

Real Estate Investment Trusts (REIT)

After a decade of rigorous revamping of the regulatory process in the realty sector, the American multinational private equity company, Blackstone Group L.P. in partnership with Bangalore-based realty firm, Embassy Group, set the stage to enter into India's maiden Real Estate Investment Trusts (REIT). Once listed, it will operate through their joint venture, Embassy Office Parks, which is expected to raise about USD 723 million (INR 52.5 billion) from investors for the trust.

A REIT, also known as "real estate stock" is a publicly-owned company that acts as a platform allowing investors to make securitized real estate investments in small amounts. REIT operates in a manner comparable to mutual funds allowing individuals to acquire ownership in commercial real estate portfolios that draw income from properties such as leased office spaces, apartment, shopping complexes, hotels, hospitals and others. REIT offers the opportunity to make investment in real estate more accessible, long-term and income oriented.

The Indian residential real estate sector was reeling under pressure for the past five years due to demand-supply mismatch, however, the commercial office space has attracted global investors. Four years after the notifications of the draft REIT guidelines in 2014 by Security and Exchange Board of India (SEBI), the Embassy Office Parks filed a draft red herring prospectus (DRHP) with the market regulator, SEBI on 24 September 2018. SEBI issued relaxed norms under the Securities and Exchange Board of India (Real Estate Investment Trusts (Amendment) Regulations, 2018, to allow these trusts to raise funds by issuing debt securities. The amended regulations issued by SEBI for the REIT platform will increase the flow of funding to India's real estate market and help cash-strapped developers to monetize their existing property and support investors with regular income. The relaxation was a response to the growth of India's realty sector, which is expected to touch USD 180 billion by 2020 and USD 1 trillion by 2030.

Blackstone and Embassy are marketing the REIT to growth-focused investors eager to profit from the rents paid by units of global firms such as JP Morgan, Google, McKinsey and others that already occupies the business park and city centre offices included in the portfolio. This infers that if the first of its listing of REITs takes off, it will provide institutional investors - domestic and foreign, to give India an additional source of capital. It would be Asia's largest in terms of a portfolio size of 33 million sq. ft. of office and hospitality assets comprising 7 business parks and 4 city-centre buildings spread across Mumbai, Bengaluru, Pune and Noida.

On 24 September, the credit rating agency, ICRA Ltd assigned a rating of provisional AAA with stable outlook to the Embassy Office Parks REIT. With this debut, India will join the global REITs market including the US, UK, Japan, Singapore and Australia. With a growing population now at 1.32 billion and one of the world's fastest growing economies, real estate in India certainly has a future.

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