

## REITs: A Potential Investment Window From Indian Perspective

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### Abstract

Investment is an act of allocating resources, usually money to build wealth with the expectation of generating an income or profit. Identification of the best investment opportunity considering different factors is a major hurdle. With the advent of increasing financial literacy through self-exploration and government Financial Inclusion Programs, investors have increased investment knowledge. Increasing awareness of various investment products in India and across the world highlighted the emergence of one such product called REITs (Real Estate Investment Trusts). REITs are very much different from actual real estate investments. REITs are companies that own or finance income-generating real estate across a range of property sectors. It allows investors to invest in large-scale, income-producing real estate. REITs enable investors to invest along with ease and advantage of investing similar to investing in publicly traded securities. Real estate properties traded under REITs are majorly office buildings, shopping complexes, hotels, apartments, resorts, etc. REITs are very popular investment vehicles in the U.S., Japan, and Singapore. It had shown progressive growth in many countries and India is one of them where it is at a very nascent stage. This study deep dives into understanding the structure of the REITs market by identifying its various segments as well as assessing the strategic situation of REITs in India.

**Keywords:** Investment, REITs, Real Estate, Finance, Income

## Introduction

India is one of the largest and fastest-growing economies of the world with retail and institutional investors diversifying their income into diverse asset classes, the most indispensable of them being real estate, which has still not been efficiently capitalized and exploited. People typically invest in real estate over other financial securities due to its tangible nature and its inherent ability to be pragmatically utilized.

Real Estate Investment Trust (REIT) is an investment vehicle that is a vertically integrated entity that owns and operates real estate and related assets and allows individual investors to own a part of their income-producing portfolio without actually having to buy the capital-intensive asset.

National Association of Real Estate Investment Trusts (NAREIT) defines REITs as “A real estate investment trust (“REIT”) is a company that owns, operates or finances income-producing real estate. REITs provide all investors with the chance to own valuable real estate, present the opportunity to access dividend-based income and total returns, and help communities grow, thrive, and revitalize.” For the real estate developer and asset manager, REITs are a source of alternate funding and provide liquidity for operations. Access to high-value real estate and earning steady returns is the unmatched advantage that REITs provide the investor. REITs typically distribute all of their taxable income as dividends to shareholders. On those dividends, shareholders pay income taxes. REITs are strong income vehicles because REITs must pay out at least 90 per cent of their taxable income in the form of dividends to shareholders. Office buildings, hotels, shopping malls, apartments, resorts, warehouses, self-storage facilities and mortgages or loans are the income-producing real estate assets of REITS.

Most REITs specialize in a single type of real estate. Take the example of apartment communities. There are office REITs, retail REITs, industrial REITs, healthcare REITs, and residential REITs. A REIT must acquire and develop its real estate properties primarily to operate them as part of its own investment portfolio, which is opposed to reselling those properties after they have been developed.

More than 40 countries and regions have adopted the U.S.-based REIT approach to real estate investment offering all investors access to portfolios of income-producing real estate across the globe. Mutual funds and exchange-traded funds offer the easiest and most efficient way for investors to add global listed real estate allocations to portfolios.

A REIT is a method of collective investment vehicle that invests in a diversified pool of professionally managed, investment-grade real estate. The assets can be office, residential, retail, hospitality and industrial or logistics properties. Some REITs concentrate on one asset type, while others offer a mixed portfolio. Investors should generate steady income generated from rent under lease contracts and potential capital growth by investing in real estate.

**Countries adopted US Based REITs (year-wise)**

Year	Countries
1960	USA
1969	Netherlands, New Zealand, Taiwan
1971	Australia
1993	Brazil, Canada
1995	Belgium, Turkey
1999	Greece, Singapore
2000	Japan
2001	South Korea
2003	Hong Kong, France
2005	Bulgaria, Malaysia, Thailand
2006	Dubai, Israel
2007	Germany, Italy, United Kingdom
2008	Pakistan
2009	Costa Rica, Finland, Spain
2010	Mexico, Philippines
2011	Hungary
2013	Ireland, South Africa
2014	India
2015	Bahrain, Kenya, Vietnam
2016	Saudi Arabia
2018	Oman
2019	Portugal
2020	Sri Lanka
2021	China

**Source: Nareit 2022**

## **Chronology of REIT**

The US House of Representatives describes the primary motivation for introducing real estate investment trusts (REITs) as “to provide all investors with the same opportunity to invest in large-scale commercial real estate that previously was open only to large financial institutions and wealthy individuals through direct investment in such real estate”. REIT markets started in the US in the 1960s, followed by Australia in the early 1970s. From the late 1990s, and particularly the early 2000s, Asian governments have been passing legislation which allows the establishment of REITs, giving tax concessions which replicate the taxation treatment of REITs globally, including, in particular, the US and Australia.

REITs have existed for more than 50 years in the U.S. Congress granted legal authority to form REITs in 1960 as an amendment to the Cigar Excise Tax Extension of 1960. That year The National Association of Real Estate Investment Funds, a professional group for the promotion of REITs is founded. The following year it changed its name to the National Association of Real Estate Investment Trusts (NAREIT).

In 1965 the first REIT, Continental Mortgage Investors, is listed on the New York Stock Exchange (NYSE). By the late 1960s, major investors, including George Soros, become interested in research on the value of REITs. Mortgage-based REITs account for much of the growth of REITs in the early 1970s, and they fuel a housing boom. The boom busts after the oil shocks of 1973 and the recession that follows.

Since their development in Europe, REITs have become available in many countries outside the United States on every continent on Earth.

## **REITs in India**

REITs, or Real Estate Investment Trusts, have been introduced in India relatively recently. REITs are investment vehicles that allow individuals to invest in real estate assets, without actually owning the physical property. Instead, investors purchase units in the REIT, which in turn owns and manages the real estate assets.

Based on global experience, the Securities and Exchange Board of India (SEBI) introduced the concept of REITs in Indian marketing in the 2000s. The country saw a slow movement and multiple amendments to the initial regulations proposed in 2014, which was somewhat similar to the initial stages in markets like US and Singapore. However, it was only in 2019 that the first REIT was launched in India, called Embassy

Office Parks REIT. This REIT is sponsored by Embassy Group and Blackstone, and it owns and manages a portfolio of office spaces in India.

Since then, a few more REITs have been launched in India, such as Mindspace Business Parks REIT and Brookfield India Real Estate Trust. However, the REIT market in India is still in its nascent stage, and there is a lot of growth potential.

Investing in REITs can be a good option for investors looking to diversify their portfolios and earn regular income through rental yields. However, as with any investment, it is important to do your due diligence and research the REIT and its portfolio before investing.

- **2013:** SEBI introduces draft regulations in line with international models
- **2014:** Finalisation and release of REIT regulations
- **2015-19:** Amendments to regulations and multiple tax reworking
- **2019:** India's first REIT: Embassy Office Parks listed
- **2020:** Mindspace Business Parks REIT, backed by K Raheja Corp Group and Blackstone Group, files offer document for IPO

### **Need of the Study**

REITs is one of the most promising investment opportunities among global investors but in India, investors still are not much familiar with its concept. REITs historically have delivered competitive total returns, based on high, steady dividend income and long-term capital appreciation. Their comparatively low correlation with other assets also makes them an excellent portfolio diversifier that can help reduce overall portfolio risk and increase returns. Despite increasing investors' knowledge REITs still didn't get that much attention. Seeing the merits of the investment, investors must get educated regarding this promising opportunity.

### **The Objective of the Study**

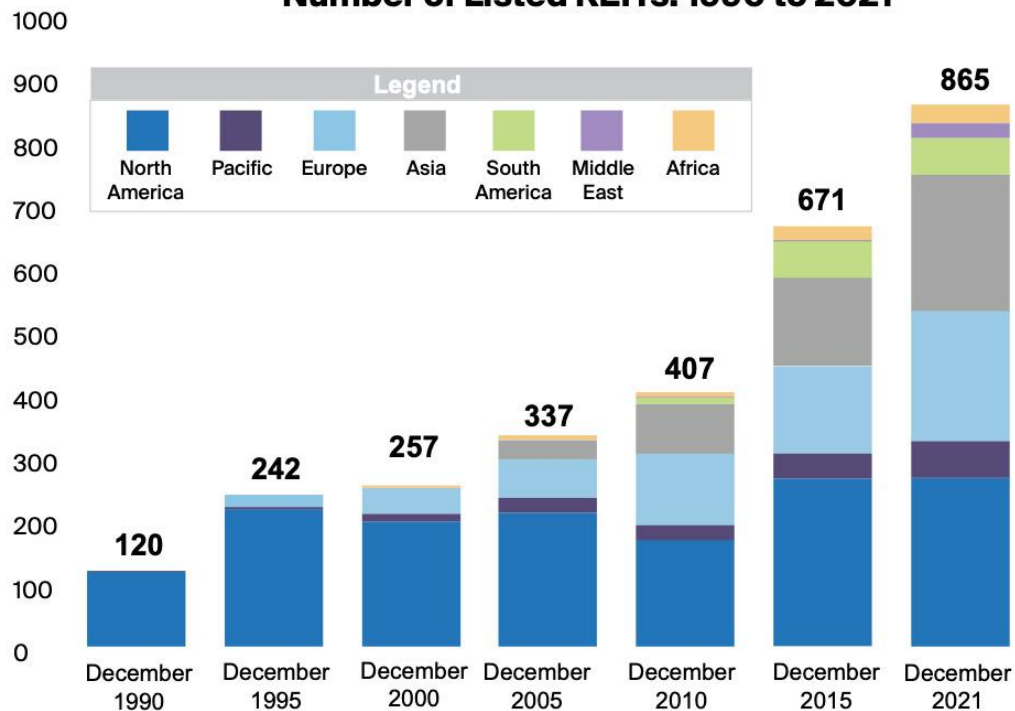
1. To understand the structure of the Real estate Investment Trusts (REITs) market by identifying its various segments.
2. To strategically profile the key players and comprehensively analyse their growth strategies.

**Table 1: Global REIT Market at a Glance**

	USA	Singapore	Japan	Hong Kong	Malaysia	India
<b>Year of introduction</b>	1960	2001	2001	2003	2007	2014
<b>No. of publicly traded RIETs</b>	194	44	62	11	18	1
<b>Market Capitalisation of REITs (in US Billion \$)</b>	1232	76	148	35	9	4
<b>Market Capitalisation of Real estate sector (in US Billion \$)</b>	1284	137	292	585	22	24
<b>REIT as % of real estate</b>	96%	55%	51%	6%	42%	17%

Source: S&P CapIQ as of August 2019.

**Number of Listed REITs: 1990 to 2021**



Source: Count of U.S. listed equity and mortgage REITs from FTSE Nareit All REITs Index and companies listed as equity or mortgage REITs in S&P Global Capital IQ in REIT countries and regions.

## Recommendation and Suggestions

Real estate investment trusts (REITs) are investment vehicles that own and operate income-generating real estates properties, such as office buildings, shopping centres, apartments, and warehouses. The REIT market is segmented into various categories based on the type of properties that the REITs invest in, the location of the properties, and other factors. Below are some of the main segments of the REIT market:

1. **Property Type:** REITs can be categorized based on the type of properties they invest in, such as:
  - Residential REITs: These invest in apartment buildings, condominiums, and other residential properties.
  - Commercial REITs: These invest in office buildings, shopping centres, hotels, and other commercial properties.
  - Industrial REITs: These invest in warehouses, distribution centres, and other industrial properties.
  - Healthcare REITs: These invest in hospitals, nursing homes, and other healthcare-related properties.
2. **Geographical Region:** REITs can also be categorized based on the location of the properties they invest in, such as:
  - Domestic REITs: These invest in properties located within a single country, such as the United States.
  - International REITs: These invest in properties located in multiple countries.
3. **Investment Strategy:** REITs can be further categorized based on their investment strategy, such as:
  - Equity REITs: These invest in income-generating properties and generate revenue through rent payments.
  - Mortgage REITs: These invest in mortgages and generate revenue through interest payments.
  - Hybrid REITs: These invest in both properties and mortgages.
4. **Market Capitalization:** REITs can also be classified based on their market capitalization, which is the total value of their outstanding shares. The main categories are:
  - Large-cap REITs: These are REITs with a market capitalization of \$10 billion or more.
  - Mid-cap REITs: These are REITs with a market capitalization between \$2 billion and \$10 billion.
  - Small-cap REITs: These are REITs with a market capitalization below \$2 billion.

Overall, the REIT market is diverse and offers investors a wide range of options to invest in different types of real estate properties and investment strategies.

### Key Players in the Indian REIT Market

Real Estate Investment Trusts (REITs) in India have gained popularity over the last few years, and several players have entered the market. These key players have adopted different growth strategies to expand their REIT portfolios in India. Some have focused on acquiring high-quality properties in prime locations, while others have focused on developing and leasing out new properties. Some players have diversified their portfolios by entering into new segments such as industrial and warehousing properties.

Here are some of the key players and an analysis of their growth strategies:

**Embassy Office Parks REIT:** Embassy Office Parks is a joint venture between Embassy Group and Blackstone. It was the first REIT to be listed in India. Embassy's strategy has been to focus on high-quality office spaces in major cities in India. It has also expanded its portfolio through acquisitions and joint ventures.

**Mindspace Business Parks REIT:** Mindspace is another major player in the Indian REIT market. Its portfolio consists of high-quality office spaces located in Mumbai, Hyderabad, Pune, and Chennai. Mindspace has been focusing on acquiring and developing properties in these cities.

**Brookfield India Real Estate Trust:** Brookfield is a global real estate company with a significant presence in India. Its REIT portfolio consists of office and retail properties located in major Indian cities. Brookfield's strategy has been to acquire high-quality properties in prime locations and reposition them for better returns.

**Indiabulls Real Estate Investment Trust:** Indiabulls is one of the leading real estate companies in India, with a diversified portfolio that includes residential, commercial, and retail properties. Its REIT portfolio consists of office properties located in Mumbai, Gurugram, and Chennai. Indiabulls' strategy has been to leverage its existing real estate assets and generate better returns through the REIT.

**Embassy Industrial Parks REIT:** Embassy Industrial Parks is a joint venture between the Embassy Group and Warburg Pincus. Its portfolio consists of industrial and warehousing properties located in major Indian cities. Embassy Industrial Parks' strategy has been to focus on developing high-quality industrial parks and expanding its portfolio through acquisitions.

Overall, the Indian REIT market is still in its early stages of development, and there is significant potential for growth. The key players in the market are likely to continue to



focus on expanding their portfolios and developing new properties to generate better returns for their investors.

### **Will REITs Succeed in India?**

Real Estate Investment Trusts (REITs) are a relatively new investment vehicle in India, having only been introduced in 2014. However, there is potential for REITs to succeed in India given the country's rapidly growing real estate market.

REITs allow investors to invest in a diversified portfolio of income-generating real estate assets, such as office buildings, shopping malls, and hotels, without having to own the physical property. This can be an attractive investment opportunity for investors seeking exposure to the Indian real estate market without having to invest directly in physical properties, which can be difficult to manage and require significant capital.

Additionally, REITs in India offer several tax advantages, including exemption from capital gains tax, dividend distribution tax, and minimum alternate tax.

However, some challenges need to be overcome for REITs to succeed in India. These include the lack of transparency and standardization in the Indian real estate market, which can make it difficult to value and price assets accurately. Additionally, regulatory hurdles and a lack of investor awareness about REITs may pose challenges in attracting investors.

Overall, the success of REITs in India will depend on factors such as the growth of the Indian real estate market, regulatory support, and investor awareness and confidence.

### **The Potential of REITs in India**

REITs were introduced in India in 2014, and since then, they have been gaining momentum. The Indian government has been making efforts to promote REITs as an investment avenue. In 2019, the Securities and Exchange Board of India (SEBI) relaxed the norms for REITs, making it easier for them to raise funds.

REITs have several advantages for investors in India. Firstly, they provide an opportunity to invest in the real estate sector without owning the physical property. Secondly, REITs provide regular income to investors in the form of dividends. Thirdly, they offer diversification as the funds are invested in a diversified portfolio of assets.

## Challenges and Opportunities

Despite the potential of REITs, several challenges need to be addressed. The lack of quality assets and a transparent pricing mechanism are major hurdles to the growth of REITs in India. Additionally, the tax treatment of REITs needs to be rationalized.

However, there are also several opportunities for the growth of REITs in India. The Indian real estate market is expected to grow at a fast pace in the coming years, providing a significant opportunity for REITs. Additionally, the Indian government's initiatives such as the Smart Cities Mission and the Housing for All program are expected to boost the real estate sector, providing a significant opportunity for REITs.

## Conclusion

In conclusion, the research paper finds that REITs are a potential investment window from the Indian perspective. The study highlights the various benefits of investing in REITs, including diversification, liquidity, and steady returns. It also analyses the key factors that affect the performance of REITs in India, such as market conditions, taxation, and regulatory framework.

The paper identifies the potential of the Indian real estate market and the growing demand for commercial spaces as major drivers for the growth of REITs in India. The research also highlights the challenges that REITs face in India, such as the limited availability of quality assets, high regulatory compliance costs, and lack of investor awareness.

Overall, the research paper concludes that REITs offer a promising investment option in India, with the potential to provide attractive returns to investors. The study suggests that investors should carefully evaluate the investment opportunities in REITs and consider factors such as the quality of assets, the track record of the sponsor, and the regulatory environment before making any investment decisions.

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