



भारतीय प्रतिभूति और विनिमय बोर्ड  
Securities and Exchange Board of India



# Introduction to Real Estate Investment Trusts (REITs)

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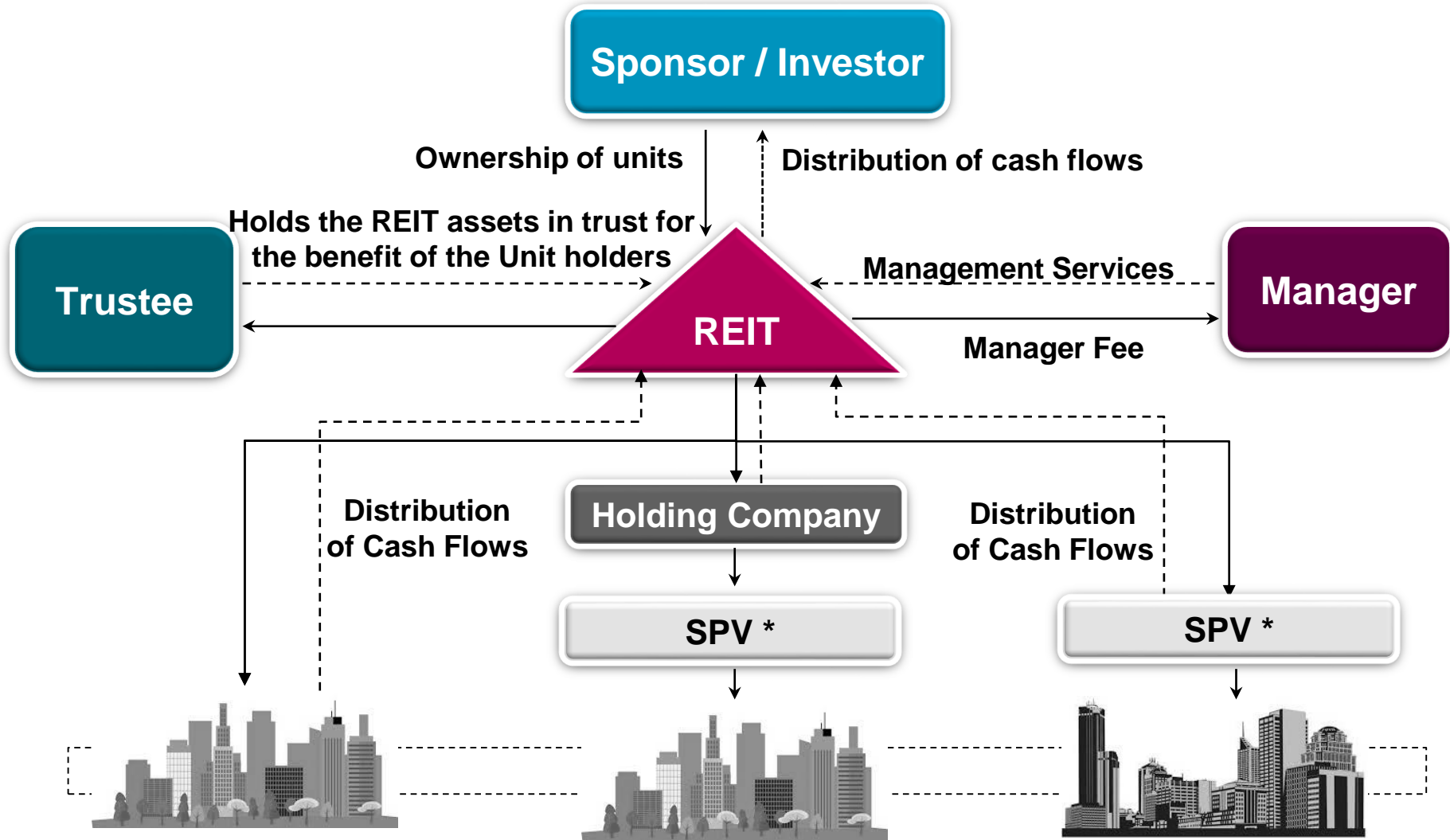
1. What are REITs? - Overview;
2. Structure of REITs;
3. Role of Constituents of REITs;
4. Cash flow in REITs;
5. Benefits of investing in REITs;
6. Who can invest in REITs;
7. How to own units of REITs;
8. Rights of unitholders in REITs;
9. Taxation aspects of REITs;
10. Points to ponder before investing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

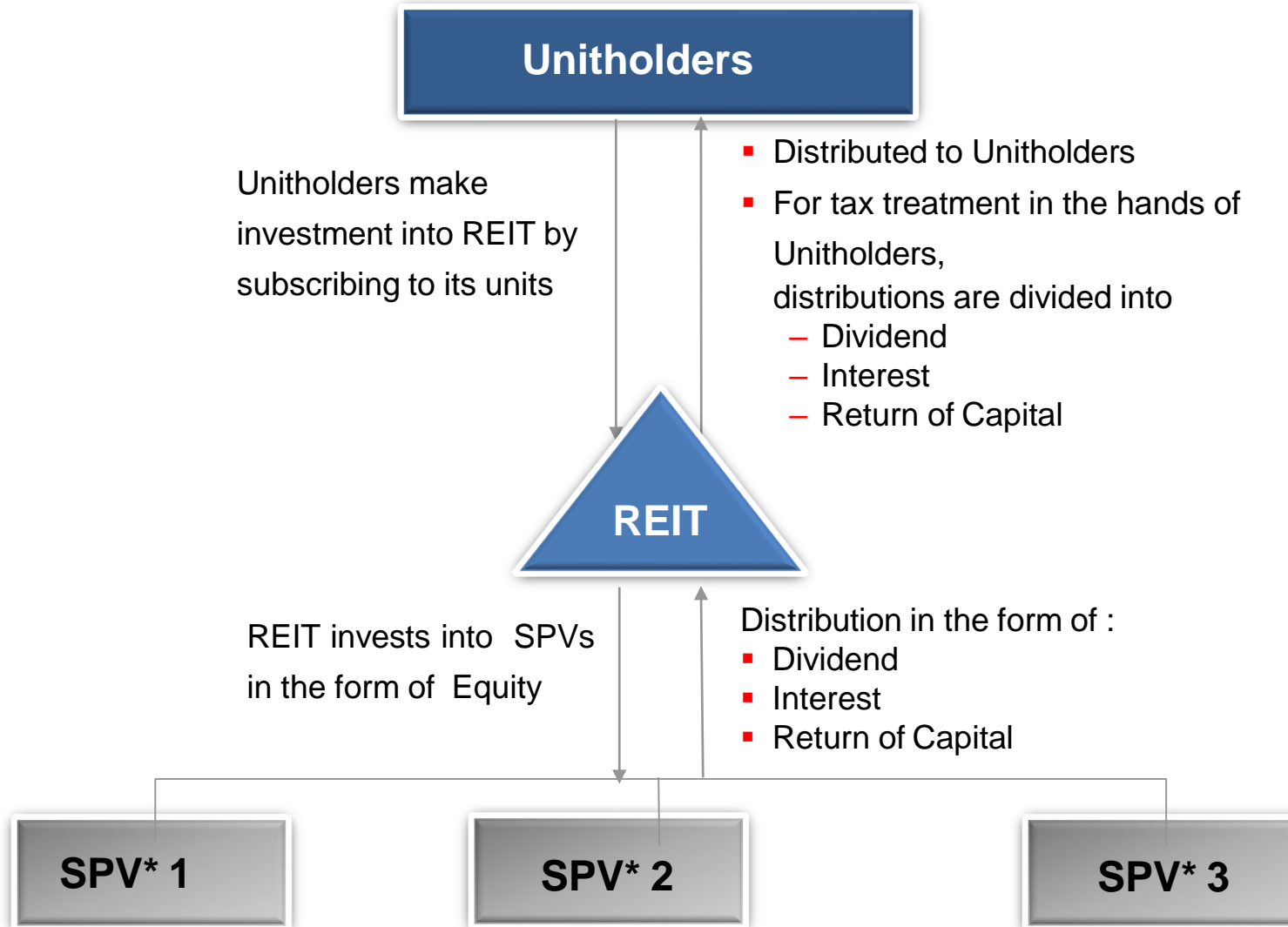
*under-construction assets*

## Leverage Restrictions

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

**Debt to Capitalization  
capped at 49%**

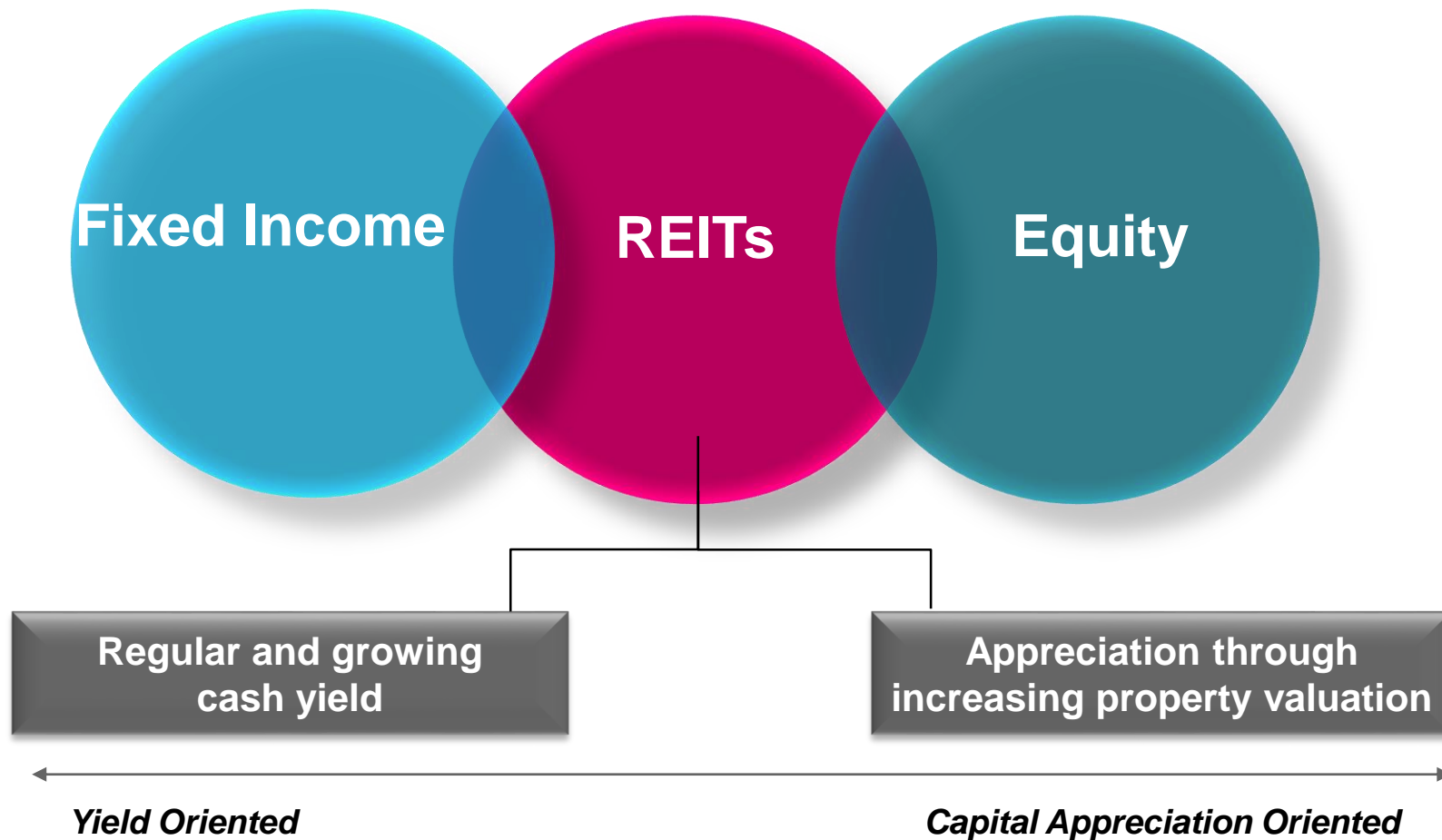
# Cash flow in REITs : An illustration



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

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.

- **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.

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

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- 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

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- 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/](http://www.sebi.gov.in/)
  - <https://investor.sebi.gov.in/>
- ❑ For Grievance Redressal, you may visit following website:
  - [www.scores.gov.in/](http://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**