



REIT & InvIT - AS INVESTMENT AVENUES

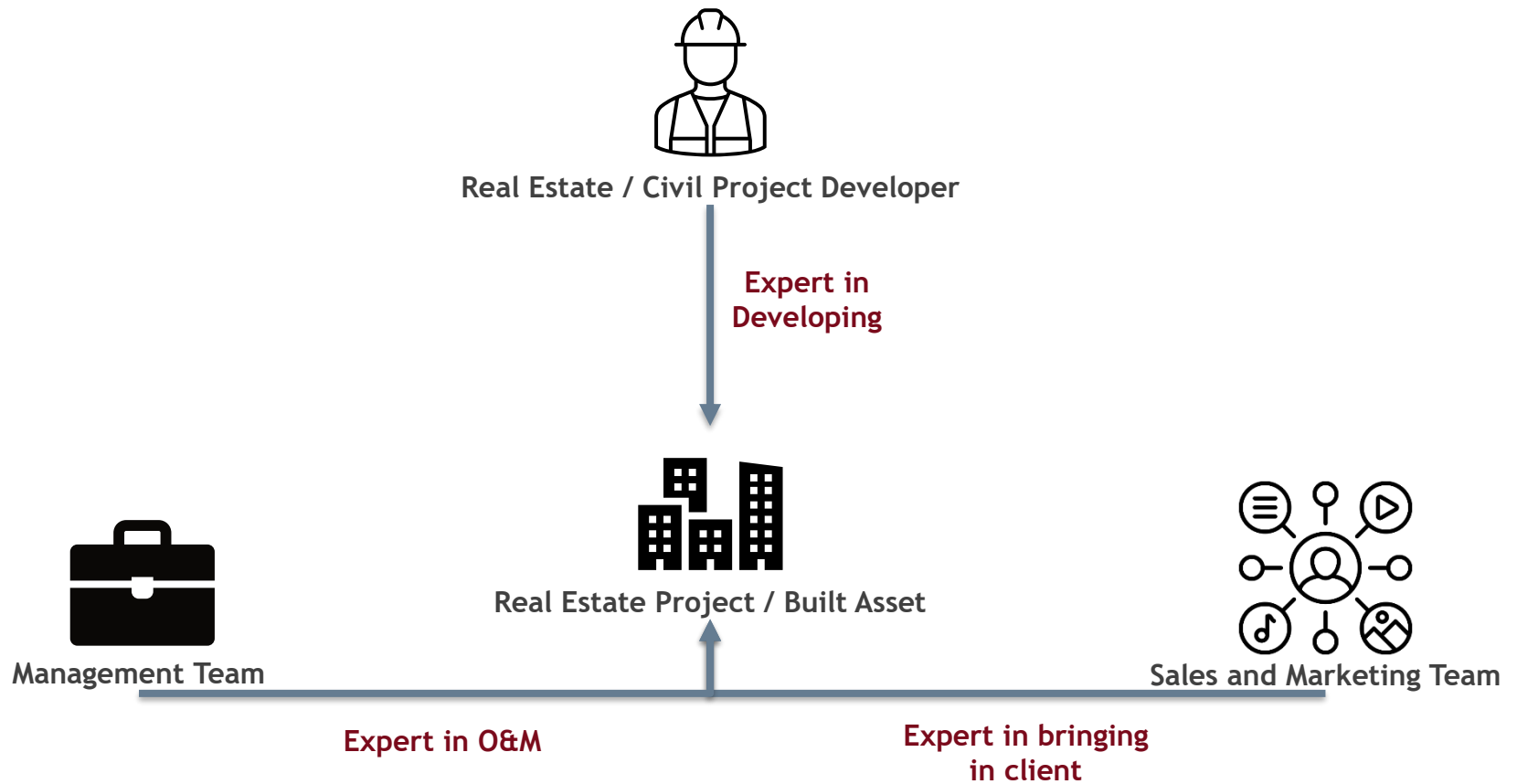
13 FEBRUARY 2025
FOR BCAS FINANCE, CORPORATE & ALLIED LAWS COMMITTEE STUDY CIRCLE
PRESENTATION

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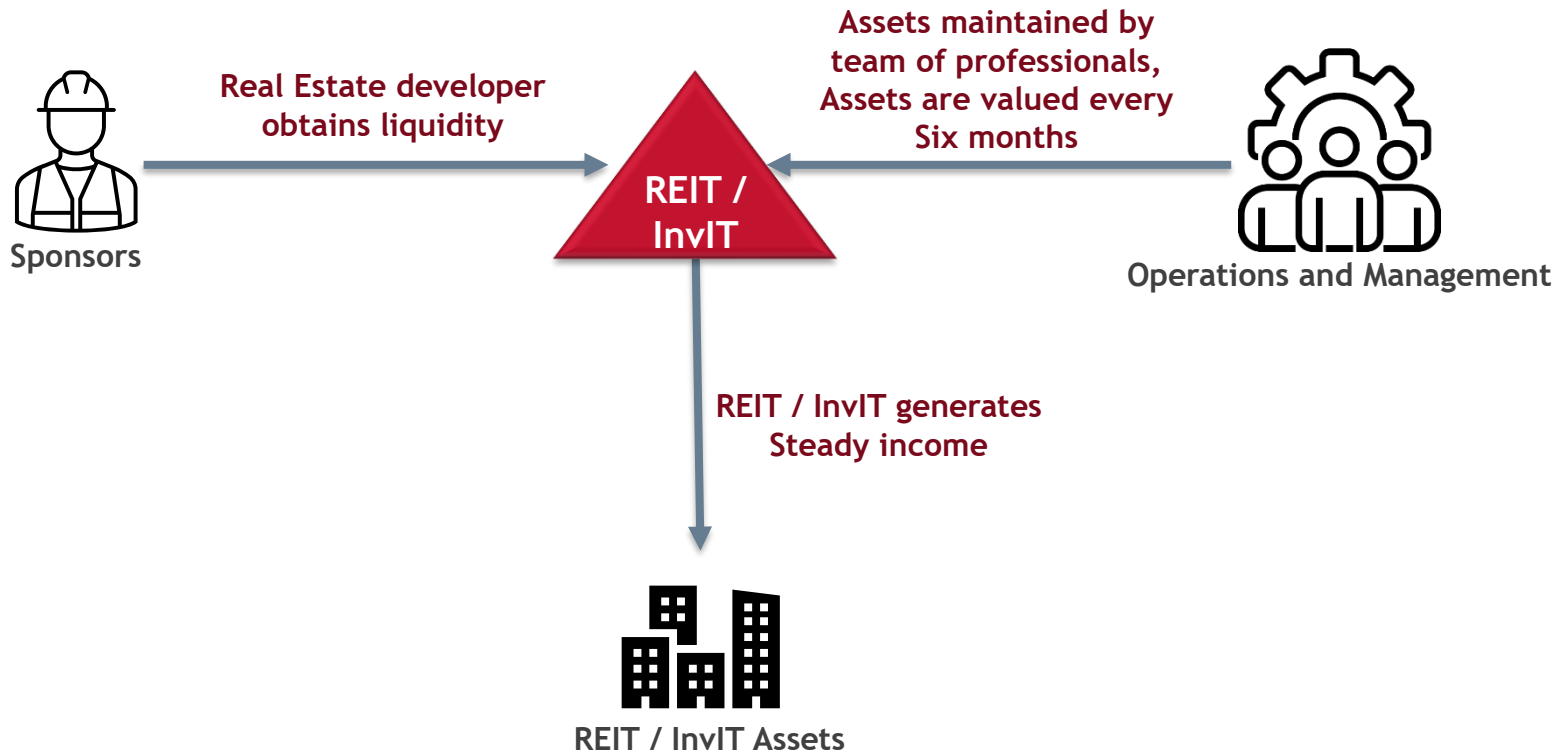
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WHY REIT / INVIT

WHAT PROBLEM DOES A REIT / INVIT SOLVE ?



PARTIES TO A REIT / INVIT



WHAT ARE THE FEATURES OF REIT / InvIT

FEATURES OF REIT / INVIT



Fractional Ownership

Access to Real Estate ownership for lower cost

Professional Management

Operated and Managed by a professional



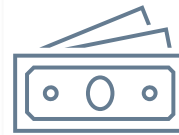
Capital Appreciation

Capital Appreciation is derived through increase in value of REIT Assets as well as REIT units



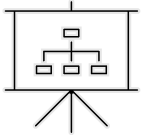
Regular Income

Receipt of Regular income due to SEBI regulations



Diversification

Investment in multiple properties, rather than focusing on a single property



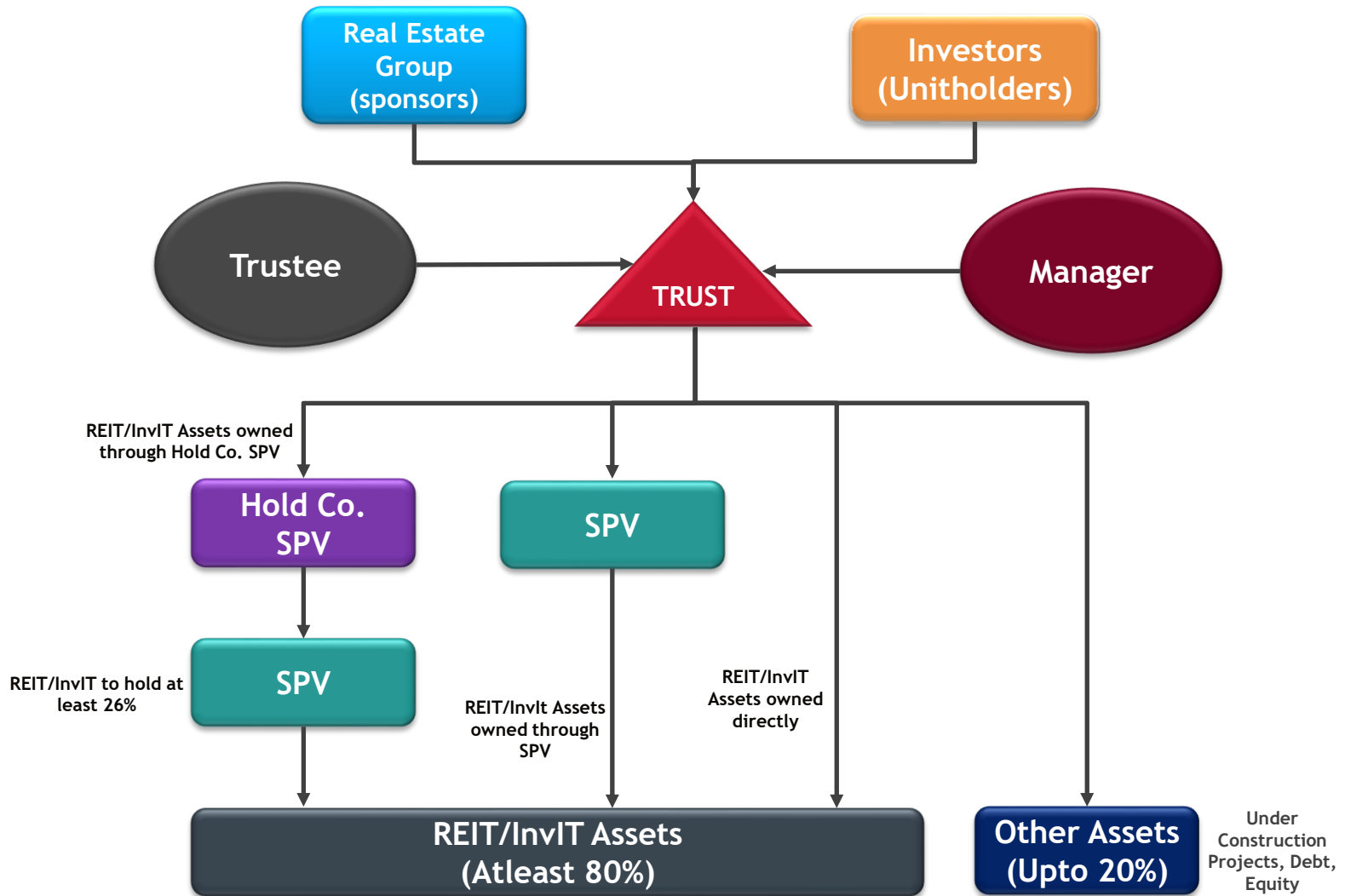
Easy Liquidity

Compared to Real Estate, REITS/InvIT are highly Liquid



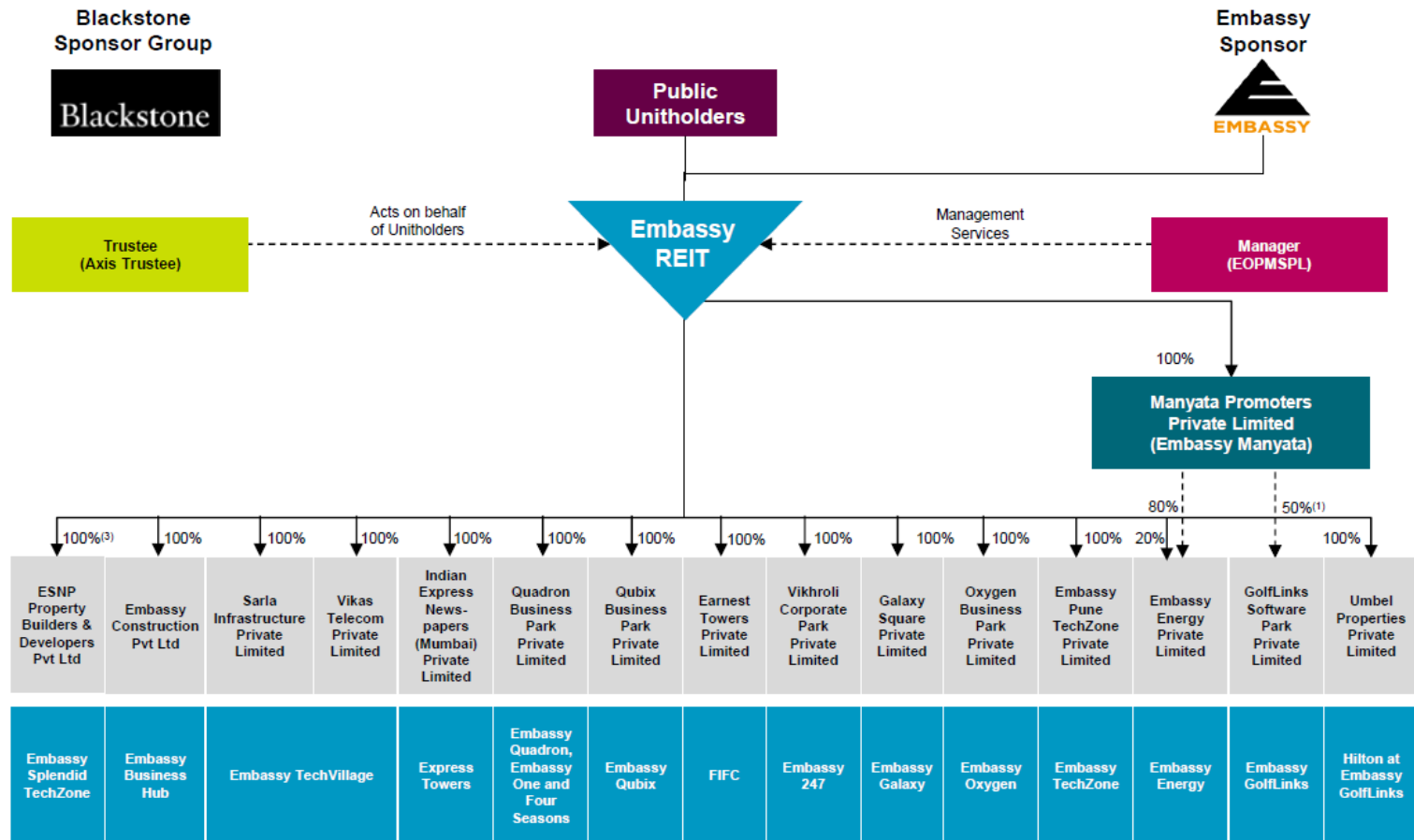
TYPICAL STRUCTURE OF A REIT/INVIT

STRUCTURE OVERVIEW OF A REIT / INVIT



PRACTICAL SCENARIO OF A REIT STRUCTURE

Embassy REIT Structure



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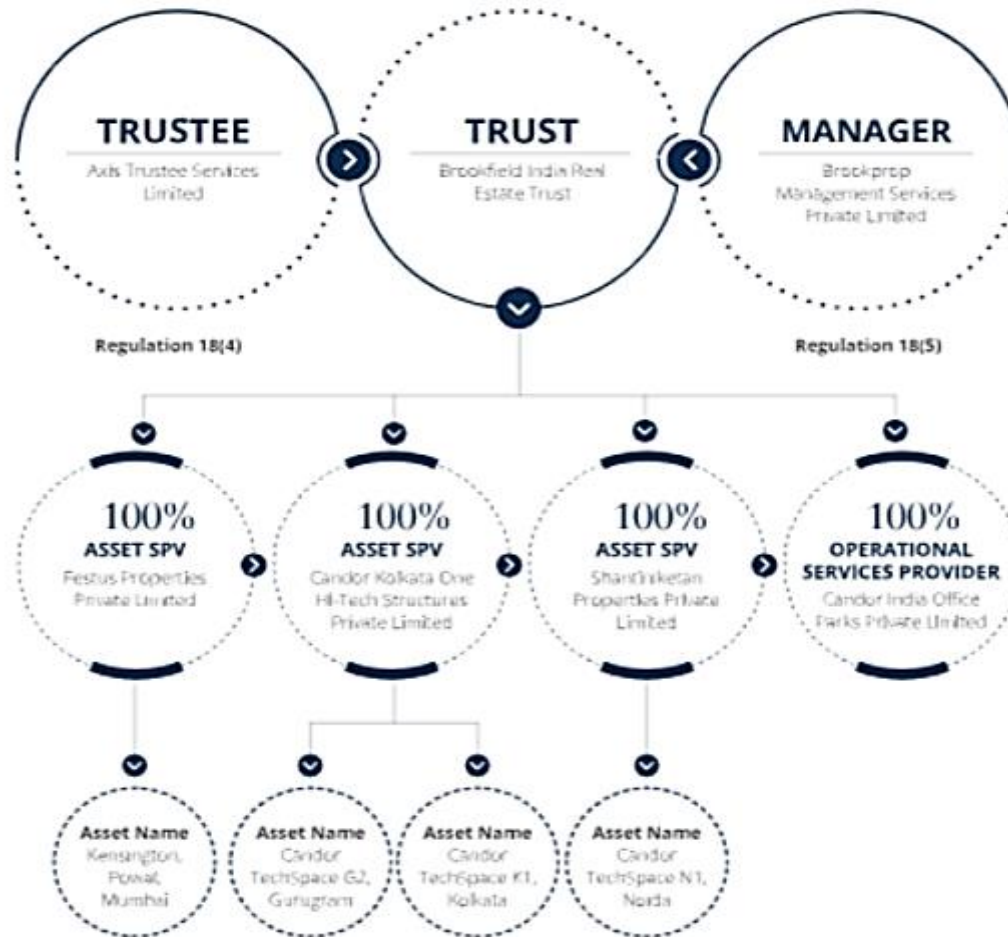
PRACTICAL SCENARIO OF A REIT STRUCTURE



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PRACTICAL SCENARIO OF A REIT STRUCTURE

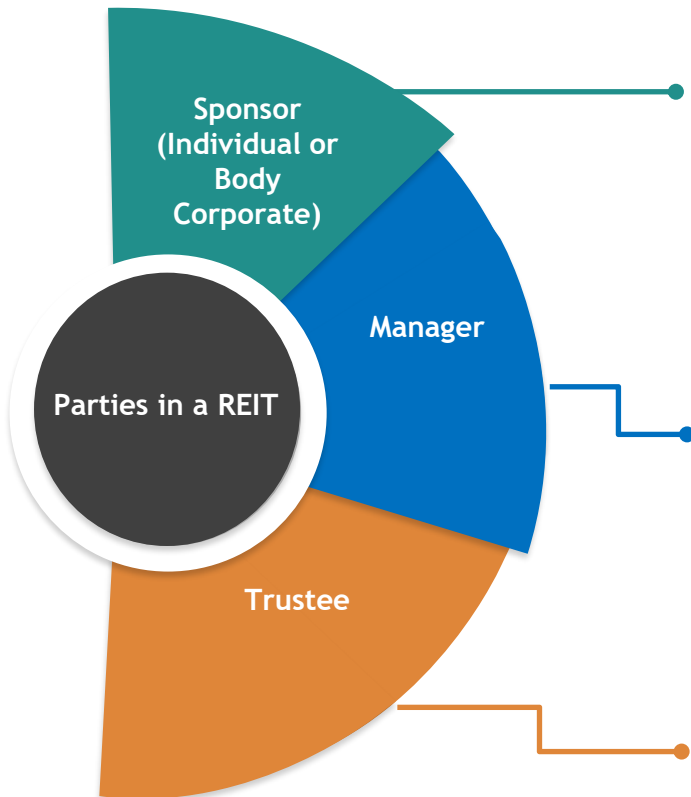
STRUCTURE OF BROOKFIELD INDIA REIT



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KEY SEBI REGULATIONS IMPACTING THE REIT / INVIT AS A FINANCIAL PRODUCT

KEY PARTIES - ELIGIBILITY CRITERIA



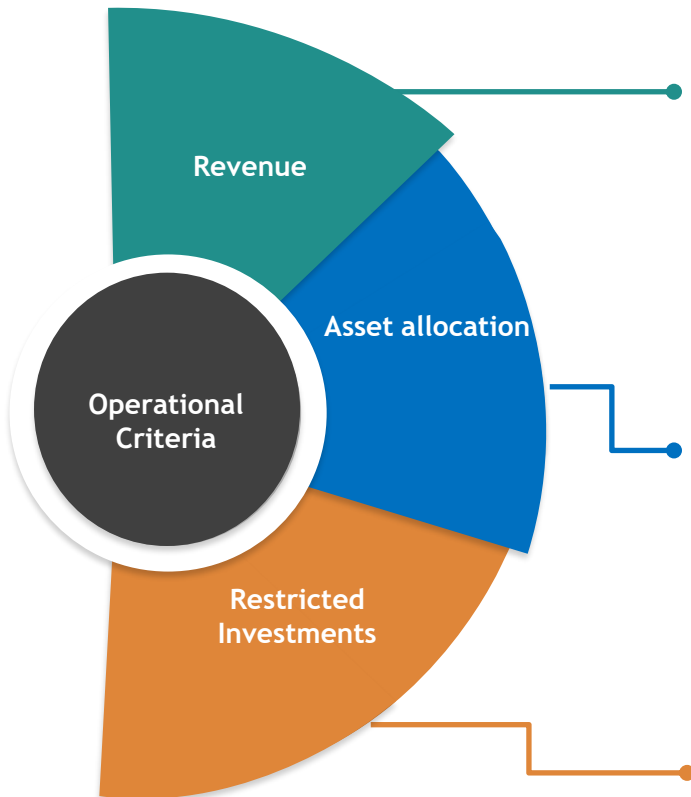
- ▶ ***Unit Holding:** Each sponsor to hold $\geq 5\%$ (collectively $\geq 25\%$) of the REIT units post IPO basis.
- ▶ **Net Worth:** Sponsors collectively to have net worth of $\geq ₹100$ crore ($₹20$ crore for each sponsor).
- ▶ **Experience:** Sponsors to have ≥ 5 years in real estate development or fund management. If a sponsor is a developer, he should have at least two completed projects.

- ▶ **Net Worth/Assets:** $\geq ₹10$ Cr.
- ▶ **Experience:** ≥ 5 years in fund management, advisory, or real estate.

- ▶ **SEBI Registration:** Must be registered under SEBI.
- ▶ **Asset Holding:** Must hold REIT assets in trust as per the trust deed.
- ▶ **Independence:** Cannot be an associated to the sponsor(s) or manager.
- ▶ **Resources:** Maintain necessary infrastructure and personnel as per SEBI.
- ▶ **Compliance:** Must meet Board's satisfaction and comply with SEBI guidelines.

Lock-in period : Sponsors and sponsor groups must collectively hold at least 25% of the REIT units post-issue, with a 3-year holding period for the minimum and 1 year for any excess holdings from the listing date.

OPERATIONAL CRITERIAS

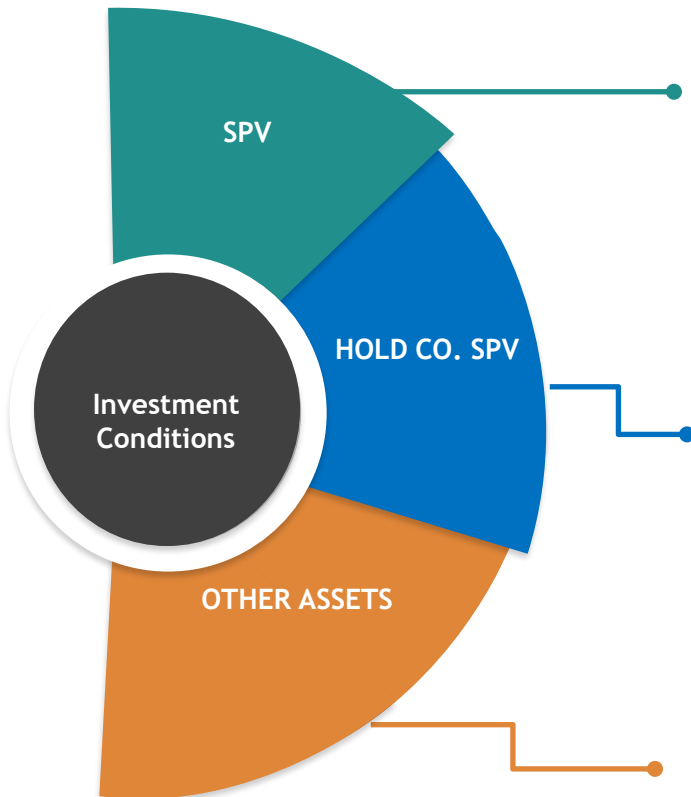


- ▶ At least 51% of revenues must come from rental and leasing activities, excluding gains from property sales.
- ▶ At least 90% of net distributable cash flows from SPVs must be passed to the REIT, and similarly, at least 90% of REIT's cash flows must be distributed to unit holders every six months.
- ▶ Sales proceeds from properties or shares must be reinvested or distributed, with 90% of proceeds required to be distributed if not reinvested within a year. (Sale of REIT assets requires approval from unit holders)
- ▶ If distributions are delayed, the manager must pay interest to unit holders at 15% per annum.

- ▶ At least 80% of assets in completed, income-generating properties with lock in period of 3 years.
- ▶ Up to 20% in under-construction properties, non-income generating properties, debt in real estate, mortgage-backed securities, or equity in real estate companies.

- ▶ Conditions on asset allocation must be reviewed every six months, and non-compliance must be addressed within six months.
- ▶ Completed, rent-generating properties must be held for at least 3 years.
- ▶ Sales of properties or shares exceeding 10% of the REIT's assets annually require approval from unit holders.
- ▶ Investments with others must not offer better terms than those provided to the REIT, and agreements must include cash flow distribution percentages.

INVESTMENT CONDITIONS



▶ **REIT may invest in SPVs if:**

- No shareholder/partner prevents REIT's compliance, with an agreement in place.
- The manager, with trustee's input, appoints the majority of the SPV's board.
- REIT's voting rights are exercised in all SPV meetings, including AGMs.

▶ **REIT may invest in properties through holdco if:**

- REIT holds at least 26% in the underlying SPV(s).
- No other shareholder/partner prevents compliance with regulations, with an agreement in place.
- The manager, with trustee's input, appoints the majority of the holdco/SPV(s) board.
- REIT's voting rights are exercised in all holdco/SPV(s) meetings, including AGMs.

- ▶ Properties.
- ▶ Securities.
- ▶ Transfer Development Rights in India.

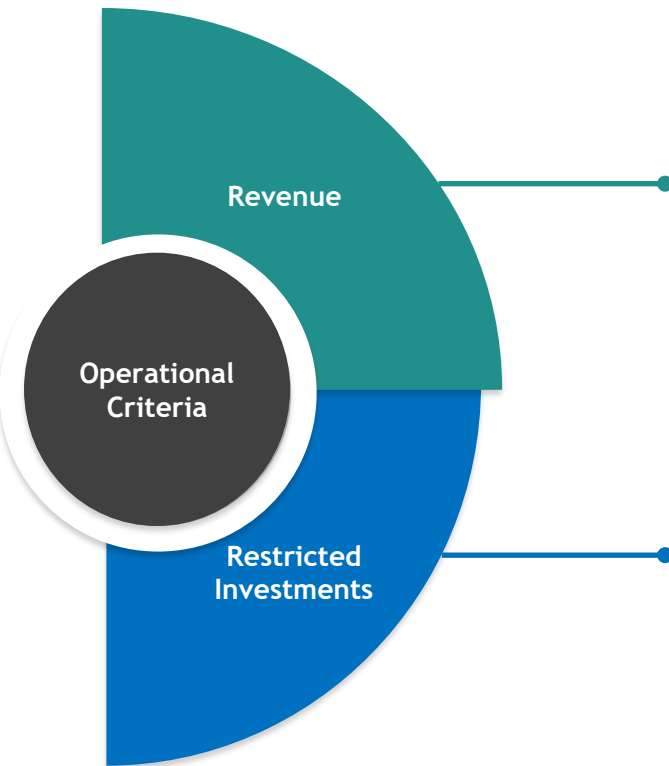
REGULATORY ASPECTS OF InvIT

OPERATIONAL CRITERIA

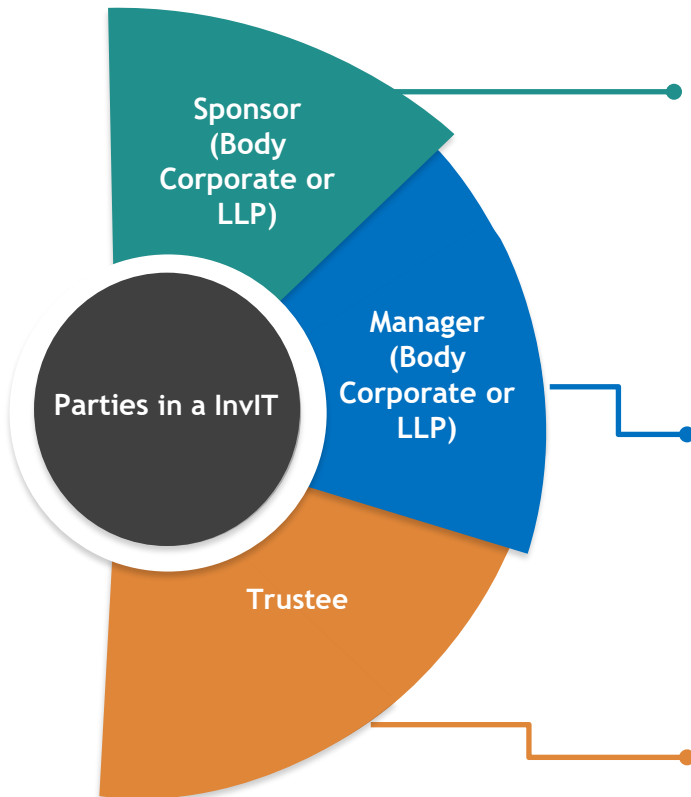
Similar to a REIT except for 51% revenue requirement.

- ▶ At least 90% of net distributable cash flows from SPVs must be passed to the InvIT, and similarly, at least 90% of REIT's cash flows must be distributed to unit holders every six months in case of Listed InvIT and every 1 year in case of privately placed InvITs.
- ▶ Sales proceeds from properties or shares must be reinvested or distributed, with 90% of proceeds required to be distributed if not reinvested within a year.
- ▶ If distributions are delayed, the manager must pay interest to unit holders at 15% per annum.

- ▶ Conditions on asset allocation must be reviewed every six months, and non-compliance must be addressed within six months.
- ▶ Infrastructure asset must be held for at least 3 years.
- ▶ Investments with others must not offer better terms than those provided to the InvIT, and agreements must include cash flow distribution percentages.



KEY PARTIES - ELIGIBILITY CRITERIA

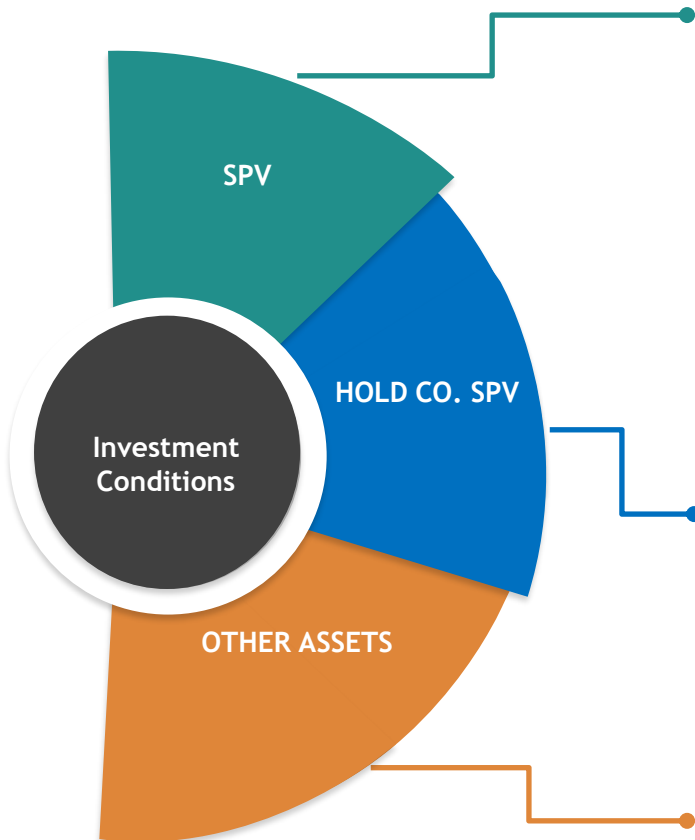


- ▶ **Identification:** Sponsors and sponsor groups to be clearly identifiable in the registration application and offer document.
- ▶ **Net Worth:**
 - Company/LLP to have a net worth of \geq ₹100 crore
 - LLP to have net tangible assets of \geq ₹100 crore.
 - Individual cannot be a sponsor in an InvIT
- ▶ **Experience:** Sponsors to have \geq 5 years in real estate development or fund management. If a sponsor is a developer, he should have at least two completed projects.

- ▶ **Net Worth/Assets:** \geq ₹10 Cr
- ▶ **Experience:** Fund management, advisory, or infra sector for \geq 5 years or combined experience of all partner/directors employee \geq 30 years

- ▶ **SEBI Registration:** Must be registered under SEBI.
- ▶ **Asset Holding:** Must hold REIT assets in trust as per the trust deed.
- ▶ **Independence:** Cannot be an associated to the sponsor(s) or manager.
- ▶ **Resources:** Maintain necessary infrastructure and personnel as per SEBI.
- ▶ **Compliance:** Must meet Board's satisfaction and comply with SEBI guidelines.

INVESTMENT CONDITIONS



▶ **InvIT may invest in infrastructure projects through SPVs if:**

- No shareholder/partner should prevent the InvIT's with SEBI related compliance, with an agreement in place.
- The manager, with trustee's input, appoints the majority of the SPV's board.
- InvIT's voting rights are exercised in all SPV meetings, including AGMs.

▶ **InvIT may invest in infrastructure projects through Hold Co. if:**

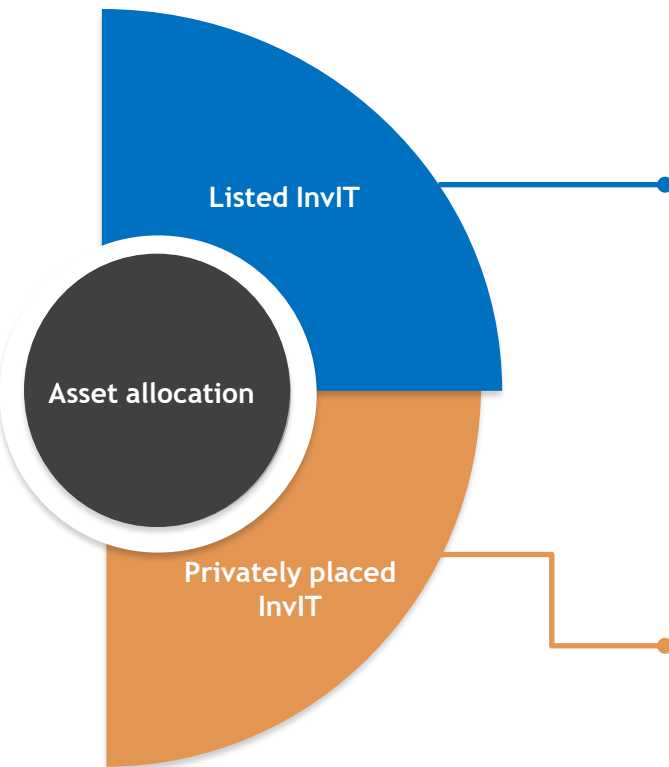
- InvIT holds at least 26% in the underlying SPV(s).
- No shareholder/partner prevents InvIT's compliance, with an agreement in place.
- The manager, with trustee's input, appoints the majority of the holdco/SPV(s) board.
- InvIT's voting rights are exercised in all holdco/SPV(s) meetings, including AGMs.

▶ **Infrastructure Projects.**

▶ **Securities in India.**

- ▶ **In case of Public-Private Project, the InvIT shall mandatorily invest in infrastructure project through Hold Co. and or SPV.**

ASSET ALLOCATION



- ▶ At least 80% of value of assets shall be invested, proportionate to the holding of InvIT, in completed and revenue generating infrastructure projects subject to the following:
 - If the investment has been made through Holdco or SPV whether by way of equity or debt or equity linked instruments or partnership interest, only the portion of direct investments in completed and revenue generating projects shall be considered.
 - If a project is done in stages, only the completed and revenue-generating part will be considered.
 - Balance to be considered as 20%.
- ▶ Remaining value of assets can be invested in under-construction infrastructure properties whether directly, through SPV or Holdco, equity shares of a company which derives not less than 80% of its revenue from infrastructure sector as per their audited financials, government securities, money market instruments, liquid mutual funds or cash equivalents

- ▶ At least 80% of value of assets shall be invested in eligible infrastructure projects either directly or through holdcos or SPV.
- ▶ Remaining value of assets can be invested in equity shares of a company which derives not less than 80% of its revenue from infrastructure sector as per their audited financials, government securities, money market instruments, liquid mutual funds or cash equivalents

REIT/INVIT : A SMART INVESTMENT CHOICE?

INVESTING IN REIT - DECISION MAKING CRITERIAS



✓ Product

- ❖ Units in Trust / shares in company
- ❖ Regular income - Quaterly distributions
- ❖ \geq 90% of Income to be distributed

✓ Returns

- ❖ In the forms of :
 - Interest
 - Dividend
 - Rental Income
 - Capital Gains
 - Repayment of Capital

✓ Fund Utilization

- ❖ Capital to be utilized to acquire income-generating assets.
- ❖ Assets sourced are professionally managed to ensure the stable and consistent income.

✓ Risk Involved

- ❖ Assets of REIT/InvIT are valued every 6 months.

INVESTING IN REIT - FACTORS TO CONSIDER - EARNING POTENTIAL

Name	Last Trade Price (12 Feb 2025)	Yield FY24 (%)	Yield FY23 (%)	Market Cap (INR in CRS)	P/E Ratio	FY25 Distribution (upto Q3) (INR/unit)	FY24 Distribution (INR/unit)	Issue Price
Brookfield India Real Estate Trust	286.57	6.97	7.30	17,496	41.11	14	17.75	275
Embassy Office Parks REIT	362	5.78	6.70	34,313.74	15.93	17.33	21.33	300
Mindspace Business Park REIT	371.04	3.83	6.90	22,003.33	41.40	30.74	19.16	275
Nexus Trust	132.09	5.54	NA	20,251	39.33	6.36	7.07	100

How do REITs fare against Bank FD Rates?

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COMPARATIVE STOCK MARKET MOVEMENT - 1 month



| BSE Sensex | Nifty Realty | Embassy Office Parks REIT | Mindspace Business Park REIT | POWERGRID Infrastructure Investment Trust

*As per data available on public domains as on 12 February 2025
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COMPARATIVE STOCK MARKET MOVEMENT - 6 months

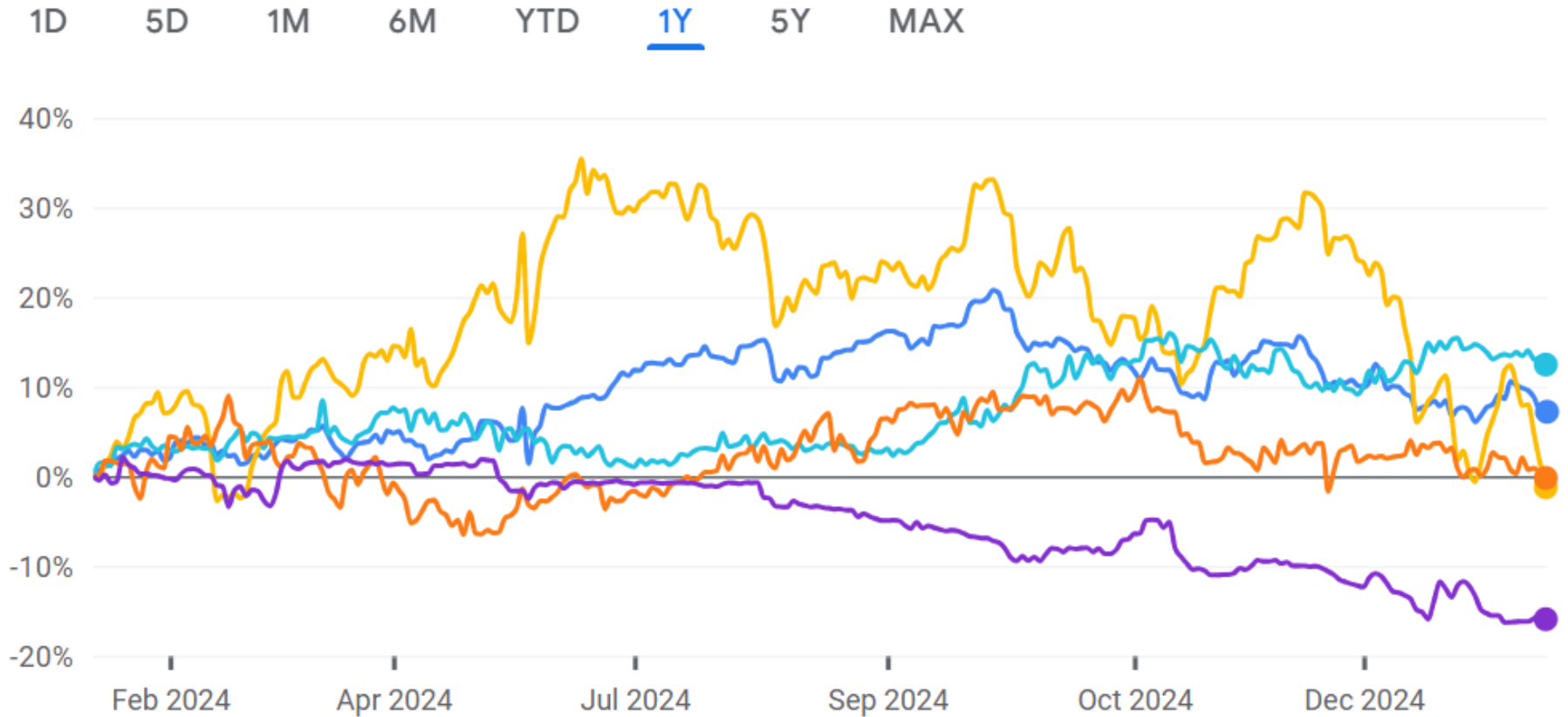


| BSE Sensex | Nifty Realty | Embassy Office Parks REIT | Mindspace Business Park REIT | POWERGRID Infrastructure Investment Trust

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COMPARATIVE STOCK MARKET MOVEMENT - 1 Year



| BSE Sensex | Nifty Realty | Embassy Office Parks REIT | Mindspace Business Park REIT | POWERGRID Infrastructure Investment Trust

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COMPARATIVE STOCK MARKET MOVEMENT - 5 Years



| BSE Sensex | Nifty Realty | Embassy Office Parks REIT | Mindspace Business Park REIT | POWERGRID Infrastructure Investment Trust

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COMPANIES UNDER NIFTY REALTY

S.No.	Name	CMP Rs.	Mar Cap Rs.Cr.	Earnings Yield %	P/E
1.	DLF	680.05	168416.70	1.58	44.87
2.	Macrotech Devel.	1172.65	116911.98	3.05	46.61
3.	Oberoi Realty	1640.25	59648.60	5.95	23.12
4.	Godrej Propert.	1929.75	58103.68	2.81	39.20
5.	Phoenix Mills	1600.05	57424.36	3.34	55.63
6.	Prestige Estates	1220.15	52619.76	4.08	90.33
7.	Brigade Enterpr.	1026.10	25080.02	5.10	39.36
8.	Sobha	1141.60	12181.77	2.39	200.13
9.	Raymond	1416.55	9423.65	5.47	29.60
10.	Mahindra Life.	368.80	5706.59	0.96	119.58
	Median: 10 Co.	1196.4	55022.06	3.19	45.74

*As per data available on public domains as on 12 February 2025

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COMPARATIVE PERFORMANCE INDICATOR

Name	Movement (%)			
	1 Months	6 Months	1 year	5 years
BSE Sensex	↓ 0.21	↓ 4.37	↑ 7.17	↑ 84.62
Nifty Realty	↓ 6.84	↓ 18.96	↓ 1.25	↑ 170.50
Mindspace Business Park REIT	↑ 0.85	↑ 9.31	↑ 12.43	↑ 22.10
Embassy Office Parks REIT	↓ 2.55	↓ 4.98	↓ 0.20	↓ 19.40
POWERGRID Infrastructure Investment Trust	↓ 1.37	↓ 13.21	↓ 15.95	↓ 21.08

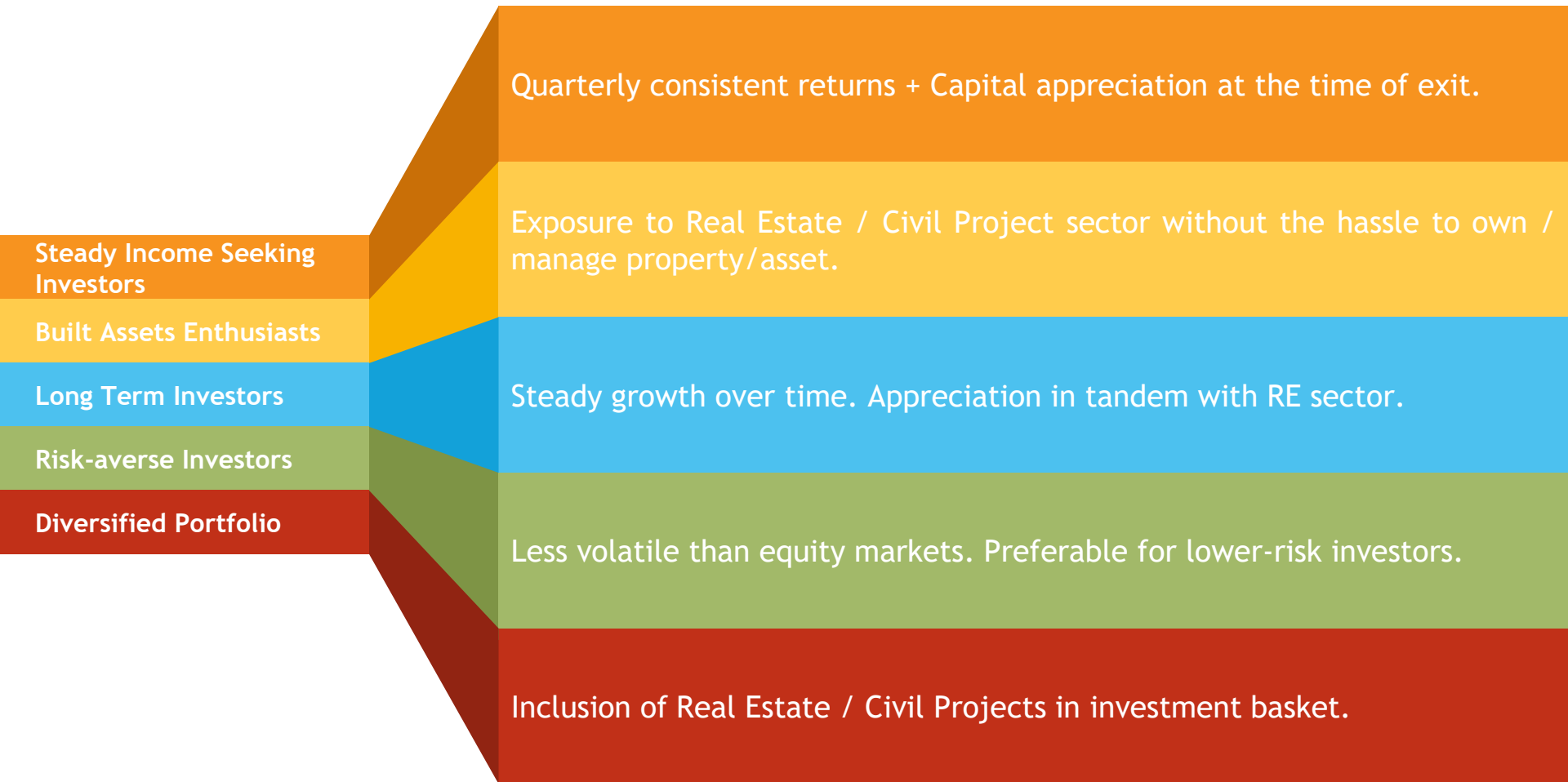
How do REITs/InvITs fair against the stock market index ?

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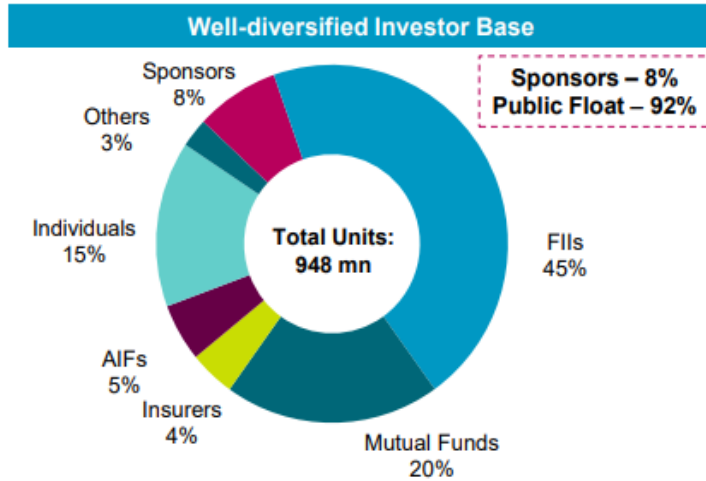
IDEAL INVESTORS FOR REITS / INVITS

IDEAL INVESTORS FOR REIT / INVIT



UNITHOLDING OF REITs

Embassy Office Park REIT

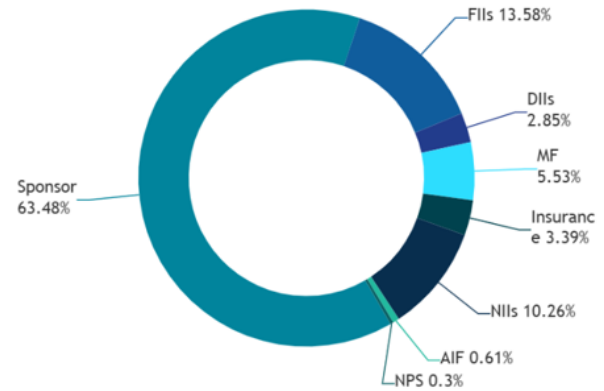


Top Institutional Investors

Category	Investors
FIIs	<ul style="list-style-type: none"> Capital Group Bain Capital The Vanguard Group BlackRock Fidelity International JP Morgan AM
DIIs	<ul style="list-style-type: none"> ICICI Prudential Mutual Fund HDFC Mutual Fund SBI Mutual Fund
AIFs	<ul style="list-style-type: none"> Kotak Real Estate Fund

Mindspace Business park REIT

Unitholding % (as on 31st December 2024)



Categories	%	No. of Units
Sponsor & Sponsor Group	63.48%	37,64,48,563
Foreign Portfolio Investors	13.58%	8,05,15,078
Bodies Corporates	2.85%	1,69,14,309
Mutual Funds	5.53%	3,28,02,647
Insurance Companies	3.39%	2,00,79,280
Non Institutions	10.26%	6,08,70,046
Alternative Investment Funds	0.61%	36,18,758
Provident/pension funds	0.30%	17,69,501
Total	100%	59,30,18,182

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COMMERCIAL ASPECTS: KEY DIFFERENCES

KEY DIFFERENCES - EQUITY v MUTUAL FUNDS v REITs v INVITs











Aspect	Equity	Mutual Fund	REIT	InvIT
Investment Focus	Direct Ownership in companies.	Stocks, bonds, or other securities	Real estate properties or real estate-related assets	Infrastructure assets like roads, power, etc.
Types of Assets	Broad range (equities, bonds, etc.)		Commercial, residential, or industrial properties	Infrastructure projects (roads, power, etc.)
Liquidity	Highly Liquidity.		Public REITs are traded like stocks throughout the day	Listed InvITs are traded like stocks, unlisted InvITs are traded like unlisted shares
Income Generation	Dividends or capital gains	Dividends, interest, or capital gains	Due to restriction on investment income generated by a REIT is primarily rental income or property sales	Income from infrastructure assets, primarily through leases or tolls
Risk	Business performance, market factors	Based on asset type (equity/bond)	Real estate market risks (e.g., property market or interest rates)	Infrastructure sector risks (e.g., regulatory, demand)

DISTINCTION - REIT V REAL ESTATE







DISTINCTION - REIT v REAL ESTATE

Parameters	REIT	Real Estate
ROI	 Relatively Lower	 Relatively Higher
Capital Requirement	 Starting with 2 Lakhs	 Capital Intensive
Liquidity	 Tradeable on SE	 Low Liquidity
Transaction Cost	 Low	 High
Diversification	 Widespread Investment	 Concentrated

DISTINCTION - REIT v REAL ESTATE

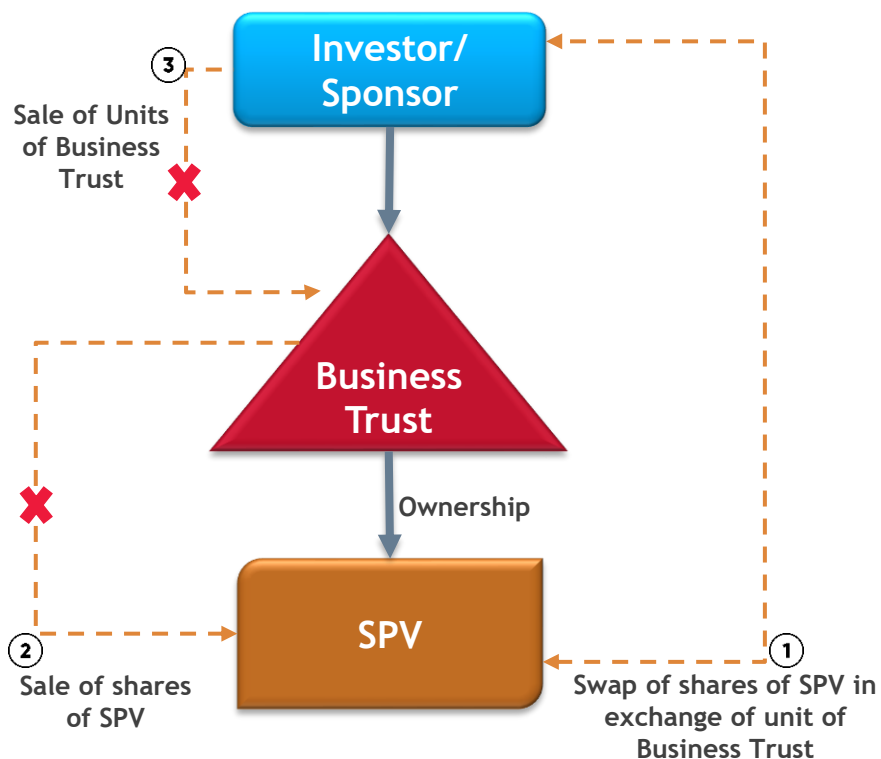
Parameters	REIT	Real Estate
Professional Management	 Professionally Managed	 Personally Managed
Control	 Professionally Managed	 Direct Control
Asset Associated risk	 Low Risk	 High Risk
Hassle of management	 Low	 High
Tenancy Related Issues	 No Issues	 Issues still persists

DISTINCTION - REIT v REAL ESTATE

Parameters	REIT	Real Estate
Protection of Asset	 High	 Low
Tax Efficiency	 Low	 Relatively High
Life Span of Asset	 Relatively low level of deterioration	 Relatively high level of deterioration

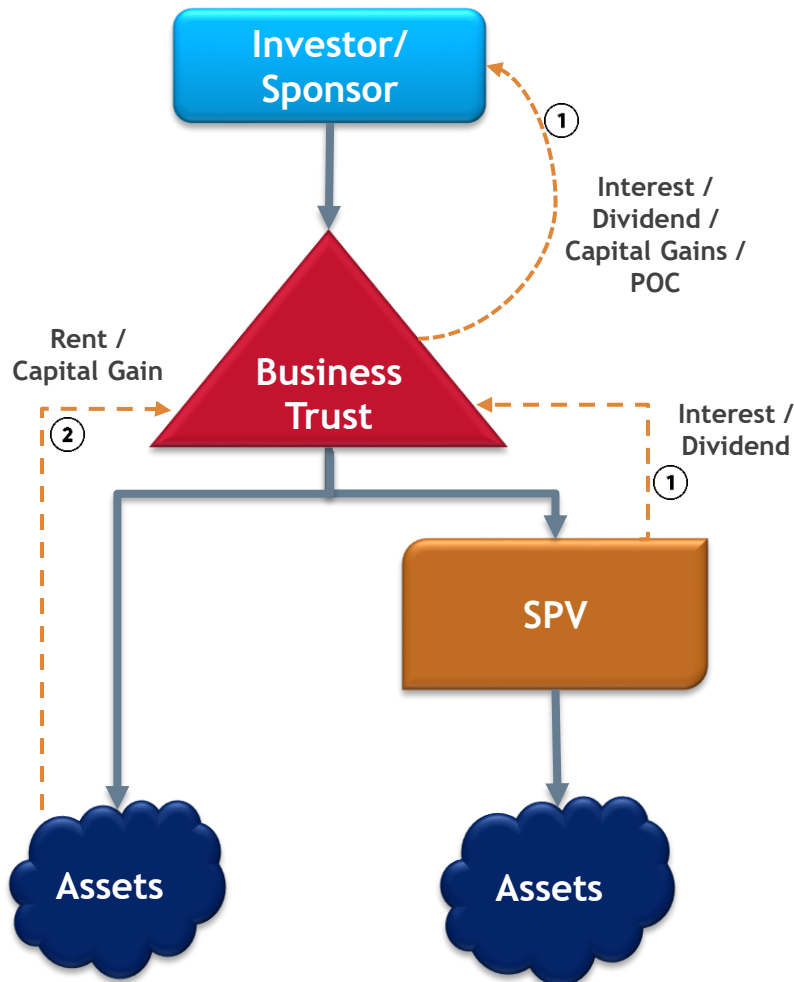
KEY TAX CONSIDERATIONS - REIT AND InvIT

TAX IMPLICATIONS - ENTRY, SWAP AND EXIT



Transaction	Business Trust	Unit Holders ¹
1. Swap of shares of SPV for units in Business Trust	Exempt [Sec. 47(xvii)]	Not Applicable
2. Sale of shares of SPV by the Business Trust	<ul style="list-style-type: none"> LTCG- 14.95% STCG Listed shares/ units - 23.92% 	Not Applicable
3. Sale of units of Trust	Not Applicable	<ul style="list-style-type: none"> LTCG- 14.95% STCG Listed shares/ units - 23.92%

TAX IMPLICATIONS - DISTRIBUTIONS



Income	Business Trust	Unit Holders ¹
1. Interest from SPV	Exempt [Sec. 10(23FC)]	Taxable
1. Dividend from SPV	Exempt [Sec. 10(23FC)]	<ul style="list-style-type: none"> • Opted 115BAA Taxable • Not opted 115BAA - Exempt [Sec. 10(23FD)]
2. Rental Income from Assets	Exempt [Sec. 10(23FCA)]	Taxable
2. CG on sale of assets	<ul style="list-style-type: none"> • LTCG - 14.95% • STCG - Listed shares/units - 23.92% • Other - MMR 	Exempt [Sec. 10(23FD)]
Any other Income (Other than CG)	Taxable at MMR ²	Exempt [Sec. 10(23FD)]

Notes:

1. Sec. 115UA(1) - Pass through status - Income distributed by a business trust shall be deemed to be of the same nature and in the same proportion in the hands of the unit holder as it had been received /accrued to business trust.
2. Maximum Marginal Rate of Tax - 42.74%

WITHHOLDING TAX IMPLICATIONS

Transaction	WHT Implication in the hands of SPV on distribution of income	WHT Implication in the hands of REIT/InvIT on distribution income ²
Interest received from SPV	Not applicable ¹	Section 194LBA Resident - 10% Non-resident - 5%
Dividend from SPV/Holding SPV	Not Applicable ¹	Section 194LBA a. <u>SPV / Holding SPV has opted for 115BAA :</u> Resident - 10% Non-resident - 10% b. Other - Not Applicable
Rent from REIT/InvIT Assets (properties)	Not Applicable ¹	Section 194LBA Resident - 10% Non-resident - Rates in force
Capital Gains of sale of REIT Assets and Shares of SPV	Not Applicable	Not Applicable
Any Other Income	WHT as per normal provisions	Not Applicable

Notes:

1. SPV is not required to withhold taxes on payment of interest / dividend to REIT u/s 194A(3)(xi) / 2nd Provision of sec. 194 sec. 3rd Proviso to 194-I.
2. Tax treaty benefits may be availed at the time of withholding of taxes in the case of distributions to Non-resident unit holders

REPAYMENT OF CAPITAL [SECTION 56(2)(xii)]

Particulars	Provision
Repayment of Capital against redemption of units of a business trust	Specified Sum Taxable u/s 56(2)(xii) (Finance Act, 2013)
Specified Sum	<p>A-B-C (which shall be deemed to be zero if sum of B and C is greater than A), where—</p> <ul style="list-style-type: none"> • A = aggregate of sum distributed by the business trust during the previous year or during any earlier previous years to unit holders, not in the nature of — <ul style="list-style-type: none"> ○ Interest / dividend exempt u/s 10(23FC) ○ Rental Income exempt u/s 10(23FCA) ○ Capital Gains u/s 111A, 112 and 112A • B = Issue price of the REIT/InvIT unit • C = Amount offered to tax as IFOS in preceding previous years
Exemption to specified persons u/s 10(23FE)	<ul style="list-style-type: none"> • Sovereign Wealth Funds • Pension Funds <p>If investments in the business trust are made up to 31 March 2025 (Proposed to extend up to 31 March 2030 - Finance Bill, 2025)</p>

KEY TAKE AWAYS

KEY TAKE AWAYS BASED ON OBJECTIVES OF AN INVESTOR



To allocate funds towards real estate rental earning sector



To diversify into less volatile sector, as compared to equity



To have consistent flow of return on investment



To invest in hard asset backed securities



To invest and earn compounded return on capital



To Purely diversify



To derive value from business growth (not necessary based on assets)

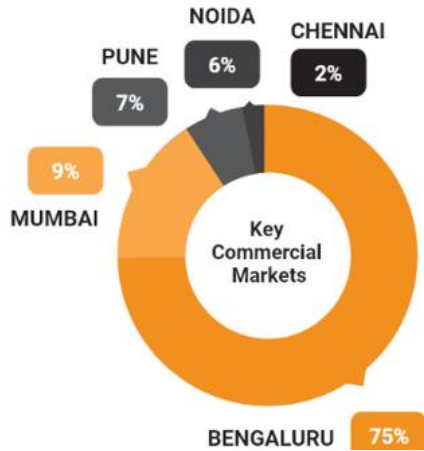


To invest in tax efficient product

REIT / Invlts can be part of your portfolio for RISK reduction and having a steady cash flow with a SWP in Equity / other products

PORTFOLIO OF REITs

Embassy Office Park REIT

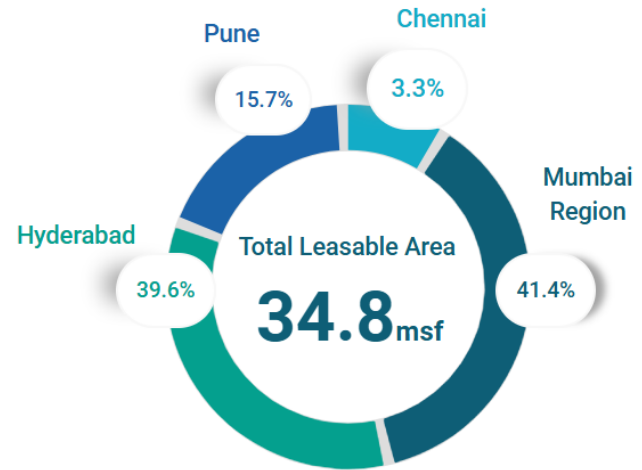


Quick Facts

Embassy REIT offers significant growth opportunities



Mindspace Business Park REIT



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QUESTIONS, IF ANY

CA HARRY PARIKH

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THANK YOU