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Draft norms out for real estate investment trusts

Sebi has proposed REITs to raise capital through an initial offer and raise subsequent funds through follow-on offers

Sebi logo

The market regulator Securities and Exchange Board of India (Sebi) on Thursday issued draft regulations for setting up real estate investment trusts (REIT) in the country, five years after it had withdrawn a similar proposal. REIT is an investment vehicle that invests into real estate assets to generate income, which is passed on to investors. Just like a stock, a REIT unit is listed and traded on a stock exchange. Sebi has proposed REITs to raise capital through an initial offer and raise subsequent funds through follow-on offers.

It has also proposed a minimum initial offer size of Rs 250 crore and the minimum public float for REIT has been proposed to be 25 per cent. The regulator broadly has applied framework similar to that of an initial public offering (IPO). REIT, however, will be set up in a trust form under Indian Trust Act, 1882 and it will comprise of key parties like sponsor, manager and principal valuer. In order to attract only high networth investors (HNI) initially, Sebi has proposed minimum subscription size shall be Rs 2 lakh and the value of single REIT unit that will be traded on the exchange will be Rs 1 lakh. To ensure only large players set up REIT, Sebi has specified minimum asset size of Rs 1,000 crore under REIT. REIT Regulations, once approved, will provide an additional investment avenue for investors.

“REIT is the best way of regulated asset-backed investment with established revenue streams. Also, in recent times real estate listings have happened on SGX and there is a need to develop a domestic model for real estate investments rather than exporting real estate capital markets offshore,” said Ruchir Sinha of Nishith Desai Associates.

“Sebi seems to have taken a very pragmatic approach at the REIT regulations. Lot of emphasis has been given to transparency and disclosures. Indian investors will get an additional investment opportunity to invest in real estate. It will also benefit real estate developers who will be able to transfer their developed assets into a REI,” said Bhairav Dalal, associate director, PWC. Previously, Sebi had twice attempted to introduce a real estate investment vehicle. It had issued draft regulations in 2008 only to withdraw it later. Also, the real estate investment management company (REIMC) framework didn’t find any takers.

Industry players said that this time around both the finance ministry as well as Sebi are keen to introduce a regime that will work to channel investments into the capital markets and real estate to boost the real economy and also to prevent investors from investing similar instruments aboard.

Sources said Sebi has had discussion with various stakeholders before issuing the draft guidelines and will accept further feedback on the draft REIT Regulations 2013 it put out today till October 31.

Expert said taxation and foreign institutional investors (FII) participation will be the two key challenges.

Along with corporate taxes, industry players want an exemption of stamp duty when the real estate asset is transferred from a special purpose vehicle to the REIT. A REIT unit will have to be included in the Securities Contract Regulation Act (SCRA) in order to pave way for FII participation, which will be critical for the success of REITs.

Experts said taxation and FII participation doesn't come under Sebi's mandate and other regulators and government agencies will have to be on board.