

Update

Foreign funds in REITs: the logic fits?



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Update

The popularity of the Real Estate Investment Trust (REIT) model is not surprising. It offers a number of benefits, that include diversification of risk, payment of dividends, liquidity, better performance, transparency and higher returns compared to the broader market. It is expected to be a game changer for Indian commercial real estate sector, once the execution of the well-laid down concept of REITs, blooms in our country. It is expected to complete the commercial real estate development cycle; and help provide the required liquidity.

The Finance Ministry has put forward a draft cabinet note¹ in order to amend the Foreign Exchange Management Act, 1999; to include foreign investments in its purview. After the announcement by the Finance Minister, Arun Jaitley, in the budget, about the REITs and infrastructure investment trusts²; SEBI divulged into the framework for REITs. The concept of REITs gained wide popularity and success in the foreign countries; but the provisions of FEMA hindered the execution of the REITs structure in India. Foreign investment in real estate assets, commercial real estate properties, in particular, whether rent yielding or not; is currently prohibited. The main logic behind REITs was to capitalize on the foreign investments; and to make that possible, specific provisions in FEMA are the need of the hour.

The capital that REITs get from the investors, is invested in income-yielding real estate assets and mortgage loans; that can be traded on stock exchanges, similar to trading of stocks. With the injection of foreign investments in REITs, the real estate sector can definitely have huge growth prospects. It will boost the infrastructure sector of our economy through the injection of funds from overseas. India being a developing economy, it will give a positive impetus to the economy.

The real estate sector has been the backbone of the Indian economy and has been a major contributor in the economic growth. The out-of-box thinking approach followed by real estate developers have been instrumental in changing the face of India from being an under-developed country towards accelerating its way to a developed country by developing the state of art infrastructure developments, buildings, townships, shopping malls, not only in urban cities, but in small towns as well. With steps like these, the capital market, real estate and infrastructure sectors can surely expect resonance.

¹ Based on http://economictimes.indiatimes.com/news/economy/policy/draft-note-floated-for-foreign-funds-in-reits/articleshow/46060467.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

² <http://indiabudget.nic.in/ub2014-15/bs/bs.pdf>