



REITs in India: A reality check

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Agenda

- What is REIT?
- Why REITs?
- The Indian REITs opportunity
- Challenges in implementing REITs
- Favorable steps so far
- Some Suggestions
- Conclusion

What is REIT...

- **Entity which pools in money and invests in real estate**
- **Provide a similar structure for investment in real estate as mutual funds provide for investment in stocks**
- **Can be publicly or privately held**
- **Generally listed on exchange**
- **Assets of the trust are managed by a Fund Manager**
- **Provide taxation benefit to investors**
 - **Pass through available in some countries like USA if specified conditions are met**

Why REITs

- **Provide alternate investment class to investors**
 - **High liquidity**
 - **Tax advantage of pass through status**
 - **Low transaction cost**
 - **Lower ticket size**
- **Capital access and exit route to developers**
- **Institutionalization of RE sector**
- **Attracts foreign investors**
- **Help develop a broader economy**

The India Opportunity...

- **Robust economy growth is driving force**
 - **Avg GDP during last three year ~ 8%**
- **Return offered by Real estate sector in India is almost double that of USA real estate sector**
- **Greater diversification opportunities exist**
- **Shortage of quality existing space will fuel demand for future constructions**
- **Regulatory reforms are under way**
- **Foreign inflows have been rising**
- **Demand for residential, commercial and retails space is growing**

Key demand drivers...

- **Residential space**
 - Increased population and urbanization
 - High Income level and access to financing
- **Commercial Space**
 - Service sector is growing
 - IT/ ITES are at peak
- **Retail/ Hotels**
 - High Disposable income and standard of living
 - Entry of global brands
 - Increased business travel/ tourism

Demand is great ... issues do exist!!

- India offer greater opportunity than any other country but hurdles remain;
 - Tenancy Law/ ULC Act / Other Laws
 - Shortage of quality assets
 - High Cost of transaction (stamp duty is as high as 15%)
 - Unclear and non corporatised ownership
 - Restricted retail investor participation
 - Lack of transparency & Illiquid Market
 - Unfavorable tax rules (no pass through)
 - No standard valuation policies
 - FDI restrictions (Press note 2, capitalization etc)

Favorable steps so far...

- **Allowing Venture Funds to invest in real estate**
- **Permitting Real Estate Mutual Funds**
- **Relaxation in FDI norms by introducing press note 2**

Some Suggestions

- **Clarity & relaxation on FDI norms**
- **Implementation of LLP or similar structure for tax pass through**
- **Lower stamp duty costs & case based exemptions**
- **Greater transparency & accountability among developers**
- **Standard valuation norms**
- **Quality constructions**

Conclusion

REITs are not only inevitable
but also necessary

Thank You