All About REITs

Under the latest SEBI guidelines, Real estate Investment Trusts may prove to be a game-changer in the Indian real estate landscape with new rules and new benchmarks, all the while presenting a win-win situation for all – be it the developer, the investor, the Government or the final consumer

Sanjay Sinha

A long wait of almost six years is over. The Securities and Exchange Board of India (SEBI) has finally issued the guidelines paving the way for the design, launch and listing of Real estate Investment Trusts (REITs) in India.

The guidelines which were approved at the Board meeting held on August 10, 2014 follow the proposals put out in a consultation paper in October 2013 which received more than 700 suggestions from different quarters.

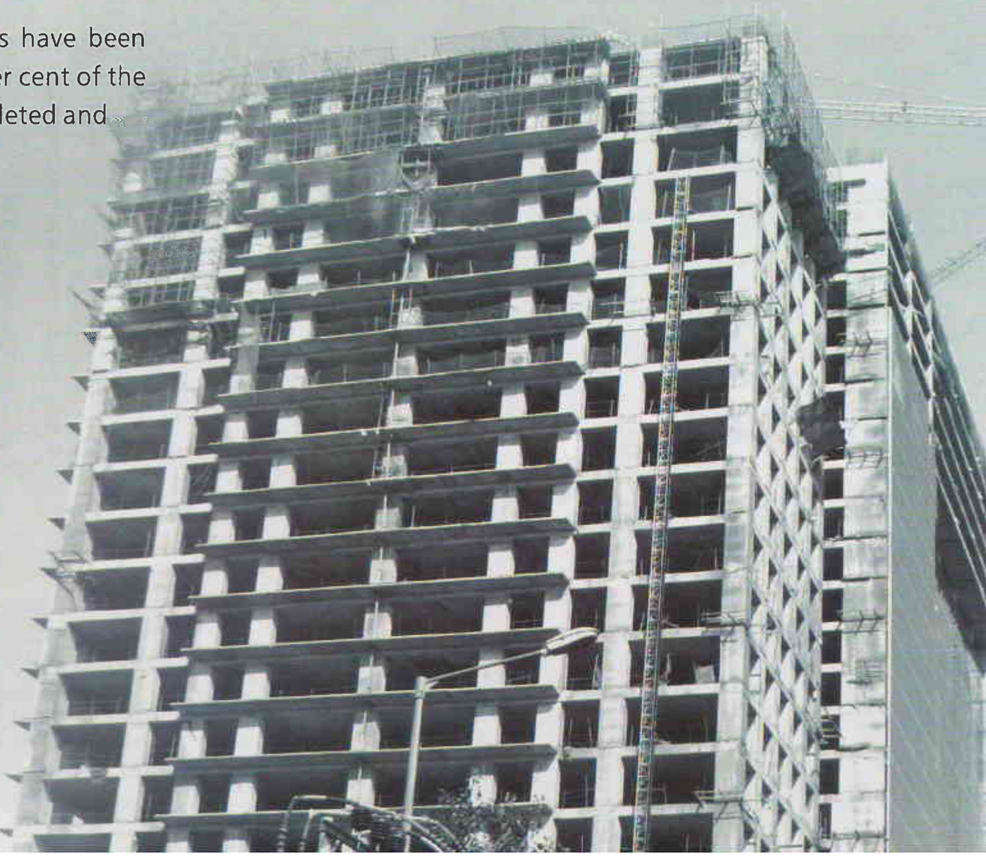
REITs are entities which hold income producing real estate assets. They are very similar to mutual funds where the beneficial ownership of the underlying assets and the income proportionately belongs to the holders of the units of REITs. The first regulated REIT in the world was launched under an enabling Act passed in the US in 1960. Currently about $1.5 trillion worth of assets are held under REITs worldwide.

As per the SEBI guidelines, REITs in India will have to be set up as trusts with a sponsor, a manager and a trustee. They will have to have a minimum fund size of ₹500 crore and not less than ₹250 crore as an initial offer. Additional amounts can be raised through follow-on offers, rights issues or qualified institutional placements. The minimum investment limit for an investor will be ₹2 lakh and these units will have to be listed. The trading lot of these units will be ₹1 lakh. The amount raised can only be invested in commercial real estate.

A number of risk containment features have been put in the SEBI guidelines. At least 80 per cent of the amount will have to be invested in completed and revenue generating properties. Out of the balance 20 per cent, not more than half i.e. 10 per cent can be invested in developmental properties. 90 per cent of the net distributable cash flows will have to be distributed to the investors on a half- yearly basis.

REITs will have to invest in a minimum of two projects with not more than 60 per cent in a single project. The sponsor of the REIT will need to maintain a holding of at least 25 per cent for three years from the date of listing and at least 15 per cent for the lifetime of the REIT.

It will take anywhere between six months to a year before the first REIT gets listed in India. It is estimated that approximately 150-200 million square feet of commercial real estate worth about $10-15 billion will get listed in the next two-three years



- **The first regulated REIT in the world was launched under an enabling Act passed in the US in 1960. Currently about $1.5 trillion worth of assets are held under REITs worldwide**

- **REITs in India will have to be set up as trusts with a sponsor, a manager and a trustee. They will have to have a minimum fund size of ₹500 crore and not less than ₹250 crore as an initial offer**

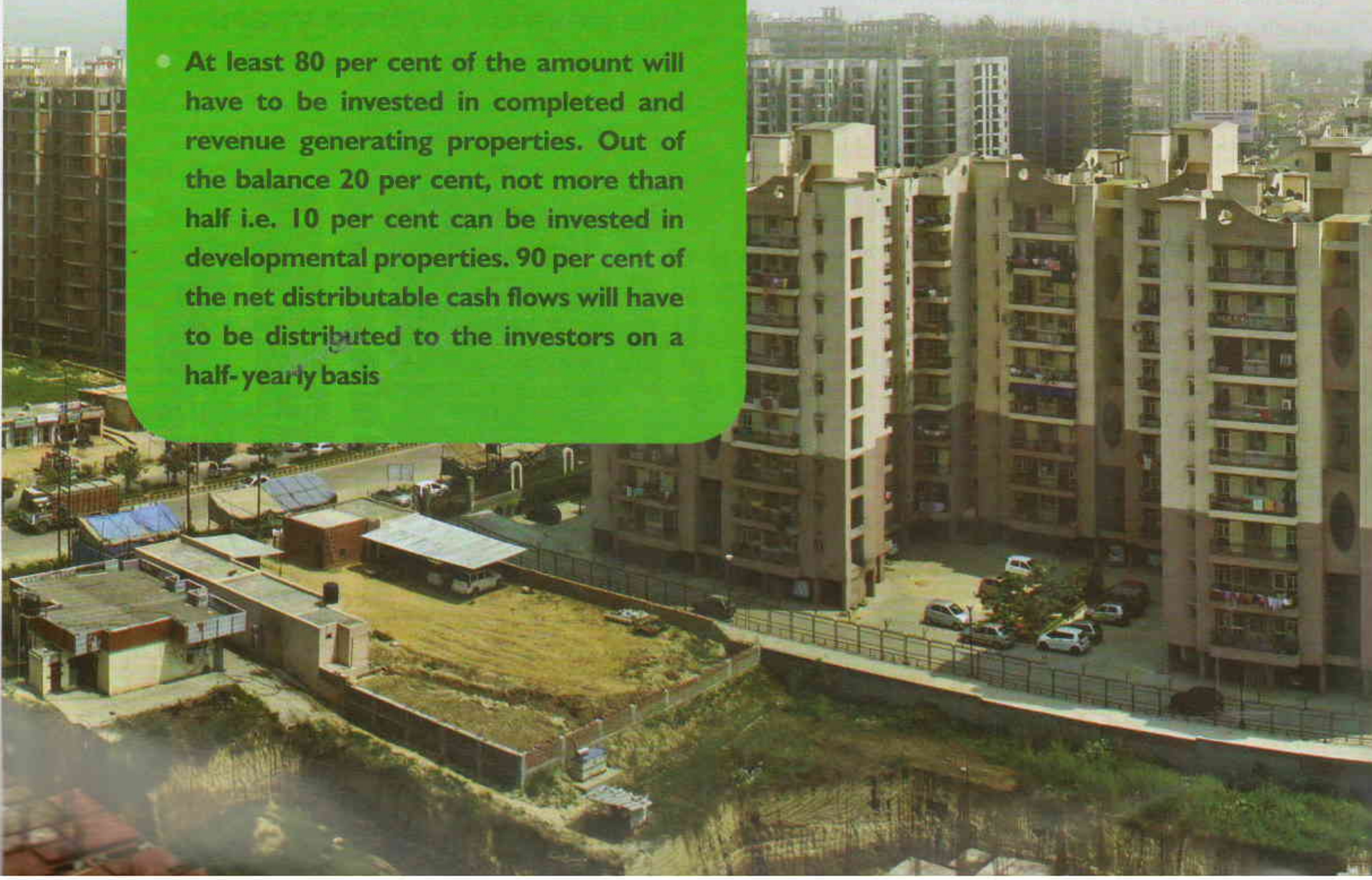
- **The minimum investment limit for an investor will be ₹2 lakh and these units will have to be listed. The trading lot of these units will be ₹1 lakh. The amount raised can only be invested in commercial real estate**

- **At least 80 per cent of the amount will have to be invested in completed and revenue generating properties. Out of the balance 20 per cent, not more than half i.e. 10 per cent can be invested in developmental properties. 90 per cent of the net distributable cash flows will have to be distributed to the investors on a half-yearly basis**

It will take anywhere between six months to a year before the first REIT gets listed in India. It is estimated that approximately 150-200 million square feet of commercial real estate worth about $10-$15 billion will get listed in the next two-three years. While the income from REIT will be tax-free in the hands of the investors, some tax issues can be smoothened further to make this instrument more attractive.

The approval of the guidelines for the launch of REITs could not have been better-timed. After a long period of stagnation, the economic outlook has begun to look up under Prime Minister Narendra Modi. Once this revival picks up speed, there will be need for a large supply of good quality, well-developed commercial real estate.

The major players in the sector overstretched themselves in the boom period and have tied themselves in tangles of unserviceable levels of debt. Many of them are unable to complete their existing projects leave alone pick up new ones. Very soon this will lead to a bottleneck of supply.



- **After a long period of stagnation, the economic outlook has begun to look up under Prime Minister Narendra Modi. Once this revival picks up speed, there will be need for a large supply of good quality, well-developed commercial real estate**

- **By providing capital to the developer it unlocks their capital locked in a fully developed property and enables it to be deployed in developing a new property. For investors in REITs, it provides a diversified exposure to a new asset class through a professionally managed and affordable route**

On the demand side, while there is a potential demand waiting to unfold from the actual users of this real estate, there is a latent demand from a large number of participants who would like to participate in the opportunity that real estate provides either because of a need to diversify or purely for investments gains. They are deterred from directly investing in commercial real estate by factors such as lumpiness of the investment required, its relative illiquidity, lack of ability to identify good projects and developers, administrative hassles of monitoring and managing the property amongst many others. REITs present a win–win opportunity for both.

By providing capital to the developer it unlocks their capital locked in a fully developed property and enables it to be deployed in developing a new property. For investors in REITs, it provides a diversified exposure to a new asset class through a professionally managed and affordable route

> The writer is Founder, Citrus Advisors <