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# REGULATORY FRAMEWORK FOR SMALL AND MEDIUM (SM) REITS



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# Existing Framework for REITs





# EXISTING FRAMEWORK

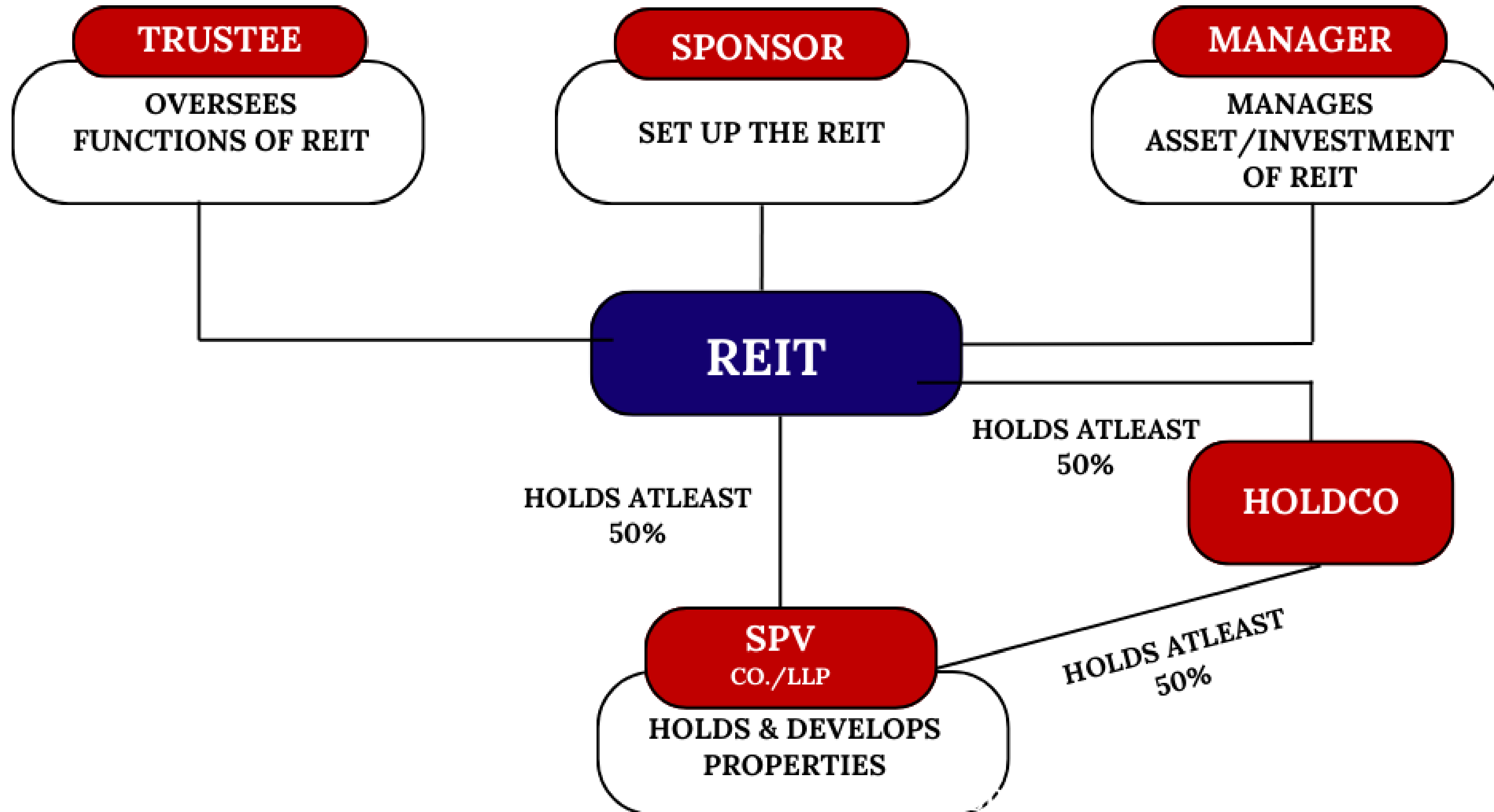
**SEBI notified REIT Regulations on September 26, 2014, and thereby introduced the concept of REITs in India**

**A REIT is an investment vehicle which pools money from the investors and invests in high value real estate properties or assets like office spaces, malls, etc. against issuance of its units.**

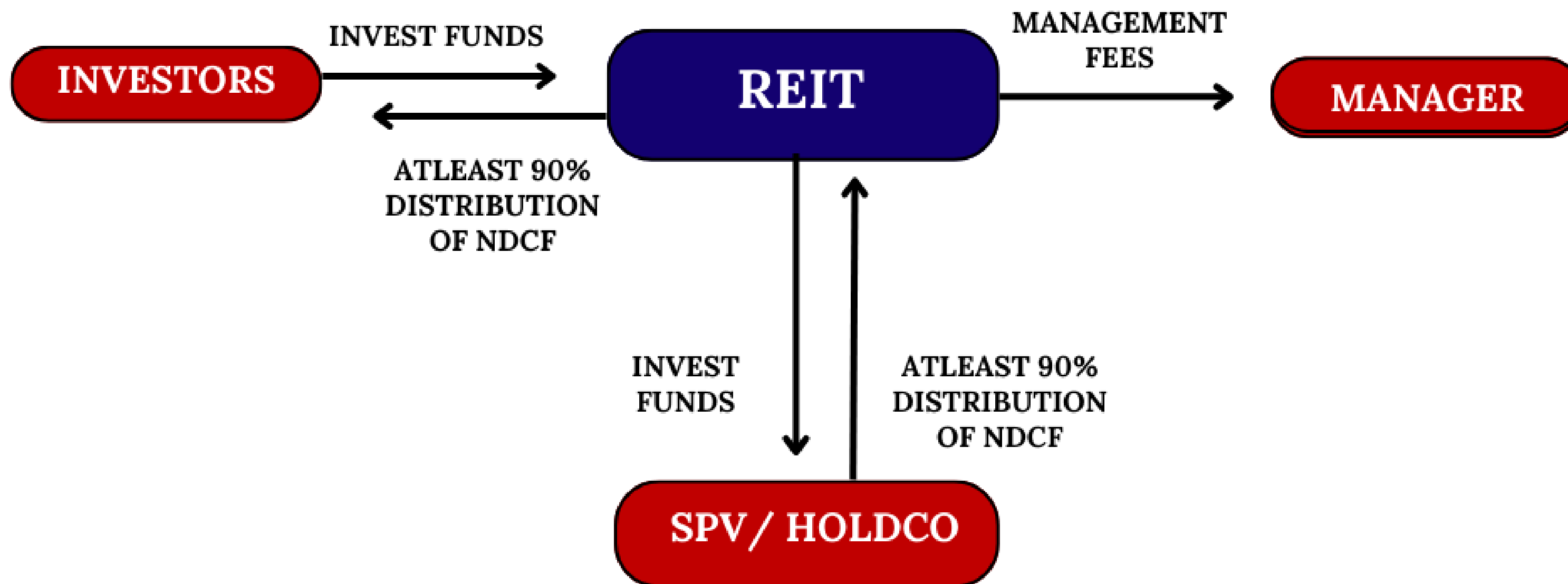
**REIT earn in the form of rent and potential capital appreciation which it distributes to the unitholders**

**REIT has to mandatorily get its units listed within a period of 3 years from the date of registration with SEBI.**

# STRUCTURE

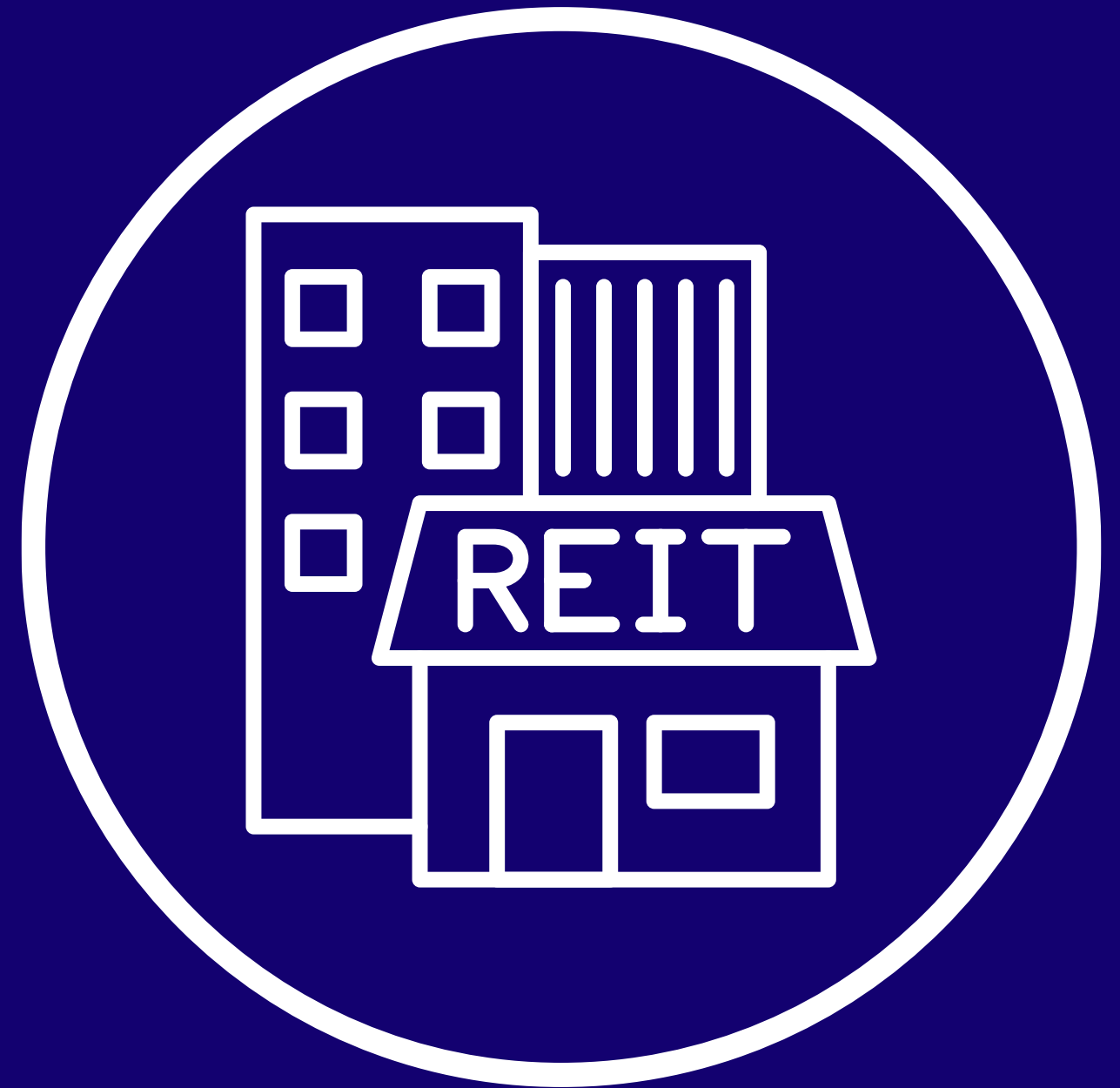


# STRUCTURE









# Existing REITs in India



Presently, there are only 4 listed REITs in India. Although REIT Regulations were launched in 2014, we witnessed the listing of first Indian REIT only in 2019.

				
	Embassy Office Parks REIT	Brookfield India REIT	Mindspace Business Parks REIT	Nexus Select Trust
Date of Listing	01/04/2019	17/02/2021	07/08/2020	19/05/2023
Area of portfolio	45.4 msf	25.4 msf	33.1 msf	19.9 msf
Number of outstanding units	947,893,743	439,085,222	593,018,182	1,515,000,000



# CHARACTERISTICS OF A REIT

- **Invests in** – residential and/ or commercial high value real estate assets.
- Is **required to invest at least 80% of the value of its assets** in completed and rent and/or income generating properties.
- The **minimum value** of the assets owned/ proposed to be owned by REIT should be **INR 500 crore**.
- The minimum issue size for **initial offer** should be **INR 250 crore**.





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# Fractional Ownership Platforms in India



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# **WHAT ARE FRACTIONAL OWNERSHIP PLATFORMS?**

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- A Fractional Ownership Platform is generally a web-based business model where it offers joint fractional ownership of real estate assets like buildings and office spaces including warehouses, shopping centres, conference centres, etc.
- Investors pool in their money, for an investment size ranging around 10-25 lacs, and jointly invest in a property thereby sharing the costs and benefits.
- The investors are generally Non-Institutional High Networth Investors.

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# EVOLUTION OF FOPs



Lack of  
avenues for  
Real estate  
Investment



Due to requirement for  
REITs to have a huge  
asset size of at least INR  
500 crores, they are  
mainly accessible to the  
Institutional Investors



Small property managers/  
owners were unable to enter  
this model and came up with  
Fractional Ownership  
Platforms (FOPs).





**IDENTIFICATION OF PROPERTY**

**LISTING OF PROPERTY ON THE WEBSITE OF  
FOP SEEKING PUBLIC INTEREST**

**TOKEN AMOUNT RANGING FROM INR 10,000 TO  
INR 1 LAKH**

**ISSUANCE OF PLACEMENT MEMORANDUM  
TO INVESTOR**

**TRANSFER OF AMOUNT BY INVESTOR**

# **TRANSACTIONAL STRUCTURE**



- **hBits**
- **WiseX (Ex-Myre Capital)**
- **Strata Prop**
- **Prop Returns**
- **Prop Share**

**Leading and self  
disclosed FOPs in  
India**



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# NEED FOR REGULATING FOPs



**Though FOPs are operating in a structure similar to REITs, they were not yet regulated by any particular law.**



**Presently, some of the FOPs may have got themselves registered as real estate agents or otherwise under the RERA Act but the complete business model of FOPs is not governed by RERA.**



**Also, the major concern, among others, remains as to how the investor grievances would be addressed and what would be the consequences if such grievances are not addressed.**

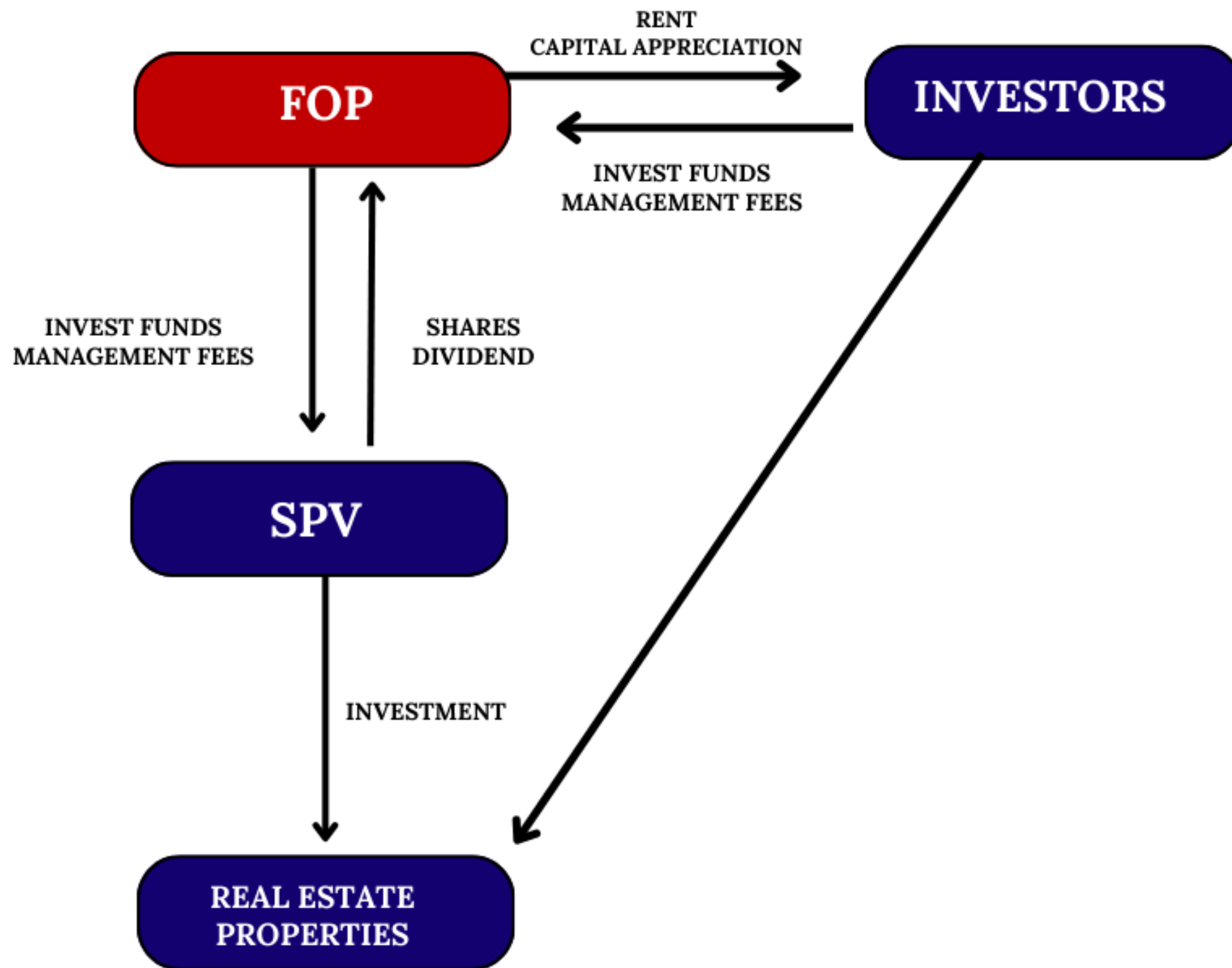


## **With the increase in the number of FOPs and increased investor participation, various governing concerns came to light**

- No specific law for governing FOPs
- Varied structures of FOPs and their business model
- Lack of uniformity in disclosure standards
- Lack of transparency in operations, valuations, etc.
- No specific mechanism for redressal of investor grievances
- Lack of investor protection.
- Non-applicability of KYC/PMLA Guidelines.
- No guaranteed / simplified exit opportunity.



# STRUCTURE



# Introduction of SM REITs regulatory framework



**On May 12, 2023, SEBI issued a consultation paper on “Regulatory Framework for Micro, Small & Medium REITs, proposing the inclusion of Fractional Ownership Platforms within the purview of existing REIT Regulations.**

**Thereafter, SEBI, in its Board meeting held on November 25, 2023, approved regulatory framework for facilitation of SM REITs and finally on March 8, 2024, REIT Amendment Regulations were notified.**

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- **Small and Medium REIT**
- **Trustee**
- **Investment Manager**
- **Special Purpose Vehicle**
- **Scheme**

# Key Parties/ Terms Involved



# SMALL & MEDIUM REIT

means a SM REIT that pools money from investors under one or more schemes whereby:

- Asset size proposed to be acquired is at least INR 50 crores and less than INR 500 crores.
- Minimum number of unitholders of a scheme are not less than 200 (other than Investment Manager, its related parties and its associates).
- To be set up in the form of Trust.
- To have its main objective as undertaking activity of SM REIT through one or more schemes.

# TRUSTEE

**“Trustee”** means a Debenture trustee registered with SEBI and who holds the assets of SM REIT and its schemes in trust and for the benefit of the unit holders, in accordance with these regulations.

The Trustee must not be an Associate of the Investment Manager.

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# INVESTMENT MANAGER

**“Investment Manager”** means a company incorporated in India and which:

- sets up the SM REIT
- manages assets and investments of SM REIT
- undertakes operational activities of SM REIT
- single entity to operate as Manager and sponsor
- IM to meet net-worth and other eligibility criteria as prescribed



# INVESTMENT MANAGER

- **Net worth** – At least INR 20 Crores (out of which at least INR 10 crores should be in the form of positive liquid net worth)
- **Experience** – IM should have minimum 2 (two) years of experience in real estate industry or real estate fund management. Alternatively, IM may employ two KMPs, each of the KMP should have minimum 5 (five) years of experience in real estate industry or real estate fund management.

# INVESTMENT MANAGER

- **Activity** – Only manage assets and investments of the SM REIT and undertake its operational activities. To ensure that trademark, brand name, website etc. of the SM REIT be used exclusively for the activities of SM REIT.
- **Board composition** – At least half of the directors should be independent and should not be director of IM / Manager of other SM REIT or REIT.

# SPECIAL PURPOSE VEHICLE

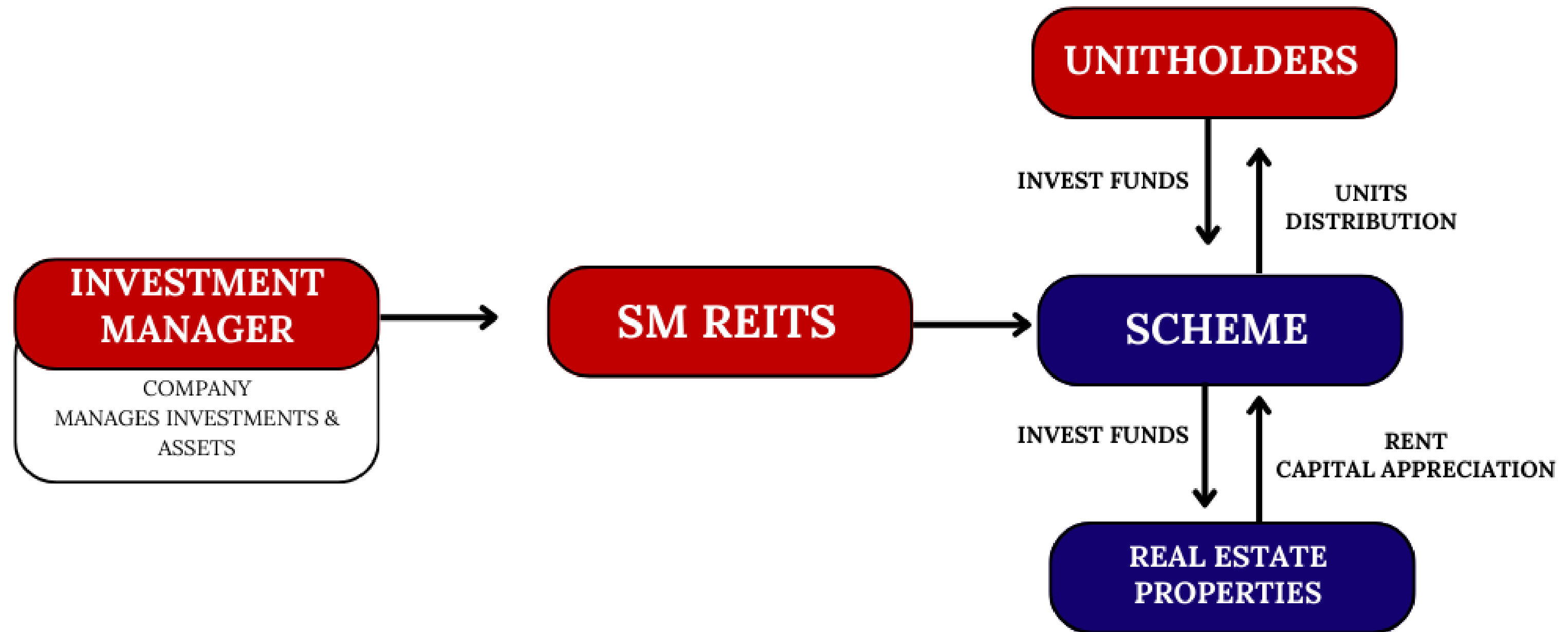
# SCHEME

**“Special Purpose Vehicle” or “SPV”** means any company which is a wholly owned subsidiary of the scheme of the SM REIT and the SPV shall not have any other capital or ownership interest in it.

**“Scheme”** means a distinct and separate scheme of an SM REIT launched under this chapter for owning of real estate assets or properties through special purpose vehicles.



# STRUCTURE



# HIGHLIGHTS

## Structure of SM REITs

- SM REIT shall be in the form of a Trust and registered with SEBI.
- Parties to SM REIT include – Investment Manager, Trustee, Scheme and Special Purpose Vehicle

**Unlike existing REITs, Sponsor is not a separate entity in case of SM REIT and its role shall be played by IM itself.**

**Authority to introduce multiple schemes for property acquisition is similar to AIFs model.**

# HIGHLIGHTS

## Size of the Asset

Size of each asset proposed to be acquired in each scheme of the SM REIT **must be at least INR 50 crore and must not exceed INR 500 crores.**

**In conventional REITs, the size of the asset must not be less than INR 500 crores.**



# HIGHLIGHTS

## Lending Activities

SM REITs are prohibited from lending funds to any entity other than their SPV and the SPV is also prohibited from lending to any entity.

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# HIGHLIGHTS

## Investment Size

The minimum investment threshold is established at **₹10 lakh**, rendering it accessible for individual high networth investors, and **the price of each unit shall be ₹10 lakh.**

**In conventional REITs, investment threshold is established at INR 10,000 to 15,000 and price of each unit to be determined through book-building process.**



# HIGHLIGHTS

## Investment in Properties

SM REITs are obligated to invest **at least 95% of the value of the scheme's assets** for each of its schemes in completed and revenue-generating properties and shall not invest in under-construction or non-revenue generating real estate assets.

**Min. 80% of the value of assets to be invested in completed and revenue generating properties at all times.**



# HIGHLIGHTS

## Leverage

SM REITs are permitted to **raise funds through borrowings/ debt securities** only of such intention is disclosed in the scheme offer document.

**A conventional REIT may undertake borrowings in compliance with REIT Regulations without any such prior disclosure.**



# HIGHLIGHTS

## Distribution by SPVs

**Minimum 95% of Net Distributable Cash Flows** to be distributed to the scheme of SM REIT subject provisions of Companies Act 2013.

**Minimum 90% of Net Distributable Cash Flows** to be distributed by an SPV to REIT.

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# HIGHLIGHTS

## Distribution to Unit Holders

**100% NDCF of the SM REIT Scheme** shall be distributed to the unit holders in such schemes.

**Minimum 90% of Net Distributable Cash Flows** to be distributed to unitholders.





# **Other key conditions of SM REITs framework vis-a-vis existing REITs**

- Chapter II – Registration of REITs, Chapter IV – Issue and Listing of units, Chapter V – Investment Conditions, Related Party Transactions, Borrowings and Valuation of Assets and Regulation 22 – Rights and Meetings of unitholders, of existing REIT Regulations shall not be applicable to SM REITs.
- In SM REIT, SPV is a wholly owned subsidiary of SM REIT scheme unlike SPV in case of REIT where minimum 50% is required to be held by REIT/Holdco itself.
- There can be multiple assets in a Scheme.
- No multiple classes of units in a scheme is allowed.
- Property title documents to be kept in a safe deposit box at a scheduled commercial bank and be annually inspected by Trustee.

# Miscellaneous Key Points





# **Migration for existing FOPs**



- •Application for migration and registration as SM REIT to be made by Investment Manager with SEBI on or before September 08, 2024.
- •Migration of existing persons, entities, or structures (FOPs) to be completed within 6 months from grant of certificate of registration as SM REIT.
- •Existing FOPs are not required to comply with the condition of having an asset size of at least INR 50 Crores and minimum investors of 200 at the time of migration and obtaining registration as SM REIT.

# Key Provisions





# **Benefits of New Framework for FOPs**

- Better opportunities due to regulation by SEBI.
- Stable investment and source of income due to 95% revenue generating investments.
- Strict eligibility and governance norms will align the interests of investors and FOPs.
- Enhanced liquidity and exit opportunities for investors.
- Increased transparency due to standard and periodic disclosures.
- Investor protection and redressal of investor grievances

# Key Benefits





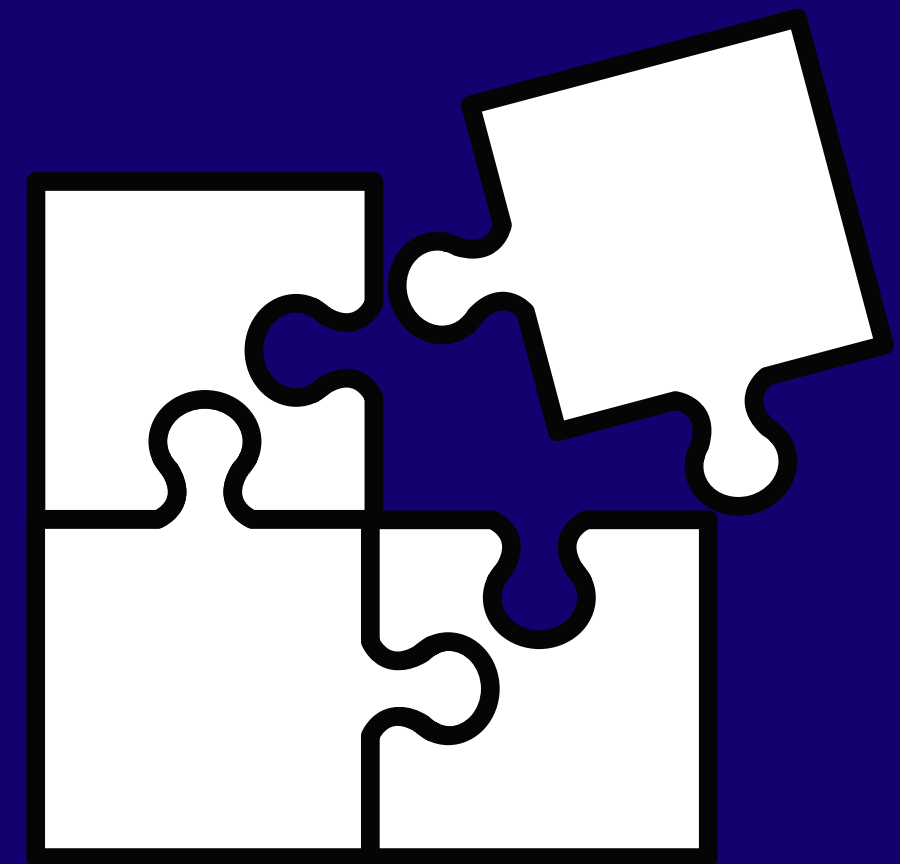


CHALLENGE

# Challenges of New Framework for FOPs

- Engagement of Parties to SM REITs.
- Pre-requisites of net worth and experience etc. for Investment Managers.
- Acquiring funds, pre-listing compliances, issue and subscription size.
- Seeking interest of investors as a number of investors has to be more than 200.
- Time frame of six + six months for registration and migration of existing FOPs

# Challenges





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# THANK YOU !!