



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India



Introduction to Real Estate Investment Trusts (REITs)

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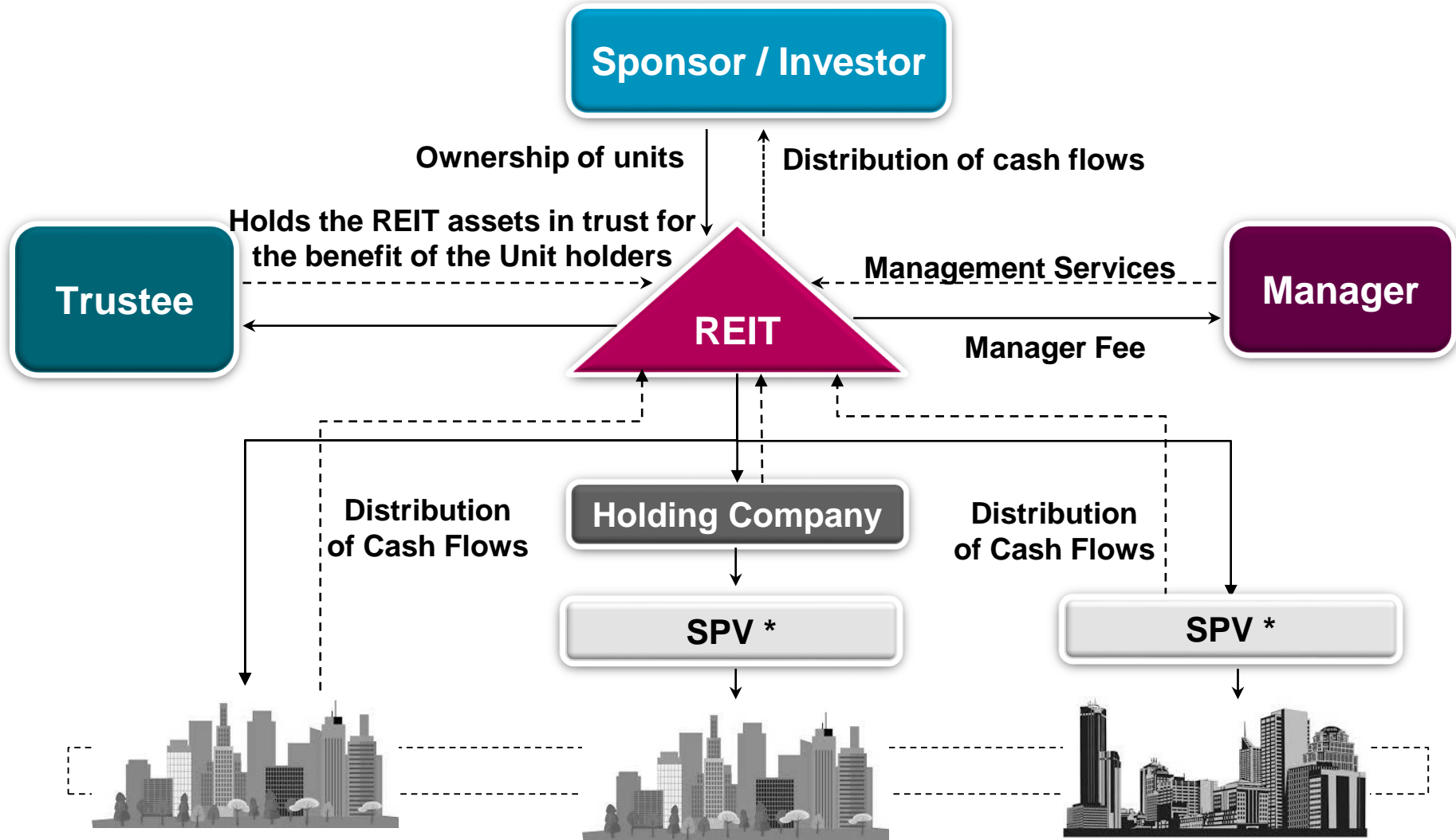
1. What are REITs? - Overview;
2. Structure of REITs;
3. Role of Constituents of REITs;
4. Cash flow in REITs;
5. Benefits of investing in REITs;
6. Who can invest in REITs;
7. How to own units of REITs;
8. Rights of unitholders in REITs;
9. Taxation aspects of REITs;
10. Points to ponder before investing in REITs.

What are REITs - Overview



- REITs stands for 'Real Estate Investment Trusts'.
- REITs are like Mutual Funds.
- REITs allow pooling of money from multiple investors into a single trust
 - Trust which is professionally managed by a manager
 - Manager invests in immovable and rent yielding properties or special purpose vehicles (SPVs) holding such kind of properties.
- REITs own, operate and manage a portfolio of income generating real estate assets.
- REITs give investors access to the benefits of owning real estate assets in small ticket sizes.
- Listing of REIT is mandatory. Thus, they are traded on the stock exchanges and investors can buy and sell REIT units just like trading of shares of any listed company.

Structure of REIT



** REITs to hold assets either through Special Purpose Vehicles (SPVs) or directly*

Role of Constituents of REITs



Sponsor

- Sets up the REIT
- Transfers its shareholdings in SPV / assets to the REIT
- Appoints the Trustee

Trustee

- Holding the REIT assets in trust for the benefit of the unit holders
- Responsible for ensuring that the business activities and investment policies comply with the provisions of the regulations

Investment Manager

- Sets the strategic direction of the REIT and decides on the acquisition, divestment or enhancement of assets
- Responsible for all activities related to issue and listing of units
- Takes decisions on distribution to unitholders
- Makes disclosures to various stakeholders as per regulations
- Ensures redressal of investor grievances

What Assets Can a REIT Own?



Rental income

*Earning Real Estate
Projects*

Commercial Sectors

*Offices, Hotels, Retail,
Industrial, Healthcare*

NOT PERMITTED

*Agricultural Land
Speculative landbank*

Min. 80%

*completed & income
producing assets*

Max. 20%

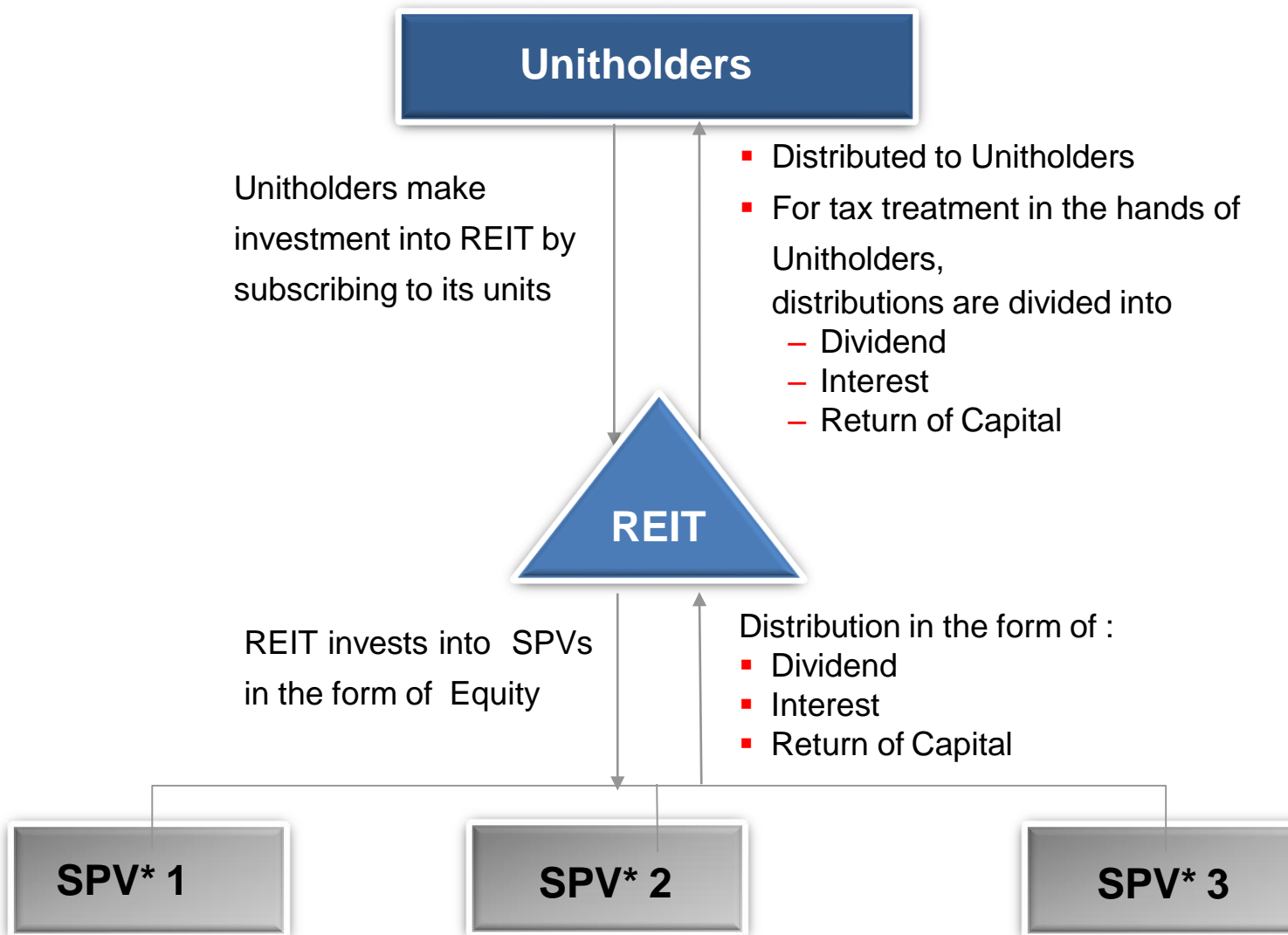
under-construction assets

Leverage Restrictions

*Unitholder approval needed
for Debt to Capitalization
above 25%*

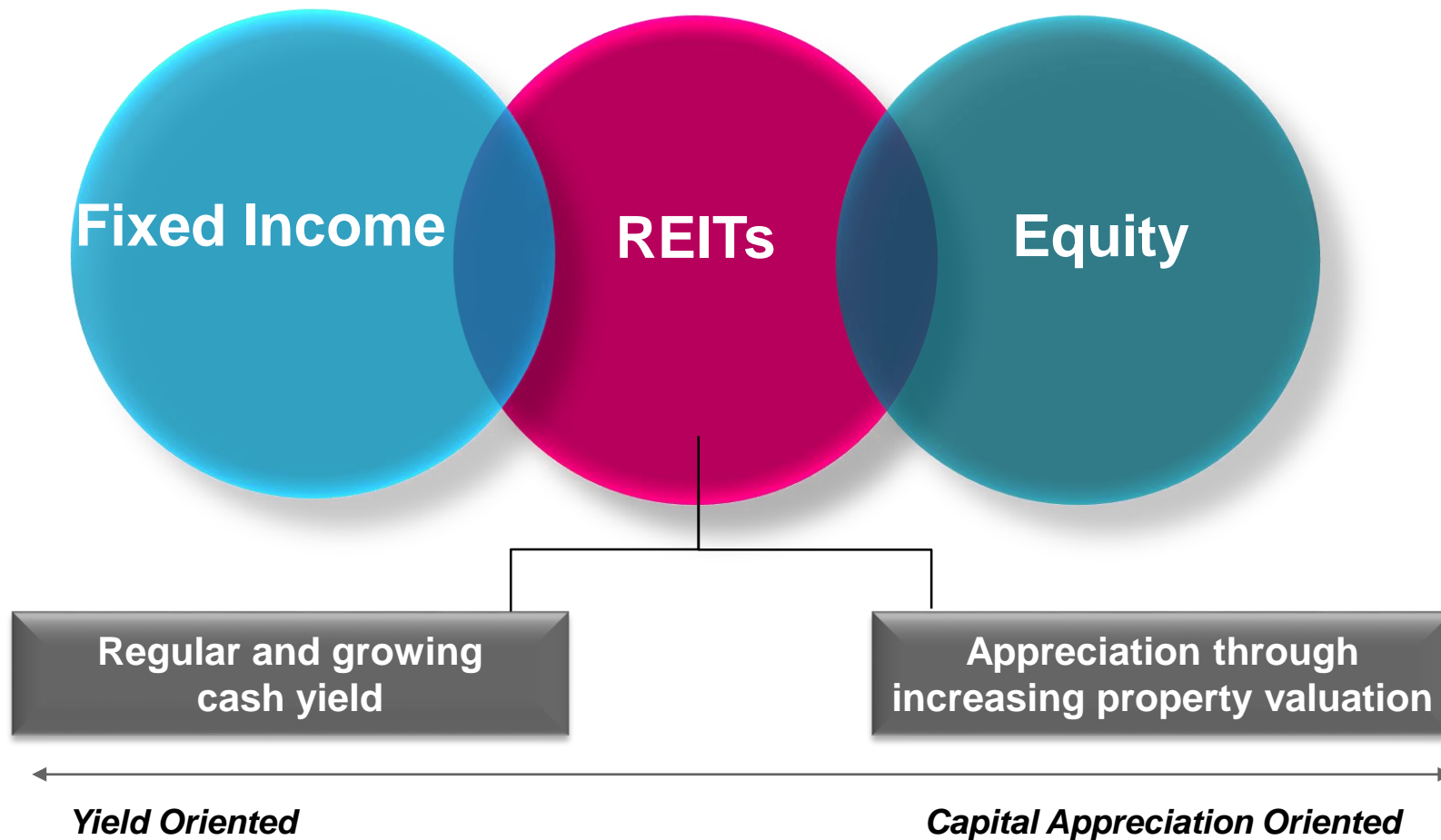
**Debt to Capitalization
capped at 49%**

Cash flow in REITs : An illustration



* REITs to hold assets either through Special Purpose Vehicles (SPVs) or directly

REITs – A Hybrid Product between Equity and Fixed Income



REITs generate income in two ways, viz. (i) Regular income through Dividend / Interests, (ii) Income through Capital gains

Benefits of Investing in REITs?



Liquidity

REIT units are freely traded in stock markets like equity shares

Transparency

Strong governance framework and disclosure requirements from SEBI

Asset Quality

Fractional ownership commercial assets

Distributions

Income stability due to requirement to distribute at least 90% of cash flows semi-annually

Performance

Upside participation in capital appreciation from organic / inorganic growth

Diversification

Investment in a diversified portfolio across sectors / cities

Taxation aspects in REITs



Nature of Distribution	Tax Treatment in the hands of Investor #
Interest income	Taxable
Dividends	Exempted (If the SPV has not opted for the lower tax regime)
	Taxable (If the SPV has opted for the lower tax regime)
Rental income	Taxable

Investors need to check which type of income they receive and applicable tax treatment.

Comparative Analysis Vis-à-vis traditional investments



	REIT Units	Direct Investment in Real Estate	Real Estate Equity Shares
Investment Characteristics	<ul style="list-style-type: none"> ▶ Minimum lot size of 1 unit ▶ Freely transferable listed securities ▶ Professionally managed ▶ No entry / exit load 	<ul style="list-style-type: none"> ▶ ₹ 25 lakh onwards (for strata units) ▶ Illiquid & non-transparent market ▶ Hassles in managing assets ▶ Transaction costs involved 	<ul style="list-style-type: none"> ▶ Minimum lot size of 1 share ▶ Freely transferable listed securities ▶ No entry / exit load
Return Profile	<ul style="list-style-type: none"> ▶ Returns driven by capital appreciation and regular cash distribution (90% mandatory) 	<ul style="list-style-type: none"> ▶ Returns driven by a timely and profitable exit 	<ul style="list-style-type: none"> ▶ Returns driven by capital appreciation and dividends (NOT mandatory)
Tax Efficiency	<ul style="list-style-type: none"> ▶ Dividends: Exempted# ▶ Interest : Taxable # ▶ Rent : Taxable # 	<ul style="list-style-type: none"> ▶ Rent is taxable 	<ul style="list-style-type: none"> ▶ Dividends are taxable

Notes: # Investors need to check which type of income they receive and applicable tax treatment.

Who can Invest in REITs?



- Any investor (domestic / foreign / retail / institutional) can buy REIT units in India;
- The minimum subscription amount is in the range of ₹10,000 to ₹15,000/- and the trading lot is 1 unit. (revised w.e.f. July 30, 2021) Previously it was ₹50,000 & 100 units, respectively;
- Investors can purchase REIT units through a Demat account, similar to how they would purchase equity shares;
- REITs are suitable for those who want to take price benefits / returns from Real Estate.

How to own units of REITs



- **Investors can own units of REITs in following manner:**
 - By subscribing to issue in Initial Public Issue (IPO) or Follow-on Issue of a REITs,
 - By purchasing units of REITs from Stock Exchange, where they are listed,
- **Procedures for the bidding, application, payment, and Allotment of REITs Units in Public Issue (IPO or Follow-on Issue)**
 - Price of Units shall be determined through Book building process,
 - Investors are required to participate in the Issue only through the ASBA process.
 - With effect from August 01, 2022, Additional mode of payment through UPI (upto Rs. 5 Lac)

How to own units of REITs (...contd.)



- Investors are required to pay the full Bid Amount or instruct the bank to block the full Bid Amount at the time of Bidding,
- Investors should note that Allotment to successful Bidders will be only in the dematerialized form,
- Mention correctly the details of the Bidders' depository accounts including DP ID, PAN, Client ID and Bid cum Application Forms,
- Units of REITs are listed on a stock exchange within 12 working days from the close of issue.

Rights of unitholders in REITs



- Right to receive returns through cash distributions made by the trust,
- Right to vote on matters pertaining to acquisition of new assets or borrowing,
- Right to vote on related party matters,
- Right to vote on matters such as appointment or change of the Investment Manager,
- Right to vote on induction of a Sponsor, with the opportunity to exit for dissenting voters,
- Right to vote on exit of Sponsor,
- Right to receive periodic disclosures like annual report, valuation report, quarterly/ semi-annual financials, etc.

Disclosures to Unit-holders by the REIT



Investors are advised to regularly refer to the disclosures / communications sent by the REIT and stay aware about their investments

Earnings Materials

Published quarterly and benchmarked to global disclosure standards

Earnings Call

Held quarterly by management

Half-yearly Report

*Published semi-annually
(NOT Required by Listed Companies)*

Independent REIT Valuation

Conducted half-yearly

Unitholder Meetings & Webinars

Held throughout the Year

Annual Meeting

Held once a year

Regulations to protect the interests of REITs unitholders



Securities Exchange Board of India (SEBI)

- ▶ SEBI (REITs) Regulations, 2014
- ▶ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
- ▶ SEBI (Prohibition of Insider Trading) Regulations, 2015

Reserve Bank of India

- ▶ Foreign Exchange Management (Non-debt Instruments Rules), 2019

Others

- ▶ Indian Trusts Act, 1882
- ▶ Companies Act, 2013
- ▶ Competition Act, 2002

Points to Ponder while investing in REITs



- Stability of income of Trust depends stability of income earned from the assets of Trust,
- Invest in REITs which offer better transparency,
- Investment in REITs is to generate regular income and also to earn capital gains,
- Due diligence to be made before taking investment decisions.

Additional Information



- ❑ For Further Information, you may visit following websites:
 - www.sebi.gov.in/
 - <https://investor.sebi.gov.in/>
- ❑ For Grievance Redressal, you may visit following website:
 - www.scores.gov.in/

Or, you may call SEBI at following Toll-free Helpline Numbers from 9:00am to 6:00pm on all days (excluding declared holidays in the state of Maharashtra):

- **1800 266 7575**
- **1800 22 7575**

Helpline is Available in 8 Languages:
**English, Hindi, Bengali, Gujarati,
Marathi, Kannada, Telugu and Tamil**

THANK YOU