Real Estate Investment Trusts: Update

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SEBI Board has approved certain amendments to facilitate growth of Infrastructure Investment Trusts (InvITs) and Real Estate investment Trust (REITs):

a. **Allowing REITs and InvITs to raise debt capital by issuing debt securities**: The previous regulatory framework allowed issue of equity-oriented REITs and InvITs, which offer indicative yields. Debt-oriented REITs and InvITs would offer fixed yields, much like corporate bonds or fixed coupon yielding securities. This would help in deepening the REIT markets, which has not been active so far. InvITs on the other hand witnessed listing by two participants till date.

b. **Introducing the concept of Strategic Investor for REITs on similar lines of InvITs** : Under the prevailing InvIT Regulations

- Strategic investors include scheduled commercial banks, foreign portfolio investors, etc., together holding not less than 5% of the total offer size of the InvIT; and
- InvIT is required to disclose commitments received from strategic investors in the offer documents.

The same concept of strategic investor has been extended to REITs.

c. **Allowing single asset REIT on similar lines of InvIT**: Developers with single-large asset can now use REITs as a possible medium to raise funds. Earlier regulations stipulated REITs shall hold assets in at least two assets and not more than 60% value of the value of its asset can be held in a single asset.

d. **Allowing REITs to lend to underlying Holdco/SPV**: Holdco are two level special purpose vehicle (SPV) structures. Under InvIT regulations, InvITs were allowed to lend to SPVs limited to where they are invested. The same has been extended to REITs.

e. **Amending the definition of 'value' for both REITs and InvITs**: SEBI had in January 2017 introduced some amendments which was aimed at bringing parity between protocols followed by Indian Banks association for valuation of fixed assets and SEBIs proposal for valuation of REIT assets. The press release did not ascertain the newly proposed changes.

Further, the Board decided to have further consultation with the stakeholders on a proposal of allowing REITs to invest at least 50% of the equity share capital or interest in the underlying

Holdco/SPVs, and similarly allowing Holdco to invest with at least 50% of the equity share capital or interest in the underlying SPVs.

Our initial views based on SEBI's press release:

a. SEBI has been continuously introducing amendments to both REIT and InvIT regulations post their introduction in 2014. REITs have not been able to start effectively, even though the regulations were introduced in 2014. The new amendments are aimed at refining the existing framework and regulation. Some large players in the past had expressed their interest to list REITs. REITs are however yet to see a single listing in India.

b. The latest amendments seem to be aimed at providing the much needed comfort to various stakeholders that includes both developers and investors.

- Developers and PEs have the flexibility to list their rent-yielding property as debt-oriented REIT which would require them to pay fixed yield, without diluting their ownership in their assets/properties. It is however still difficult to estimate the quantum or size of listing that may happen in this form.
- By allowing single assets as an underlying in REIT, the regulator intends to open up REIT to more participants, both large and small. These participants as per the earlier regulations were unable to list REITs due to limited number of assets in their portfolio.
- By allowing Strategic investors, SEBI is trying to develop the much needed initial pool of investors for REITs.

c. SEBIs new amendments make REITs not only a possible route of exit for large PEs and investment funds who have invested in Indian Real Estate but they also provide an avenue for real estate developers to raise funds going forward.

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