Introduction to Real Estate Investment Trusts (REITs)
Disclaimer

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Flow of Presentation

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

Sponsor / Investor

Manager

Trustee

REIT

Owned by Sponsor / Investor

Ownership of units

Management Services

Distribution of cash flows

Manager Fee

SPV *

Holding Company

Distribution of Cash Flows

* 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

Unitholders

Unitholders make investment into REIT by subscribing to its units

REIT

REIT invests into SPVs in the form of Equity

Distribution in the form of:
- Dividend
- Interest
- Return of Capital

Distribution is distributed to Unitholders

For tax treatment in the hands of Unitholders, distributions are divided into:
- Dividend
- Interest
- Return of Capital

*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

<table>
<thead>
<tr>
<th>Nature of Distribution</th>
<th>Tax Treatment in the hands of Investor #</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>Taxable</td>
</tr>
<tr>
<td>Dividends</td>
<td>Exempted (If the SPV has not opted for the lower tax regime)</td>
</tr>
<tr>
<td></td>
<td>Taxable (If the SPV has opted for the lower tax regime)</td>
</tr>
<tr>
<td>Rental income</td>
<td>Taxable</td>
</tr>
</tbody>
</table>

*Investors need to check which type of income they receive and applicable tax treatment.*
## Comparative Analysis
### Vis-à-vis traditional investments

<table>
<thead>
<tr>
<th>Investment Characteristics</th>
<th>REIT Units</th>
<th>Direct Investment in Real Estate</th>
<th>Real Estate Equity Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ Minimum lot size of 1 unit</td>
<td>▶ ₹25 lakh onwards (for strata units)</td>
<td>▶ Minimum lot size of 1 share</td>
<td></td>
</tr>
<tr>
<td>▶ Freely transferable listed securities</td>
<td>▶ Illiquid &amp; non-transparent market</td>
<td>▶ Freely transferable listed securities</td>
<td></td>
</tr>
<tr>
<td>▶ Professionally managed</td>
<td>▶ Hassles in managing assets</td>
<td>▶ No entry / exit load</td>
<td></td>
</tr>
<tr>
<td>▶ No entry / exit load</td>
<td>▶ Transaction costs involved</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Return Profile</th>
<th>REIT Units</th>
<th>Direct Investment in Real Estate</th>
<th>Real Estate Equity Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ Returns driven by capital appreciation and regular cash distribution (90% mandatory)</td>
<td>▶ Returns driven by a timely and profitable exit</td>
<td>▶ Returns driven by capital appreciation and dividends (NOT mandatory)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Tax Efficiency</th>
<th>REIT Units</th>
<th>Direct Investment in Real Estate</th>
<th>Real Estate Equity Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ Dividends: Exempted#</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>▶ Interest : Taxable #</td>
<td>▶ Rent is taxable</td>
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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 wants 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.
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

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