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Bridging the Gap

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DISCUSSION ON DRAFT SEBI REIT REGULATIONS, 2013

An Overview

SEBI has come out with a consultation paper and draft regulations for Real Estate Investment Trusts (REIT) on October 10, 2013. This move is meant to provide investment avenues for investors by way of trading units of REITs, similar to mutual fund and Exchange Traded Fund structures for stocks, bonds and other securities.

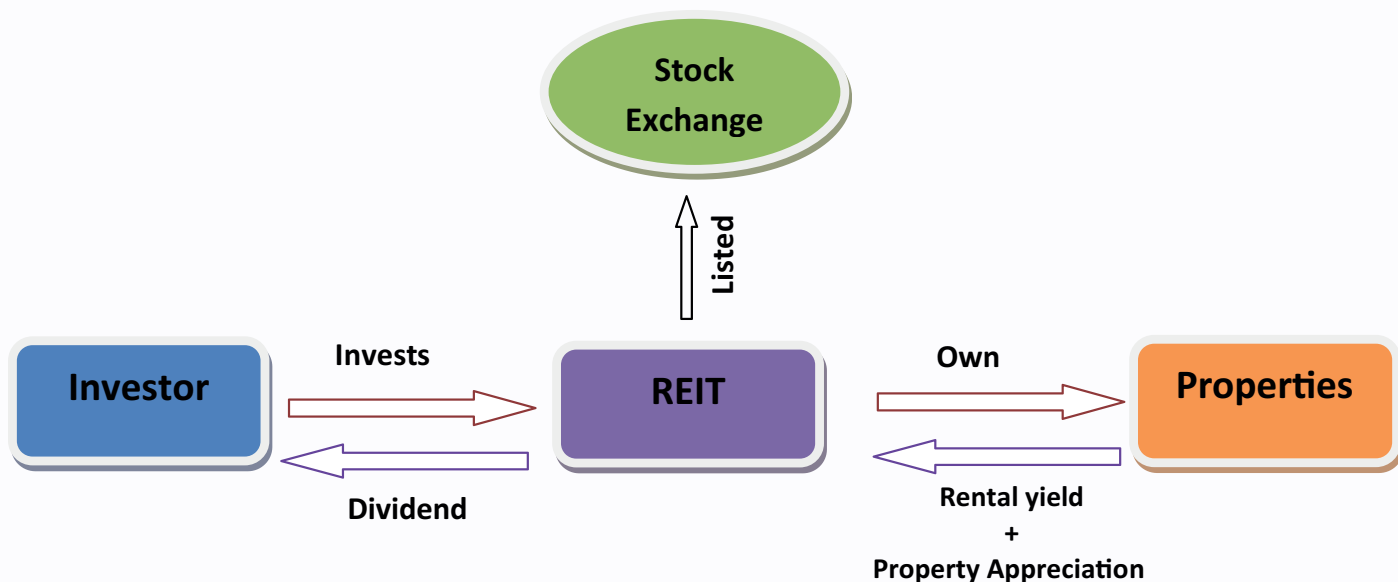
Globally, around 33 countries have REITs with variations. Such investments are mostly in completed properties which provide regular income to the investors from the rentals received from such properties.

Basic Features of REIT:

- Managed by professional managers having diverse skill bases in property development, redevelopment, acquisitions, leasing and management, etc.
- Provides an exit route for the developer/industry; for investors it gives an opportunity to invest in properties which they would not have normally been able to take an exposure to.
- An investment option available for HNIs and Institutions.
- Listed REITs provide liquidity thus providing easy exit to the investors.
- Brings in transparency and accountability in the real estate sector.

Structure of REIT:

- Set up as a Trust under the provisions of the Indian Trusts Act, 1882.
- Shall have trustee (registered with SEBI), sponsor, manager and principal valuer.
- To be registered with SEBI post which funds to be raised through an initial offer and post listing, may subsequently raise funds through follow-on offers.
- Mandatory listing of units within 15 days of closure of issue.
- Investment in only completed properties which has obtained occupancy certificate.
- Investment in other REIT not permitted.



Eligibility Criteria:

Trustee

- Should to be registered with SEBI
- Should not be an associate of the Sponsor, Manager or the Principal Valuer
- 50% Trustees directors should be independent
- Should not be an investor in REIT

Sponsor

- Consolidated net worth to be atleast INR 20 crore
- Relevant experience of at least 5 years

Manager

- Net worth of at least INR 5 crore
- Experience of at least 5 years in fund management/ advisory services/property management in the real estate industry or in development of real estate;

Principal Valuer

- Should not be an associate of the Sponsor, Manager or the Trustee
- Minimum experience of 5 years in undertaking valuation for real estate
- Should not be an investor in REIT

Investment Committee

- At least 2 key personnel who meet the above-mentioned 5 years experience criterion.
- At least 50% members to be independent and not considered Related Parties to REIT

Restrictions on Investment by REIT:

- At least 90% of corpus to be in completed revenue generating properties and remaining 10% can be in other assets as specified.
- Distribution of at least 90% of the net distributable income after tax of the REIT to the investors.
- Can invest directly in real estate or in a Special Purpose Vehicle (SPV) or company holding not less than 90 per cent of its assets in such properties.
- Shall not invest in vacant land or agricultural land or mortgages other than mortgage backed securities.
- 100% of the corpus can be in one project subject to the condition that minimum size of such asset is not less than Rs. 1000 crore.

Borrowings and Valuation:

- Borrowings and deferred payments of the REIT capped at 50% of the asset. If the same exceeds 25%, credit rating and approval of majority of investors required.
- Full valuation, including a physical inspection of the properties required at least once a year.
- A six monthly update in the valuation capturing key changes in the last six months.
- NAV to be declared at least twice a year.
- Additional Valuation required in case of any material development.
- For purchase of a new property or sale of an existing property, a full valuation required and the value of the transaction shall be not less than 90% or more than 110% of the assessed value of the property for sale/purchase of assets, respectively.

Refund, Delisting and Disclosure Norms:

- Investor money to be refunded if the initial offer fails to mobilize at least 75% of the target corpus or less than 20 investors participate in the offer.
- Mandatory delisting if the public float falls below 25%, the number of unit holders other than related parties to the REIT falls below 20.
- SEBI or the stock exchange requires delisting in case of violation of the listing agreement.
- Sponsor/manager can request for delisting basis the approval from unit holders or unit holders themselves apply for such delisting.

Investor Rights:

- Investor has the right to remove the manager, auditor, principal valuer, seek delisting of units, apply to SEBI for change in trustee, etc.
- Annual meeting of all investors mandatory to be convened by the trustee wherein matters such as latest annual accounts, valuation reports, performance of the REIT, approval of auditors and their fees, appointment of principal valuer etc. shall be discussed.
- Investors' approval mandatory in special cases such as certain related party transactions, any transaction with value exceeding 15% of the REIT assets, borrowing exceeding 25%, change in manager/ sponsor, change in investment strategy, delisting of units, etc.
- Any person who is a party to any transaction as well as associates of such person(s) shall not participate in voting on the specific issue.

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