Reits, InvITs turn attractive bets in a volatile market

FROM PAGE 1

Estate Trust, Embassy Office Parks REIT and Mindspace Business Parks REIT.

Among InvITs, Powergrid has offered a better return compared to peers such as IRB InvIT Fund and IndiaGrid Trust InvIT since it has fixed cash-flow visibility over the next three years. Trailing one-year returns for equity and debt mutual funds have been in the range of 3% to 7%, TBNG's Birani said. On the other hand, fixed-income instruments have returned 7.1-7.6% for five- to 12-year periods. The investors, however, remain watchful about the rising interest rates. While two rate hikes have already taken place to control inflation, RBI is expected to raise interest rates further in the coming months.

The 10-year government securities are at around 7.4%, whereas short-term money market instruments are at 5% to 6.5%, according to analysts. Bond yields have moved up in anticipation of rate hikes.

Commercial real estate did well in the last year with offices

Investors buying units of these trusts get a stable income stream from the revenues earned by the underlying assets MINT

reopening and rent collections rising, said Yogesh Kalwani, head of investments, InCred Wealth. "Quality issuer yields are now up to 7.5% to 8%. Reits and InVITs are rate-sensitive; higher interest rates impact Reits' valuation," Kalwani said. However, this risk gets mitigated as rental inflation and toll rates linked to inflation are built into the contracts, he said.

Among InvITs, Powergrid has offered better returns compared to peers such as IRB InvIT Fund and IndiaGrid Trust InvIT

"We prefer Reits and InVITs with higher distribution yields, good collections/occupancy ratio, the pipeline of new assets/developments and good tenant profile," Kalwani said. Also, higher economic activity means better collections and cash flows for Reits and InVITs. Kalwani has a positive outlook on Reits and InVITs and expects total returns in the mid-teens.

Reits become attractive bets in a volatile market

Ujjval Jauhari
ujjval.j@livemint.com
NEW DELHI


With office occupancies and mall footfalls rising, Reits and InvITs have performed better than many other asset classes in recent quarters. MINT

Even as volatility rocked debt and equity markets over the past year, infrastructure investment trusts (InvITs) and real estate investment trusts (Reits) became an oasis of stability, with many analysts expecting returns from these instruments to rise further.

With office occupancies and shopping mall footfalls rising steadily after two years of covid-related disruptions, these instruments have performed better than many other asset classes in recent quarters, experts said, with yields of 6-10%. Some analysts expect their returns to cross mid-teens in the medium to long term.

"InvITs and Reits have been one of the best investments during the last year, given that both equity and debt faced a challenging last 12 months owing to interest rate hikes," said Nishant Agarwal, managing partner and head, family office, ASK Private Wealth. "With annual pre-tax distribution yields across all listed and public Reits and InvITs at around 6% to 10% and more than 8% per annum capital appreciation since various listings, this asset class has not disappointed investors," he added.

Reits and InVITs are trusts that own pools of income-generating assets in real estate or infrastructure. Investors buying units of these trusts get a stable income stream from the revenues earned by the underlying assets.

"With values staging a rebound from their lows, and growth expected to continue through 2022, three listed Reits generated returns of over 8% in 2021," said Tarun Birani, founder and CEO of TBNG Capital advisors, referring to Brookfield India Real

TURN TO PAGE 6