

Pre-leased Mall unit in Kolkata

A conservative investor was looking for an opportunity that would fetch returns at a higher rate than fixed deposits or debentures without much additional risk. Axiom advised purchasing a freehold mall unit by a well known local developer located at Rajarhat, Kolkata. The 36000 sq. ft. pre-leased unit was sold at the rate of Rs. 2800 (\$ 70) per sq ft i.e. a little over Rs. 10 cr(\$ 2.5 million).

The unit was leased out to a national multiplex chain with a 3 year lock in period. The monthly rent at the rate of Rs. 30 per sq. ft. amounts to an annual rental of approximately Rs. 1.2 million (\$ 300,000). This is subject to 10% real estate tax. The net rental yield is therefore about 11.5%. The lease agreement is for a period of 15 years and includes a 15% escalation every three years.

Even assuming no escalation in the property value over the 15 year tenure, the average yield on investment is over 16%. Capital appreciation would raise the yield even further.

Type of development	Mall
Super Built-up area (Sft)	36,378
Lock in period	3 years
Rental (Rs per sft per month)	29.70 (\$0.74)
Annual Rent (Rs million)	13 (\$330,000)
Less: Real Estate Tax (10%) (Rs million)	1.3 (\$ 30,000)
Net Annual Rental Income (Rs million)	11.67 (\$ 290,000)
Expected Rental Yield (%)	11.50
Expected Sale Value (Rs million)	101 (\$ 2,500,000)
Cost per sft. (Rs)	2,789 (\$ 69.7)
Escalation	15% every three years
Lease Period	5 years
Net Return on Investment (including the escalation benefit)	16.27% p.a.
\$1 = Rs 40	