

Easy ways to make use of real estate



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WITH FULL page advertisements becoming fairly common for new properties that are being launched, and the initial plans for what will probably be one of the world's tallest residential buildings in Mumbai making headlines over the last few days, buying real estate seems to be on top of the mind for both end users and investors.

The single biggest drawback of the real estate has been the lack of liquidity. This challenge of the lack of liquidity has become even more severe as the real estate has become more expensive over the last few years. We come across many investors where a disproportionate amount of their overall portfolio has been allocated in real estate, either as an end user or as an investment.

Our view has been that as an end user, the residential home that you stay in cannot truly be listed as an asset as it cannot be monetised very easily. This is because firstly, there will always be a need for a home to live in and secondly, the emotional attachment that they have with their residential property prevents them from willing to monetise it. However, with multiple financial goals that may need to be fulfilled like an education for a child or a retirement, there may be a need to monetise the real estate property at some

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point. Let's discuss some of options for monetising real estate.

Rent/Lease

This is the most commonly used methodology for monetising real estate. Either the whole property can be rented out in case of investment real estate, or a part of it can be rented out in case of end use real estate.

Reverse mortgage

This process is a useful tool for retirement planning. While the better option would probably entail selling the real estate and moving to a lower value home so that a corpus can be created for regular cash flows, it may be challenging from a social and emotional perspective to sell the real estate property, especially if it has been your home for a considerable period of time. Reverse mortgages then end up being a better option.

Though this is a fairly common process in the West, reverse mortgages have only started being made available in India over the last few years.

Essentially, a reverse mortgage allows you to get a regular cash flow from

your residential home in the form of a monthly income, and at the same time allows you to continue to live in the same property. On death, the option is given to the nominees to either repay the amount outstanding and take back the property, or have the bank that has provided the reverse mortgage sell the property, recover the amount due to it and distribute the rest to the nominees. This product is available from most of the public sector banks and the value of the loan varies from 60-70 per cent of the assessed value of the property.

Loan against property

This may be a useful tool for professionals or business owners wherein they can get a loan against their property. Banks normally give 50-60 per cent of the value of the property in the form of a loan or overdraft. However, you need to be aware that there will be an appraisal of the repayment capacity of the borrower, even though the real estate is available as a security. Since there are normally no end use restrictions, this may be a cheaper option than opting for a personal loan, and the amounts may also be larger. Secured loans are normally available for 11-12 per cent per annum, against personal loans that vary between 15-18 per cent per annum.

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