

Our Views

REITs and InvITs – a success story in making!

Almost 60 years back, in 1961, the first REITs product was launched in the US. After that, over time, many other countries have introduced this product. In India, the REITs regulations came into effect only in 2017 and the first REITs offering was launched in 2019. However, in a short period of two years, the product has gained significant popularity amongst issuers as well as institutional investors.

Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) are innovative vehicles that enable developers to monetise their revenue-generating real estate/infrastructure assets and release capital for funding new infrastructure/real estate projects. REITs/InvITs allow investors to invest in these assets without owning them. And since the units of the trust are listed on the stock exchanges, they also provide liquidity to investors in an otherwise largely illiquid asset class.

Current Status in India

Globally, share of REITs in overall real estate market cap is quite significant. In 2019, US REITs market cap was 96% of the real estate market cap; Singapore, Japan and Malaysia were at 55%, 51% and 42% respectively. In India, the share of REITs was only 17% with Embassy being the only listed REIT. With the recent Mindspace issuance, it is now expected to be 29% of the total real estate market cap. So far, we have seen 3 REITs and 7 InvIT issuances (5 private and 2 public) in the country. According to various market studies, the Indian REIT market may grow to \$22-40 bn over the next few years.

REITs and InvITs have in general outperformed their respective sector indices, the S&P BSE Realty Index and the BSE India Infrastructure Index. REITs and InvITs offer a stable cashflow and therefore give consistent returns to the investors. This attracts a new class of investors which does not like to take implementation/ construction risk. Growth to the investor is provided by adding more assets to the trust. REITs and InvITs are exempted from dividend distribution tax and relaxation of capital gains tax.

While investing in REITs and InvITs, the investors should evaluate and assess the quality of the underlying asset portfolio and cash flows. They should also consider the leverage situation, the experience of the investment manager and risk management policies of the issuer.

Encouraging Retail Participation

Overall, the shareholding of Indian REITs/ InvITs is skewed towards institutional investors (mostly FPIs) with very minimal contribution from retail investors. Embassy has a public shareholding of ~39% of which FPIs constitute 26% and non-institution individuals constitute 9%. IndiGrid has a public shareholding of 85% of which FPIs constitute 55% and non-institution individuals constitute 13%. Embassy Daily Average Traded Volume 6M and 3M as a % of free float shares is 0.31% and 0.48%, respectively. Compared to REITs, InvITs are more thinly traded - Indigrid Daily Average Traded Volume 6M and 3M as a % of free float shares is 0.09% and 0.07%, respectively.

To encourage retail investors from participating in REITs/ InvITs, the regulator should open up REITs/ InvITs by gradually lowering the minimum investment size of REITs/ InvITs from INR 50,000 and INR 1 lac to the value of just a single unit, much like how stocks are traded in line with global practices where even a single REIT can be traded. This reduced investment threshold will improve liquidity and result in diverse investor base. It will help channelize household investments into commercial real estate and infrastructure.

Way Forward

At this point, India is not ready for residential REITs as the residential property market currently is highly fragmented and unorganized. It is skewed towards developer selling properties to fund their working capital requirement. However, the new class of assets such as telecommunication infrastructure, industrial parks including distribution centers, warehouses, data centers, retail malls, and healthcare facilities including senior living facilities may be offered under this product.

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Note: Shareholding mentioned is representative and sourced from public document filings