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REAL ESTATE INVESTMENT TRUST (REIT'S) AND IT'S PROSPECTS IN INDIAN REAL ESTATE SECTOR

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Abstract

*Real Estate Sector is booming industry in India. This sector generates second highest employment after Agriculture. Beginning of the 21st Century Indian Economy take off with thriving tertiary sector Industry. BPOs, KPOs process work and retail industry are fasted growing and that will lead the demand of Commercial spaces in Tire-I and Tire-II cities. Due to highest demand in Residential as well as Commercial Spaces in Urban and Semi-urban areas. The Prices of real estate touched to the sky. Therefore, the affordability of investment to common man is not possible due to a short pocket. Lower income group of peoples are not enjoying the benefit of Investment in Real Estate Sector due to short savings in Hands. Therefore, Capital to the real estate sector and channelize funds of retail investors into the formal system by way of implementing SEBI (REITs) Regulations, 2014. With the help of that Government initiates the process of REITs in India which operate in a fashion similar to mutual funds. In 2016 budget, they passed the **Real Estate Regulators Bill**. SEBI will take care of the protecting of all real estate investors. Still this investment avenue is most neglected due to the structural complexity and lack of awareness in common people.*

Key Word*: Real Estate Sector, REIT's, Mutual Fund, SEBI etc.*

Objective

- To Study of Indian Real Estate Sector and Investment Avenues.
- To Study the Concept of REIT's.

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- To Study the Current Scenario and Prospective Growth in Futures.

Research Methodology

It consists of information that already exists somewhere and has been collected for specific purpose in the study. Secondary data for this study is collected for sources like Media Report, Press Releases, Articles, SEBI's Working Papers etc.

Indian Real Estate

Real estate sector is one of the most globally recognized sectors. It comprises of four sub sectors - housing, retail, commercial spaces and hospitality. Real estate sector is the second-highest employment generator, after the agriculture sector in Indian Economy.

Residential sector is a growing middle class due to rising income levels. Demographical change has boosted demand for more modern housing and home loans due to smaller household sizes. Meantime, increasing consumer spending power has encouraged growth in organized retailing — both Single and Multi-brand retail and the popularity of other large-scale retail property developments.

Indian real estate sector enjoying high growth in the recent times with rise in demand for commercial spaces as well as residential spaces. According to Colliers India, a property consultant, institutional investments in the Indian real estate sector are expected to increase by 4% to reach Rs. 36,500 crores in 2021, driven by rising interest of investors towards capturing attractive valuations amid the pandemic. According to a recent report by Colliers India, private equity investments in Indian real estate reached US$ 2.9 billion in the first half of 2021, which was a multiple of 2 increases from the first half in 2020.

In the commercial property segment, strong growth in the services sector particularly in the IT and ITES sectors and corporates' growing scale of operations have led to greater demand for commercial space, including modern offices, warehouses and lodging space.

As per ICRA estimates, Indian firms are expected to raise Rs. 3.5 trillion (US$ 48 billion) through infrastructure and real estate investment trusts in 2022, as compared with raised funds worth US$ 29 billion to date.

Introduction of REIT's

Real estate sector needed a thrust in India. In Tire-I and Tire-II cities, real estate work is good. But the benefit is not get by common man.

Because properties are expensive and are beyond the reach of low-Income group of Population. Average Income group of people can invest in only substandard properties. It is only the deep pockets who are benefited.

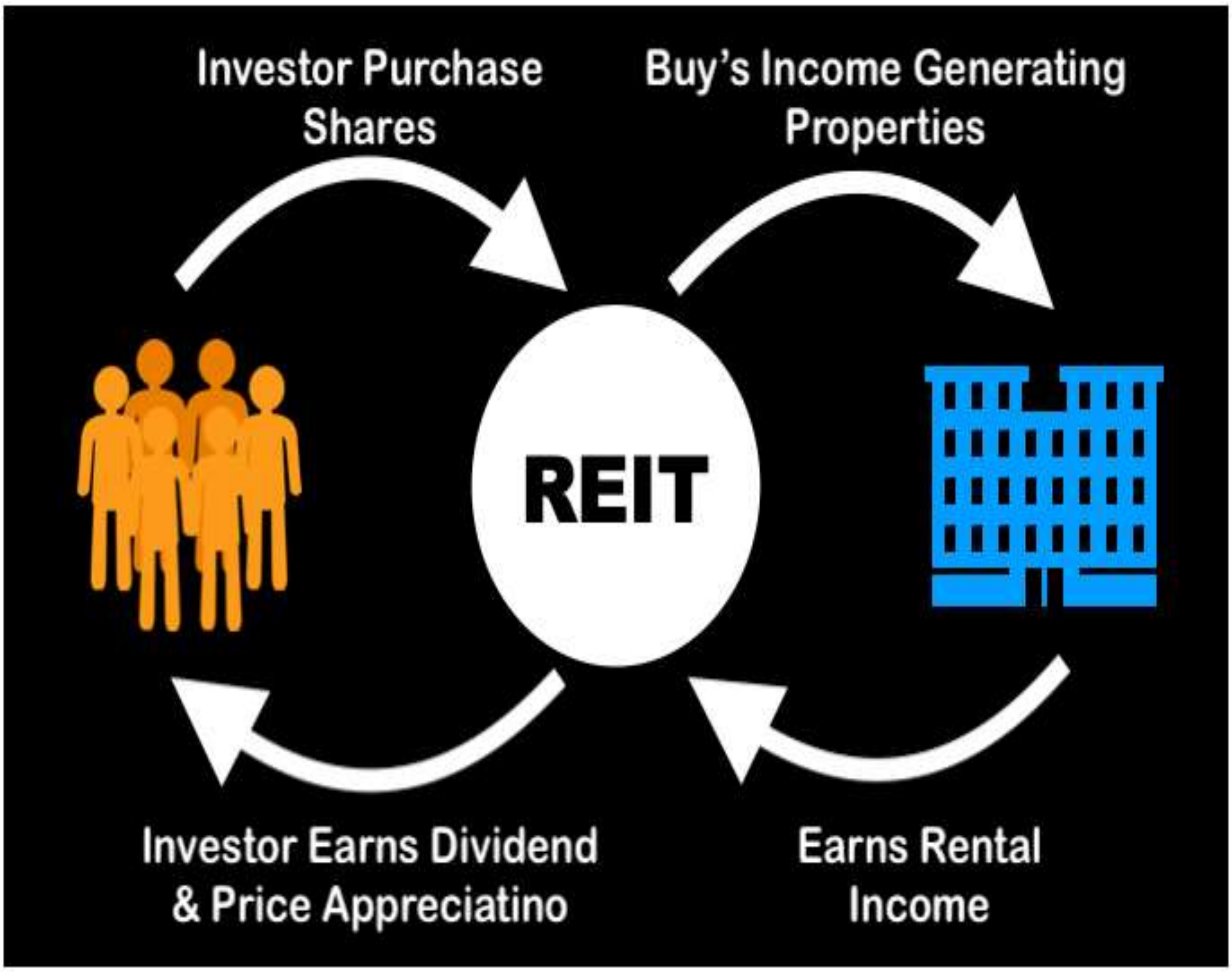
- In 2016 budget, government of India passed the **real estate regulators bill**. SEBI will take care of the protecting of all real estate investors.
- In 2019 March, IPO of India's first REIT was launched, Embassy REIT's.

Advantages of Investing in REIT's:

- **Less Capital Intensive:** Direct investment in real estate property is very capital intensive. But each unit of REITs will be comparatively more affordable because it's based upon Mutual fund principle.
- **Helpful for Small Investors:** Moreover, buying property directly exposes common men to the POWERFUL BUILDERS. Investing through REITs will eliminate dealing with developer altogether.
- **Transparency:** REITs units are traded in stock market. Hence all relevant details will all be available online for its investors.
- **Guaranteed Dividends:** REITs dividend payment is relatively assured. Most of their income is in the form of Lease rental income.
- **Tax Free:** Dividend earned by the investors of REIT will be tax free.
- **Capital Appreciation:** As Embassy REIT is first of its kind in India, its capital appreciation in next 5/7 years can be phenomenal.
- **Easy to buy:** Buying REITs will eliminate all these steps instead of directly a Buying Property. REIT's is also regulated by a regulator which will further eliminate the chances of any bungling commonly done by substandard-builders.

REIT's are similar to mutual funds units. They earn money on following ways:

- **Dividend:** REIT's pay dividends to its unitholders.
- **Capital Appreciation:** As REIT's units are listed in BSE and NSE, price appreciation of its shares will also make money.



Sources: What is REIT India? Whether to Invest or Avoid? - GETMONEYRICH (20-03-2021)

Types of REIT's:

- **Equity REIT's:** they own large real estate properties like shopping malls, office spaces, residential townships etc. Equity REITs make money by giving these properties on rents or long-term lease basis. The earned lease rental income form that they distributed among the REITs unitholder as a dividend.
- **Mortgage REIT's:** they are not the owner of properties. Big real estate projects financed by them. Means, they get cash flow returns from Instalment payback against those properties from the developer, builder or owners. These earned income in form of cash flow returns from Instalment payback and then distributed among the REITs unitholder as a dividend.

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Current Scenario and Future Prospects of REIT's in India.

Real Estate Investment Trusts, have recently gaining a lot of interest from Indian investors, who have a genuinely interested for real estate investment. REITs are a type of pooled investment vehicle that owns, operates, and finances real estate assets that generate income.

REITs must invest 80% of their assets in established and income-generating assets, according to Sebi regulations. REITs permitted currently only to invest in commercial real estate and office premises.

They must pay out 90 percent of their lease rental income as a dividend. REITs also earn interest income through special purpose vehicles (SPVs) with help of loan syndication process, which they use to hold properties. They make loans to SPVs and then distribute the interest to REIT's unitholders.

In the earlier start of 2021 with the successful launch of India's third REIT sponsored by an affiliate of Brookfield Asset Management. India's real estate sector has accelerate with some landmark transactions in the recent time – starting from the successful launch of Mindspace REIT, the first secondary equity raising by Embassy REIT and the sale of two of the largest portfolios deals on record.

India's REIT market will enter a period of longer growth, with more REITs forecast to be listed in 2021 and beyond. According to JLL report, the number of buyers and sellers will broaden significantly with the listing of more REITS in India, further increasing market liquidity and yield compression, and the incentive to securitise property assets.

Bengaluru is India's largest source for potential assets available for securitisation, accounting for 31% or 88 million sq. ft. of REIT worthy asset, valued at USD 11.16 billion (INR 81,468 crores). The city, with large IT spaces, housing global occupiers, will be the most favoured market for newly listed REITs, allowing for the aggregation of assets into managed structures.

REIT worthy assets/ Stocks across other major Indian cities

City	In (mn sq ft)	In %	Value USD bn	Value INR cr
Delhi NCR	48.3	17%	6.48	47,304
Mumbai	36.9	13%	6.84	49,932
Chennai	36.9	13%	4.68	34,164
Hyderabad	36.9	13%	3.24	23,652
Pune	31.2	11%	3.24	23,652

Sources: JLL Research

The listed markets in India performed well, providing confidence in the future of the India REIT sector. The successful New fund offering (NFO) of two new REITs and the first secondary equity raising by an existing REIT in the last 12 months ensured that the total listed REIT market capitalisation grew by USD 1.62 billion, this will expanding the investment horizon for retail and institutional investors.

As per the JLL Research report, these transactions were made possible even during a pandemic, as REIT's have transformed India's real estate finance prospective and market liquidity, in many respects.

Conclusion

REIT are innovative but may not be right for everyone. The REIT as an instrument has not been very successful due to several factors like low rents for the commercial real estate and the performance of commercial real estate including the litigation are differ with the geographical locations. Though a lot has been done to stretch investments in REIT's, further regulatory incentives coupled with taxation benefits are required to be provided to the investors to make REIT's a real success in India and attract the desire investors.

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