



Understanding of REIT Structure and Impact on Real Estate Industry

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Agenda:

- Background
- Structures of REITs
- Salient Features of SEBI Regulations
- Regulatory Framework
- Taxation
 - REIT
 - Sponsors
 - Unit Holders
- Responsibilities of various parties to the REIT
- How this will help real estate industry?
- Benefits for small real estate players





Background

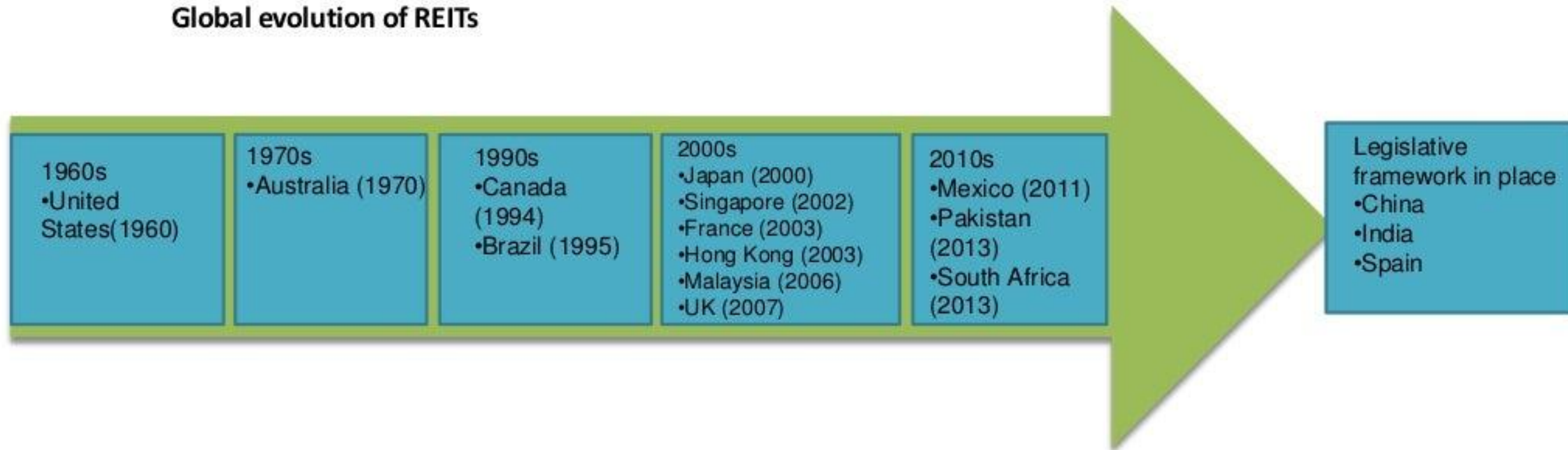
WHY REIT?



Background

Evolution of REITs

Global evolution of REITs



Source: European Public Real Estate Association (EPRA) - Global REIT Survey 2013

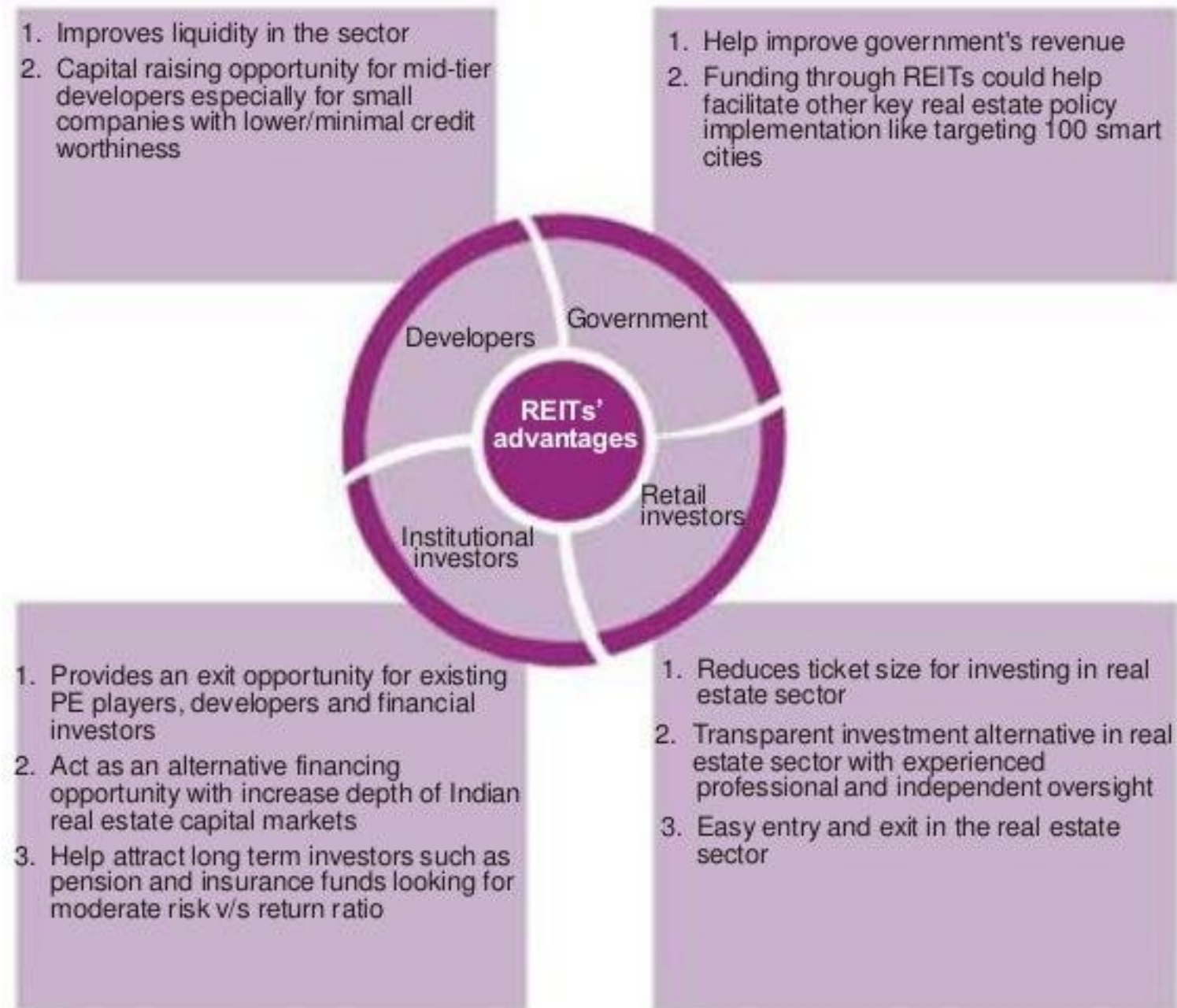
REITs started in the US in 1960. Over the past 50 years, the US REITs has attracted a market capitalisation of over USD600 billion and has been adopted in several parts of the world. As of 30 June 2014, there were 456 stock exchange-listed in the FTSE EPRA/NAREIT Global Real Estate Index in 47 countries around the globe. Of the USD1.2 trillion in equity market capitalisation represented in the Developed Markets index, 78 percent came from REITs.

Evolution of REITs in India

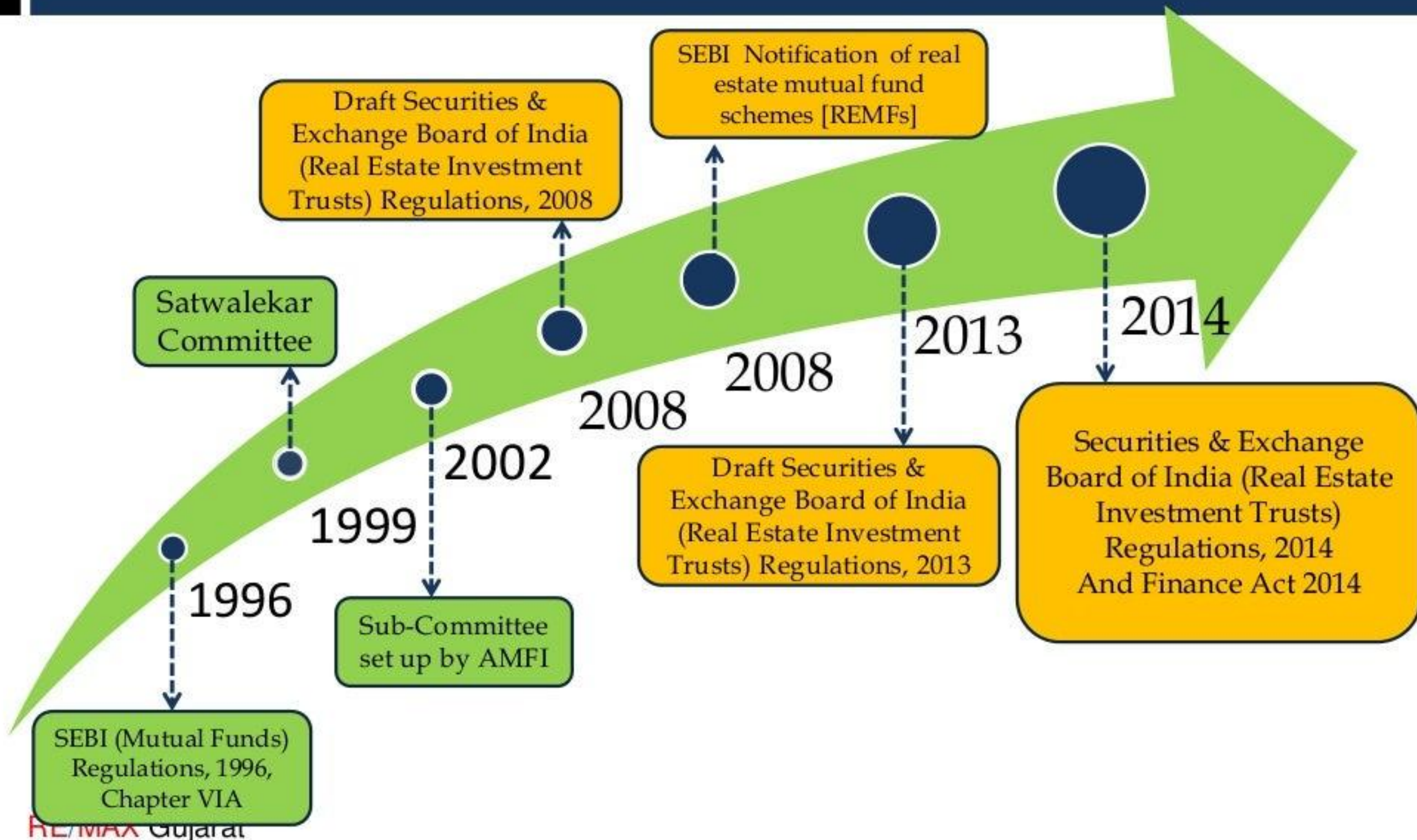
In 2007 SEBI formally introduced the draft REITs regulations for public comments. Because of downturn in the market during that period, no further development took place in the REITs regulation, until October 2013 when a second draft of the regulations was issued for public comments by SEBI. After taking industry inputs, amendments to regulations were made and the draft was approved allowing setting up and listing of REITs. Post the clarifications provided in the 2014 budget, a final draft was introduced by SEBI in August 2014.

S.NO	Country	No. of REITs	Market Size (USD billion)	Percentage of global REITs Market	REITs performance as per S&P Dow Jones (Annual return in Percent)	
					5years	10 years
1	United States of America	163	621	57.68	23.80	9.58
2	Australia	52	86	8.33	18.11	5.10
3	France	37	68	6.33	20.74	16.46
4	Japan	41	64	5.98	14.84	7.78
5	United Kingdom	23	49	4.55	18.52	N.A.
6	Singapore	32	45	4.23	22.04	15.09

REITs advantages to different stakeholders



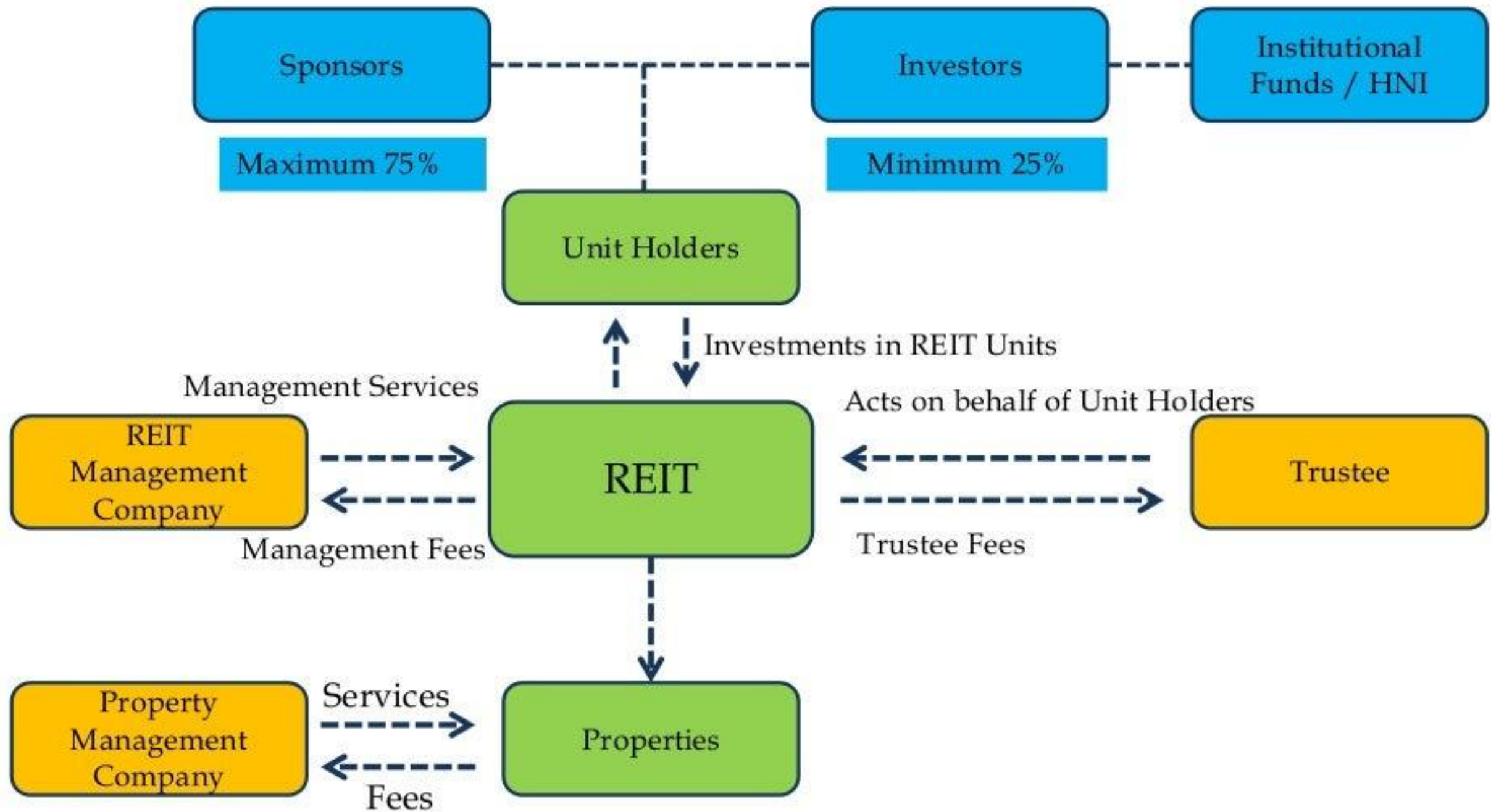
Background



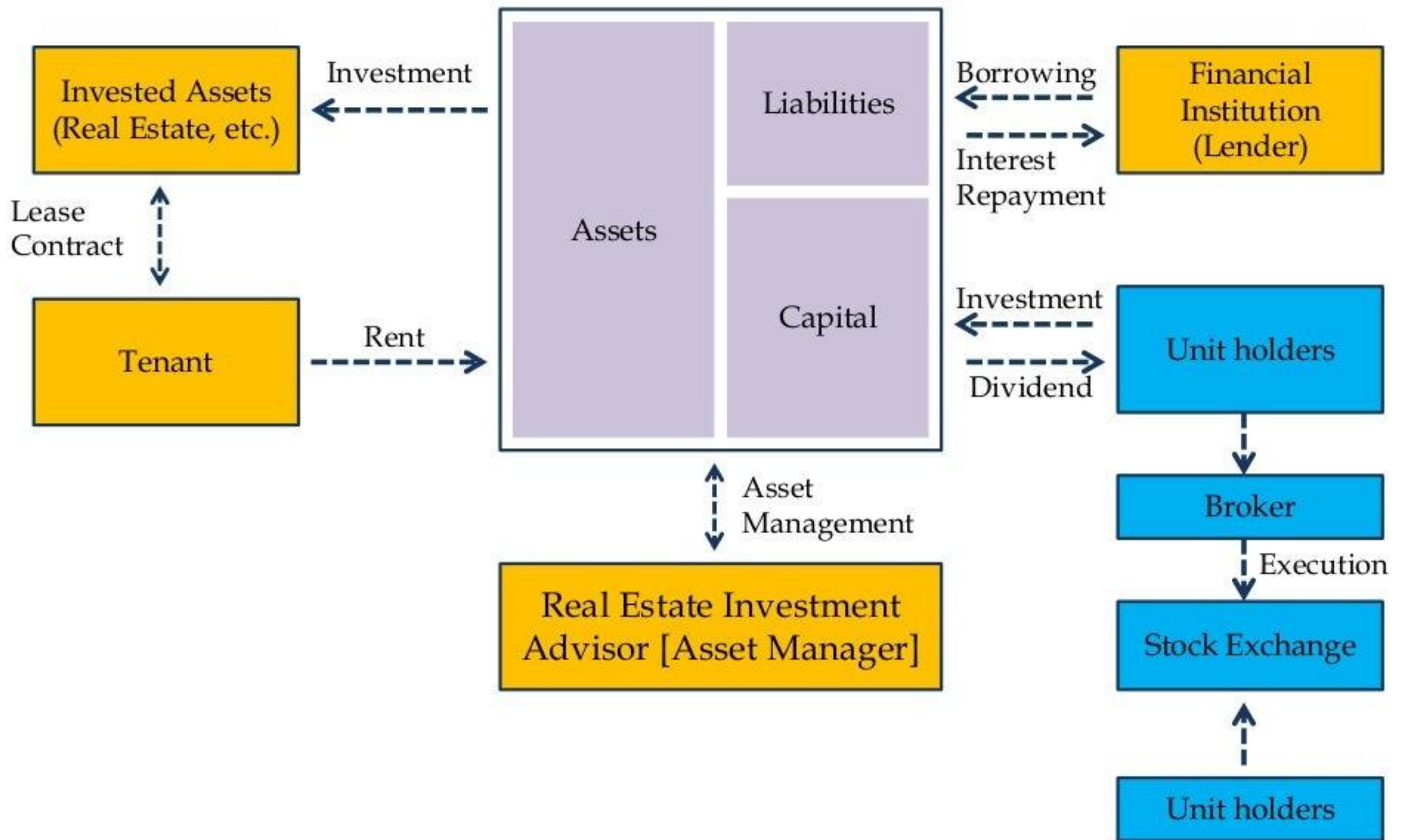


Structures of REIT

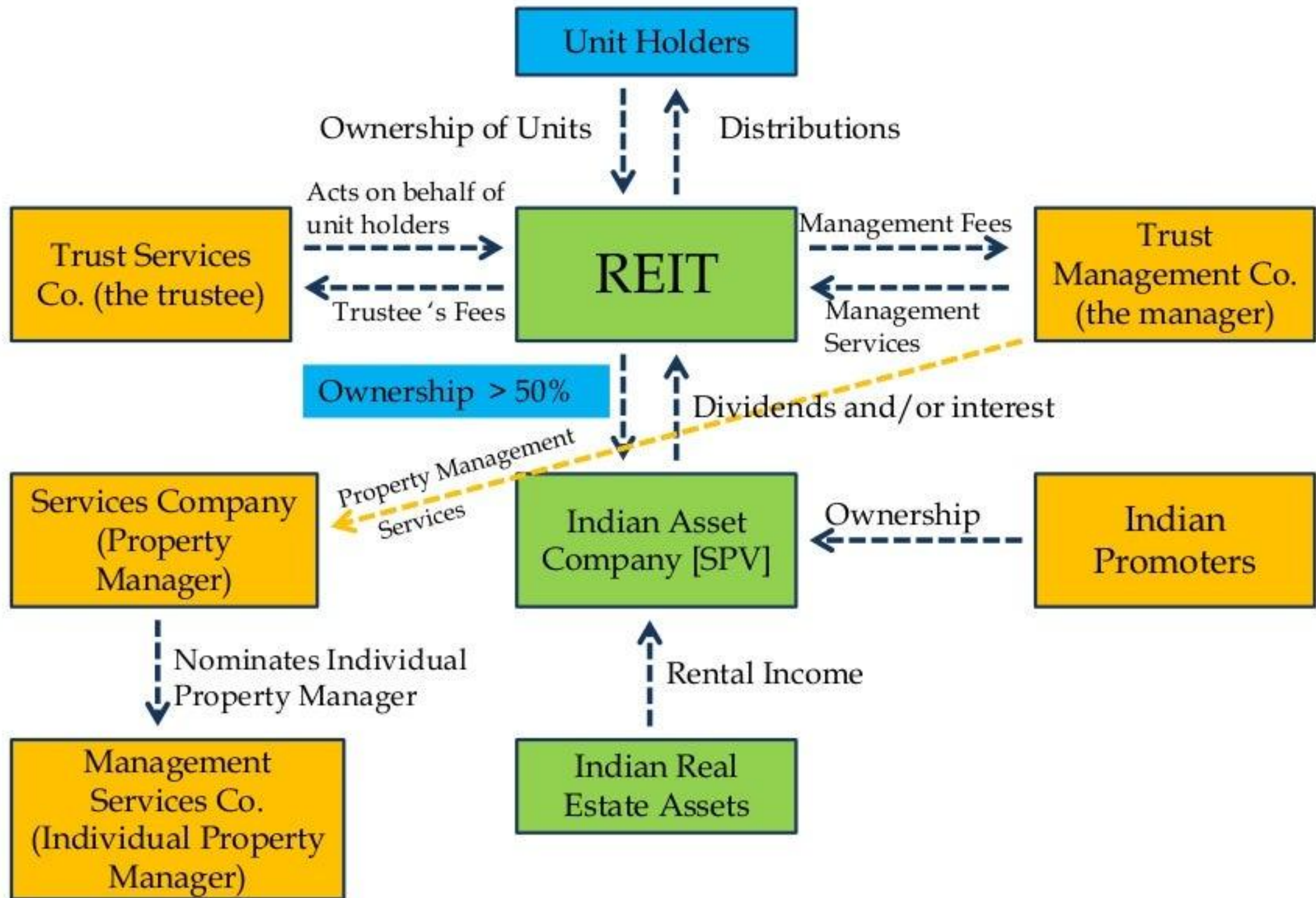
REIT Mechanism



REIT Structure with Borrowing



REIT Structure with SPV





Salient Features of SEBI Regulations

Salient Features

- In order to encourage set of REITs in India, SEBI has issued SEBI (Real Estate Investment Trusts) Regulations, 2014. Pursuant to the regulations, the following are the salient features of REIT:
 - REITs shall be set up as a trust and registered with SEBI. It shall have parties such as Trustee, Sponsor(s) and Manager.
 - The trustee of a REIT shall be a SEBI registered debenture trustee who is not an associate of the Sponsor/manager.
 - REIT shall invest in commercial real estate assets, either directly or through SPVs. In such SPVs, REIT shall hold or proposes to hold controlling interest and not less than 50% of the equity share capital or interest. Further, such SPVs shall hold not less than 80% of its assets directly in properties and shall not invest in other SPVs.

Salient Features

- Once registered, the REIT shall raise funds through an initial offer.
- Subsequent raising of funds may be through follow-on offer, rights issue, qualified institutional placement, etc.
- The minimum subscription size for units of REIT shall be Rs 2 lakhs.
- The units offered to the public in initial offer shall not be less than 25% of the number of units of the REIT on post-issue basis.
- Units of REITs shall be mandatorily listed on a recognized Stock Exchange and REIT shall make continuous disclosures in terms of the listing agreement. Trading lot for such units shall be Rs 1 Lakh.

Salient Features

- For coming out with an initial offer, the value of the assets owned/proposed to be owned by REIT shall be of value not less than Rs 500 crore. Further, minimum issue size for initial offer shall be Rs 125 crore.
- A REIT may have multiple sponsors, not more than 3, subject to each holding at least 5% of the units of the REIT. Such sponsors shall collectively hold not less than 25% of the units of the REIT for a period of not less than 3 years from the date of listing. After 3 years, the sponsors, collectively, shall hold minimum 15% of the units of REIT, throughout the life of the REIT.

Salient Features

- Not less than 80% of the value of the REIT assets shall be in completed and revenue generating properties.
- Not more than 20% of the value of REIT assets shall be invested in following:
 - i. developmental properties,
 - ii. mortgage backed securities,
 - iii. listed/ unlisted debt of companies/body corporates in real estate sector,
 - iv. equity shares of companies listed on a recognized stock exchange in India which derive not less than 75% of their operating income from Real Estate activity,
 - v. government securities,
 - vi. money market instruments or Cash equivalents.
- However investments in developmental properties shall be restricted to 10% of the value of the REIT assets.
 - A REIT shall invest in at least 2 projects with not more than 60% of value of assets invested in one project. Detailed investment conditions are provided in the Regulations.

Salient Features

- REIT shall distribute not less than 90% of the net distributable cash flows, subject to applicable laws, to its investors, at least on a half yearly basis.
- REIT, through a valuer, shall undertake full valuation on a yearly basis and updation of the same on a half yearly basis and declare NAV within 15 days from the date of such valuation/updation.
- The borrowings and deferred payments of the REIT at a consolidated level shall not exceed 49% of the value of the REIT assets. In case such borrowings/ deferred payments exceed 25%, approval from unit holders and credit rating shall be required.
- Detailed provisions for related party transactions, valuation of assets, disclosure requirements, rights of unit holders, etc. are provided in the Regulations. However, for any issue requiring unit holders' approval, voting by a person who is a related party in such transaction as well as its associates shall not be considered.



Regulatory framework

Regulatory framework

Salient features of the Regulatory Framework are as under:

Structure of the REIT

- The REIT shall be set up as a Trust under the provisions of the Indian Trusts Act, 1882. REITs shall not launch any schemes.
- The REIT shall have parties such as trustee (registered with SEBI), sponsor, manager and principal valuer.

Registration of REIT

- The Trust shall initially apply for registration with SEBI as a REIT in the specified format. It shall fulfill eligibility criteria as specified in the draft Regulations.
- SEBI, on being satisfied that the eligibility conditions are satisfied, shall grant the REIT certificate of registration.