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Fractional Commercial Real Estate Investments (FCRE)



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Commercial Real Estate Investments (CRE)

“The best investment on Earth is Earth.”

The Real Estate market is regarded as one of the most unorganized industrial sectors. However, it is one of the most profitable sectors as well. This is why, a lot of divisions of the society like CXOs, NRIs and HNIs (High Net Worth Individuals) prefer to put their investments into Real Estate, whose benefits they and their families can relish at retirement. Various Real Estate sectors to invest in are:

- 1) Residential
- 2) Land
- 3) Industrial
- 4) Commercial

The most common amongst these is Land. Since land is an appreciating asset, the demand for it is more but its scarcity allows its investors to generate high profits. Residential Real Estate (RRE) does not always come with ample land ownership like in the case of apartments and asset appreciation is less. but it is accessible a minimum down payment and loans to a wide variety of population to invest in and reap monthly returns through rentals. It is also a very emotional division wherein you are investing to build a home, a shelter for your family years from today.

In India, Commercial Real Estate, a multi-billion-dollar industry and growing has historically been for the big players (HNIs or Ultra HNIs) in the market. **Each asset is valued at 10s of crores of rupees and reaps 8%+ rental yields (around 4x times RRE) with capital Y-o-Y appreciation;** so much higher than the widely known go-to option of Residential real estate. This makes it accessible to only a few very wealthy individuals who have the right network, limiting the access to most of us, until a few years ago.

“Fractional Ownership is the inevitable change coming to the CRE market.”

Fractional Commercial Real Estate Investments (FCRE)

Until a few years ago, Commercial Real Estate was inaccessible to most sections of the society in India. Earlier, a wealthy HNI would invest crores in CRE and enjoy the high cashflow over the years. But what if we replace that individual's crores of investment to hundreds of investors coming together to invest in the same, each pooling in a fraction of the total money? This revolutionary concept brought into India by the West, opened avenues and opportunities for several unaffluent individuals, all at once.

Theory of the Idea

Concepts are better explained with how they work. Let us suppose!

Kiran is a new investor and is enthusiastic to try out the commercial real estate market as his sources told him that he can gain 8%+ rental yields with rental hike and capital appreciation over a period of 5-10 years on his investment. There are many opportunities to invest in, but all these institutional grade assets are valued at over Rs. 30-40 crores. He particularly likes one asset whose valuation is Rs. 35 crores, placed strategically at a prime location and is forecasted to give him a pleasant yield. But he does not have that kind of money. He wants to invest with only Rs. 25 lakhs.

Typically, investors like Kiran would let out a disappointing sigh and think about putting those Rs. 25 lakhs into down payment of a residential property worth 1 Cr. with a loan to cover the rest and earn about 30-40K of rental yield, typically with an EMI to pay. He would have to take care of the interiors and basic fittings and furnishings of the flat for the tenant. The biggest recurring expenditure would be association/apartment maintenance. Tenants keep coming and going, you need to manage them constantly and if one leaves, there is no guarantee another will come right after, leading to possible rental loss.

Well, clearly, Kiran could have made a questionable decision. Only if he could get a chance to simply invest his Rs. 25 lakhs in a commercial opportunity without any maintenance, interiors, etc. but only the highest rental yield coming back to him.

Fractional investments allow owners like Kiran to invest in institutional grade opportunities by dividing the Rs. 35 crores into small fractions or shares that represent fractional ownership of each investor. Here, if Kiran invested Rs. 25 lakhs into with 100 more investors and their investments, all these investors like Kiran would be able to participate in high cashflow opportunities at a fraction of the initial ask. Hurray!

How this works: Multiple investors with their investments together form a Special Purpose Vehicle (SPV: A private limited company) to buy the property. Essentially, the SPV owns the property and investors own the shares or compulsory convertible debentures of the SPV. In case, the platform is not able to get the required number of investors, the token money deposited by existing investors is paid back with interest.

Minimum Investment

A wonderful feature of FCRE investments are that they come with a diverse portfolio, the minimum investment being 25 lakhs.

Moreover, if you have Rs. 1 Cr to invest, instead of investing it all in one opportunity, you can distribute and invest it in 3-4 such assets that spreads and diversifies your portfolio and minimizes your risk further.

This way, FCRE has democratized such investments, making them accessible to just anyone with a little extra money on their side that is just lying idle.

Rental Yield

Fractional ownership and investments guarantee you a rental yield of minimum 8%. Moreover, there is an assured rental hike of about 4-5% as well with simultaneous capital growth. Security deposit is usually of 2-5 months. Over a period of time there is a targeted IRR from 12-16%. Terms differ between portfolios depending on the negotiation with tenant. A digitized platform helps you track your income and let you know when it is time to sell your fraction for some capital gains!

Take this advice!

CRE investments generate promising returns only when your money is invested for a minimum of 3-5 years. For those who want to liquidate before 3 years, this is not for you! Patience is virtue.

Convenience & Benefits

This democratic investment practice has its origins in developed nations like US, Singapore, Hong Kong etc. and its concept is probably one of the reasons that contributes to maintaining an economy that provides opportunities to all.

A convenient online portal becomes the medium to invest, track your automatically distributed pay-outs, know latest updates on the asset as well as liquidate your assets. Everything is automated and there is 100% transparency. If you are an investor who failed to invest from the get-go, creating an account on the portal allows you to check if someone wants to sell their fractions and you in turn, can choose to buy them by a simple convenient click. This makes owning a 50 crores institutional grade asset so much more accessible to invest in with just 25 lakhs handy.

A pro investor will always choose to invest in a Commercial Real Estate opportunity over any other opportunity for **10 reasons** enlisted below he is well aware of:

- 1) Highest Rental Yield of 8-10%, regular long term monthly cashflows
- 2) Stock Markets are Volatile whereas CRE Investments are more stable
- 3) Minimized risk with a distributed portfolio
- 4) Banking opportunities give capital securement and low interest gain whereas CRE targets to continually provide a high return on investment.
- 5) Value of Investment as it is in a Physical underlying asset
- 6) Ability to preserve capital with targeted IRR of 12-16% over 5 years.
- 7) Hassle-free tenure and exit
- 8) Typically, GST/Maintenance of property/Interiors/Fittings and Fixture are taken care of by the tenant.

- 9) Empowerment opportunity to create financial futures with stable reward and low risk.
- 10) Data Driven decisions with insights on property, pricing and specifications.

It is needless to say, there are enough benefits to FCRE investments that will motivate you to also plan out a better financial future and this certainly is bound to be the next best investment hub.

Type of Tenants

What would it be like if you had the ideal tenant for your flat who paid rents on time, cleaned up any mess they made, stuck around for a good time to let you enjoy your investment benefits and came with a good background? Ideal situations are not realistic but FCRE Investment has made this possible!

- We have marquee businesses, at the top of their game and with a promising future in terms of financial figures that can guarantee a longer stay and timely rents.
- A huge advantage that FCRE gives its investors is that the maintenance, GST payments and interiors are typically taken care of by the tenant only. You as an investor will keep your land ownership without having to worry about the maintenance of your asset.
- Negotiations with the tenant are carried about by experienced agents that provide you a sticky tenant with terms favourable to both parties.

Long term yield

“Patience is bitter but its fruit is sweet”

Do not even think about investing in a FCRE opportunity if you cannot stick on for at least 5 years. This advice is quite bluntly suggested, rightfully so. The wonders and growth opportunities of Fractional Commercial Real Estate can only be realized over a period of time.

As the years go by, the rent continues to hike and so does the capital appreciation. We have seen targeted IRRs of minimum 12 to a maximum of even 16% over a period of 5 years! Imagine if you give it more time.

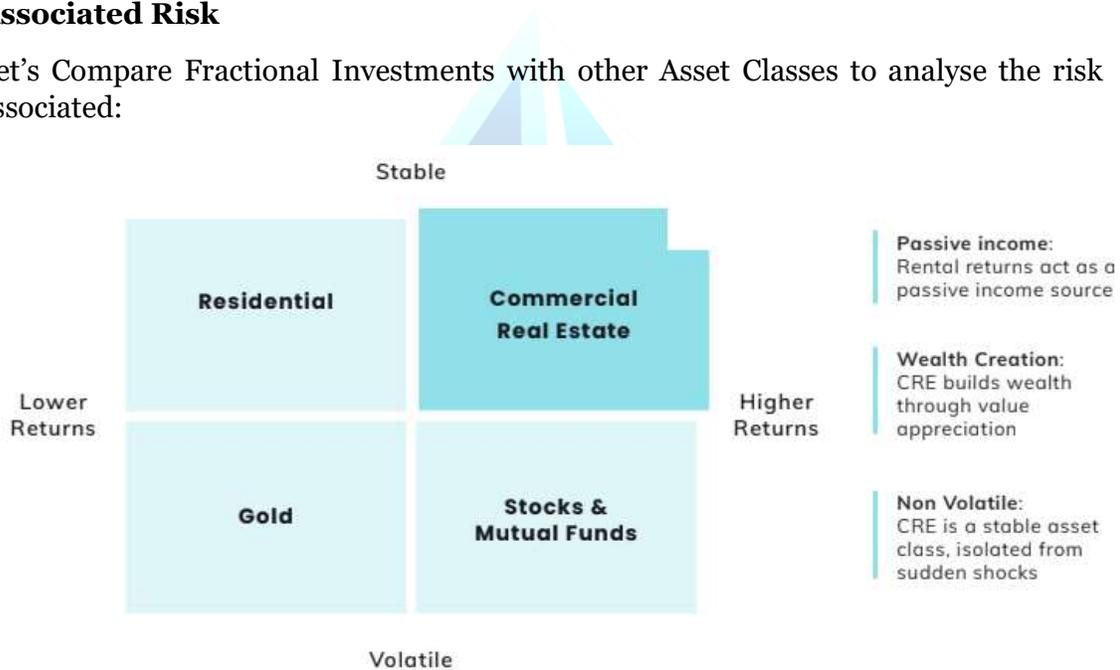
Diversification of Investments

An assured minimized risk with fractional investments emerges out of the capability to invest in multiple FCRE opportunities and acquire a diversified portfolio.

- 1) If one investment performs poorly over a certain period, other investments may perform much better, reducing potential losses and sometimes, even covering them up! Had you put it all into one opportunity and it ended up being the poor performer, concentrating your capital under one type of investment can put you in an anxious position.
- 2) Some of you investors may be in your retirement phases, concerned to preserve your capital. Diversification can help protect your savings.
- 3) You have multiple income sources with diversification. You are not merely relying on one option.

Associated Risk

Let's Compare Fractional Investments with other Asset Classes to analyse the risk associated:



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After reading the document up until now, we are sure that you can answer the question of WHY there is a high and stable return with fractional investments.

With a high and stable return along with the option of diversification, risks are drastically reduced. However, please do not invest if you do not understand the working of it and its associated risks.

- 1) **Regulatory Concerns:** Ideally, a fund-raising identity should be registered under SEBI's Alternative Investment Fund (AIF) regulations or real estate investment trust (REIT) guidelines. Please stay away if such investment is not protected under any legal framework of pooling of funds.
- 2) Take the taxability as well as other charges including property tax into account while calculating returns.

Taxation

As per the current income tax regulations. Investors will pay two kinds of taxes:

Rents: Rents received from the property are distributed as interest on debentures which are taxable directly in the hands of the investors (post 10% TDS which can be claimed by an eligible investor at the end of the year).

Capital Gains: The profit on sale of commercial property is considered as capital gains. The same shall be long-term, if the property was held for more than 24 months and will be taxed at 20% with indexation benefit, irrespective of the quantum of gains. However, if the markets are optimum and the asset is liquidated within 24 months, the same becomes taxable as short-term capital gains and is taxed as normal income.

For NRI Investors, the TDS rate will be determined as per his/her country of residence and the DTAA between India & that Country and long term capital gains shall be 10% without indexation benefit.

Tenure and Exit with Liquidation options

A typical lease is signed for a period of 5-10 years with a 3-5 year lock in period after which the tenant can continue to stay by renewing the lease or ending it.

Liquidation is made easily accessible through

- a) **Asset Sale:** To ensure a significant capital to investors, the asset is usually sold by 5-7 years after its purchase.
- b) **Online resale platform:** To provide an opportunity for a greater liquidity the online portal allows investors to list their property up for sale after a lock in period of 6 months.
- c) **Dedicated resale window:** This exclusive window is offered once a year, where investors can buy/sell their fractions at a discounted rate.
- d) **Private and secure transaction:** As an investor, you are free to sell your dedicated fraction to anyone in your personal capacity. You are to inform the online portal backend team to update necessary records at the earliest.

Residential vs Commercial Investments

To help you quickly scan qualities of them both, please refer to the table below that contains the prime areas of distinction between investing your extra money into

Residential vs. Commercial investment chance. The comparison given below is general and particulars can differ.

Category	Residential	Commercial
Tenant profile	Individual	Corporate
Expense like Interior/Fittings and fixtures	Owner	Owner or tenant
Rental Yield	2-3%	8-10%, IRR: 12-16%
Hike	5%	4-5%
Lock-In period	3-6 months	3-5 years
Tenure	11 months renewable	3-10 years renewable
Property appreciation	Less	Higher
Liquidation	2-4 months	3 months- 1 years
Stability of Income	Stable income for shorter tenure	Stable income for longer tenure
Time to find new tenant	1-2 months	3-6 months
Bank Loan availability	80% based on eligibility	-

Miscellaneous Expenses

- 1) Management Fee: There is a management fee of 1% of the investment amount charged per year. To make the offer look pretty for the first year, Service Provider may not charge you anything for the first year. The subsequent year, this top up is extracted as management fee and thereafter, each year.

Unlock with our KEY Series:

KEY: “Knowledge Empowers You!” to make informed decisions.

As a part of our **KEY** series, we have shared our wisdom based on facts and subject matter expertise gained from over 8 years of experience.

Typically, the price of a commercial property is directly proportional to its rental income. As the rental appreciates 4-5% per annum, property gets appreciated by 4-5% per year. So, investor makes 8% rental yield and 4-5% hike per year in rent and 4-5% appreciation in property per year. That gives him 12% minimum IRR.

There is a Catch!

Sometimes, one may get a very good tenant who is paying on the higher side of the ongoing rental market. And the price of the property also shoots up accordingly immediately.

E.g. If a property is valued at Rs. 100 Crore and a good MNC tenant is found who has paid higher rental of 9% (One percent more than market rate). The property value will also go up immediately to adjust the ROI of 8%. Say the seller lists it at Rs.110 Crore now to you, you will naturally take it up because of the high profiled tenant and good return of 8%. However, the downside here is that one forgets to notice that the property was sold at a higher price to you but rental has not changed. This is why you are now left with a property valued at Rs. 110 Crore but a depreciated rental of approximately 8% from earlier 9%. After 5 years, current tenant evicts out and a new tenant rents at a middle range of the market rent at that time. It will impact your appreciation of property price since it will depreciate at the time according to lowered rent. So, it is always better to do due diligence on the current rental market and current market rate of the property. You need to make sure that you pay smartly to reap maximum benefits while selling the property.

Case Study!

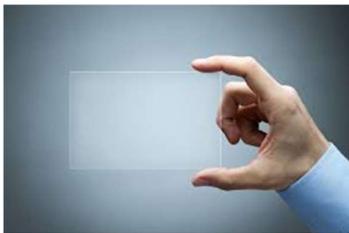
In Mumbai, we sought a deal in Bandra Kurla Complex, Mumbai for 12,000 per sq. Ft, rent: 8%. It looked very attractive on paper. Market rate of property was around Rs. 11,000/- per sq. ft. However, the MNC tenant had an urgent requirement so he was ready to pay rent on the higher side of the range. When we studied market, we observed that the tenant is paying higher rent than the market rate. Say, after 5 years, if Investor wants to Sale, he may not get the maximum appreciation as his purchase price itself was slightly high. As per the market practice, investors get lured at Rental Income and price the property accordingly. So it's very important to study both market price for property and rental rate in that property. Keeping that in mind, we dropped the opportunity for our investors immediately!

DISCLAIMER

The information provided is for education purposes only. It should not be relied upon as legal, accounting, tax or other professional advice. Please take expert guidance from tax professionals. We are not responsible for any kind of error.

Agarwal Estates Unique Differentiator

Agarwal Estates, One Stop, All Solutions - Real Estate services venture, utilizes the promoter's extensive experience in process implementation, service delivery and standard methodologies to suit the requirements of the real estate market in India. This has helped us in delivering high quality services - on time - and also enabled us to successfully launch the concept of: **All we need is your autograph!**[™]



TRANSPARENCY is the CORE VALUE of Agarwal Estates

Being a **transparent** organization, we empower our customers through our revolutionary concept and key initiative called as **KEY (Knowledge Empowers You)**. We share all the information with customers to enable them to make informed decisions. We have been constantly getting acknowledged by our existing customers about the **Knowledge** we share with them.

Agarwal Estates provides end-to-end solutions:

- **Real estate advisory:** Overseas investments, buy-back options, Flexible investment amount, etc.
- **Buy/sell/rent property:** Understanding your needs and providing the right solutions
- **Property and tenant management:** Peace of mind, guaranteed rent
- **Home loans:** Free consultancy, awareness about hidden charges, maximum savings
- **Home décor & interiors:** Six weeks completion for a standard 3 BHK starting at Rs 3+ lakhs
- **Allied services:** Property tax, Electric meter transfer, Vastu, etc.

ONE STOP, ALL SOLUTIONS - REAL ESTATE SERVICES



Agarwal Estates aspires to empower customers with the **right knowledge** to enable them to make the **right decisions** at the **right time**.

