

Real Estate Investment Trust (REIT) and Infrastructure Investment Trust (InvIT)

Presenter : Avinash Shetty
Vinod Kothari & Company
Team - Kanak



Infrastructure and Real Estate

A well-developed infrastructure and real estate propels the overall development of a country

Big Picture

- The market value of US REIT stands at **1.12 Trillion** having **95% MCap** of Commercial RE
- Today, 150 million Americans, or 45% of American households, have REIT investments
- The total number of Public REIT in USA is 191



Agenda

- Structure of REIT and InvITs
- Evolution of REIT and InvITs in India
- Regulatory Framework
- Corporate Governance
- Taxation of REIT and InvITs in India
- Worldwide REIT Scenario
- Conclusion

Structure of REITs and InvITs

REIT

Collective Investment Device

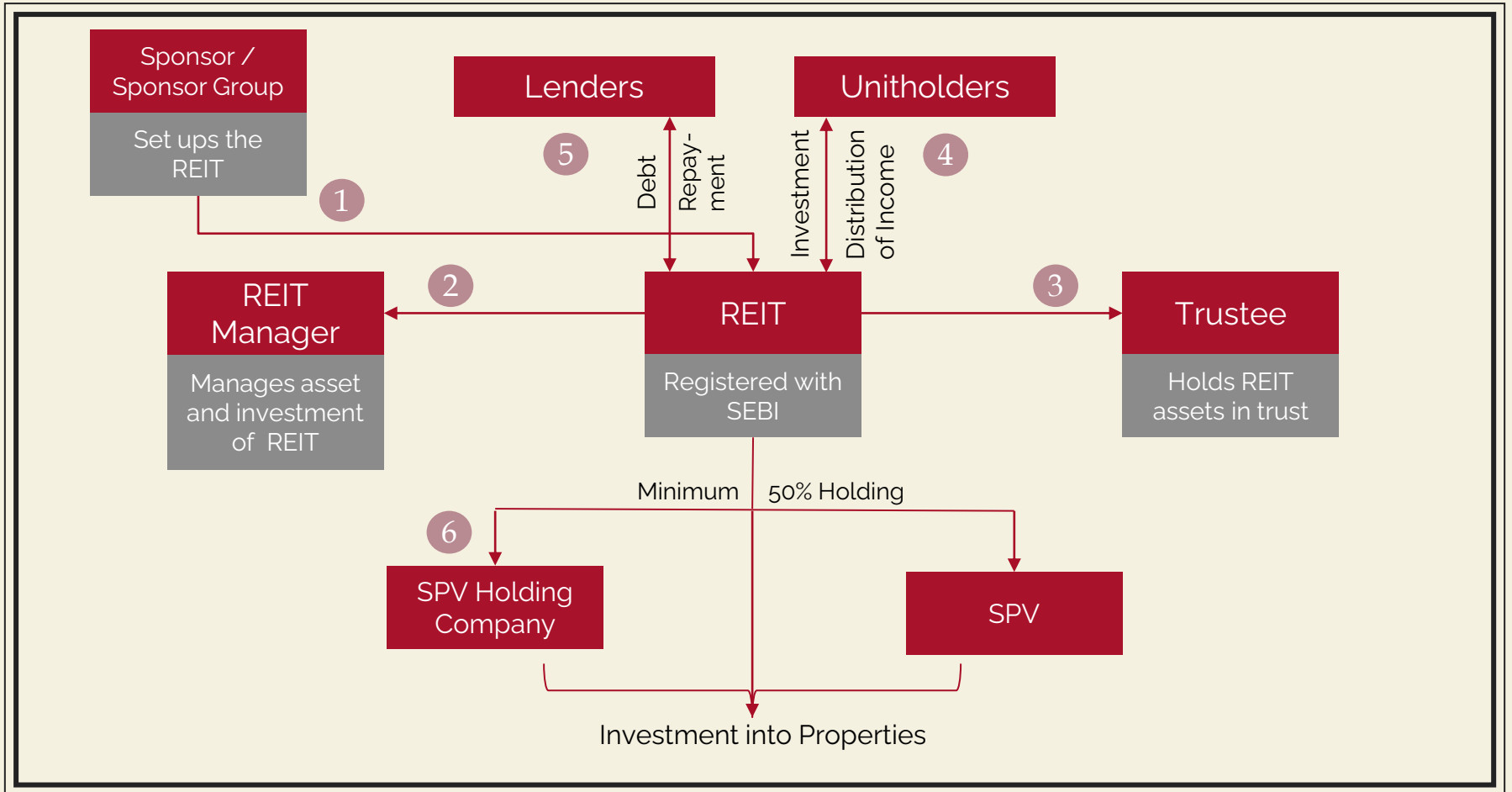
REIT is a collective investment device that accumulates investment from individual and institutional investors

Real Estate Properties

REIT invests in rent-yielding completed real estate properties such as shopping malls, hotels, office buildings, apartments, resorts, self-storage facilities, warehouses etc.

Tax Transparent Vehicle

REIT being formed as Trust has certain tax exemptions under the IT Act at the Vehicle Level



InvIT

Pooled Investment Vehicle

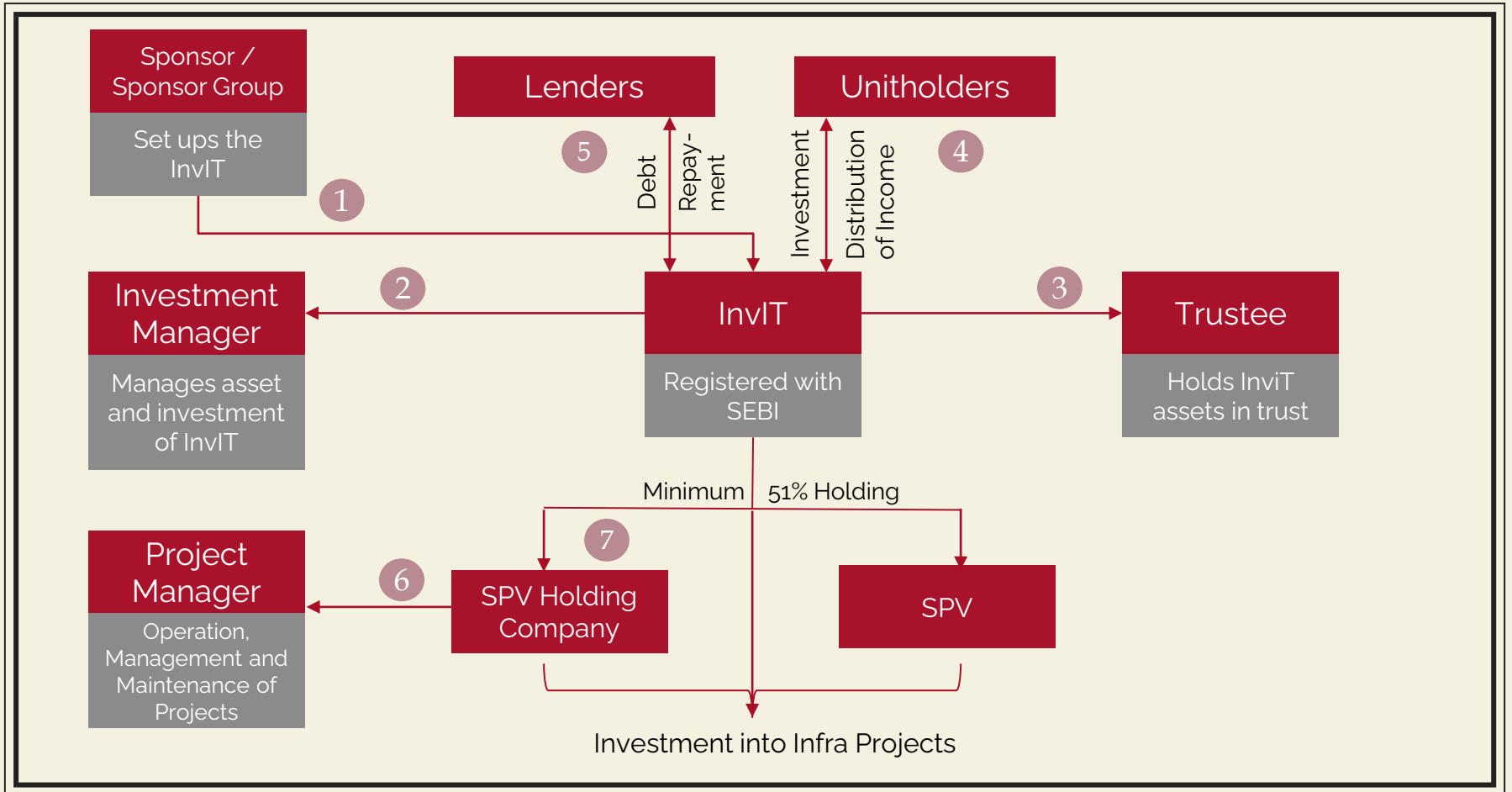
An InvIT is a Collective Investment Vehicle similar to REIT which enables direct investment from individual and institutional investors.

Infrastructure Projects

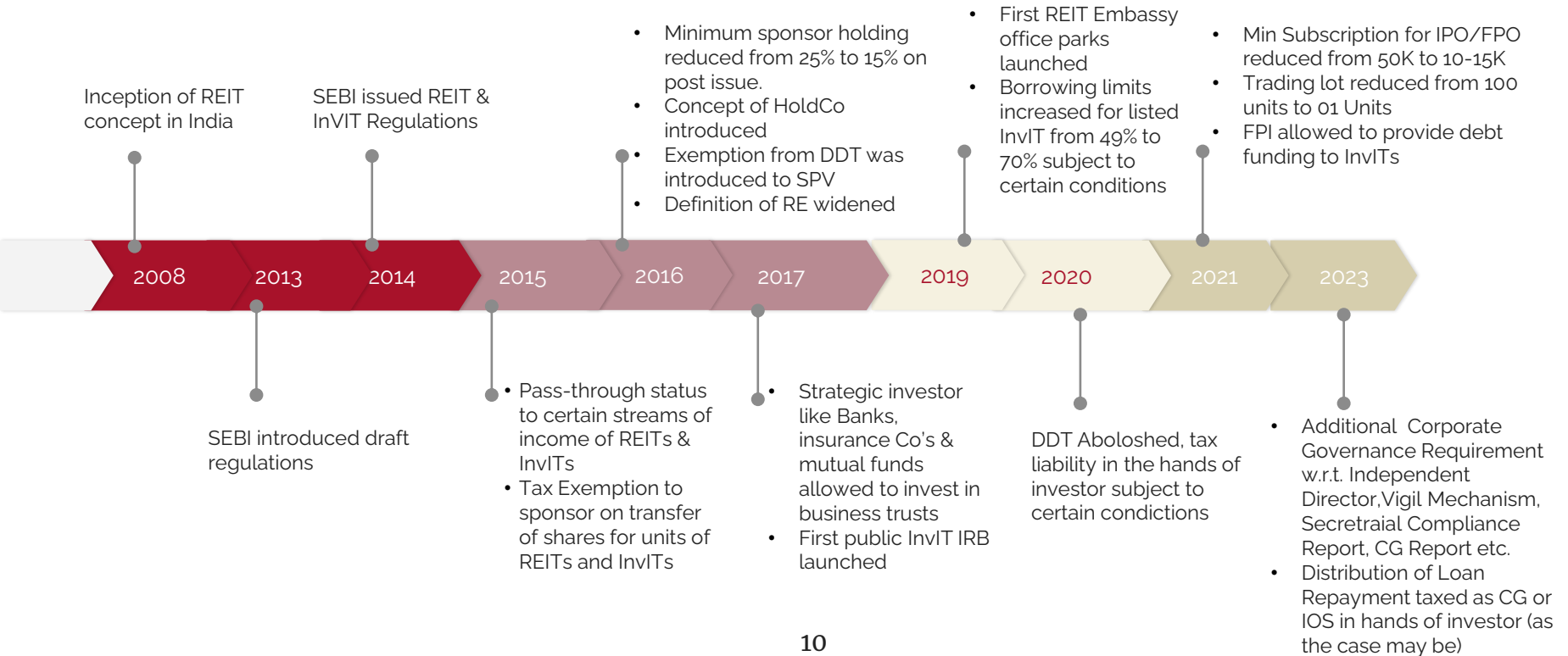
InvIT primarily invests in infrastructure projects as shopping malls roads, highways, power generation and distribution, gas pipeline, telecommunication tower etc.

Tax Transparent Vehicle

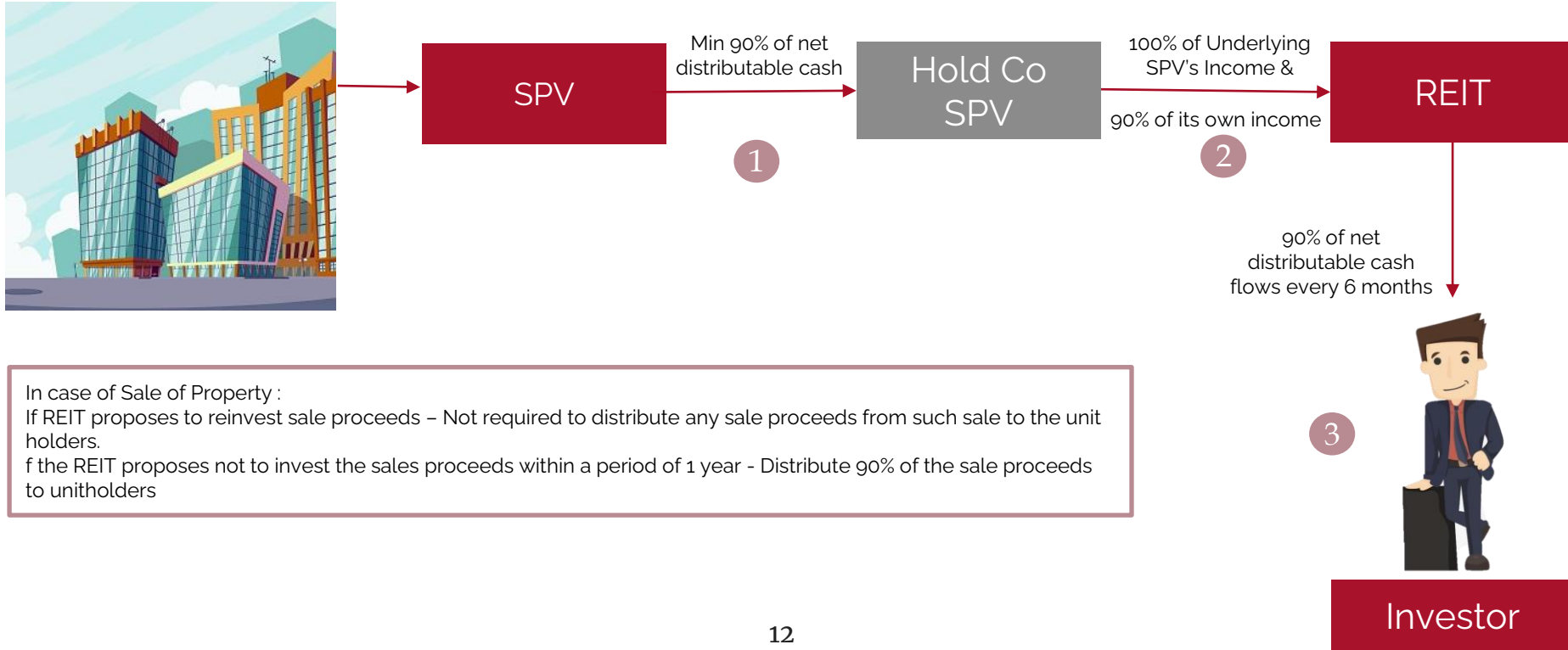
InvIT being formed as Trust has certain tax exemptions under the IT Act at the Vehicle Level



Evolution of REIT & InvIT in India



Regulatory Framework – Distribution of Income



In case of Sale of Property :

If REIT proposes to reinvest sale proceeds – Not required to distribute any sale proceeds from such sale to the unit holders.

If the REIT proposes not to invest the sales proceeds within a period of 1 year - Distribute 90% of the sale proceeds to unitholders

Regulatory Framework – Sponsor

Who can be a Sponsor

Any person whether Individual or Body Corporate

Net Worth Requirements

The sponsors on collective basis shall have NW of Min 100 crore and each sponsor shall have NW of Min 20 crore

Mandatory Listing

Listing is mandatory for Units of REITs

Minimum Holding

Each sponsor shall hold atleast 5% of REIT Units post IPO

They shall hold min. 15% of units for at least 3 years from the date of listing of such units

Prior Experience

Sponsor shall have minimum 5 years experience in development of real estate sector. In case of developer, at least 2 projects of the sponsor should be completed.



Regulatory Framework – Manager

Who can be a Manager

A company or LLP or body corporate incorporated in India

Net Worth Requirements

The manager shall have minimum NW of 10 crore

Ensure Disclosures & CG Norms

Manager to ensure disclosures to the unit holders, trustees and stock exchange are adequate and timely and adhere CG Norms

Independent Board

Atleast half of Board shall be independent and not directors or members of another REIT

Prior Experience

Manager shall have 5 years experience in fund management, advisory services, property management, development of real estate



Regulatory Framework – Others

Investment in HoldCo / SPV

REIT to hold 50% of share capital of the SPV Hold Co/SPV.

Ultimate holding in SPV shall be minimum 26%

Net Borrowings

Aggregate borrowings of the REIT shall never exceed 49% of the value of the REIT assets.

[If exceeds 25% then approval from unit holders and credit rating shall be required.]

Lending Restrictions

REIT shall not lend to any person except Hold Co / SPV in which it has already invested.

Investment in Other REIT

REIT cannot invest in units of another REIT

Revenue from Rental/Leasing

Atleast 51% of the consolidated revenues of the REIT / Holdco / SPV shall be from rental / leasing and letting real estate assets

Valuation of NAV

NAV of REIT shall be declared once in every six months based on the valuation done by the valuer declared within 15 days to the stock exchange(s)

Corporate Governance (1/2)

Minimum Director

Board of Directors of the Manager shall comprise of minimum six directors with atleast one woman independent director.

Compliance Officer

REIT Manager to appoint / designate an employee or director as the compliance officer

Auditor

Manager to appoint an auditor, who shall hold office up to every sixth annual meeting of the unitholders

Related Party Transaction

RPT to be on arms length basis.
Prior approval from unitholders for RPT exceeding threshold specified under Regulations
Disclosed periodically to Stock Exchange & Unitholders

Committee

REIT Manager shall have Audit Committee, NRC, SRC, RMC as per SEBI (LODR) 2015 Regulations

Insurance Coverage

REIT manager to arrange for adequate insurance coverage for the real estate assets of the REIT

Corporate Governance (2/2)

Regulation	Compliance	Period	Timeline
Circular	Financial Statements	Annual and Half Yearly	Half Yearly – within 45 days Annual – within 60 days
Reg 26E	Corporate Governance Report	Quarterly	Within 21 days
Circular	Statement of deviation or variation	Quarterly	Within 21 days
Circular	Unit Holding Pattern	Quarterly	Within 21 days
Reg 21	Valuation of REIT Assets (Conducted by Valuer)	Annual & Half Yearly	Within 15 days of report
Reg 23	Annual Report	Annual / Half Yearly	Annual – within 3 Months Half Yearly – within 45 days
Reg 26D	Secretarial Compliance Report	Annual	Within 60 days

Public Offer and Listing of REITs

Initial Offer of REITs

- Minimum Value of REIT Assets : 500 Crores
- Minimum Offer Size : 250 crores
- Minimum Subscription : 90% of Issue Size
- Minimum Unitholder : 200 (excl. Related parties)
- Minimum Amount of Subscription : Between Rs. 10,000 to 15000
- No IPO within 3 years from the registration : surrender or extend for one year

Listing of REITs

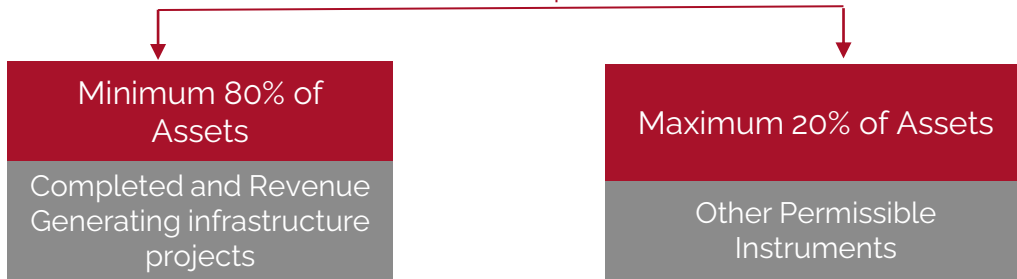
- Mandatory Listing : Post IPO within 12 days
- Trading Lot : 1 Unit
- Redemption of Units : Through Buyback
- Delisting : Either voluntary by REIT Manager or unitholders or mandate of SEBI / Stock Exchange

Investors

- Resident or Foreign national
- Mutual Funds : Max 10% of units of REIT/INVIT subject to 10% of NAV & 5% NAV of NAV of single REIT
- Insurance Companies : Max 3% of fund size of insurer or 5% of units issued by a REIT/INVIT
- Banks : Max overall ceiling of 20% of net worth
- Strategic Investor such as NBFC, FPI etc : Minimum 5% of Offer Size.

Investment Conditions of InvIT

Investments by InvIT



Completed & Revenue Generating Project shall mean :

1. Infrastructure Project that has achieved the commercial operations date as per agreement entered into with the lenders;
2. Infrastructure project has received all the requisite approvals and certifications for commencing operations; and
3. the infrastructure project has been generating revenue from operations for a period of not less than 1 year;

Other Permissible Instruments Include :

- under-construction infrastructure projects, whether directly or through Holdco and/or SPVs not exceeding 10% of the value of the InvIT assets
- Listed or unlisted debt of companies/body corporate in infrastructure sector.
- equity shares of companies listed on a recognized stock exchange in India which derive not less than 80% of their operating income from infrastructure sector
- Government securities or Money market instruments or liquid mutual funds or Cash equivalents.

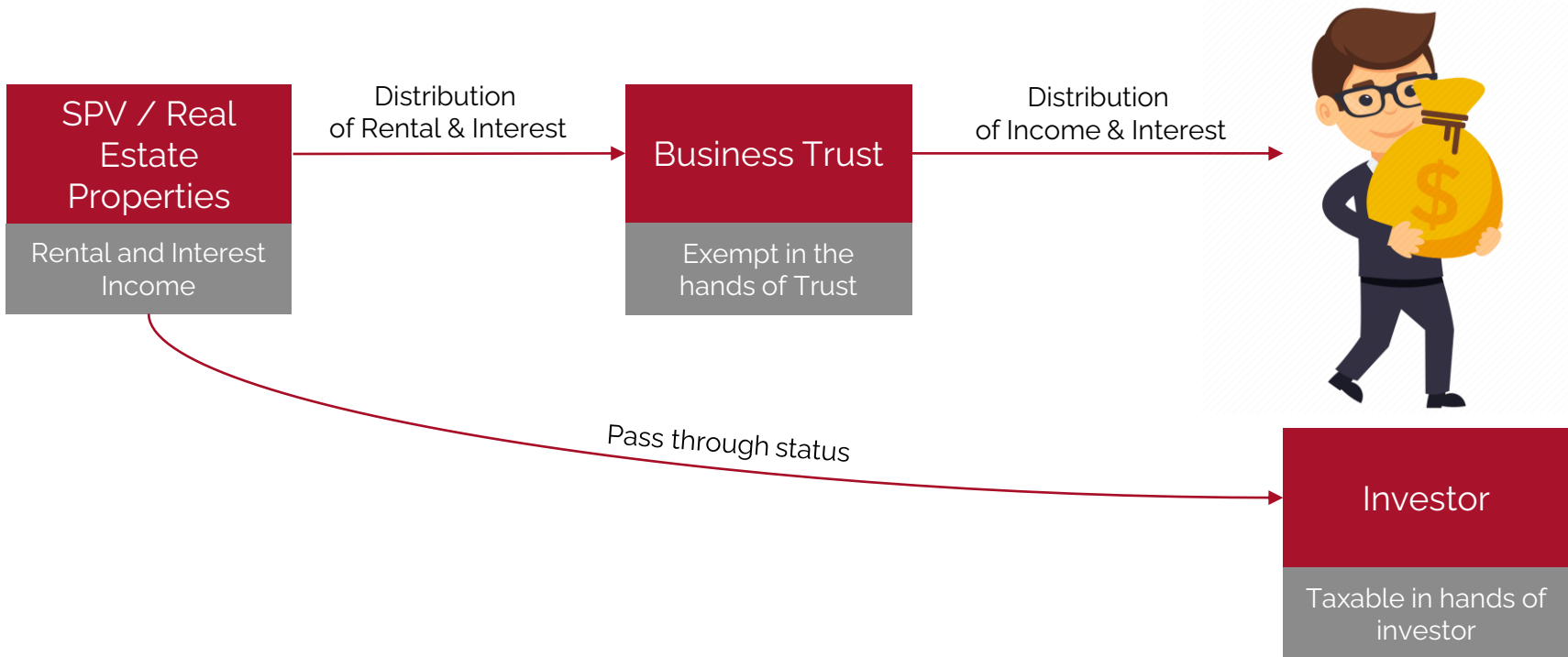
Regulatory Framework - InvITs

Parameters	Private Unlisted InvIT	Private listed InvIT	Public listed InvIT
Investors	Institutional investors and body corporates, whether Indian or foreign	Institutional investors and body corporates, whether Indian or foreign	Can invite funds from public as well (subject to minimum public float)
Min Investment by Investor	INR 1 crore (If InvIT investing atleast 80% in completed and revenue generating assets then minimum investment shall be Rs. 25 crore)		Between Rs. 10,000 to 15000
Trading lot	INR 1 crore (If InvIT investing atleast 80% in completed and revenue generating assets then minimum investment shall be Rs. 2 crore)		One Unit
Minimum & Maximum Investor	Minimum : 5 Investors Maximum : 1000 investors		Minimum : 20 Investors

Regulatory Framework - InvITs

Parameters	Private Unlisted InvIT	Private listed InvIT	Public listed InvIT
Value of Asset	500 Crore	500 Crore	500 Crore
Offer Size	250 Crore	250 Crore	250 Crore
Leveraging	At the discretion of the InvIT, but subject to the amount as specified in the trust deed	<ul style="list-style-type: none"> • upto 49% of asset value – Credit Rating and Unit holders approval • upto 70% of asset value – Credit rating of AAA approval of unit holders and track record of six distributions 	
Distribution of cash	Distribution atleast once in every financial year	Distribution atleast once in every financial year	Distribution atleast once in every six months in every financial year

Taxation of Trust (1/2)



Taxation (2/2)

Taxation by Trust

- Interest Income – Exempt
- Rental income – Exempt
- Dividend from SPV – Exempt
- Capital Gains – Taxable
- Any Other Income – Taxable

Taxation in the hands of Investor

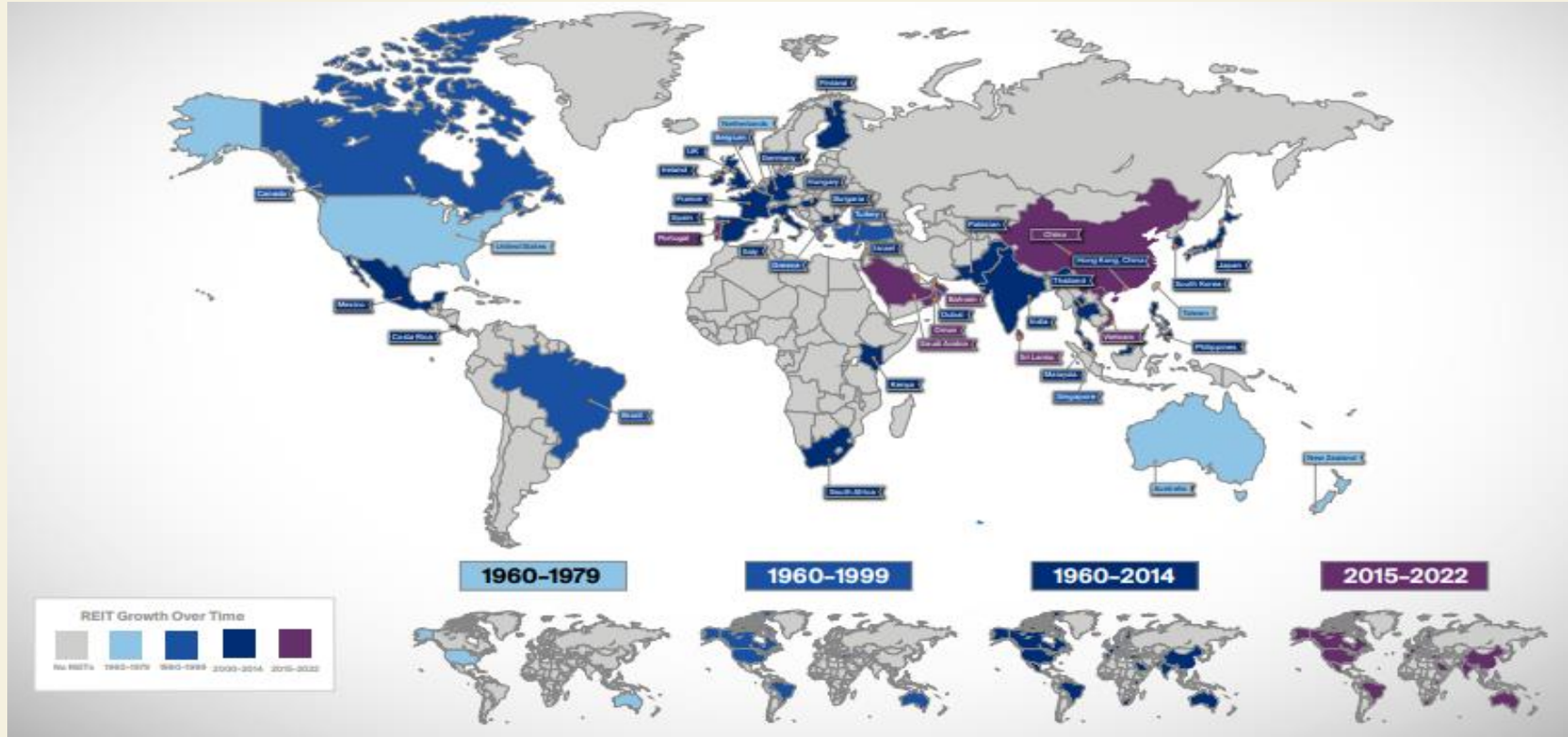
- Interest Income – Taxed at Slab Rate
- Rental income – Taxed at Slab Rate
- Dividend – Exempt if SPV has not opted for lower tax regime
- Capital Gains – Taxable
- Repayment of Loan – Taxed under head of IOS or Capital Gain on the basis of issue price

Taxation for SPV

- Rental income – Taxable as PGBP or HP
- Capital Gains on Sale of RE – Taxable
- Interest Paid – Deduction Available
- Dividend - Deduction Available

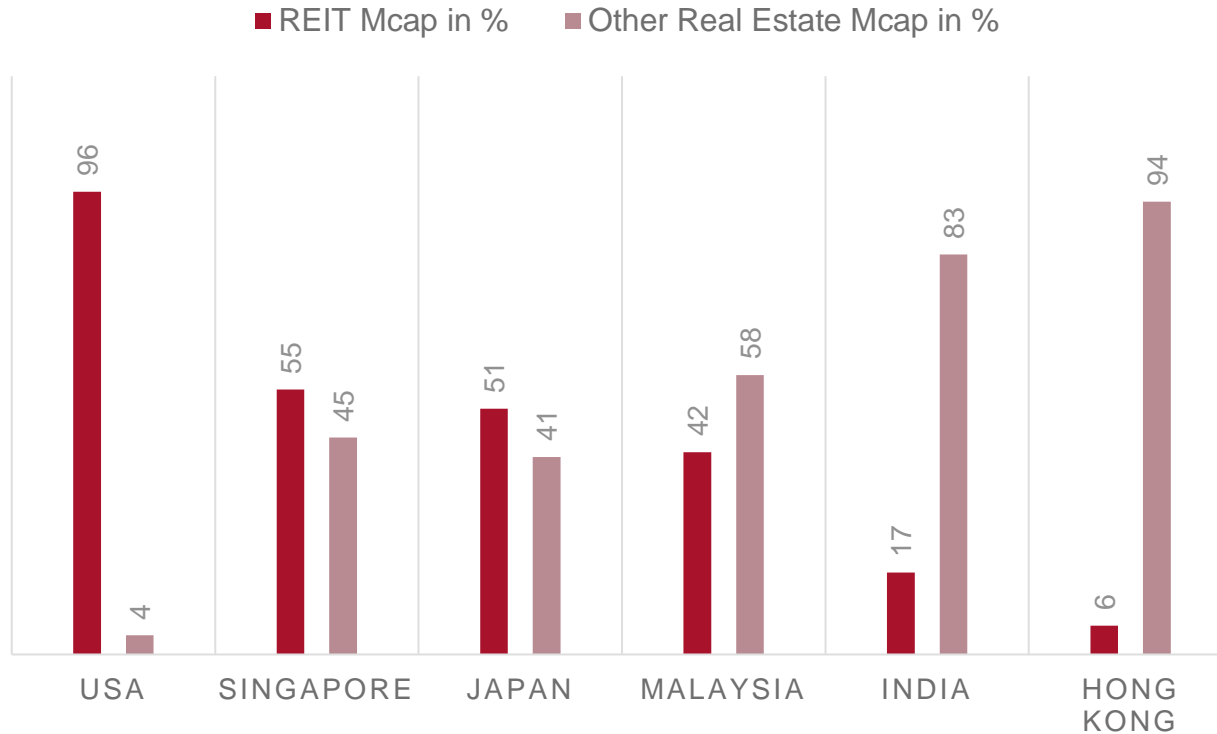
Worldwide REIT Scenario

Evolution of REIT's Worldwide



Parameters	US	Australia	Hong Kong	Japan	Singapore	UK
Launched	1960	1971	2003	2000	1999	2007
Set up	Public (Listed) and Private	Public (Listed) or Unlisted	Public (Listed)	Public (Listed) and Private	Public (Listed) and Private	Public (Listed)
Taxability at REIT Level	Taxable after deductions of distributions	Exempt	Trustee - Exempt, SPV Taxable	Taxable after deductions of distributions	Exempt	Exempt
Taxability in hands of investors	Taxable	Taxable	Domestic Unitholders - Exempt	Taxable	Exempt for Non-Business Unitholders	Taxable
Listing	Voluntary	Voluntary	Mandatory	Voluntary	Voluntary	Mandatory
Minimum Capital Requirement	No Specific Requirement	No Specific Requirement	No Specific Requirement	JPY 100 million	SGD 300 million	No Specific Requirement
Minimum Distribution	90% of Income	No Minimum Distribution	90% of Net Income	In order to avail tax benefits, distribute 90% of income	In order to avail tax benefits, distribute 90% of income	90% of Income
Permitted Investments	75% income from real estate related income	Income Generating Assets, no ratio specified.	Real Estate, Investments; Prohibited from Vacant Land & Underdevelopment Properties	Real estate properties (Japan / Overseas)	75% in income generating assets	75% of Profits and Assets in Real Estate

Global Market Cap of REITs



Pros of REIT and INvIT

Developers

- Easy monetisation of real estate or projects
- Last Mile Funding
- Additional Capital raising avenue

Investors

- Easy entry and exit in the real estate and infrastructure sector
- Low Ticket Size
- Income generating and stable investment
- Low Risk
- Diversification

REIT vs Others

REIT

Vehicle Specific Investment
Income, Rental and CG distributed
Lower Ticket Size & Liquid
NAV every 6M

1

2

Commercial Real Estate

Better Capital Appreciation
Illiquid
Large Ticket Size
Personal Control over Asset

3

4

Diversified investments in RE
NAV published daily
Highly Liquid

Real Estate Mutual Funds

Diversified Investment
Highly Liquid
Distribution decided by Company
Subject to Market Fluctuations

Stocks

Present Scenario of REIT and INvIT

REIT

- Real estate sector expected to reach a market size of US\$1 trillion by 2030 in India.
- Challenges : Flexible working conditions, real estate demand, low rental yields, steady unit returns.
- 4 REITs have been listed in India since March 2019 all of them were fully subscribed
- Embassy Office Parks REIT was India's first REIT launched by Blackstone and Embassy group that raised US\$670 million, followed by Mindspace Business Parks, Brookfield and Nexus Select Trust REIT.

INvIT

- Funding requirement in the infrastructure sector is estimated at US\$1.4 trillion by 2025 as per the National Infrastructure Pipeline (GOI)
- Challenges : Government Spending on Infrastructure, 80% in revenue generating assets working conditions, steady unit returns.
- In India, 3 InvITs have been publicly listed since 2017 whereas there are more than 10 registered InvITs.
- IRB InvIT Fund was first InvIT in India.

Thanks!

ANY QUESTIONS?



Presenter – Avinash Shetty

Team - Kanak