



SMALL & MEDIUM REAL ESTATE INVESTMENT TRUST

- As per recent Amendment by Securities and Exchange Board Of
India

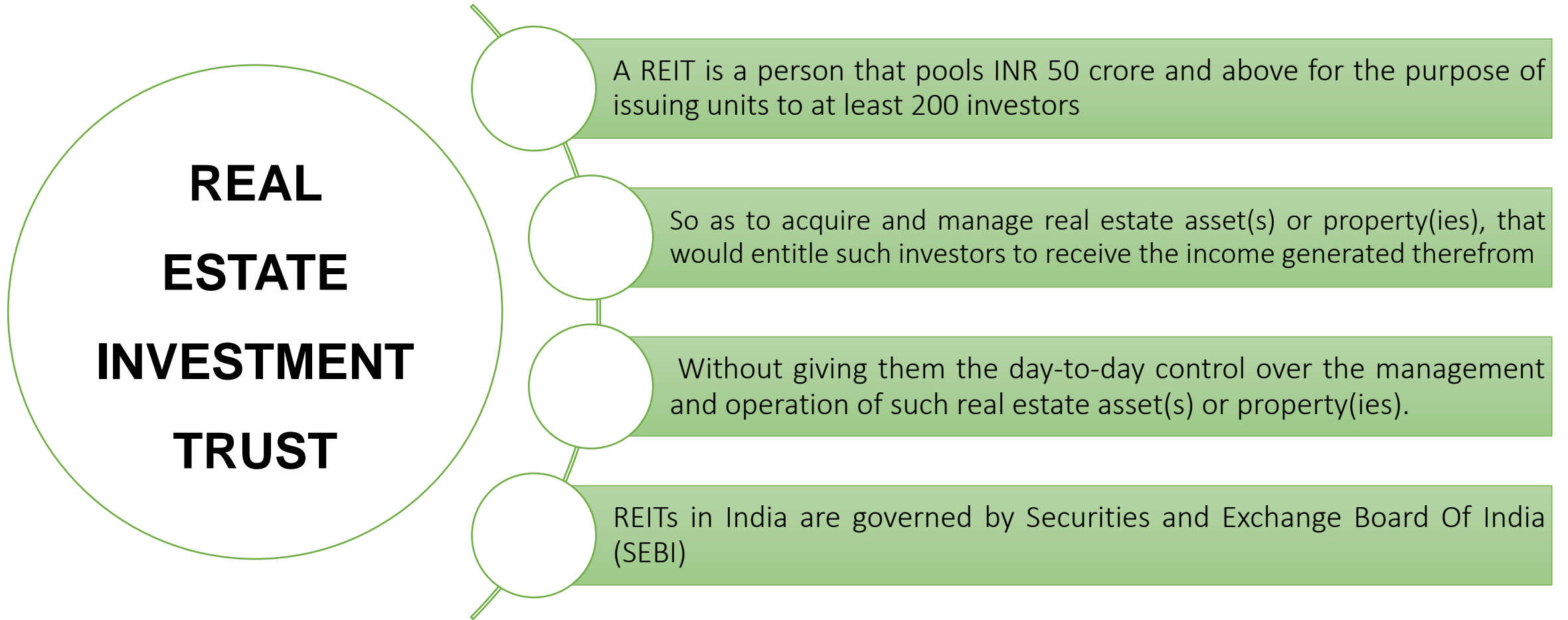
Flow of Presentation:

1. REIT Definition.
2. Need for introducing this asset class in India.
3. Journey of REITS in India
4. Parties involved in REITs, their roles and responsibilities.
5. Other Important Features of REITs
6. Parameters to consider before investing in REITs.
7. Definition of SM REIT.
8. Why a separate asset class of SM REITS is introduced when REITS are already in existence?

Flow of Presentation:

8. Parties involved in SM REITs.
9. Key Differences between REITS and SM REITs.
10. Other Important Features of SM REITs
11. Tax Considerations for REITs
12. Professional Opportunities to Practising CAs in SM REITs

What is Real Estate Investment Trust (REIT) ?



Need for introducing REIT as an asset class in India

Draw backs in acquiring real estate properties directly:

- High capital requirements
- Illiquid
- Management and maintenance
- Location risk

Advantages of REITs:

- Regular income
- Professional management
- Asset quality
- Transparency

Journey of REITs in India

DECEMBER 2007

- In a move that would align the practices in the Indian real estate sector with the global real estate practices, Securities and Exchange Board of India (“SEBI”) has announced guidelines in respect of REITs.

SEPTEMBER 2014

- Full fledged regulations have been put in place by SEBI through SEBI (Real Estate Investment Trust) Regulations, 2014.

AUGUST 2017

- EMBASSY OFFICE PARKS REIT was the first REIT to be registered with SEBI.

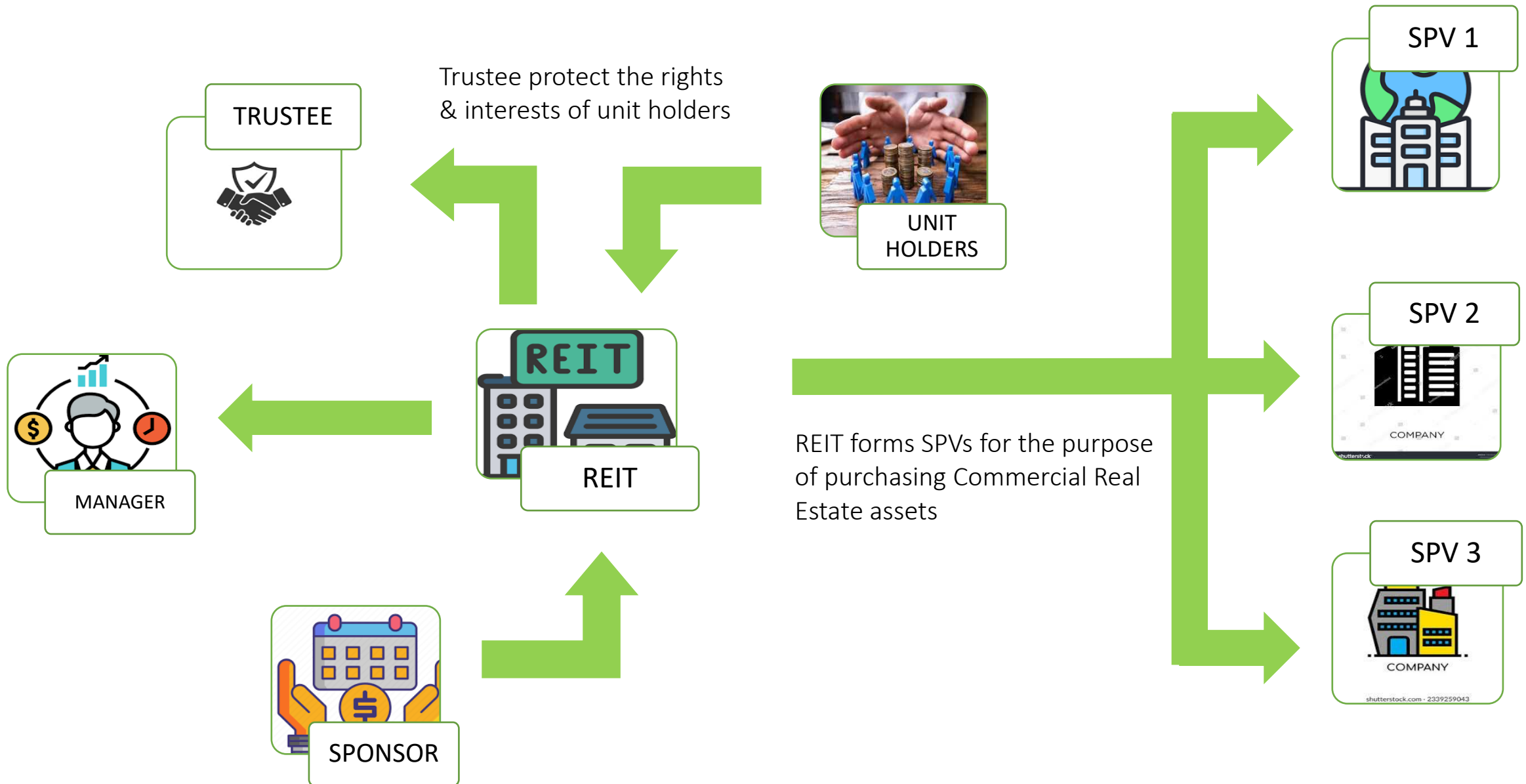
MAY 2023

- SEBI issued a consultation paper for public comments on Regulatory Framework for Micro, Small & Medium REITs (“MSM REITs”), proposed amendment to REIT Regulations to introduce framework for MSM REITs.

MARCH 2024

- SEBI notified SEBI (Real Estate Investment Trusts) (Amendment) Regulations, 2024, thereby introducing SM REITs.

Parties Involved In RIETs



-On the basis of needs, a REIT can form multiple Special Purpose Vehicles (SPVs) under the REIT.

Who can pool the funds ? (Sponsor)

Sponsor is someone who conceives the idea of REITs and pools money from people with an objective to invest in commercial real estate properties.

Eligibility Norms:

- There can be multiple sponsors to a REITS.
- Each Sponsor shall invest at least 5% of no of units of REIT. Cumulatively they shall have 15% of unit capital.
- Cumulative Net Worth of Sponsors shall be INR 100 Cr and above. Each Sponsor should have minimum net worth of INR 20 Cr and above.
- Sponsor or its associate(s) must have at least 5 years experience in development of real estate or fund management in the real estate industry. If sponsor is developer at least two projects should have been completed.

Who can manage the funds of REITs? (Manager)

- Manager is a body corporate or LLP who manages the funds pooled by the sponsor, takes investment decisions and undertakes operational activities.
- Manager enters into an investment agreement with the trustee. This agreement contains responsibilities of manager.
- **Eligibility norms:**
 - Net Worth shall be INR 10 crores and above
 - ≥ 5 years experience in fund management or advisory services or property management in the real estate industry or in development of real estate
 - ≥ 2 KMP who each have ≥ 5 years experience in fund management or advisory services or property management
 - At least half of its directors in the case of a company or of members of the governing Board in case of an LLP, as independent and not directors or members of the governing Board of another REIT

Trustee

- A person who holds the REIT assets in trust for the benefit of the unit holders. Trustee is appointed by Sponsor.
- Trustee is registered with SEBI under SEBI(Debenture Trustees) Regulations, 1993.
- Trustee is first level regulator to oversee whether Manger is discharging its duties in the interest of unit holders.

Special Purpose Vehicle (SPV)

- It is company or LLP which will be a subsidiary of REIT.
- The SPV holds real estate properties.
- SPV passes on its income as dividends to REIT (since REIT is shareholder of SPV) which in turn pass on the dividend to unit holders.

Other Important features of REITS

- Asset base should be minimum of INR 500 crores
- The offer size shall be min. 250 Cr.
- 80% of the investment must be made in properties that are capable of generating revenues
- Not more than 20% of the total investment must be made in other than revenue regenerating properties.
- REIT should not invest in vacant land or Agri land.
- Unit holders holding min 10% can nominate a director on the Board of Manager.

Other Important features of REITS

- The Manager in consultation with Trustee appoints auditors, valuers, registrar and transfer agent, etc
- Units are issued in demat form. The minimum holding of sponsors will be locked and shall not be encumbered in as per following:
 - First 3 years – 15% of units
 - 4-5 years- 5%
 - 6-10 years- 3%
 - 11-20 years- 2%
 - Beyond 20 years – 1%

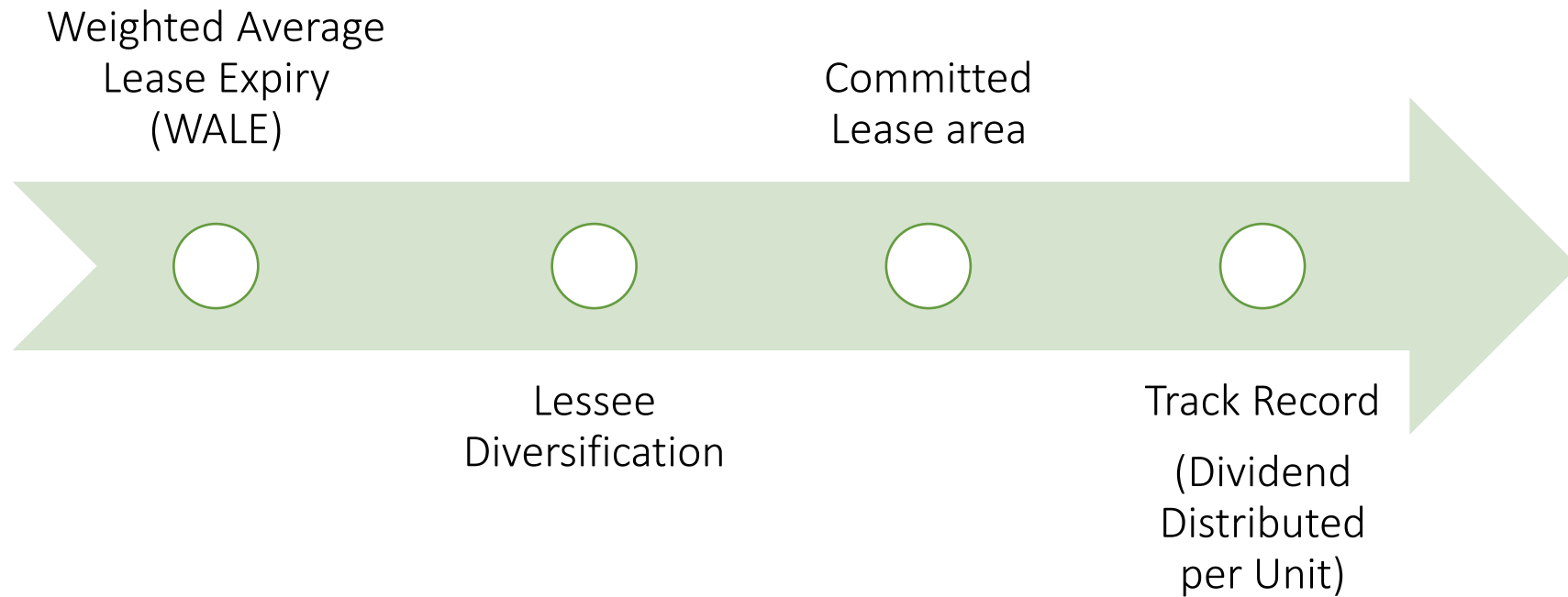
Other Important features of REITS

- All the units issued are listed in stock exchanges and are available for trading. Unit holders can sell/buy their units on stock exchanges.
- **Public holding:**
 - Not less than 25% - if issue size is less than INR 1600 Cr
 - Min. 400 Crore – if issue size is INR 1600 Cr and above but less than INR 4000 Cr.
 - Not less than 10%- if issue size is INR 4000 Cr and above
- **Cash Flow Distribution:**
 - SPV shall distribute min. 90% of net distributable cash flows to REIT.
 - REITs in turn shall distribute min. 90% of net distributable cash flows of REIT to unit holders.
 - If REIT proposes to invest sale proceeds of one property into another property then the sale proceeds are not considered as net distributable cash flows and accordingly need not be distributed to unit holders.

Other Important features of REITS

- The Manager shall be file various regulatory filings including
 - Any information having bearing on the operation or performance of the REIT as well as price sensitive information like :
 - Acquisition or disposal of any properties (Whose value is > 5% of value of REIT assets)
 - Additional issue of units by the REIT
 - Additional issue of units by the REIT
 - Any issue which requires approval of the unit holders
 - Notices and results of meetings of unit holders etc.,
 - Submit annual report within 3 months of end of Financial year and half yearly reports within 45 days from September 30 to every unit holders

Parameters to consider before investing in REITs by unit holders



Weighted Average Lease Expiry (WALE)



WALE is a key metric used in real estate to measure the average lease term remaining to expiry across a portfolio of properties, weighted by the rental income or the leasable area.

Formula

- $WALE = (\sum (\text{Lease Expiry Year} \times \text{Lease Income/Area})) / (\text{Total Lease Income/Area})$

Importance

Investor Insight

- Provides a snapshot of rental income stability.

Portfolio Management

- Helps in assessing the risk of vacancy.

- Useful for strategic planning and forecasting future income.

- A higher WALE generally indicates lower risk and stable cash flow.

Applications

Risk Management

- Identifies lease expiry concentration.
- Assists in mitigating potential income gaps.

Valuation

- Used by appraisers and investors to determine property value

Tenant Mix Strategy

- Helps in maintaining a balanced lease expiry profile

Dividend Distributed per Unit

Dividend
Distributed
per Unit

The amount of
dividend paid to
each unit.

Formula

- Dividend Per Unit (DPU) = Total Dividends Distributed / Number of Units Outstanding

Importance:

•Investor Returns:

- Represents the income received by investors from their investment.

•Performance Indicator:

- A measure of a company's profitability and financial health.

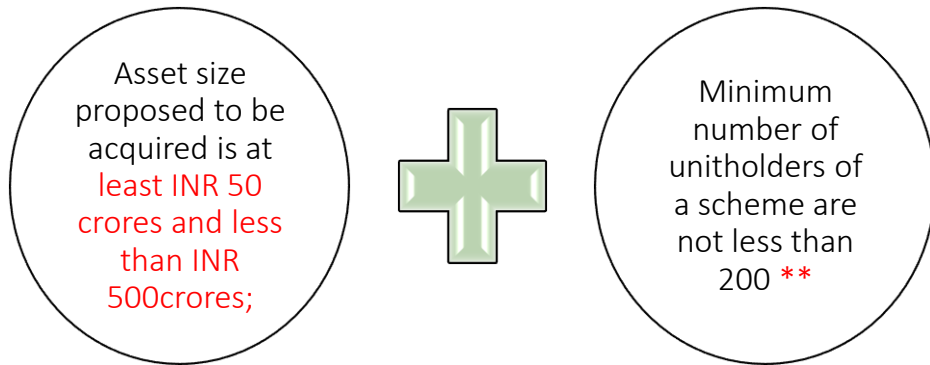
Existing REITs registered under SEBI

S. No.	REIT registered under SEBI	Total Portfolio (Commercial / Retail / Hospitality)	Gross Asset Value (As of Sep'23) INR million
1	Embassy Office Parks REIT	45.4 M sf	526,514
2	Mindspace Business Parks REIT	33.1M sf	287,707
3	Brookfield India Real Estate Trust	25.4M sf	284,878
4	Nexus Select Trust	9.9M sf (Retail) 1.3M sf (Office) 354 Keys Hotel 15 MW	243,532

* M sf = Million Square Feet

SM REITs

Definition of SM REIT

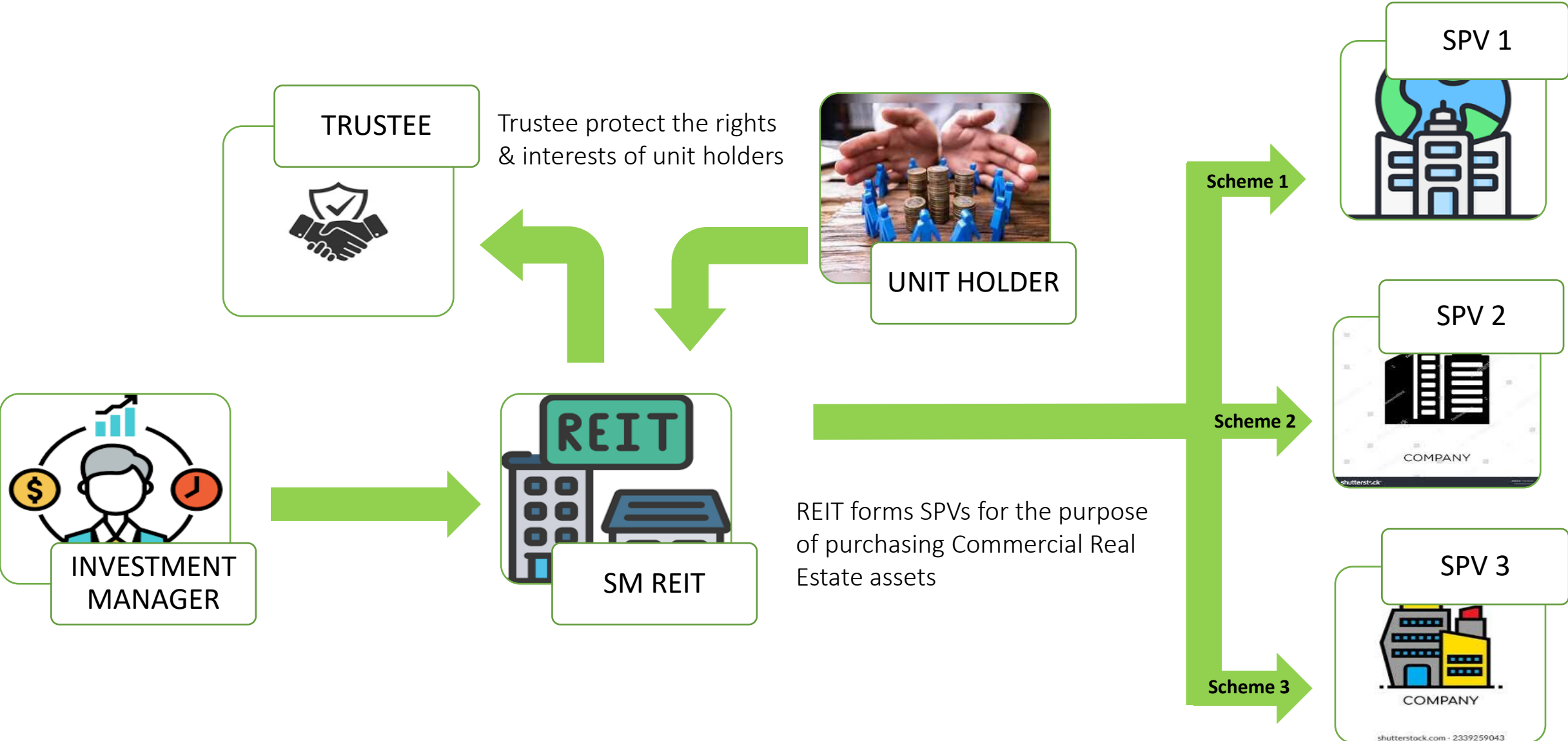


*** 200 shall not include Investment Manager, its related parties and associates of the SM REIT.*

Why a new Assets Class of SM REITS are introduced?

- 1 Development of the market through the creation of a new asset class.
- 2 Ease of investment in assets that have started to show traction in the unregulated space.
- 3 Regulatory inspections and oversight would provide more confidence to investors.
- 4 Development of the market through creation of access to a wider set of investors in the REIT space.
- 5 Formalization of a hitherto unregulated space.
- 6 Investors and hence, will have the potential to attract more investors.

Parties Involved In SM RIETs



Key Differences between REITs and SM REITs.

REITs	SM REITs
Investment size can be more than 500 Cr	Investment size varies between 50cr & 500 Cr
Minimum allotment lot is between INR 10,000 to INR 15,000	Minimum allotment lot is INR 10,00,000
Minimum 80% shall be invested in revenue generating assets. 20% in other than revenue generating assets	Minimum 95% shall be invested in revenue generating assets. 5% can be invested in liquid assets only.
Sponsor and manger to be separate entities	They can be common and is called as investment manager
Pool based asset class- doesn't offer flexibility	Scheme based asset class- offers flexibility
Only one security is issued to unit holder	Multiple securities based on the scheme are issued to investors

Key Differences between REITs and SM REITs.

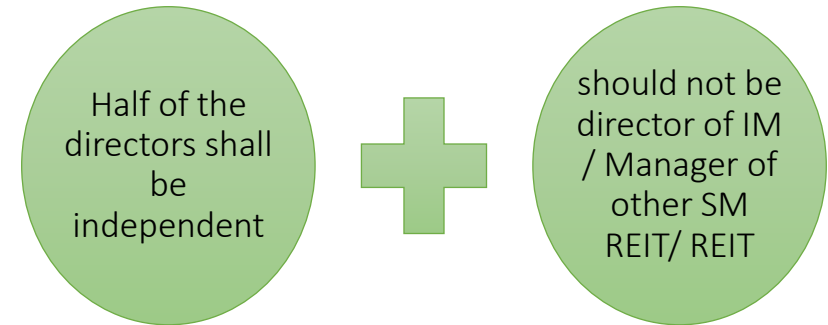
REITs	SM REITs
90% of net distributable cash flows to be distributed.	95% of net distributable cash flows to be distributed.
Min. Half yearly payments	Min. Quarterly payments
Half yearly valuation of properties	Yearly valuation of properties
Net worth Criteria: a) Sponsors- 100 Cr and above b) Manger-10 Cr and above	Net worth Criteria: a) Investment Manager- 20 Cr and above, out of which 10Cr shall be liquid net worth.
Manager shall have 5 years experience in the field	a) Investment Manger shall have two years of experience.

Investment Manager in SM REITS

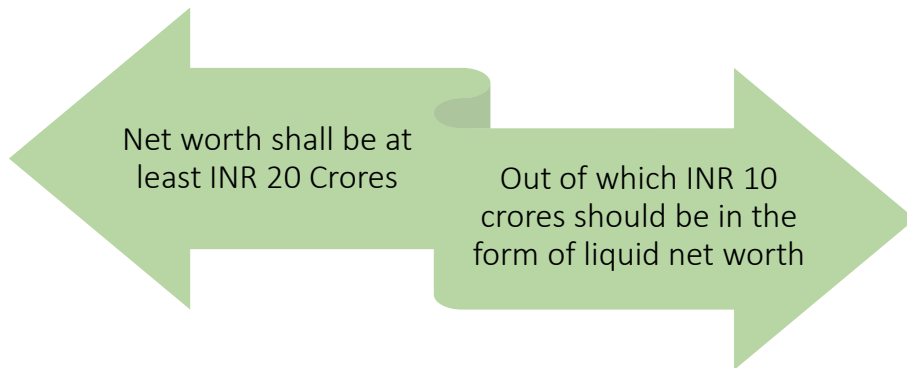
A company incorporated in India and which:



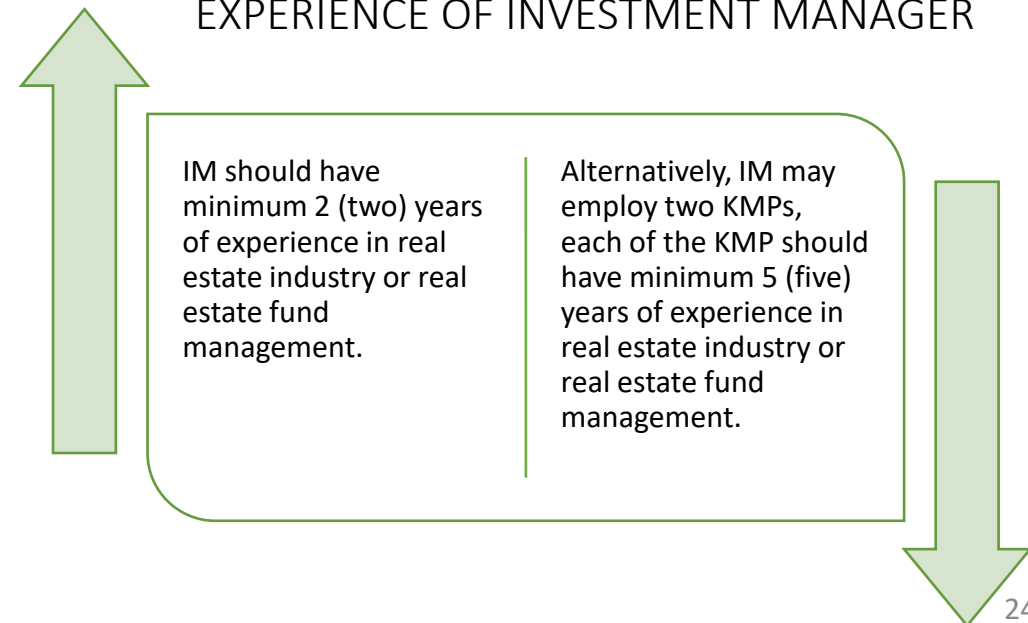
COMPOSITION OF IM



NET WORTH OF INVESTMENT MANAGER

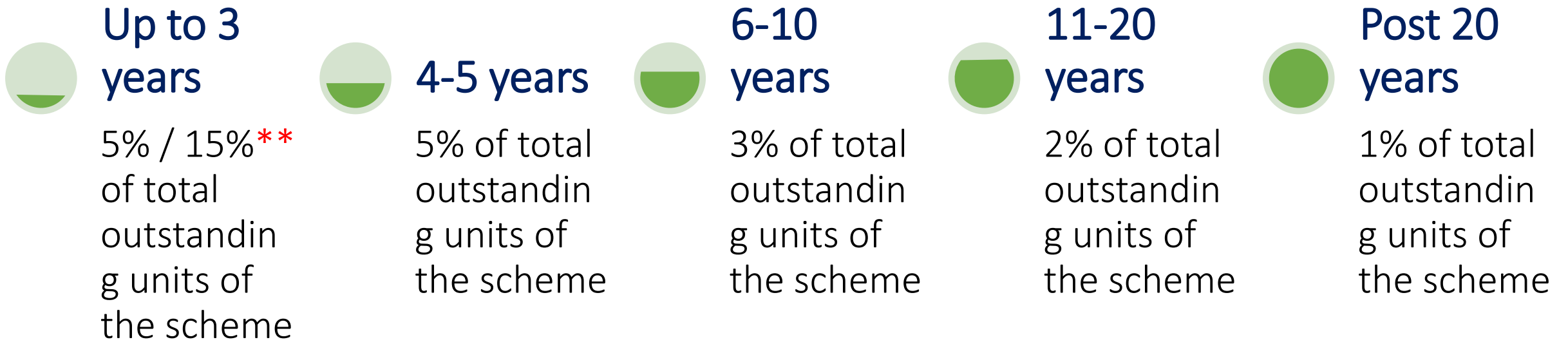


EXPERIENCE OF INVESTMENT MANAGER



Minimum holding requirement for the Investment Manager

(From date of initial listing)



These units which are allotted in demat form the investment will get locked in their demat accounts

**15 % is applicable in case REIT has opted to undertake Leverage.

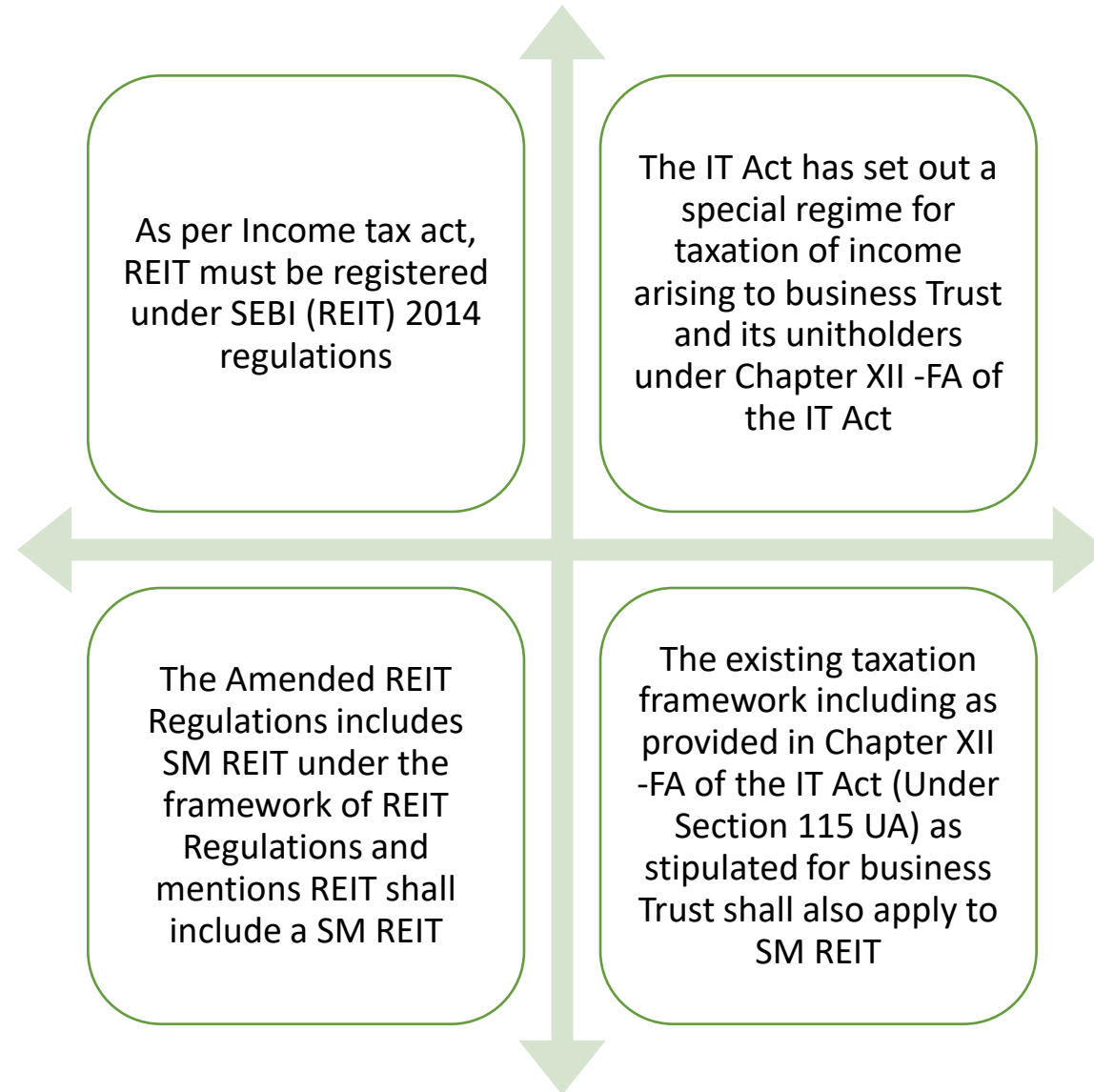
Other Important Features of SM REITs

1. Minimum unit offer to public is 25% of total outstanding units of a scheme.
2. A single unitholder (along with persons acting in concert) not to hold more than 25% of total outstanding units of a scheme.
3. Scheme offer document shall be filed with SEBI indicating the details of properties proposed to be acquired, expected rentals, etc.
4. All the existing entities/structures which are in the nature of SM REITs shall apply for registration with in 6 months of these regulations (w.e.f March 08,2024).
5. SM REITs can borrow funds if mentioned in the scheme document.

Other Important Features of SM REITs

- In case the scheme of the SM REIT purchase/sell a property at a value which is greater than one hundred and five per cent. or less than ninety five per cent of the value of property as assessed by the valuer, approval from unitholders shall be required wherein votes cast in favor of the resolution shall be at least three times the number of votes cast against the resolution.
- Approval from unitholders is required with simple majority for any transaction which is 10% or more of the value of assets of the particular scheme.
- For following transactions 1.5 X majority is required:
 - Change in investment manager
 - Removal auditor or valuer
 - Change in trustee
 - Material change investment strategy

Tax Considerations for REITs



Professional Opportunities to Practising CAs in SM REITs

Thank you !

- CA CHANDRA MOHAN REDDY (Former SEBI Officer (2013-2023))