Real-Estate Investment Trust

Why in news?

The country's second real-estate investment trust (REIT), Mindspace Business Parks, came out with a public issue recently.

What is the REIT?

- Office REITs are **investment vehicles.**
- They own, operate and manage a portfolio of income-generating office properties in order to generate regular returns for investors.
- It is regulated by the Securities and Exchange Board of India (SEBI).
- REITs are usually commercial properties that are already generating rental income.
- For now, in India, there are only two REITs (Embassy and Mindspace), predominantly owning office properties.

How does it work?

- The working of office REITs are similar to mutual funds where money is pooled from a number of investors.
- The only difference is that, in REITs, they invest in rent-generating properties.

- REITs come up with an initial public offer to be listed on the exchanges.
- While retail investors can buy/sell REITs in the secondary market, they do have minimum investment requirements of ₹50,000 (200 units).
- This was reduced from ₹2 lakh (800 units) by SEBI to encourage investor participation.

What is its structure?

- A REIT has a three-tier structure.

1. There is a **sponsor**, who sets up the REIT.
2. There is a **fund management company**, which is responsible for selecting and operating the properties.

3. There is a **trustee**, who ensures that the money is managed in the interest of unit-holders.

Why is it important?

- For those investors looking to diversify a portion of their portfolio into real-estate, REITs are an option.
- According to SEBI guidelines, REITs are to mandatorily distribute 90% of their income to unit-holders.
- The distribution could be in the form of dividend or interest income or a combination.
- REIT earns income by way of capital appreciation at the time of sale of any of its underlying properties, thereby boosting investors' returns.
- 80% of the value of a REIT should be invested in completed and rent-generating properties, ensuring visibility in returns for investors.

What is the risk?

- REITs come with their own risks and investors should be wary.
- Both rent and capital appreciation from a REIT depends on location, infrastructure and industrial development of properties held by it.
- While this risk is mitigated with properties diversified across locations, challenges remain.
- With many working from home since the outbreak of the pandemic, office properties could face a significant slowdown in demand.
- Delays in construction of commercial properties and delays in leasing decisions could impact the REIT's revenue generation for the next 2-3 quarters.
- However, given the lack of quality office space in the country, some of these uncertainties could be temporary.
- Many real-estate players facing liquidity crunch in the last 2-3 years, mostly due to low demand.
- So, the rent-generating properties can be monetised by the developers in the form of REITs.
- They can generate a steady income stream for the investors.
- As long as the pandemic rages, even REITs are not immune.

Source: Business Line