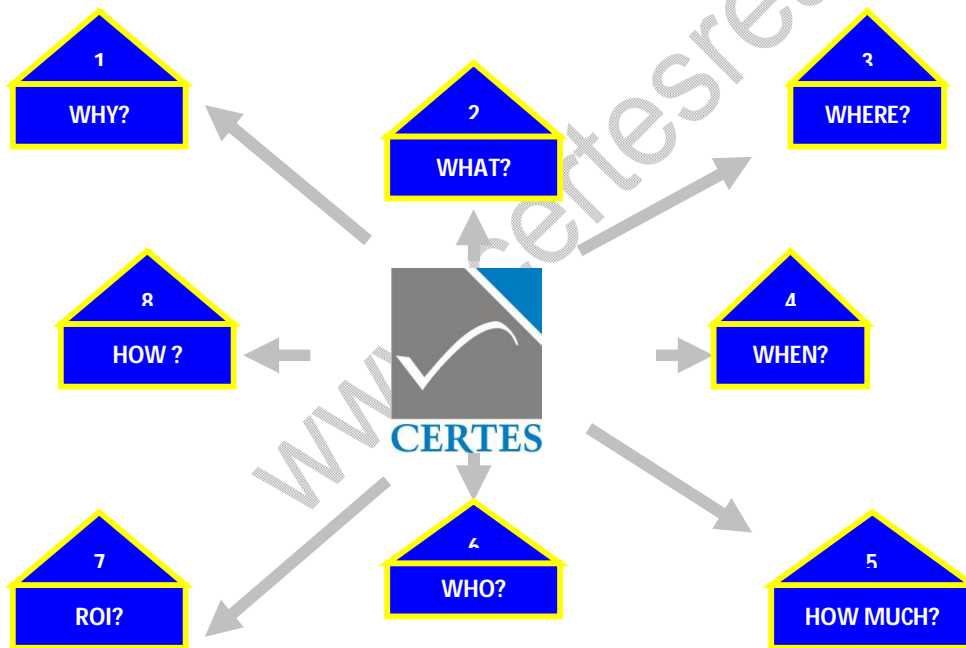
Article in Media

CREATING WEALTH IN REAL ESTATE (INDIA)- THE CERTES APPROACH

Sam Joseph, the CEO of a large MNC organization in Gurgaon, on his return from the USA, was introduced to me, at a social function. When we exchanged cards, the inevitable topic of Realty Investments came up. As is wont to happen with most of us from the corporate backgrounds, “pretentious ignorance” took over, and the discussion veered over to oblivion.

A few weeks down, Sam called on us, at our office. As it happens with most, he rattled off the projects he has seen around Gurgaon, their prices, the location etc. That is when we got chatting about the **Certes Eight question approach**. The meeting turned out into a full scale “dissection of the approach strategy” to the topic of Creating Wealth in the Real Estate sector. Most of the contents produced here below are extracts from our beliefs formed over many hours of discussions with clients turned friends. Having been in the corporate world for more than 16 years, and having understood the realms of life there, the investment strategies, the grind and mechanisms, we thought it would be a great idea to share out learning, with “our type”.

Did you know that Real Estate companies are giving the FMCGs a run for their money, as far as advertising is concerned? Advertisers try & tickle every emotion in the book, to grab your Rupee, and like Sam, many fall for it. Now let me share our acquired and practiced wisdom of the **Certes Eight question approach**, which could be a point of reference for the investors, to determine their Realty investment strategies.



CERTES EIGHT QUESTION APPROACH

Allow me now to elaborate the Certes eight question approach. These eight questions, if asked to self & answered honestly by the prospective investor, would afford a great deal of clarity and would almost guarantee the desired results.



- **WHY?** The most important phase in the investment cycle being the define stage. Contrary to the uni-slogan intent of “**we want to make money because my peers have done so**”, it is pertinent to have a strategic vision statement, well defined, for your investments. Typically, the following are the reasons to dabble in realty investments.
 - Creating assets
 - Seek capital appreciation on real estate
 - Create rental income
 - Seek tax benefits through Realty loans

“Where you stand on the Maslow’s hierarchy of needs?”

Our advice: In this era of multiple options of investments, **BE VERY SURE** of **WHY** you want to invest in real estate?
DEFINE PHASE.

- **WHAT?** Typically, the executives and the salaried have the following three channels of investment, in the realty sector.
 - Residential - Apartments, Villas, Plots
 - Commercial – Office - Office space(demarcated & shared)
 - Commercial – Retail Space - Malls, High street(s)

Based on the defined need, be sure to select the right channel, in conformity to the risks, returns & handicaps of each. For e.g.: The returns on a commercial Retail property are perceptibly higher, but the risk(s) and handicaps commensurate. In residential, though returns may be lower, the risk is apportioned and analyzed by the bankers, the investors etc. Office space could be an option for steady rental returns, but the entry level costs are higher.

Our advice: Don’t get carried away by neo marketing gimmicks used by sellers; like FDI, project management skills, seismic coordinates, international landscapes, MNC architects etc. These are **JUST FANCY TERMS**. Your first investment should be in the residential sector, leveraging your strength to borrow. The bank would ensure due diligence of the developer’s credentials. Ideally, at the second investment stage, **ensure that the money starts performing for you, ensuring a steady income for you.**

WHERE? Like the old adage in the realty sector- there are three things to note while investing in real estate. **i)**

Location ii) Location iii) Location.

Depending on your defined budget, and the need, select the location. Look at cities and towns which are likely to develop into business hubs, within the construction phase of the project invested in.

Our advice: DO NOT ignore the macro economic indices. Always consider the projected demand forecast for the short, mid & Long term If you are in stage one, seek professional assistance in forecasting demand for housing sector, in a particular city, with an exposure window of @ least 3 years. If you are in stage 2 of investments, then look at cities projecting business booms, both in manufacturing & services sector, which are bound to propel the growth of commercial & residential.

WHEN: With a multitude of developers offering high decibel Pre-launch offers, and a whole lot of brokers promising more than the commitment, it is but natural to get swayed by the promises of multiplying money, fast. Timing of the entry into the project is important, but it is directly related to the perceived risk(s). The ROI (IRR) is always higher and better if one enters the project at the most initial stages. But, factor in a longer window of exposure of your funds to uncovered risks.



Our advice: Three must do factors when considering the entry timing:

- a) Enter a project only after convincing yourself of the veracity of the project developers, the prospects and the likely price appreciation in the mid, rather than short term.
- b) If entering very early, veto the Intent & ability of the developer on the value offering(s) and delivery timing.
- c) Don't just intend to make hay while the sun shines. Believe that the clouds are around the corner. DO THE RISK & HADICAP ANALYSIS.

HOW MUCH: There are three factors to be considered when you define the "how much" part of your investment.

- a) Scope of investment? (DEFINE)
- b) How much do you want to commit? (ANALYZE & MEASURE)
- c) Profit projections and revenue flow? (TRACK)

Some Cautions & our advice: Firstly, Every developer tries to recover almost 40 – 45% of the project cost within the first year, from the buyer. If the buyer is not prepared for the same, he incurs additional costs towards interest etc. which are negative margins from the capital appreciation.

Secondly, always factor in about 8% cost escalation and change in specifications, which can be a variation, esp. if you have invested during the early stage.

Thirdly, at the possession stage or at the time of leasing, almost 5-8% of the project cost has to be incurred for basic internal renovations, finishing & furnishing needs.

Therefore, always **be sure** that the quoted price at the time of booking is not your NET LANDED COST.

WHO: Recognize that that there are two vital links between you and your financial acquisition; the **developer** and the **consultant**. You must be sure about the professional competence of both, while selecting your investment project.

Vision, competence, Intent & ability are the key words. Make sure that both are competent enough to understand the complexities of documentation needs and are not pushing you unidirectional towards any one product.

Our advice: In your professional life, do you enlist vendors and consultants? If not, then why trust non-professionals with your money? Please seek guidance from professionals who not only sell, but also are able to furnish you information about macro demand mapping spread over @ least the project completion phase. That is where people like me "EARN" our bread and butter.

WHAT ROI: Most successful realty investors define their expectation matrix based on ROI, on an annualized basis. They monitor their portfolio well and never short sell in distress. They ensure that their money grows and manage their funding in such a way that asset creation and liquidity both are managed.

Our advice: Please fix three different 'Milestones' for review and the exit strategy should be based on the same.

1. Time bound – Review every six months, or as advised by your consultant.
2. Price bound – Review at appreciated price points. Ideally, @ every 15% increase in the base secondary market price for your investment.
3. Opportunity bound – Evaluate short term exit strategy for long term in another project.

Let's not forget, **YOU INCUR A COST** every time you sell, and buy.

Remember, Rental returns are a very vital component of the process of recovery of interest costs, and the sum total of the rental returns + capital appreciation is always higher in commercial office space, than residential. It could be higher in retail projects, but with higher exposure & risks.



Then pursue the **HOW**. First step is to equip you with a professional consultant who would be able to give you a more holistic picture about the macro analysis, the SWOT of the projects and the projections. Look for consultants who source business **through proven** track record of advising right.

We always believe that the investment recovery cycle may be 3 years for the developer and the investor, but the period stretches to 30 years, as far as the end user is concerned.

DEDUCTION: It is the end user who determines what kind of ROI the project should have. We suggest that **look at investments which the end user would see value in**. That way, even if capital appreciation does not happen in the short term, the expected returns would be delivered in the long term, towards completion of the project.

We would like to recommend to our readers to “**Make informed decisions, rather than incidental appreciations**”

The author is the Head-strategic consulting of Certes, a real estate consulting company based in Gurgaon. The views expressed are of the author who can be contacted at menon@Certesrealty.com

www.certesrealty.com