**SIMPLIFYING INVESTMENTS IN REAL ESTATE THROUGH REAL ESTATE INVESTMENT TRUSTS (REITs)**

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**ABSTRACT**

Real Estate Investment Trusts (REITs) are a relatively new financial instrument in India's real estate market. This research paper explores the conceptual framework of REITs in India and provides an overview of the current scenario and the way ahead.

The paper begins with an introduction to REITs and their importance in the Indian real estate sector. It then delves into the regulatory framework governing REITs in India and highlights the key regulatory changes that have taken place over the years. The paper also provides a comprehensive analysis of the current status of REITs in India. This includes an overview of the current market size, the types of properties that are included in REIT portfolios, the major players in the Indian REIT market, and the challenges faced by these players. Finally, the paper discusses the way ahead for REITs in India. This includes an analysis of the potential growth opportunities for REITs, the steps that need to be taken to attract more investors to this sector, and the role that REITs can play in the development of India's real estate market.

Overall, this research paper provides a valuable insight into the conceptual framework of REITs in India and offers practical recommendations to help stakeholders navigate the challenges and opportunities presented by this emerging market

**Keywords: REITs, Real Estate, Investment Trusts, Special Purpose Vehicles, Derivative Securities, SEBI**

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**INTRODUCTION TO REAL ESTATE**

In general context, real estate refers to *“property consisting of land and the buildings, structures, and natural resources attached to it. This includes residential as well as commercial properties, such as houses, apartments, office buildings, retail spaces, and industrial properties.”* Real estate can also include undeveloped land, such as vacant lots or farms. The ownership and use of real estate is governed by laws and regulations, and the real estate market involves the buying, selling, and leasing of these properties. Real estate is often considered a valuable investment because it tends to appreciate in value over time, and can generate income through rent or lease agreements.[[5]](#footnote-5)

Real estate regulation in India is primarily governed by the RERA Act, 2016 [[6]](#footnote-6). This law was enacted to bring transparency and accountability to the real estate sector, and to protect the interests of homebuyers and investors.

Under RERA, real estate developers have to register the projects with the appropriate state regulatory authority, and provide necessary information about the project like its completion timeline, amenities, and pricing. They are also required to maintain a separate escrow account for each project, into which a minimum of 70% of the project's funds must be deposited. This is intended to ensure that developers use the funds for the specific project, and that homebuyers' investments are protected.

RERA also establishes a mechanism for resolving disputes between homebuyers and developers, and imposes penalties and fines for non-compliance with its provisions.

In addition to RERA, real estate transactions in India are also subject to various other laws and regulations, including the Transfer of Property Act,[[7]](#footnote-7) Indian Stamp Act[[8]](#footnote-8), and Income Tax Act[[9]](#footnote-9). The Goods and Services Tax (GST) also applies to the sale of under-construction properties, while completed properties are subject to stamp duty and registration fees

***Real Estate Business Vis-À-Vis Investment***

There are several ways to invest in real estate other than the REITs, and here are some of the most common approaches[[10]](#footnote-10):

1. ***Buying and Holding Properties***:

One of the most common ways to invest in real estate is to buy and hold properties. This involves purchasing a property, such as a house, apartment, or commercial building, and holding onto it for an extended period of time while collecting rental income and waiting for the property to appreciate in value.

1. ***Flipping Houses***:

Another popular way of investing in the real estate sector is to buy a property, fix it up, and sell it for a profit. This is known as flipping houses, and it can be a lucrative way to make money in real estate.

1. ***Real Estate Mutual Funds***:

Real estate mutual funds are funds that invest in a portfolio of real estate assets. These funds are managed by professional investors, and they offer diversification and liquidity, as you can buy and sell shares in the fund.

1. ***Real Estate Crowd-funding***:

Real estate crowdfunding is a process of investing in real estate by pooling your money with other investors to purchase a property. This can be done through an online platform, and it allows you to invest in real estate with a smaller amount of capital.

1. ***Real Estate Syndication***:

Real estate syndication involves pooling together money from multiple investors to purchase a property. In this scenario, the investors have a shared ownership in the property and share in the rental income and any appreciation in value. This type of investment is typically managed by a professional real estate investment company or sponsor.

**INVESTMENT TRUSTS – GENESIS**

***Introduction***

An investment trust is a form of mutual fund that pools funds from various investors to invest in a diverse portfolio of assets such as stocks, bonds, and other securities. They are frequently traded on the stock exchanges, thus, allowing investors to buy and sell the units on the open market.

Professional fund managers make investment decisions on behalf of the trust's shareholders in investment trusts. By investing in a diverse range of assets, the fund management hopes to produce long-term financial appreciation for the trust's participants. The trust's investment objectives and policies, which are detailed in the prospectus, drive the fund manager's investment decisions.

One of the key features of investment trusts is that they are closed-ended, meaning that there is a fixed number of shares in the trust. This is different from open-ended funds, such as mutual funds, where the number of shares can vary based on investor demand. Because investment trusts have a fixed number of shares, the prices of which can be influenced by supply and demand factors and can trade at a premium value or a discounted value to the original net asset value (NAV) of the trust's underlying assets.

Investment trusts also offer a number of benefits to investors, including access to a diverse portfolio of assets, professional investment management, and the ability to trade shares on a stock exchange. However, they can also carry risks, including market risk, liquidity risk, and the potential for the shares to trade at a discount to the NAV. It's important for investors to carefully consider their investment objectives, risk tolerance, and other factors before investing in an investment trust.

***Regulation of Investment Trusts in India[[11]](#footnote-11)***

Investment trusts are regulated by the SEBI[[12]](#footnote-12) in India. SEBI is the regulatory body that oversees the securities market in India and is responsible for regulating mutual funds to protect investors' interests and maintain market integrity.

SEBI has established a comprehensive regulatory framework that governs the establishment, operation, and management of investment trusts in India. This regulatory framework covers various aspects of investment trusts, including the registration process, disclosure requirements, investment restrictions, and pricing rules. The regulatory framework also sets out the role and responsibilities of various stakeholders involved in the investment trust ecosystem, such as trustees, asset management companies, custodians, and registrars.

SEBI has implemented various measures over the years to enhance the transparency and accountability of investment trusts in India. For instance, SEBI has mandated investment trusts to disclose their portfolio holdings and investment strategies regularly. SEBI has also set up a system for rating investment trusts, which helps investors make informed investment decisions.

Overall, SEBI's regulatory framework has played a crucial role in the development of India's mutual fund industry, which has grown significantly over the years and has become an important source of funding for various sectors of the economy.

**REAL ESTATE INVESTMENT TRUSTS (REITs)**

***Introduction***

A Real Estate Investment Trust (REIT) is a legal entity that pools capital from various investors to invest in income-generating real estate properties.[[13]](#footnote-13) The trust then distributes the income generated from these properties to its investors in the form of dividends. REIT owns, operates, and finances income-producing real estate. REITs are like mutual funds, in that they pool capital from multiple investors to purchase a diversified portfolio of properties, including office buildings, retail centers, apartments, hotels, and other types of commercial real estate.[[14]](#footnote-14)

To qualify as a REIT, a company must meet certain requirements, including:

1. ***Ownership:*** A REIT must own substantial portion of its assets in real estate, cash, or government securities.
2. ***Income:*** REIT's gross income must come from rent, interest on mortgages, or gains from the sale of real estate assets.
3. ***Distribution:*** A REIT must pay out a substantial amount of its taxable income to shareholders in the form of dividends.
4. ***Shareholders:*** A REIT must have shareholders and the control shall not be concentrated amongst few shareholders, rather it should be diversified.[[15]](#footnote-15)

There are several types of REITs, including[[16]](#footnote-16):

1. ***Equity REITs***:

Equity REITs invest in and own income-generating real estate properties, such as office buildings, retail centers, and apartments. These REITs earn income through rent payments from tenants and capital appreciation from the properties they own.

1. ***Mortgage REITs***:

These REITs invest in mortgages and other real estate debt instruments. They earn income through the interest payments they receive from borrowers on the mortgages they hold. Mortgage REITs may also invest in mortgage-backed securities and other types of debt securities.

1. ***Hybrid REITs***:

These REITs combine the strategies of equity REITs and mortgage REITs by investing in both real estate properties and mortgage securities. This allows them to diversify their portfolios and potentially earn income from both sources.

1. ***Retail REITs***:

These REITs invest in retail properties, such as shopping centers and malls. They earn income through rent payments from tenants, and their performance is often tied to the strength of the retail industry.

1. ***Office REITs***:

These REITs invest in office buildings and other commercial properties. They earn income through rent payments from tenants, and their performance is often tied to the strength of the commercial real estate market.

1. ***Residential REITs***:

These REITs invest in residential properties, such as apartments and single-family homes. They earn income through rent payments from tenants, and their performance is often tied to the strength of the rental market.

1. ***Industrial REITs***:

These REITs invest in industrial properties, such as warehouses and distribution centers. They earn income through rent payments from tenants, and their performance is often tied to the strength of the industrial real estate market.

1. ***Healthcare REITs***:

These REITs invest in healthcare-related properties, such as hospitals, medical offices, and nursing homes. They earn income through rent payments from tenants, and their performance is often tied to the strength of the healthcare industry.

1. ***Infrastructure REITs***:

These REITs invest in infrastructure-related properties, such as toll roads, airports, and communication towers. They earn income through rent payments from tenants, and their performance is often tied to the strength of the infrastructure market.

***Advantages of REITs***

REITs offer several benefits to investors, including:[[17]](#footnote-17)

1. ***Diversification****:*

Investing in REITs can lead to a diversified investor's portfolio. By investing in a REIT, an investor is gaining exposure to a diverse range of properties, sectors, and geographies. This can reduce chances of risk, as losses from one property or sector can be offset by gains from others.

1. ***Passive Income:***

REITs are bound by law to pay by way of dividend, at least 90% of their taxable income, to the holders. This means that investors can earn passive income from their investment in a REIT, which can be particularly attractive for investors who are seeking regular cash flow.

1. ***Potential for Capital Appreciation***:

In addition to providing a steady stream of income, REITs can also offer the potential for capital appreciation. As the value of the properties owned by the REIT increases, so too does the value of the shares in the REIT. This can allow investors to realize gains when they sell their shares.

1. ***Liquidity***:

REITs are traded on major stock exchanges, making them a highly liquid investment. This means that investors can buy and sell shares in a REIT quickly and easily, without the need for a long-term commitment.

1. ***Professional Management***:

REITs are managed by experienced professionals having deep understanding of the market concerning real estate. This means that investors can benefit from the expertise of these professionals, without needing to have their own knowledge or experience in real estate investing.

1. ***Tax Benefits***:

REITs can offer tax benefits to investors. They are not subject to corporate income tax because of high dividend payout. Additionally, because REITs are classified as pass-through entities, investors only pay taxes on their share of the REIT's income, rather than on the REIT's entire income.

***Conceptual Framework in India***

In India, REITs are regulated by the Securities and Exchange Board of India (SEBI) under the SEBI (Real Estate Investment Trusts) Regulations, 2014[[18]](#footnote-18).

To be registered as a REIT in India, a trust should have a minimum net worth of 500 crore rupees and a minimum of two projects under its portfolio. Additionally, a minimum 80% of the total value of assets of the trust must be invested in completed and revenue-generating real estate properties. The remaining 20% can be invested in under-construction properties, mortgage-backed securities, and other permissible investments[[19]](#footnote-19).

REITs in India are required to distribute at least 90% of their income to investors as dividends and are also required to distribute dividends on a quarterly basis. The dividends received by investors are taxed as per their respective income tax slabs.[[20]](#footnote-20)

Investors can invest in REITs through an initial public offering (IPO). REITs in India are traded on the stock exchanges, providing investors with an opportunity to invest in the real estate sector without the hassles of property ownership

These were introduced in 2014 to enable the public to invest in real estate assets.

REITs in India are required to adhere to SEBI regulations regarding governance and reporting, including regular disclosures and audits. The trustee and sponsor of the REIT are responsible for ensuring compliance with these regulations.

***Regulatory Framework***

SEBI (Securities and Exchange Board of India) issued regulations for Real Estate Investment Trusts (REITs) in India to provide a platform for retail investors to invest in the real estate market. Here is a summary of the SEBI (REIT) Regulations, 2014 [[21]](#footnote-21)[[22]](#footnote-22):

1. ***Eligibility***:

A REIT must be a trust registered under the Indian Trusts Act, 1882, and have a minimum net worth of Rs. 500 crores. The REIT should have at least two projects, and the size of each project should not be less than Rs. 500 crore and the combined value of all projects owned by the REIT must be at least Rs. 1,000 crore. Additionally, the trustee of the REIT must have a minimum net worth of Rs. 1 crore.

1. ***Investment***:

A REIT shall invest at least 80% of its assets in completed and revenue-generating real estate properties. The remaining 20% can be invested in under-construction properties or other approved investments. These assets must be held for at least three years. However, investment in equity shares of a developer is not allowed.

1. ***Minimum offer size***:

The minimum offer size for an initial public offering (IPO) of a REIT is Rs. 250 crore. The minimum subscription size for an investor is Rs. 1 lakh. However, investors must hold a minimum of 200 units of the REIT.

1. ***Listing***:

A REIT must be listed on a recognized stock exchange within 12 days of the closure of the initial offer.

1. ***Distribution***:

The REIT must distribute at least 90% of the net distributable cash flows to unit holders on a half-yearly basis. The remaining 10% can be retained as reserves for the distribution in the following years.

1. ***Related party transactions***:

A REIT is required to obtain approval from unit holders for related party transactions exceeding 5% of the REIT's total asset value.

1. ***Governance***:

The REIT must have an independent trustee, a manager, and a principal valuer. The manager is responsible for the management of the REIT's assets. The REIT must have a minimum of three independent directors on its board. Additionally, the REIT must have a principal valuer to value its properties, and an asset management company (AMC) to manage its assets.

1. ***Leverage***:

A REIT can borrow up to 49% of its total asset value. However, the total debt of the REIT cannot exceed 2.5 times its net worth.

***Current Scenario***

Real Estate Investment Trusts (REITs) have become an increasingly popular investment option for investors in India over the past few years. REITs are a type of investment vehicle that allow individuals to invest in real estate without actually owning property, by buying shares in a trust that owns and operates income-generating real estate assets.

There are several reasons why investors are increasingly turning towards REITs in India. Firstly, REITs provide investors with a relatively low-risk investment opportunity, as they are required by law to distribute a majority of their income as dividends to shareholders. This means that investors can earn regular income from their investment without having to worry about the risks associated with owning and managing physical real estate.

Secondly, REITs in India are regulated by the Securities and Exchange Board of India (SEBI), which provides investors with a level of transparency and oversight that is not typically available in the real estate market. This regulatory oversight helps to mitigate some of the risks associated with real estate investments, such as fraud, mismanagement, and market volatility.

Finally, the Indian government has introduced several tax incentives to encourage investment in REITs, such as tax exemptions on capital gains and dividend income. These incentives make REITs an attractive investment option for both domestic and foreign investors.

Overall, the trend towards REITs in India is likely to continue in the coming years, as more investors become aware of the benefits of investing in these vehicles. As the Indian real estate market continues to mature, REITs are likely to become an increasingly important part of the investment landscape, providing investors with a convenient and low-risk way to invest in one of the fastest-growing real estate markets in the world.

***The Way Ahead***

Real Estate Investment Trusts (REITs) have been introduced in India recently and are still in their early stages of development. Here are some suggestions to improve the situation of REITs in India:

1. ***Taxation***:

The taxation policies for REITs need to be made more favorable to attract more investors. Currently, dividends received from REITs are taxed at the highest tax bracket. Tax exemptions or reduction in taxes for REITs can encourage more investment in this sector.

1. ***Regulations***:

Regulations governing REITs need to be made more transparent and investor-friendly. The Securities and Exchange Board of India (SEBI) has already taken some steps to ease the regulations for REITs. More measures can be taken to make the process of investing in REITs easier and more accessible.

1. ***Increasing awareness***:

More awareness needs to be created among investors about REITs. The benefits of investing in REITs, the risks involved, and the returns expected need to be communicated to potential investors. This can be done through various channels such as social media, seminars, and workshops.

1. ***Diversification of REIT portfolios***:

REITs need to diversify their portfolios to include different types of assets such as commercial properties, residential properties, and warehouses. This can reduce the risk associated with investing in a single type of asset.

1. ***Investor education***:

Investors need to be educated about the basics of REITs such as how they work, the benefits, and the risks involved. This can be done through educational programs or workshops organized by SEBI or other financial institutions.

1. ***Improving liquidity***:

REITs need to improve their liquidity by increasing the number of investors and the volume of trading. This can be achieved by improving investor confidence, increasing awareness, and creating a more efficient trading system.

By implementing these suggestions, the situation of REITs in India can be improved, which can ultimately lead to increased investment and growth in the real estate sector

**CONCLUSION**

Overall, the SEBI (REIT) Regulations aim to provide a regulatory framework for REITs in India, allowing investors to invest in the real estate sector in a transparent and regulated manner. The SEBI (REIT) Regulations provide a framework for the establishment, operation, and listing of REITs in India. The regulations aim to provide retail investors with a regulated platform to invest in the real estate sector and provide liquidity to developers. The regulations ensure transparency, good governance, and investor protection.

REITs in India provide an investment opportunity for investors to participate in real estate assets without owning the underlying property. With their tax benefits and income distribution, REITs can provide a stable and regular source of income for investors.

Investing in REITs can provide investors with exposure to the real estate market without the hassle of managing properties themselves. However, like all investments, REITs come with risks, including the potential for fluctuations in real estate values, interest rates, and economic conditions. Therefore, it is essential to conduct thorough research and analysis before investing in a REIT.

In conclusion, the Real Estate Investment Trusts (REITs) framework in India has come a long way since its inception in 2014, and has the potential to play a significant role in channeling investment into the Indian real estate sector. Despite the challenges that have been faced by the industry, such as the COVID-19 pandemic and the regulatory framework, the REITs market has shown resilience and continued growth. Going forward, there is a need for further regulatory reforms and investor education to boost the REITs market and realize its full potential. With the right policies and measures in place, REITs can emerge as a viable investment option, providing liquidity, diversification and long-term returns to investors, while also contributing to the growth and development of the Indian real estate sector.

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