REITs and InvITs

An Investment Avenue for Retail investors

August 2021

Building a better working world

Comparative Analysis vis-à-vis traditional investments

	Asset listing such as e.g. operating NHAI road assets, power transmission assets, office parks, office buildings etc.	**Listed Companies** Investment in listed shares
	REIT/ InvIT Units	**Equity Shares (Real estate/ Infra)**
Investment Characteristics	**Minimum lot size (100)*** **Freely transferable listed securities** **Professionally managed** **No entry / exit load**	No Minimum lot size Freely transferable listed securities Professionally managed No entry / exit load
Return profile	**Returns driven by capital appreciation and regular cash distribution (90% mandatory)****	Returns driven by capital appreciation and dividends (NOT mandatory)
Tax efficiency	**Dividends can potentially be tax exempt****	Dividends are taxable
Restriction on leverage	**Restricted to 49% Net debt / Total Enterprise Value*****	No restrictions
Exposure	**More stringently regulated**	Relatively more compared to REIT/ InvIT

**Reduced to 1 as per SEBI Board Meeting held in June 2021*
***Subject to conditions*
****In case of InvITs* can be increased to 70% subject to compliance with certain conditions

REIT/ InvIT – Benefits and considerations

Key benefits of Business Trust

Transparency

- ✓ *Strong governance framework and disclosure requirements*
- ✓ *High standard and transparency in the Real estate and infra sector*

Distribution & Liquidity

- ✓ Income stability due to requirement to *distribute at least 90% of cash flows* semi-annually
- ✓ *Listed Units are freely traded in stock markets like equity shares*
- ✓ Hedge against inflation in case of REITs as it includes income from lease rentals

IRR optimization

- ✓ Dividend income could be tax exempt in the hands of unitholders of REIT/ InvIT where the underlying SPVs have opted for old tax regime
- ✓ Arguably, non- applicability of thin capitalization interest disallowance norms for foreign investors

Asset Quality

- ✓ Fractional ownership in professionally-managed Grade A commercial assets

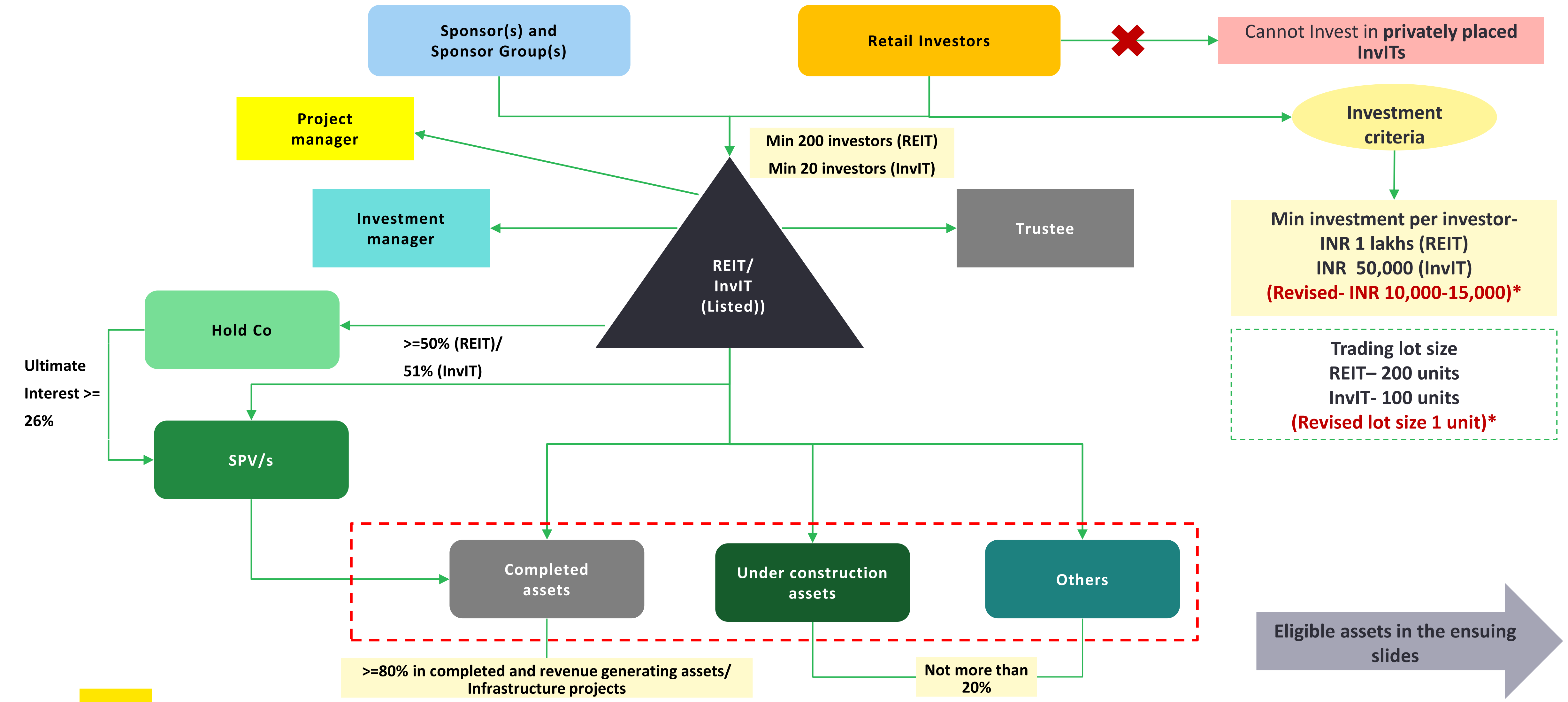
Diversification

- ✓ Investment in a high-quality diversified portfolio across sectors / cities
- ✓ Facilitation of ownership of diversified Real estate/ Infrastructure Assets for retail investors

While REITs/ InvITs do provide the investment opportunity to the retail investors for owning and making gains from growth of the real estate/ infrastructure assets, there are few commercial considerations

- Deviation in Projections vs Actual cashflows
- Dependency on occupancy rates, rental appreciation, etc (in case of REITs)
- Dependency on factors such as tariffs, utilisation, etc (incase of InvITs)

Typical Structure



**SEBI in its Board meeting in June 2021 has reduced the minimum subscription and lot size for REITs and InvITs*

EY

Eligible Assets

Particulars	REIT	Public InvITs (Listed)
Completed and revenue generating	>=80% of value of REIT/ InvIT assets	
Investment in under construction assets/ projects*	<=20% of value of REIT assets *(subject to conditions that such property will be held for atleast 3 years after construction)*	<=10% of value of InvIT assets
Uninvested funds: • Mortgage backed securities • Government securities • Money market instruments • Equity share of listed companies#	<=20% of value of REIT assets (including under-development assets)	<=20% of value of InvIT assets

*Investment in Vacant Land- Specifically prohibited
#Listed entity to derive 75%/80% of its operating income from real estate activity/ infrastructure sector (REIT/ InvIT)

What assets a REIT can own ?

Rental income

earning real estate projects

Commercial Sectors

Offices, hotels, retail, industrial, healthcare

(Composite RE)

NOT PERMITTED

Residential (houses, apartments)

Speculative landbank

Excludes any asset considered as 'Infrastructure'

What assets an InvIT can own ?

All infra sectors as per DEA harmonised list

Transport

(Roads and Bridges, railways, Ports etc.)

Energy, Water sanitization

(Electricity generation, solid waste management)

Communication (Telecommunicatioto wers etc.)
Social and commercial Infra (Cold Chain, Hospitals etc)

Key Tax Implications

Streams of Income	Taxable in the hands of			Withholding tax liability
	SPV	REIT/ InvIT	Unit holders	REIT/ InvIT
Interest income	Tax deduction available subject to tax WHT	Exempt	• Non resident ('NR') – 5%* • Residents – applicable rate	• Resident -10% • NR – 5%*
Dividend income	Tax deduction not available No WHT required	Exempt	• Exempt (if SPV / Hold Co has not opted for new tax regime) • Section 80M deduction on onward distribution	WHT on 'taxable' dividend income - 10% for R/ NRs*
Capital gains	Taxable as per normal provisions of the Act	Sale of unlisted shares taxable: ▪ LTCG (> 2 yrs) – 20%* (with indexation benefit) ▪ STCG – MMR	Income distribution in the nature of capital gains is Tax exempt Capital gains on sale of units (STT paid): ▪ LTCG (> 3 yrs)– 10%* ▪ STCG – 15%* For a sponsor: ▪ Period of holding of SPV shares to be included ▪ Cost of shares in specified SPV would be cost of acquisition *Subject to availability of treaty benefits to a NR*	-

**Other income earned by REIT/ InvIT is taxable at MMR*

**Plus applicable surcharge and cess*

If held by HNIs and trust, surcharge shall vary from 10% to 37% depending on total income- Highest surcharge rate for income above INR 5 crores shall be 37%

(Subject to any beneficial rate provided in DTAA)

Potential issues

- Political Risk/Court Intervention
- Potential risk of over valuation
- Lower rental yields in case of uncontrollable events
- Lack of liquidity
- Cash flow deviation
- Management risk
- Reduces IRR

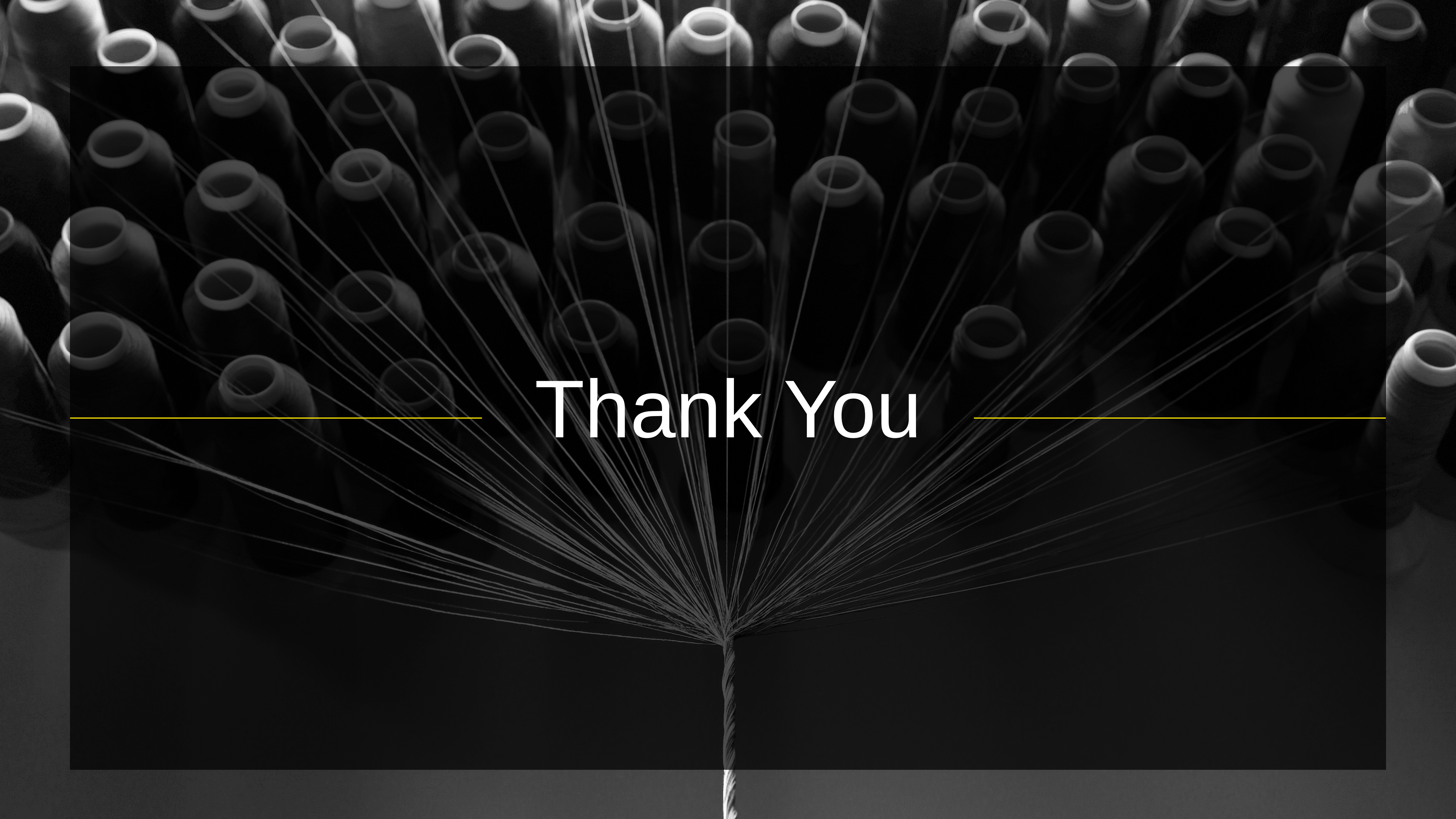
Rental income generated is low compared to other countries, including emerging markets

Longer the project, greater the risk of deviation in projections compared to the actual cash flow

Considering the relatively low liquidity for InvIT / REIT units on Indian stock exchanges, the bid-ask spread is relatively high and thus investors faces a risk of order execution

Competent Management is key to the success of the InvIT/ REIT and increasing unitholders' value/ returns

Short term gains on other investible funds taxable at MMR for REITs and InvITs could affect IRR



Thank You