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Exploring the new investment world of REIT

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Introduction

What is REIT?

Overview

Real Estate Investment Trusts (REITs) are companies that own or finance income-producing real estate in a range of property sectors. They provide all investors the chance to own valuable real estate, present the opportunity to access dividend-based income and total returns, and help communities grow, thrive and revitalise.

REITs allow anyone to invest in portfolios of real estate assets the same way they invest in other industries – through the purchase of individual company stock or a mutual fund or exchange traded fund (ETF). The stockholders of a REIT earn a share of the income produced through real estate investment – without actually having to go out and buy, manage or finance property.

These companies have to meet a number of requirements to qualify as REITs. REITs are registered with the Securities and Exchange Board of India (SEBI) under SEBI (REITs) Regulations, 2014 (the Regulation) as amended from time to time. It is mandatory for units of all REITs to be listed on a recognised stock exchange having nationwide trading terminals, whether publicly issued or privately placed.

Background

Table: General Introduction

| Year | Citation | REIT Type | REIT Market |
|-------------------|---|-----------|--|
| 26 September 2014 | Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014 ('REIT Regulations') – certain modifications/amendments are made from time-to-time via press release and notifications | Trust | As of this date, there are no registered Real Estate Investment Trusts ('REIT') in India. In September 2018, draft offer document was filed by Embassy Office Parks with SEBI A variation of REITs for the infrastructure sector is Infrastructure Investment Trust (InvITs) and, currently, three InvITs have been listed. The move by the government to allow foreign investments in REITs and rationalisation of the taxation regime is expected to enable the launch of successful REIT listings in India. Several foreign REITs have, however, been investing in Indian assets over the last decade |

Source: Global REIT Survey 2018¹

REIT Categories

Equity REITs

The majority of REITs are publicly traded equity REITs. Equity REITs own or operate income-producing real estate. The market and National Association of Real Estate Investment Trusts (Nareit)² often refer to equity REITs simply as REITs.

Mortgage REITs

REITs provide financing for income-producing real estate by purchasing or originating mortgages and mortgage-backed securities and earning income from the interest on these investments.

Public non-listed REITs (PNLRs)

PNLRs are registered with the SEC but do not trade on national stock exchanges.

Private REITs

Private REITs are offerings that are exempt from SEC registration and whose shares do not trade on national stock exchanges.

¹ http://prodapp.epra.com/media/Global-REIT-Survey_Web_20180830_1535727364551.pdf

² Nareit is the worldwide representative voice for real estate investment trusts—REITs—and publicly traded real estate companies with an interest in U.S. real estate and capital markets. Nareit advocates for REIT-based real estate investment with policymakers and the global investment community.

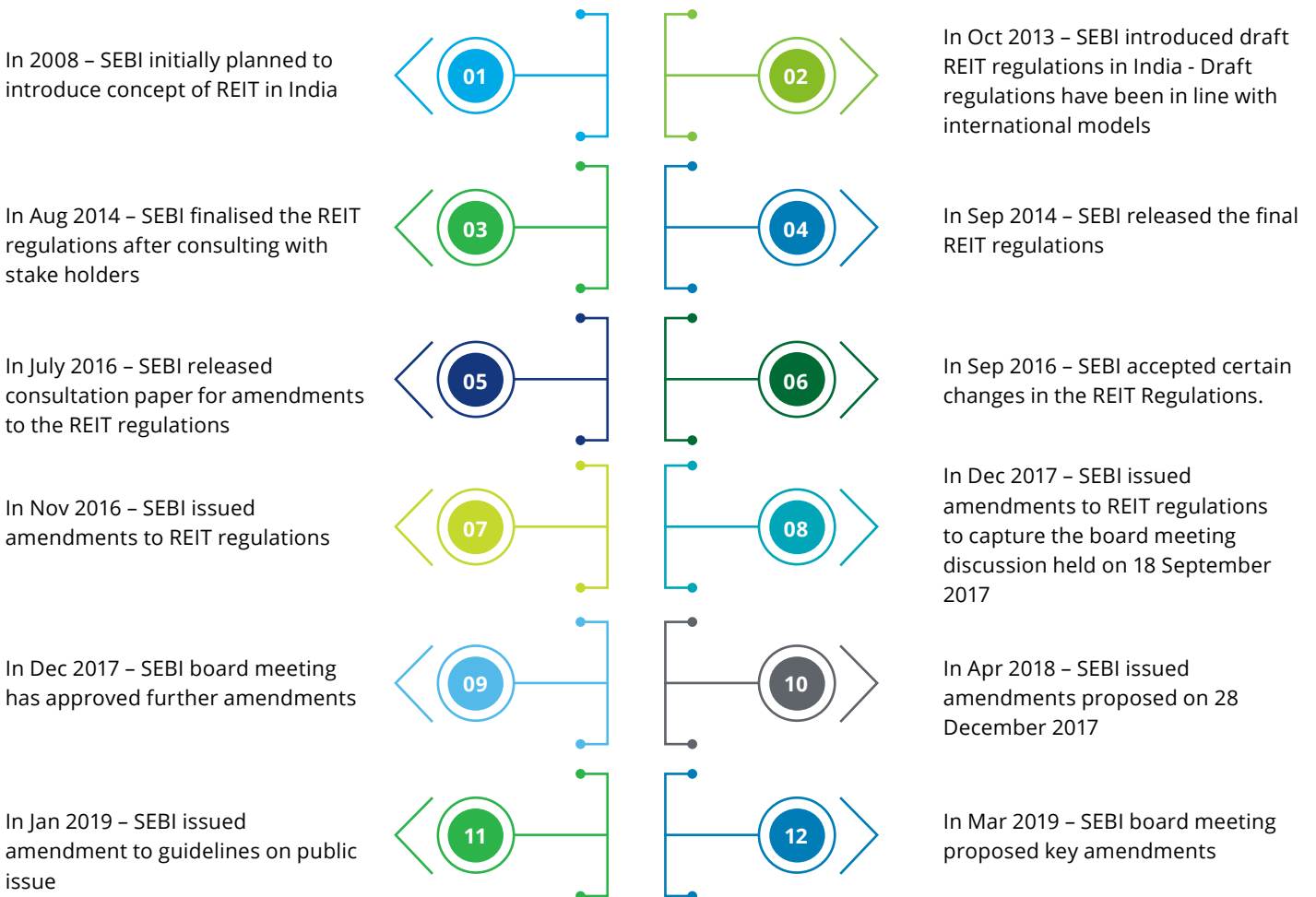


Concept of REIT

Concept of REIT now exists in several countries worldwide such as Australia, Singapore, Japan, France, UK, etc.

- For real estate developer - Alternate funding mechanism and provides liquidity
- For investor – Access to high value real estate and earn steady returns

Based on the global experience, SEBI has introduced REIT regulations in India. The developments are listed below:



Structure/Value chain stakeholders

REIT will be set up as a Trust under the Indian Trusts Act, 1982.

It has to be registered with SEBI.

REIT to hold specified assets:

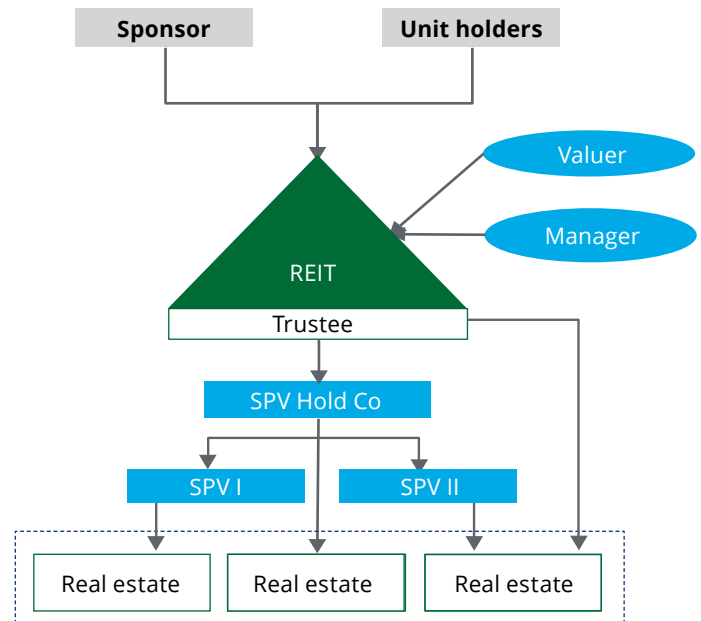
- Directly or through SPV holding real asset assets; or
- Invest in SPV which have investments in other SPVs which subsequently hold real estate assets (hold co structure)

Key stakeholders of REIT

- Sponsor to set up REIT and appoint trustee
- Trustees to hold assets on behalf of and for the benefit of investors
- Manager to assume operational responsibility of REIT
- Valuer to ensure fair and transparent valuation
 - In respect of financial valuation
 - In respect of technical asset valuation

What are assets in which REIT can invest?

Eligible Assets/Investments



Limits on Holding

| Particulars (Assets that REIT can hold ³) | Key Provisions - REIT |
|--|--|
| Minimum 80% | <ul style="list-style-type: none"> • Completed and rent and/or income generating properties • Excluding vacant or agriculture land or mortgage • Following considered in the definition of Infrastructure will now be allowed under REIT: <ul style="list-style-type: none"> - Hotels, hospitals and convention centers forming part of composite real estate projects - Common infrastructure for composite real estate projects, industrial parks and SEZ |
| Maximum 20% | <ul style="list-style-type: none"> • Under construction properties (including part of existing income generating properties owned by REIT) which will be held by REIT for at least three years after completion; • Completed and not rent generating properties which shall be held by REIT for at least 3 years from date of purchase; • Debt securities in real estate companies whether listed or unlisted, • Government securities, • Mortgage backed securities, • Listed and unlisted equity shares of companies deriving 75% or more income from real estate, • Money market instruments and cash equivalents, • TDR and unutilised FSI |

Source: Deloitte analysis

Who can invest in REIT?

All categories of investors can invest in units of REIT unless restricted by any other regulation governing such investor, which includes the following:

- Mutual funds (within maximum limit)
- Insurance companies / insurer (subject to certain conditions)
- Banks (overall ceiling of 20 percent of their net worth permitted for direct investment in shares, convertible bonds/debentures, units of equity oriented mutual funds and exposures to Venture Capital Funds (VCFs) subject to the certain conditions)
- Strategic Investors⁴ such as:
 - Infrastructure finance company registered with RBI as a NBFC;
 - Scheduled Commercial Bank;
 - International multilateral financial institution;
 - Systemically important NBFCs registered with Reserve Bank of India; and
 - Foreign portfolio investors.

³ Earlier REIT assets means real estate assets and any other assets held by REIT on a freehold or leasehold basis whether directly or through a hold co and / or special purpose vehicle

⁴ Strategic Investor will either jointly or severally invest not less than 5% and not more than 25% of the total offer size.

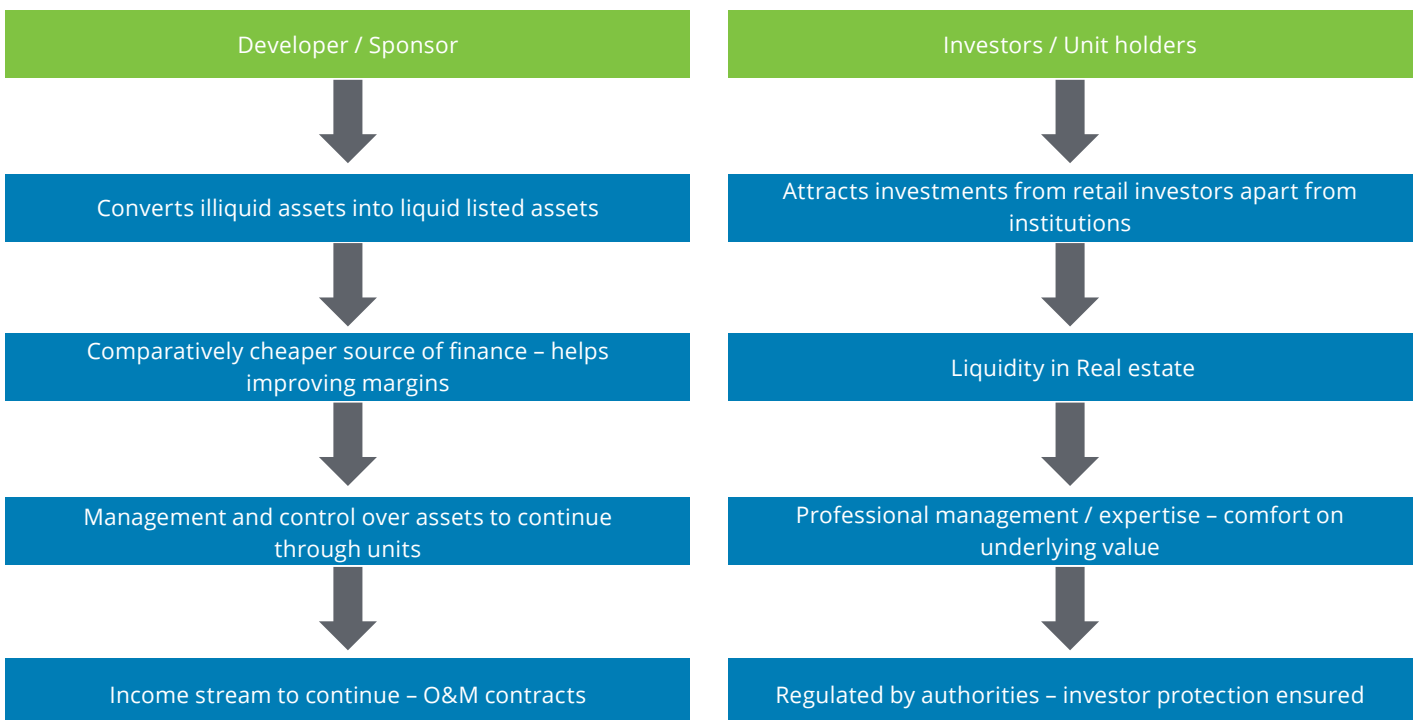
Why invest in REITs?

Historically, overseas REITs have delivered competitive total returns, based on high, steady dividend income and long-term capital appreciation. They are comparatively at low correlation with other assets. This makes them an excellent portfolio diversifier which helps in reducing overall portfolio risk and increase returns.

Till date, REITs offer investors:

- 01 **Competitive long-term performance:** REITs have provided long-term total returns similar to those of other stocks.
- 02 **Substantial, stable dividends yields:** REITs’ dividend yields historically have produced a steady stream of income through a variety of market conditions.
- 03 **Liquidity:** Shares of publicly listed REITs are readily traded on the major stock exchanges.
- 04 **Transparency:** Independent directors, analysts, auditors, as well as the business and financial media monitor listed REITs’ performances and outlook. This oversight provides investors with a measure of protection and more than one barometer of a REIT's financial condition.
- 05 **Portfolio diversification:** REITs offer access to the real estate market typically with low correlation with other stocks and bonds.

Benefits to the different stakeholders



Key Challenges in the REIT Process

| S.No | Challenge | Parameter | Details |
|------|--------------------------|---|---|
| 1 | Formation of REIT | <ul style="list-style-type: none"> Identifying the eligible real estate projects which can be transferred to REIT / can be carried out through SPV | <ul style="list-style-type: none"> Evaluating the real estate project and identifying the assets and liabilities pertaining to it Advising on formal structuring of REIT considering the accounting, legal, taxation aspects |
| | | <ul style="list-style-type: none"> Valuation of the projects Accounting issues | <ul style="list-style-type: none"> Valuation of assets and liabilities Accounting Advisory Services, Assistance in preparation of opening Balance Sheet for REIT Setting up of Ind AS Accounting Policies and Reporting Framework Enabling process of consolidation of multiple SPVs of REIT |
| 2 | Listing of REIT | <ul style="list-style-type: none"> Pre-requisites for IPO | <ul style="list-style-type: none"> Advising on pre-IPO compliance such as minimum valuation of assets and liabilities, percentage of offer and allotment, offer document disclosures, etc. Evaluating the IPO and private placement options Evaluation of internal control and Related Party transactions Tax considerations |
| | | <ul style="list-style-type: none"> Carrying out the IPO process | <ul style="list-style-type: none"> Assistance in preparation and restatement of Ind AS financial statements required for past 3 years and other financial information required in the offer document as per the Regulations Due Diligence Support Ongoing corporate law compliance Tax considerations |
| | | <ul style="list-style-type: none"> Post IPO formalities | <ul style="list-style-type: none"> Advising on post issue compliances – investment conditions, dividend policy, borrowing limits, valuation, board structure, meetings, filing of documents with SEBI and Stock exchange, etc. Assistance in setting up of half yearly and annual financial reporting process and related disclosures for REIT for going forward compliance Tax considerations |

Source: Deloitte analysis

Market Trends in India

Blackstone partners with the Embassy Group to launch India's first REIT⁵

In September 2018, Embassy Office Parks (a joint venture of US private equity firm Blackstone Group and Embassy Group) filed draft offer document with the Securities and Exchange Board of India (SEBI) proposing to raise over INR 5,000 crore through REIT.

The move has made the Blackstone-Embassy REIT the first of its kind in not only India, but in Asia as well and the largest in terms of office portfolio area, more than twice the size of others in the continent. With this, India will join the league of global REIT markets such as the US, the UK, Singapore, Japan Australia and Canada. Embassy Office Parks will list 33 million square feet of office real estate portfolio under REIT.⁶



⁵ https://www.ubs.com/global/en/investment-bank/ubs-securities-india-private-limited/_jcr_content/par/linklist_a1aa/link_5.0767099870.file/bGluay9wYXRoPS9jb250ZW50L2RhbS91YnNfbWVudWFsX21pZy9JbnZlc3RtZW50QmFuay9kb2N1bWVudHMvRVBETf9EUkhQLnBkZg==/EPDL_DRHP.pdf
⁶ <https://economictimes.indiatimes.com/industry/services/property/-cstruction/blackstone-teams-up-with-embassy-group-for-indias-first-reit/articleshow/65927273.cms>

REIT - Regulatory Landscape

Introduction

The REIT regulations came into force in September 2014. The purpose was to set a regulatory regime, which could alleviate the debt and the liquidity crisis plaguing the real estate industry. The objective was to monetise existing unsold inventory of real estate and make it a revenue generating asset under the REIT model.

Key Provisions – Sponsor / Sponsor Group

| Particulars | Provisions |
|--|---|
| Who can be a sponsor | Any person – any body corporate / individual |
| Number of sponsors | No limit specified - Each sponsor to hold not less than 5% |
| Eligibility criteria | <ul style="list-style-type: none"> On collective basis – Rs 100 cr and |
| Minimum net worth / net tangible assets | <ul style="list-style-type: none"> Each sponsor – Rs 20 cr |
| Experience | <p>Sponsor has no fewer than 5 years experience in</p> <ul style="list-style-type: none"> Development of real estate with at least two completed projects or Fund management in real estate industry |
| Lock in requirements after listing | <p>Initial</p> <ul style="list-style-type: none"> Hold at least 25% of total units after initial offer on a post issue basis for minimum three years Units exceeding 25% of total units shall be held for minimum one year Unit holder other than sponsor shall hold units for at least one year from the date of listing <p>Continual (at all times)</p> <ul style="list-style-type: none"> On collective basis hold not less than 15% of units Each sponsor individually to hold not less than 5% of outstanding units |
| Re-designated sponsor | <p>Allowed to sell units to another sponsor subject to satisfaction of following:</p> <ul style="list-style-type: none"> Holding for three years from date of listing and Conditions with respect to holding at all times |

Source: Deloitte analysis



Key Provisions – Manager

| Particulars | Provisions |
|---|---|
| Who can be a Manager | Company or LLP or body corporate incorporated in India |
| Eligibility criteria | 10 Cr |
| <ul style="list-style-type: none"> Minimum net worth / net tangible assets Experience | Manager or its associates No fewer than five years experience in <ul style="list-style-type: none"> Fund management or Advisory services or Property management in real estate industry or in development of real estate |
| | Employees At least two employees having minimum five years' experience in above areas |
| Governing body | <ul style="list-style-type: none"> Minimum 50% of members to be independent and not director or member of another REIT |

Source: Deloitte analysis

Key Provisions – Investment Criteria

| Particulars | Provisions |
|---|--|
| Completed and rent / revenue generating assets | Minimum investment of 80% of value of assets in completed and rent generating properties |
| Other specified assets | Maximum investment of 20% in other specified assets (including under construction assets / projects) |
| Number of projects | REIT can hold single asset/project |
| Investment through SPV Hold Co / SPV | REIT should hold at least 50% in equity share capital of the SPV Hold Co/SPV. REIT may invest in properties through SPV Hold Co, such that the ultimate holding interest of REITs in the underlying SPV is not less than 26% |
| % of revenue and assets | Not less than 51% of revenue of REIT, SPV Hold Co and SPV, other than gains arising from disposal of properties, will be generated from rent, leasing, and letting real estate assets / income incidental to leasing of such assets. |
| Lending by REIT | REIT will not undertake lending to any person except Hold Co / SPV in which it has already invested. Further, investment in debt securities will not be considered as lending |
| Others | REIT cannot invest in units of another REIT Completed and not rent generating properties which shall be held by REIT for at least three years from date of purchase |

Source: Deloitte analysis

Key Provisions - Issue & listing of units

| Particulars | Provisions |
|--|---|
| Means of raising funds | <ul style="list-style-type: none"> Initial offer Follow on offer, qualified institutional placement, rights issue, bonus issue, offer for sale. Preferential issue |
| Value of REIT assets prior to initial offer | Minimum Rs 500 cr of REIT assets (including held by Hold Cos and SPVs) |
| Minimum initial offer | Rs 250 cr |
| Minimum investment by investor | Rs 0.02 cr |
| Listing of units | Yes – Units to be mandatorily listed |
| Minimum number of investors | 200 investors (maximum investor not specified) (other than Sponsors/Sponsor Group/Related Parties/Associates) |

| Particulars | Provisions |
|---|--|
| Minimum public float | <p>Post issue REIT Capital < Rs 1,600 cr – At least 25% of total units</p> <p>Post issue REIT Capital from Rs 1,600 cr to Rs 4,000 Cr - At least Rs 400 Cr</p> <p>Post issue REIT Capital Rs 4,000 cr & above – not less than 10% of total units</p> |
| Nature of investor | Both resident and non-resident investors are permitted to invest |
| Minimum subscription | 90% of issue size |
| Minimum trading lots | Rs 0.01 Cr |
| Categories of Investor | <p>Mutual Funds</p> <p>All categories of investors can invest in units of REIT unless restricted by any other regulations governing such investor. SEBI has allowed mutual funds to invest in units of REIT subject to following maximum limit:</p> <ul style="list-style-type: none"> • 10% of a mutual fund scheme's NAV in units of REIT; and • 5% of mutual fund scheme's NAV in units of REIT by a single issuer; and • 10% of units issued by a single issuer of REIT (collectively for a mutual fund under all its scheme). <p>Insurance Companies</p> <p>IRDA has allowed insurance companies / insurer to invest in units of REIT subject to following conditions:</p> <ul style="list-style-type: none"> • Maximum investment can be 3% of fund size of insurer or 5% of units issued by a single REIT • No investment can be made in REIT wherein promotor group of insurer is a sponsor <p>Banks</p> <p>RBI has allowed banks to participate in REITs within the overall ceiling of 20% of their net worth permitted for direct investment in shares, convertible bonds/debentures, units of equity oriented mutual funds and exposures to VCFs subject to the following conditions:</p> <ul style="list-style-type: none"> • Bank should put in place a Board approved policy on exposures to REITs which lays down an internal limit on such investments within the overall exposure limits in respect of the real estate sector • Bank will not invest more than 10% of the unit capital of an REIT • Banks should ensure adherence to the prudential guidelines issued by RBI from time to time |
| Participation by Strategic Investors ("STI") | <p>A REIT can invite subscriptions from the STI not less than 5% and not more than 25% of the total offer size.</p> <p>The price at which the units will be subscribed by STI will be not less than or more than the issue price determined in the public issue.</p> <p>Units will be locked-in for a period of 180 days from the date of listing in the public issue.</p> |
| Offer for sale by existing Unit Holders | Units can be offered for sale to public if such units are held by existing unit holders for a minimum period of one year prior to filing of draft offer with SEBI. However, holding period for the equity shares (including compulsorily convertible securities) or interest in SPV against which units to be issued shall also be considered for the period of one year |
| Initial Offer or Follow on Offer | Within a period of one year from the date of issuance of observations by SEBI |
| Timelines for listing | To surrender its certificate if REIT fails to make its initial offer within three years of registration subject to extension of one year by SEBI |
| Debt Securities | A REIT whose units are already listed, may issue debt securities in the manner specified by the SEBI, provided that debt securities shall be listed on recognised stock exchange(s) |

Source: Deloitte analysis

Key Provisions – Distribution Conditions

| Distribution of Net distributable cash flows* | Provisions |
|---|--|
| SPV to SPV Hold Co/REIT | At least 90% of net distributable cash flows of SPV to be distributed |
| SPV Hold Co to REIT | The SPV Hold Co to distribute 100% cash flows it receives from underlying SPV. In case of cash flows generated by the SPV Hold Co on its own, at least 90% to be distributed |
| REIT to unit holders | At least 90% of net distributable cash flows of REIT to be distributed |
| Surplus on Sale of property | If reinvested – No distribution to unit holders required; If not reinvested within one year – Distribute 90% of sales proceeds |
| Periodicity of distributions | Once in every six months |

Source: Deloitte analysis (Note: * Subject to applicable provisions of the Companies Act, 2013 or the LLP Act, 2008)

Key Provisions – Other

| Particulars | Provisions |
|---|---|
| Related party | <ul style="list-style-type: none"> • Related party transaction shall be on arms length basis • Transaction deemed as related party between two or more REITs with common manager or sponsor or associated of manager or sponsor • Stringent disclosure requirements • Approval from unit holders may be required in certain cases |
| Borrowings and deferred payments | <ul style="list-style-type: none"> • Aggregate consolidated borrowings and deferred payment of REIT net of cash and cash equivalents shall never exceed 49% of value of REIT assets |
| Valuation of assets | <ul style="list-style-type: none"> • Periodic valuation norms specified |
| Definition of Valuer | <ul style="list-style-type: none"> • Valuer definition aligned with the definition of ‘Registered Valuer’ as defined under Section 247 of the Companies Act, 2013 or as specified by the Board |

Source: Deloitte analysis



REIT - Tax Landscape

Table: Tax Considerations

At the time of formation

| Scenario | Tax Impact |
|---|--|
| Exchange of shares of SPV with units of REIT | Neither capital gains nor MAT applicable in the hands of sponsor |
| Exchange of real estate assets with the units of REIT or for cash consideration | Capital gains taxable at applicable rates in the hands of sponsor |
| Unresolved Issue | Exemption from capital gains on swap of assets against the units of REIT |

Source: Deloitte analysis

Taxation in the hands of SPV

| Particulars | Tax Impact |
|---------------------|---|
| Interest | <ul style="list-style-type: none"> Taxable deductible for SPV No withholding on upstreaming interest income to REIT Withholding applicable on upstreaming interest income to SPV Holdco |
| Rental income | <ul style="list-style-type: none"> Rental income subject to tax as business income or income from house property |
| Dividend | <ul style="list-style-type: none"> DDT will not be payable by SPV for dividends paid to REIT (Subject to 100% held by REIT) In case of dividend distribution to SPV Hold Co, DDT shall be paid by SPV |
| Sale of real estate | <ul style="list-style-type: none"> Subject to Capital Gains Tax |
| Unresolved Issue | <ul style="list-style-type: none"> Exemption from DDT on distribution of dividend by SPV to SPV Hold Co |

Source: Deloitte analysis

Taxation in the hands of SPV Hold Co

| Particulars | Tax Impact |
|---------------------|---|
| Interest | <ul style="list-style-type: none"> Interest earned from SPV is taxable at applicable rates No withholding on upstreaming interest income to REIT |
| Rental income | <ul style="list-style-type: none"> Taxable at applicable rates |
| Dividend | <ul style="list-style-type: none"> Exempt for dividends received from SPV DDT will not be payable by SPV Hold Co for dividends paid to REIT (Subject to 100% held by REIT) If SPV Hold Co is not held 100% by REIT, DDT payable by SPV Hold Co would be net of DDT paid by SPV provided if SPV is subsidiary of SPV Hold Co and dividend is paid in the same year) |
| Sale of real estate | <ul style="list-style-type: none"> Subject to Capital Gains Tax |

Source: Deloitte analysis



Taxation in the hands of REIT

| Particulars | Tax Impact |
|--|--|
| Interest / Rental Income | <ul style="list-style-type: none"> • Interest income / Rental income exempt in the hands of REIT • REIT required to withhold tax from payments to unit holders: • Residents: 10% • Non-residents: 5%, benefits under DTAA, if any, shall be applicable |
| Dividend | <ul style="list-style-type: none"> • Exempt, however, implications under section 115BBDA needs to be considered |
| Gains on transfer of SPV share or real estate/ infra assets | <ul style="list-style-type: none"> • Subject to Capital Gains Tax |

Source: Deloitte analysis

At the time of exit by Unitholders

| Scenario | Tax Impact |
|-----------------------------|--|
| On transfer of units | Chargeable to Capital Gains Tax at applicable rates depending on long or short in nature |

Comparative Analysis

Potential opportunity ahead

REIT versus AIF

Real estate developers require funds on an ongoing basis to develop and bring their land parcels into the market.

SEBI has allowed Alternative Investment Funds (AIFs) to set up in India under a newly formulated route. The route allows pooling of funds for investments in areas such as real estate, private equity and hedge funds.

AIF, as an investment vehicle, will offer necessary growth capital to the real estate sector. Since the Indian banking law does not allow lending to real estate developers for land purchase (basic raw material for development), AIFs will offer

necessary capital for the development of key sectors such as housing, commercial and retail. They will also be able to channelise money (under SEBI guidelines) for development of the sector.⁷

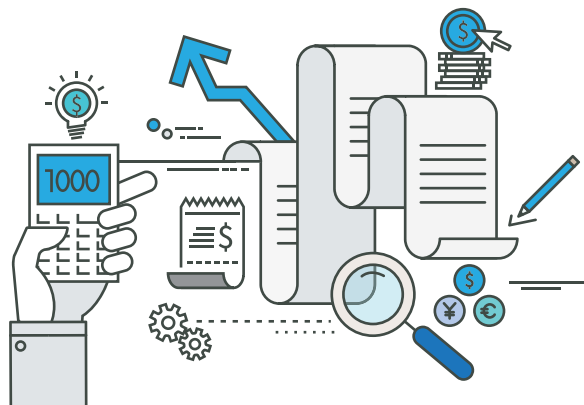
With bank lending getting tighter and PE funds deserting the cash strapped realty sector, developers preferred to set up Alternative Investment Funds (AIFs). According to AIF guidelines, real estate funds fall under category 2 and 3. Currently, category 2 and 3 funds are managing a commitment of over INR 5,000 crores.

Given the differentiators, the market is expected to see both, AIFs and REITs, co-existing in India.

Table: REIT versus AIF

| Particulars | REIT | AIF |
|--|--|--|
| Listing | <ul style="list-style-type: none"> Mandatory listing until delisted | <ul style="list-style-type: none"> Units may be listed only after final close of the fund or scheme. Angel funds ('AFs') cannot be listed |
| Tenure | <ul style="list-style-type: none"> Unlimited | <ul style="list-style-type: none"> Fixed tenure for all AIFs. AIF III can also be open ended |
| Investment in one asset / company | <ul style="list-style-type: none"> More liberal investment norms | <ul style="list-style-type: none"> Max limit prescribed - 25% of corpus (AIF I and II) and 10% for AIF III |
| Borrowing | <ul style="list-style-type: none"> Aggregate borrowings not to exceed 49% of value of REIT assets (including SPV) | <ul style="list-style-type: none"> AIF I and II not permitted to borrow except for temporary funding subject to conditions. AIF III permitted subject to conditions. No restriction at investee company |
| Taxation status | <ul style="list-style-type: none"> Pass through only for interest income and rental income | <ul style="list-style-type: none"> Pass through for Category I and Category II AIF |

Source: Deloitte analysis



⁷ <https://content.magicbricks.com/investment-tips/alternative-investment-funds-aif-a-real-alternative/67131.html>

REITs will be managed by Trusts following real estate specific guidelines. Thus, it will ensure that investor interests in the assets/investments, are well-guarded. REITs will offer an exit opportunity to AIFs invested in real estate through listings. This will help AIFs to churn money faster and re-invest the same back into the market. Thus, by REITs offering exit routes and capital churning mechanisms, investors will be keen to invest in real estate through AIFs.

REIT versus Real Estate Fund⁸

Both the real estate funds and REITs are used to diversify a long-term investment portfolio.

A real estate fund is a type of mutual fund that primarily focuses on investing in securities offered by public real estate companies. The majority of real estate funds are invested in commercial and corporate properties. These include investments in raw land, apartment complexes and agricultural space. This type of fund can invest in properties directly or indirectly through REITs.

Meanwhile, a REIT is a corporation, trust, or association that owns or finances income-producing real estate.

Table: REIT versus Real Estate Fund

| Particulars | REIT | Real Estate Fund |
|----------------------|--|---|
| Advantages | <ul style="list-style-type: none"> • Lower investment entry costs • Offers a liquid method of investing in real estate • Flexible and allows investors to invest in a range of real estate from commercial properties to shopping malls | <ul style="list-style-type: none"> • Real estate funds that invest in mortgage REITs provide higher yields than real estate funds that invest in equity REITs • Real estate funds that are not invested in REITs can offer capital appreciation and fund value appreciation |
| Disadvantages | <ul style="list-style-type: none"> • Do not provide long-term capital appreciation | <ul style="list-style-type: none"> • Do not provide long-term capital appreciation |

Source: Deloitte analysis



⁸ <https://www.investopedia.com/ask/answers/012015/what-difference-between-reit-and-real-estate-fund.asp>

Competitive Benchmarking

Global Real Estate Investment

Major geographies implementing REIT

The United States (US) is the largest listed real estate market. Further, the listed real estate market is increasingly becoming global. The appeal of the US REIT approach to real estate investment is driving the growth of the market. Currently, more than 35 countries have REITs, including all G7 countries.⁹

More than 35 countries have adopted the US-based REIT approach to real estate investment offering all investors access to portfolios of income producing real estate globally. Mutual funds and exchange-traded funds offer the easiest and most efficient way for investors to add global listed real estate allocations to portfolios.

Countries and Regions that Have Adopted the U.S. REIT Approach

| G7 Countries | | Other Countries | | | | | | | | | | Countries Considering REITs | | | |
|-------------------|---------------------|-------------------|------------------|--------------|---------------|---------------|-----------------|------------------|--------------|---------------|------------------|-----------------------------|----------------|----------|-----------|
| Canada 1993 | France 2003 | Australia 1971 | Bahrain 2015 | Belgium 1995 | Brazil 1993 | Bulgaria 2005 | Costa Rica 2009 | Dubai 2006 | Finland 2009 | Greece 1999 | Hong Kong 2003 | Hungary 2011 | India 2014 | Cambodia | China |
| Germany 2007 | Italy 2007 | Ireland 2013 | Israel 2006 | Kenya 2014 | Malaysia 2005 | Mexico 2010 | Netherland 1969 | New Zealand 1969 | Oman 2018 | Pakistan 2008 | Philippines 2010 | Saudi Arabia 2016 | Singapore 1999 | Ghana | Indonesia |
| Japan 2000 | United Kingdom 2007 | South Africa 2013 | South Korea 2001 | Spain 2009 | Taiwan 1969 | Thailand 2005 | Turkey 1995 | Vietnam 2015 | | | | | | Malta | Nigeria |
| United State 1960 | | | | | | | | | | | | | | Paland | Portugal |
| | | | | | | | | | | | | | | Sweden | Tanzania |

Table: REIT Worldwide - Key Geographies

| Particulars | Singapore | United Kingdom | United States |
|------------------------------------|---|--|--|
| Capital requirements | Minimum capitalisation of SGD 300 million | No capital requirement | No capital requirement |
| Listing requirements | Listing required for tax concessions | Mandatory listing | No listing requirement |
| Minimum number of investors | REIT denominated in SGD – 25% of share capital to be held by min 500 subscribers. | 35% public float | At least 100 shareholders. Further five or few individuals cannot hold > 50% |
| Non-resident investor | Permitted to invest | Permitted to invest | Permitted to invest |
| Foreign assets | Investment permitted | Investment permitted | Investment permitted subject to conditions |
| Distribution requirement | To avail tax concession 90% of taxable income to be distributed | At least 90% of rental profits to be distributed | At least 90% of taxable income to be distributed |

Source: Deloitte analysis basis secondary research (the information above is not from primary source therefore requires sign off from respective jurisdiction experts)

⁹ <https://www.reit.com/investing/global-real-estate-investment>

Abbreviations

| Abbreviation | Details |
|--------------|--|
| AIF | Alternative Investment Funds |
| DDT | Dividend Distribution Tax |
| ETF | Exchange Traded Fund |
| FSI | Floor Space Index |
| Ind AS | Indian Accounting Standards |
| InvIT | Infrastructure Investment Trust |
| IRDA | Insurance Regulatory Development Authority |
| IPO | Initial Public Offering |
| LLP | Limited Liability Partnership |
| LTCG | Long Term Capital Gains |
| MAT | Minimum Alternate Tax |
| NAV | Net Asset Value |
| NBFC | Non Banking Financial Company |
| O & M | Operations and Management |
| PNLR | Public Non-listed REITS |
| RBI | Reserve Bank of India |
| REIT | Real Estate Investment Fund |
| SEBI | Securities and Exchange Board of India |
| SEC | Securities Exchange Commission |
| SEZ | Special Economic Zone |
| SGD | Singapore Dollars |
| SPV | Special Purpose Vehicle |
| TDR | Transferable Development Rights |
| VCF | Venture Capital Funds |



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