

## View on Propshare Platina SM REIT by InvestorZone

India's first Small and Medium (SM) REIT opens for subscription, bringing a new dimension to real estate investing. Here's our detailed analysis of this opportunity.

### 1. What is an SM REIT?

An SM REIT, or Small and Medium Real Estate Investment Trust, is a relatively new investment instrument. A REIT allows collective investment in real estate, and Propshare's Platina SM REIT is raising ₹353 crore for this purpose. The minimum ticket size is ₹10 lakh, as per SEBI regulations.

The Propshare Platina SM REIT aims to acquire office property on Bengaluru's Outer Ring Road. This property, built by the Prestige Group and currently owned by 24/7 AI (a US-based tech outsourcing firm), will be leased back to the seller at a rental yield of 9% in the first year. The lease tenure is 9 years.

### 2. Key Highlights

#### A) Rental Yield vs Property Appreciation

The REIT offers a 9% rental yield, which is attractive in the real estate market. However, REITs are primarily purchased for rental income rather than capital appreciation. Any growth in property value would be an added bonus, but it is speculative.

#### B) Tax Implications

- **Rental Income Distribution:** Dividends are tax-free, while interest income is fully taxable.
- **Capital Gains:**
  - After 1 year: 12.5% LTCG tax.
  - Before 1 year: 20% STCG tax.

### 3. The Positives

1. **Strong Rental Yield:** A 9% yield in the first year is impressive, offering stable income.
2. **Reputable Developer:** The property is built by the Prestige Group, a well-known name in real estate.
3. **Strategic Location:** Situated on Bengaluru's Outer Ring Road, a prime commercial hub.

## 4. The Risks

**A) Lock-in Period Concerns: While the lease tenure is 9 years, the lock-in period varies:**

- 1st to 3rd floors: 3 years.
- 5th floor: 5 years.
- Ground and 4th floor: 7 years. The rental escalation begins after 3 years, which coincides with the end of the lock-in for certain floors.

**B) Uncertain Property Appreciation:** Real estate markets can be unpredictable, and there's no guarantee of capital gains.

**C) Management Fee:** The Investment Manager charges no fee in the first year, which increases to 0.3% in the third year. Lack of clarity on where significant revenue is generated can be a red flag.

**D) Rental Escalation:** The rental escalation is 3.85% after 3 years and 15% after 6 years, which may not fully offset inflation or other financial risks.

## Conclusion

Propshare Platina SM REIT presents an innovative investment opportunity with a solid rental yield and tax-efficient income distribution. However, investors must weigh the risks, especially around lock-in periods, rental escalation terms, and fee structures. For those seeking stable rental income and exposure to commercial real estate, this could be an option to consider, but only after careful due diligence.

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