

## Real estate investment trusts get regulatory push

**Sebi calls meeting with RBI and finance ministry on Monday to consider rules for their launch and trade**

Jayshree Pyasi | Mumbai May 08, 2014 Last Updated at 22:48 IST



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The Securities and Exchange Board of India (Sebi) is preparing to remove the barriers for launch of trading in Real Estate Investment Trusts (REITs).

A REIT is an investment vehicle that puts money into real estate assets to generate income.

The market regulator has called a meeting on Monday with important stakeholders, including the Reserve Bank of India (RBI) and finance ministry officials, in this regard.

Sebi had issued draft guidelines on REITs in October and invited public comment. The latest move gives hope to the cash-starved real estate sector, apprehending the launch of this product might be deferred.

The capital market regulator was supposed to issue final guidelines on REITs at its board meeting in December 2013. Sebi, however, deferred any decision due to tax-related hurdles.

According to people in the know, next week's meeting is likely to be attended by Arvind Mayaram, finance secretary and secretary, department of economic affairs, and Urijit Patel, deputy governor, RBI.

"The meeting will discuss what amendments are needed in the REIT draft guidelines to facilitate takeoff. The panel would also ponder upon the representations from market players," said a source.

Experts said REITs can succeed only if given the status of a 'pass-through vehicle' by the revenue department. The Income Tax Act is silent on the tax treatment of income earned by a REIT or its investors. Sebi and the finance ministry are already in dialogue with the I-T department in this regard.

"The market regulator has done a good job with the (proposed) regulations on REITs. High

taxation remains the critical roadblock. It can only be ironed out in the next Budget," said Gautum Mehra, executive director at PricewaterhouseCoopers. "The meeting gives new hope but one can't expect much till REITs are given the required tax benefit," said Ruchir Sinha, co-head, private equity, Nishith Desai Associates.

REITs' assets in India need to be held as a special purpose vehicle (SPV). Real estate players say a tax exemption is needed at both the SPV level in terms of distributions and exemption of capital gains when you make a transfer to a REIT.

The market had also suggested that REITs be allowed to raise funds via a rights issue or preferential issue. Currently, REITs can raise funds only via a follow-on public offer or an initial public offering.

Sebi's draft regulations on REITs in October had proposed a minimum initial offer size of Rs 250 crore and the minimum public float for a REIT was proposed to be 25 per cent. Also, that a REIT will be set up in a trust form under the Indian Trust Act, 1882, comprising key parties like the sponsor, manager and principal valuer.