REITS SET TO BOOST CAPITAL MARKET

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A robust real estate sector, comprising sub-segments such as housing, retail, hospitality and commercial projects, is fundamental to the growth of an economy and helps several sectors develop significantly through the multiplier effect. Currently, India's real estate sector is the second-largest employer in the country after agriculture and is slated to grow at a steady pace over the next decade. However, the sectors need a substantial amount of continuous capital for their development. India's real estate industry has been witnessing a paradigm shift from traditional finance to an era of structured finance, private equity and public offering. The institutional capital is helping in bringing much needed governance and institutional practices in play in the sector which will add to long value.

On September 26, 2014, the Securities and Exchange Board of India (SEBI) notified Real Estate Investment Trusts (REITs) regulations, thereby paving the way for introduction of an internationally acclaimed investment structure in India. Subsequently, the finance ministry also made necessary amendments to the Indian taxation regime to provide the tax pass through status, which is one of the key requirements for feasibility of REITs. According to Gaurav Kashyap, CEO, Cherry Hill Interiors, one of the top office interior design companies in India, the REIT regime in India is aimed at not just providing an organised market for retail investors to invest and be part of the Indian real estate growth story, but it's also meant to professionally manage an ecosystem which is risk averse and protect the interest of public.

Shobhit Agarwal, MD & CEO, Anarock Property Consultants, is of the view that REITs are investment vehicles like mutual funds which own, operate and manage a portfolio of income-generating properties for regular returns. The underlying asset in the REIT is real estate, such as a building or commercial property, whereas the underlying asset for a mutual fund is the share of a company. REITs use the money that is collected from investors to buy real estate instead of using it to buy bonds or shares of company. "Similar to a mutual fund, which receives periodic dividends from its owned companies, a REIT receives rental income (referred to as yield) from the operations/leasing of asset or development," says Rushabh Vora, co-founder and director, SILA.

As of now, REIT-listed properties are largely commercial assets – primarily office spaces – which can generate steady and lucrative rental income. "REIT-listed office assets are very likely to be followed by other REITable asset classes in India, including retail malls, hotels, etc.," adds Agarwal. Post its registration with SEBI, units of REITs will have to be mandatorily listed on exchanges and traded like securities. Like listed shares, small investors can buy units of REITs from both primary and secondary markets.

Thus, besides low entry levels, REITs will provide investors with a safe and diversified portfolio at minimal risk and under professional management, ensuring decent returns on investment. REITs will not only be characterised by investment in real estate assets - they will also offer limited liability for all unit holders. "To ensure regular income to investors, it has been mandated