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REIT: New Investment Avenue in India

Naveen Kumar[1]
Dr. Sanjiv Kumar[2]
1 Research Scholar, Deptt. of Commerce, M.D.U. Rohtak (Haryana)
2 Professor, Deptt. of Commerce, M.D.U. Rohtak (Haryana)

Abstract:- *REITs have been in existence in developed economies for many years and provide a stable investment option for small investors. Taking indication from developed economies, Indian real estate is under going through a phase of evolution of its development. The Indian real sector is gradually moving from an unorganized sector to a more organized sector. The Government of India is also giving priority to real estate sector because of its potential to boost economic growth. On 26th September 2014, The Securities and Exchange Board of India (SEBI) notified the Real Estate Investment Trusts (REITs) regulations, thereby paving the way for introduction of an internationally acclaimed structure in India.*

Keywords:- Real Estate in India, REITs, SEBI Regulations, Economic Growth, Potential Retail Investors.

Introduction:-

A REITs or Real Estate Investment Trusts is a company that owns or finances income-generating Real Estate Assets. REITs are similar like mutual funds, which provide stable income to investors with even small investment of minimum Rs.2 lakh. REITs are a pooling like vehicle. REITs pool money from a number of small investors and invests it in some real estate property like residential houses, offices, buildings, warehouses, hotels, shopping centers etc. and earn income through rented them and earn capital gain by selling these properties.

REITs pay 90% of their income to investors in the form of dividends and interests. REITs issues units like shares to its investors which are listed on stock exchange for trading. These units can be sold like shares.

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Sector-specific types of REITs:-

Housing REITs:- Such REITs purchase, lease and manage housing properties to generate rental income. The income generated from property is used to pay optional or managing cost and rest is

Industrial REITs:- These REITs purchase, owns and manage industrial properties such as buildings, offices, warehouses etc. and generate income by letting them out.

Hotel REITs:- These REITs owns and purchase hotels, resorts etc. They developed for rental income by letting them.

REIT's Retrospective Analysis in India:-

Real Estate Investment Trusts (REITs) aimed at attracting funds in a transparent manner into the real estate sector. REITs emerged in the U.S. to give investors an opportunity to invest in income-generating real estate assets. After start by the U.S., several countries such as Singapore, Australia and Hong Kong have implemented REITs. In 2008, Indian Government and SEBI had released draft of REIT which like a mutual fund. In the year 2013 it is again revised. On 10th August 2014 SEBI board approved the final regulation with some changes. Final Draft comes by notification on 26th September 2014. REITs are setup under Indian trust act, 1882 and registered under Registration Act 1908. The parties of REIT are Sponsor, Manager and Trustee which registered with SEBI. It allow the retail investor to invest in Real Property with manage them. Tax exemptions were given in the amendment of final draft of REITs. The paper state the SWOT Analysis of REITs available in India for small investors.

Research Methodology:-

The present paper is an endeavor to highlight the concept of REITs, challenges faced by REITs and suggestions for improving REITs in India.

Secondary data have been collected from books, newspapers, internet and published papers.

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REITs in India:-SWOT Analysis:-

Opportunities:-

Since REITs manage the tangible assets like real estates, land etc. The investment is more secure. Investment in REITs is considered as most stable and risk free investment because value of property keep on appreciating with time. REITs are more liquid because units of REITs can be easily bought or sold. REITs have to be registered with SEBI in India. SEBI regulates and monitors REITs. REITs showcase the full valuation on yearly basis and also have to update it on a half- yearly basis. REITs provide an opportunity to low income investors group to invest in the real estate without actually purchasing the property. REITs helps the investors to invest in real estate without actually taking tension to manage the property. They only have to invest their money and need not to take any head-aches about the property. REITs provide consistent and stable dividend to its investors. REITs distribute 90% of its income as dividend at least twice in a year. REITs are exempt from corporate tax because they distribute large portion i.e. 90% of their income among investors in the form of dividend and interests. According to the guidelines REITs will have to invest in minimum two projects with 60% assets value in single project.

Challenges of Investment of REITs:-

Among many opportunities like small and risk free investments, higher dividends etc. REITs have to face many challenges. Some of which are as follows:-

1. Scarcity of land
2. Development Norms
3. Lack of adequate policy framework
4. Unfavourable Taxation Policy
5. Cost Inflation Burden

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Non-availability of land within city alonwith rapidly increasing land and construction costs, making affordable housing projects unviable. Rigid development norms seem to have led to sub optimal utilization of land. Low focus on housing Economically Weaker Sections and lower income groups segment from the developer fraternity owing to lack of effective policy framework. With several taxes such as stamp duty , value added tax etc. accounting for about 30-35% of the total housing cost, in turn affecting the final selling price of Asset. Due to lack of advanced technology and skilled manpower, the overall project economies can not achieved. Many of the on-going projects are still using conventional construction techniques. So project are going costly time to time.

Recommendations and Suggestions for Boosting REITs in India:-

Following are the recommendations to improve or boost the supply of affordable housing in India:-

- The crucial aspect that has to be resolved is tax transparency, which is out of SEBI's realm and has to be addressed by Union Finance Ministry.
- REITs exemption from tax on the distribution of dividends (DDT) would make it more attractive for customers.
- Stamp Duty exemption should be provided for acquiring assets.
- There are many regulations and formalities which have to be compiled while acquiring property. REITs should be provided some relaxation from these.
- REITs require large fund for investment in property and they have to face problems of inadequate funds. Banks should provide them loan on easy terms.

Conclusion:-

Though real estate sector in India is remarkable but it still suffering from many great problems in generating funds from banks and major hurdle or barrier is REITs cannot lift off until the changes are made in tax rules. REITs in India may emerge as a new source of investment opportunities which generate great employment with transparency and liquidity for investment.

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