

Realty investments: now, later or never?

Though retirees can aspire to rental income, they must also consider the pitfalls

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Real estate investment is more appropriate for retirees than for working executives. In this article, we discuss some reasons that support this argument.

Real estate investment refers to any land or building from which you expect to earn rental income or capital appreciation. If you are a working executive, your investments should preferably be in financial and not physical assets.

Earlier generations made their fortunes from real-estate. These individuals could manage physical investments because they typically worked with the same employer over a life time and retired in the same city in which they started off.

The labour market is different now. You could shift jobs, requiring you to relocate to a different city or country. What will you do with your real-estate investment? It is in this context that portfolio portability becomes important. This refers to the need to have portable investments (financial or non-physical investments) to align with the portable nature of your employment.

Then, there is the argument about low returns on real estate. Given the high cost of land, rental yields are low. In any case, working ex-



Making sense: Investments in a house would be meaningful if the retiree's children also live in India. ■ GETTY IMAGES/ISTOCK

ecutives need capital appreciation, not income returns. Moderate investment in land may be justified based on the argument that land has supply-side constraint. You should, however, be mindful of lumpy investments in land, the security of your property and the fact that such investments are not easy to convert into cash.

Stable income

What makes real estate an optimal investment for retirees? For one, it provides stable income, acting as a close substitute for the monthly income retirees earned during their working life. For another, rental income can increase with inflation.

This does not change the argument that rental yields

are low. But the difference is that working executives should typically look for high-risk, high-return investments whereas retirees should prefer stable-income products. That said, retirees should be mindful of the following factors before buying real estate as part of retirement income portfolio.

One, rental yields are a function of the location and the condition of the property. So, buying a property closer to retirement could help retirees fetch market rentals. But this also means buying the property with full payment as individuals closer to retirement are unlikely to get home loans.

Two, generating stable income from the property also means that if a tenant va-

lates, it is important to find another quickly, to keep the income flowing. Three, maintaining the property is important to generate market rentals. Annual maintenance costs could be high.

Finally, real-estate investments could be more meaningful if the retiree's children also live in India. This is key because these investments may require liquidation or upgradation after the lifetime of the retiree. Selling property or continually making repairs is not easy when children live abroad.

Real estate is a lumpy asset. Yes, it is perceived as safe because there is no visibility of real-time prices as in stock markets. In addition, real estate is a physical asset; it is easier to relate wealth to physical assets (real estate and gold) than to financial assets (equity and bonds).

But real estate is pricey today. Further, employment opportunities could take you beyond your home country. So, investments that worked for the previous generations may not work for you. So, whether you are a working executive or a soon-to-be retiree, consider the associated risks and irritants before investing in real estate.

(The writer offers training programmes for individuals for managing their personal investments)