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India Regulator Issues Draft Rules on REITs

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MUMBAI—India's market regulator Thursday issued a draft of guidelines on the setting up of real-estate investment trusts, or REITs, a move that could help attract investments in a sector that is facing a drought of funds in a slowing economy.

According to lawyers and consultants, allowing REITs would also help attract foreign money and provide liquidity to existing investors. With rules in place, the real-estate sector would see investments from more local retail investors as well, they say.

The real-estate sector is one of the hardest hit by India's economic slowdown. The slow growth and high interest rates have made many potential buyers postpone purchase of apartments and commercial property or scrap their plans. Many developers also have large debt, which they took to launch projects when demand was strong in a booming economy just a few years ago.

REITs own properties and their revenue comes principally from rent. Most of the revenue is distributed to shareholders and REITs usually get special tax considerations, which make them attractive to investors.

According to the draft guidelines posted on the website of the Securities and Exchange Board of India, companies with more than 10 billion rupees ($163 million) of assets can list as REITs. They must make an initial public offering of at least 2.5 billion rupees and a quarter of their stake must be with public holders, says the draft.

The requirement of minimum assets is proposed to ensure that only established firms form REITs, the regulator said. Also, according to the draft, each investor must buy at least 200,000 rupees of units.

Under the proposals, 90% of a REIT's assets should be in completed, revenue-generating properties and 90% of its net income distributed to investors.

"Now there is a market to sell," said Ruchir Sinha , who heads the debt and private-equity in real-estate practice at law firm Nishith Desai Associates. With REITs, investors will have access to a regulated asset with assured revenue, he added.

Myriad regulations and high taxes have made it difficult for investors, particularly private-equity firms, to exit real-estate investments in India's down market. With the REIT structure allowing the participation of retail investors, demand for such sakes may now pick up.

Once REITs are allowed, it will provide an additional exit route for existing investors, said Anshuman Magazine, chairman of real-estate manager and broker CBRE South Asia Pvt. Ltd. Until now, exits were only between two parties and limited to individual projects, he said.

"It will also benefit real-estate developers who will be able to transfer their developed assets into a REIT," said Bhairav Dalal , associate director at consultant PricewaterhouseCoopers.

"The government will need to take a call on taxing REITs," said Mr. Sinha of Nishith Desai Associates.

The draft didn't make any suggestions on tax.

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