

REIT - SYNOPSIS.

Introduction.

- Diff bet<sup>n</sup> REIT and MF (P.g. no. 4)
- REIT structure and parties.
- Definitions
- Salient salient features
- Limit

core provisions.

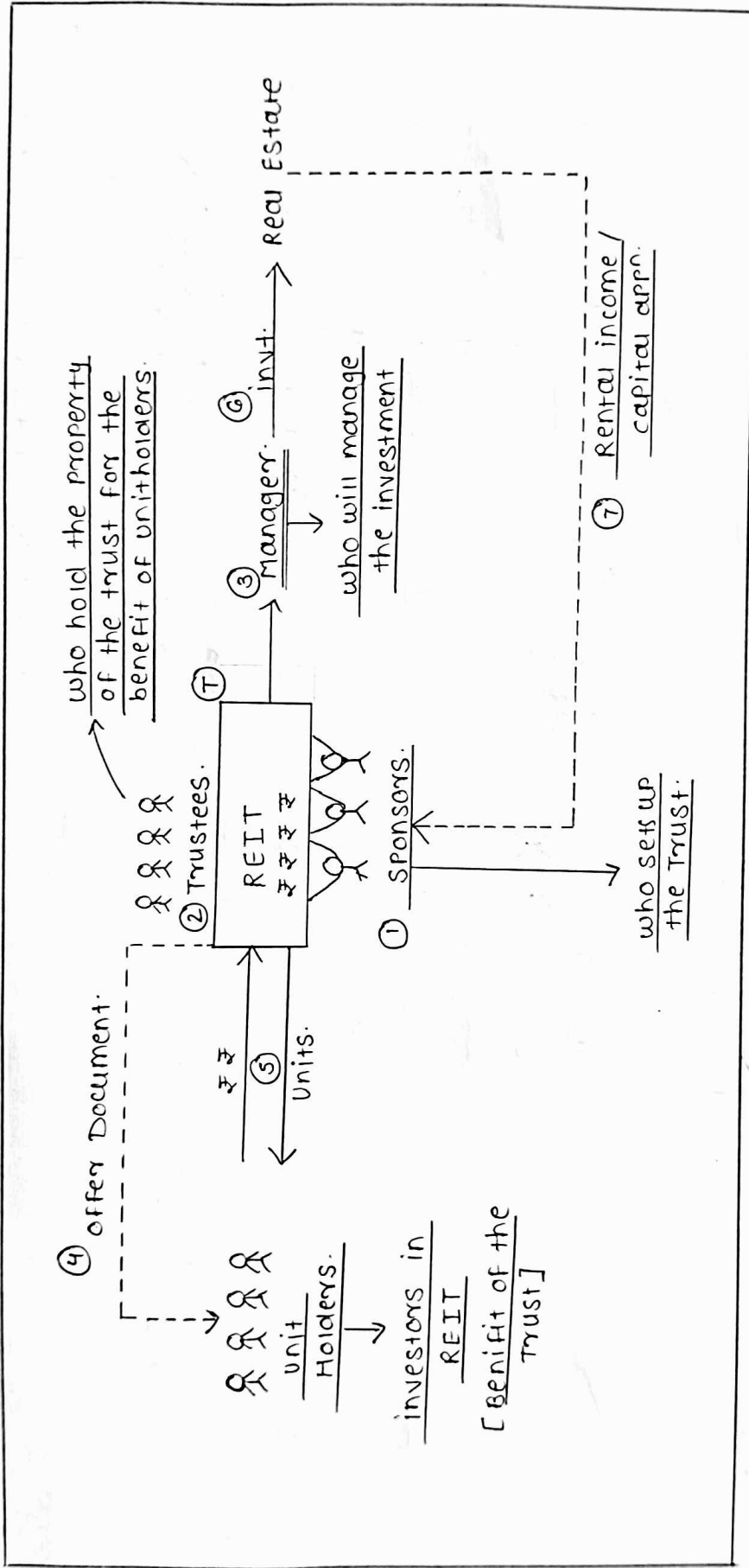
- Eligibility criteria
- Issue and allotment of units.
- Listing and trading of units.
- Delisting of units
- inv. conditions and distribn policy.
- Borrowing & deferred Payment.
- Rights of Unitholders
- Disclosure

Guidelines for REIT by SEBI

Misc.

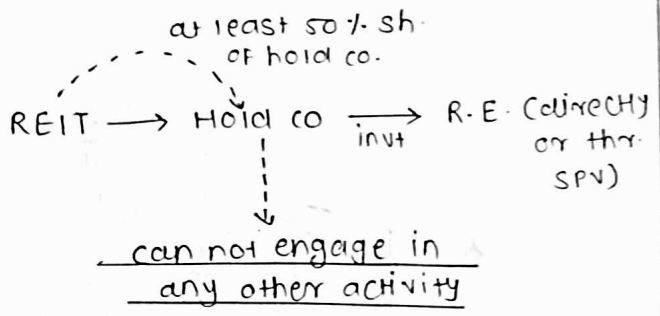
- Governance Norm under REIT
- Strategic investoy
- Latest addition
  - Min Public unit hol.
  - SPONSOR'S holding
  - Distribution
  - SM REIT

# Structure of REIT

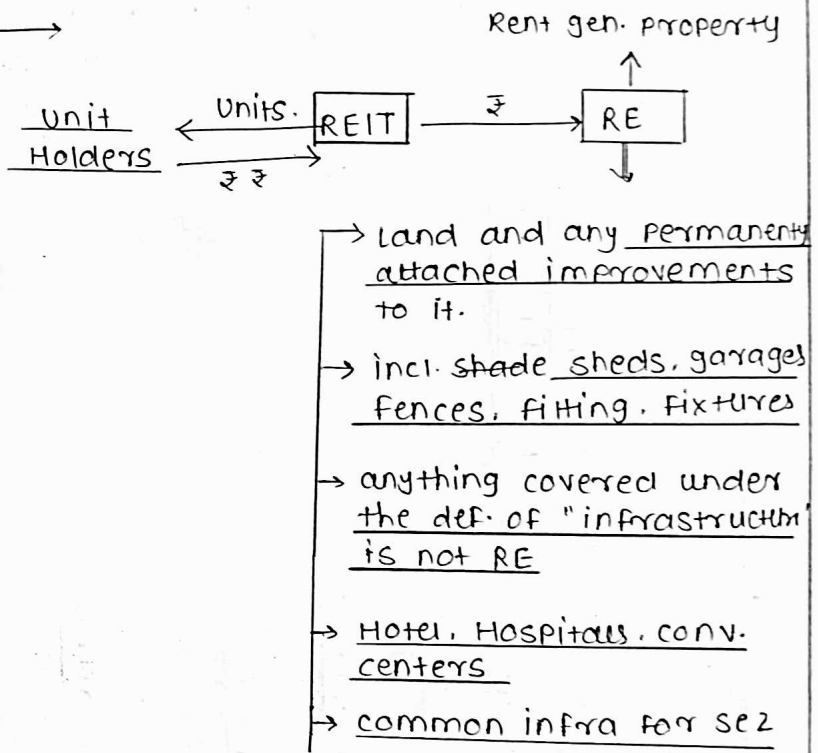


Important Definitions.

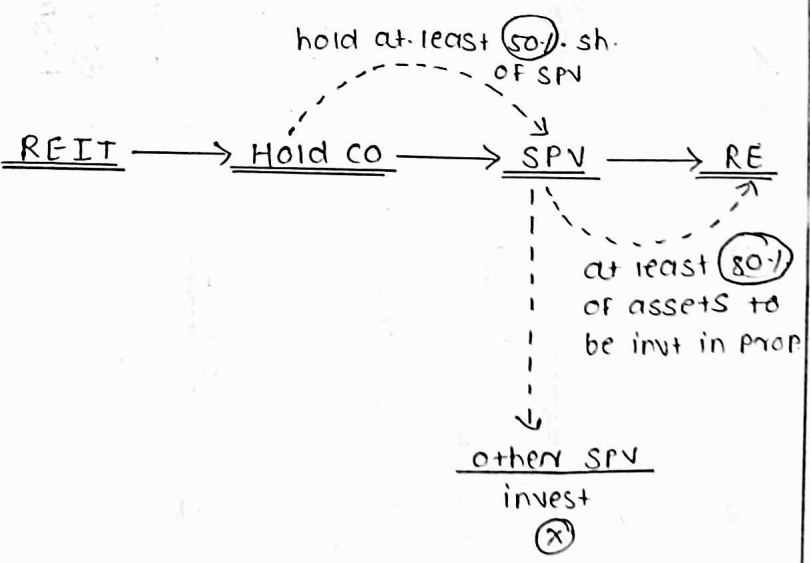
① Hold co. or Holding co.



② Real estate or property.

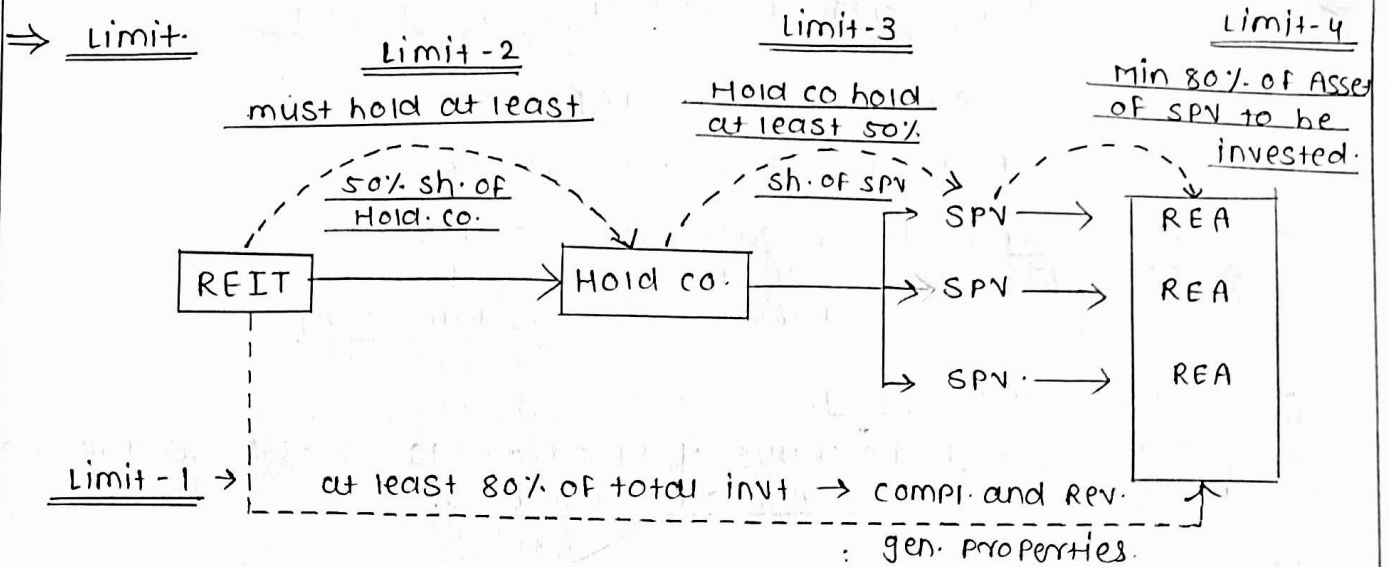


③ Def. of SPV.  
Special purpose vehicle



Salient Features of SEBI (REIT) Reg, 2014

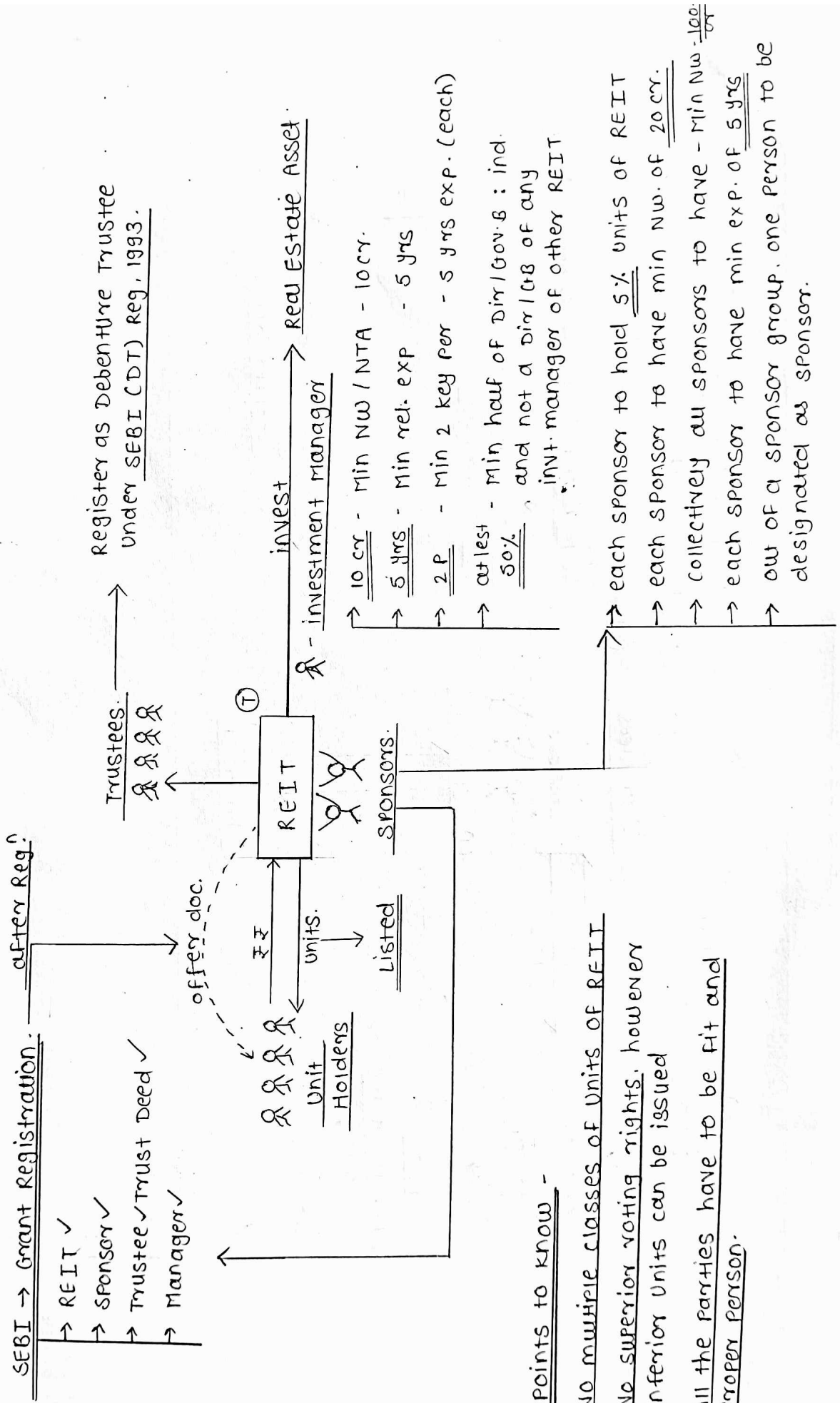
- Governing code - SEBI (REIT) Reg, 2014
- Trust - set up under Indian Trust Act, 1882
- Each sponsor hold - at least 5% units of REIT collectively
  - 15% of total units of REIT for at least 3yrs from listing.
- Listing is mandatory.
- at least 80% of the value of REIT assets needs to be invested in completed and revenue gen. properties.
- Max. 20% invest in.
  - Developmental Properties.
  - Listed / unlisted debt sec.
  - Listed equity shares of co. (75% - ~~infra~~) REA income.
  - Govt. sec.
  - Mortgage backed sec.
- at least 90% of net distributable income shall be distributed as dividend to unitholders
- Min offer size 250 cr.
- Minimum sub. amount - 10,000 - 15,000.
- Min pub. sh. hold. - 25%.
- Borrowing / def. payment exceed - 25% → approval
  - cr. rating Agency
  - unit hol.
- Agg. borr / def. pay - shall never exceed 49% of value of Assets
- value of the Assets of REIT - at least 500 cr.
- Min no. of unit holders - 200.



⇒ DIFF bet<sup>n</sup> REITs and Mutual Funds

REITs	Mutual Funds
<u>Meaning -</u> It is a corpo., trust or association that <u>invest direct. in real estate.</u>	It is a professionally managed pooled invt that <u>invest in a variety of vehicles.</u> → stock / bonds.
<u>Investment -</u> Require large amount of Funds to invest in real est.	MF requires small amount to be invested.
<u>Diversification -</u> investor can invest only in real estate related stocks	MF allow to diversify your portfolio by investing in various sector.
<u>Legal -</u> <u>SEBI (Real Estate Investm. Trusts) Regs</u>	<u>The SEBI (MF) Reg. 1996</u>

## Parties of REIT / Eligibility



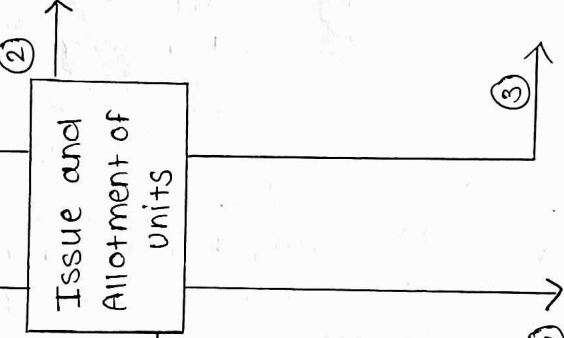
⇒ Points to know -

- No multiple classes of Units of REIT
- No superior voting rights, however inferior units can be issued
- All the parties have to be fit and proper person.

## Issue & Allotment of Units.

- ① • only by way of public issue.
- ② • only after reg. under SEBI (CREIT) Reg. 2014

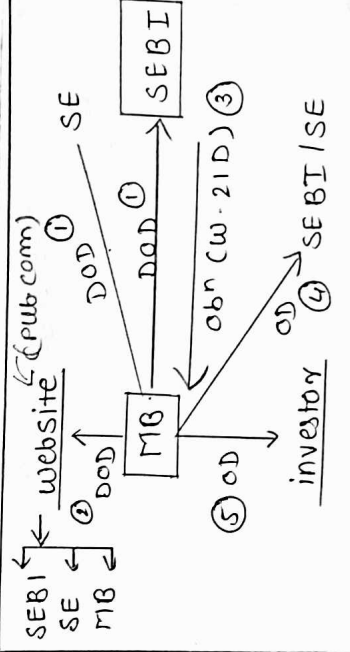
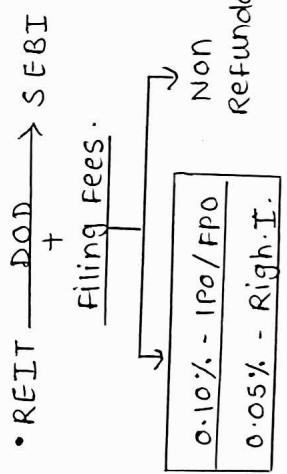
- ③ • Units to be issued in Demat form.
- ④ • If REIT fails to make initial offer [3yrs + 1yr] → surr. its reg.



offer period	3 - 30 d.
Allotment & Refund	w - 12 D.
int. in case of failure	15% p.a
Min subscription	90%
Max amt. as per gen corp. purpose	10%

Min. offer size	250 cr.
Min value of Assets of REIT	500 cr.
Min No. of unitholders [other than sponsor / RP / A]	200
Min issue to public.	25%
Max subscription from any from any investor other than S/RP/A	25%
Min subscription	10K - 15K

Draft OD. and off. Doc.



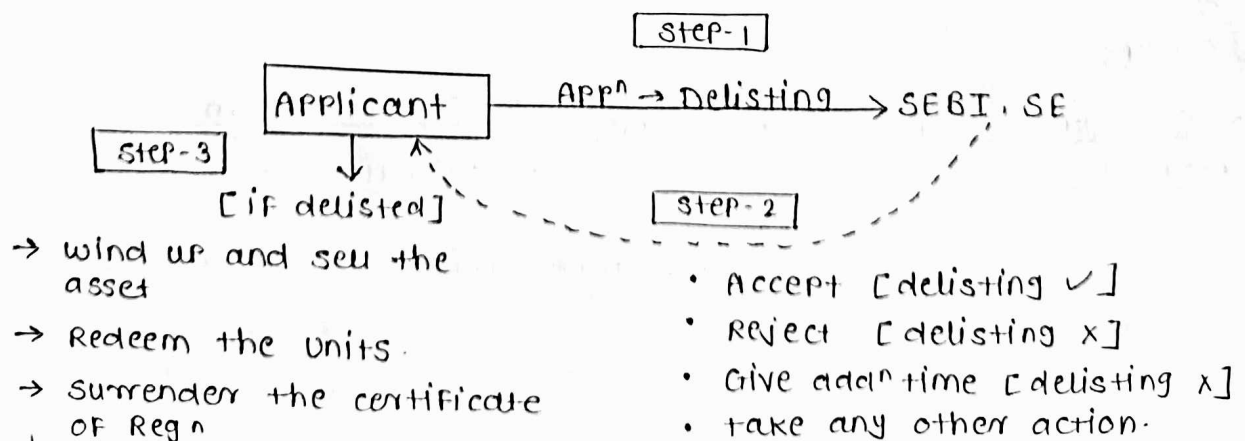
⇒ Listing and trading of units.

All units to be mandatorily Listed	w-6 days	---> <u>From closure of issue.</u>
In case of non-receipt of listing Permission	refund @ 15% p.a	---> <u>From the date of allotment</u>
<u>Trading Lot</u>	1 Unit	
<u>Traded, cleared &amp; Settled.</u>	by laws of SE	
<u>Minimum Public sh. holding.</u>	25%	
<u>Lock in for Pre issue unitholders</u>	1 year.	

⇒ Grounds of Delisting.

- violation of minimum public holding.
- violation of Listing agreement / reg<sup>n</sup>
- violation of Listing aggr / reg<sup>n</sup> / Act or in the int. of unitholders.
- No project / asset remaining under REIT for > 6m and REIT does not propose to invest in any project [can be extended for 6m with unit holders app.]
- Sponsor or trustee apply for delisting (with the approval of unitholder).
- Unit holders apply for delisting.

⇒ Procedure for Delisting



## Investment condition and Distribution:

### → Investment condition.

✓	→ REIT shall only invest in hold co, SPV, Properties, sec. in india.
✗	→ REIT shall not invest in vacant Land, agriculture Land and mortgage.
26%	→ The ultimate holding int. of Hold co REIT in the SPV is not less than 26%
80%	→ <u>Min 80%</u> of REIT assets to be invested in completed and revenue generating asset
20%	→ <u>Not more than 20%</u> of REIT assets can be invested in - DP → DS → ES (75%) → MBS → GS → FSI → TDR
51%	→ <u>Min 51%</u> of consolidated revenue to be from renting, Leasing and letting real estate.
3 yrs	→ REIT / hold co / SPV to hold any prop. for at least 3 years.
✗	→ REIT shall not invest in any other REIT
10%	→ For sale of property, exceeding 10% of value of REIT assets, approval of Unitholder is required.

### → Distribution.

Amendm.*	→ REIT has to distribute <u>90%</u> of its cash flow to unitholders <sup>income after tax</sup> <u>within 15 days</u> from the end of every Qm. Record date.
	→ If any property is sold by REIT / hold co / SPV, the amt has to be distributed to unitholders if the REIT does <u>not propose to reinvest it within 1 year.</u>
	→ <u>Undistributed amount to be transferred to IPEF by SEBI</u>

⇒ Borrowing and Deferred Payments.

- IF the aggregate consolidated borrowings and deferred payments (net off cash and cash equi.) exceed 25% of value of REIT Assets  
 → credit rating and app. of unit hol. is required
- The aggregate consolidated borrowings and deferred Payments (net off cash and cash equi.) shall not exceed 49% of Value of REIT asset
- REIT may issue debt security, which have to be listed.

⇒ Rights and meetings of unit hol.

→ Rights :-

- Right to receive income / distrib<sup>n</sup>
- To vote on matters requiring approval of unitholders.
- To attend, vote & rec. documents
- To call meeting (if req.)

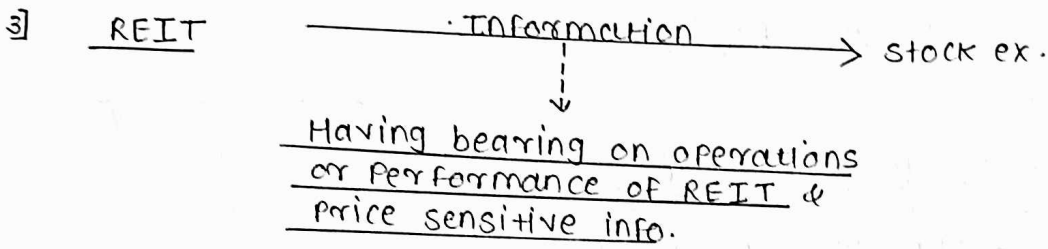
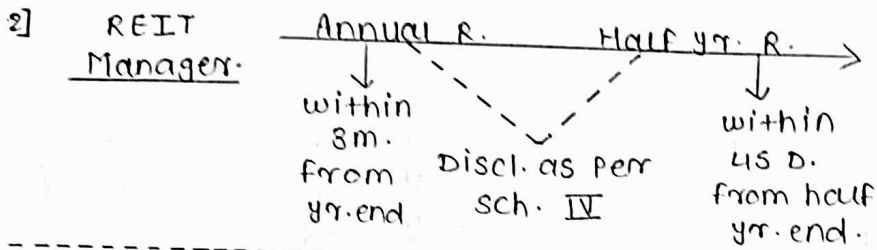
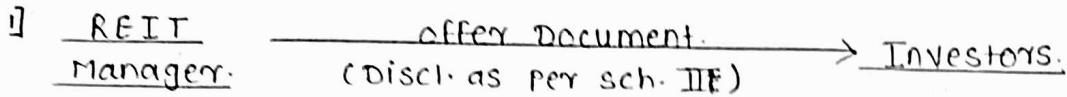
→ Meetings of unit holders.

- once in a year.
- within 120 days from the end of the yr. & max gap should not exceed 15 m. bet<sup>n</sup> 2 meetings.
- 25% U.Hol. in value (<sup>approval</sup> 60% of For removal of trustee) can apply to add any matter voting.
- Transaction and required majority



<ul style="list-style-type: none"> <li>• For borrowing above the limit.</li> <li>• For other trans<sup>n</sup> above the limit</li> <li>• IF SP./T. requires approval of U.Hol. (For ordinary b<sup>ness</sup>)</li> <li>• SE/SEBI requires approval of UH.</li> </ul>	<ul style="list-style-type: none"> <li>• For delisting.</li> <li>• <u>For change of.</u> <ul style="list-style-type: none"> <li>- Auditor</li> <li>- Valuer</li> <li>- Trustee</li> <li>- Manager</li> <li>- invt. strategy</li> </ul> </li> <li>• SP./T requires approval of U.Hol. (For other → or. b<sup>ness</sup>)</li> <li>• SEBI/SE requires</li> </ul>	<ul style="list-style-type: none"> <li>• For change in SP. or add<sup>n</sup> of a new SP.</li> <li>• IF any unit holder intends to buy more than 25% units. [Other than SP./RP/A]</li> </ul>
<p>Vote casted in Fav. ↓ to be more than vote casted against</p>	<p>Vote casted in Fav. ↓ to be 1.5 times of vote casted against</p>	<p>Resol<sup>n</sup> to be appr. by ↓ 75% of UH in Value</p>

⇒ Disclosures.



⇒ Guideline Norms for SEBI  
[Applicability of SEBI (LODR) Reg. 2015]

1] Composition of BOD & manager.

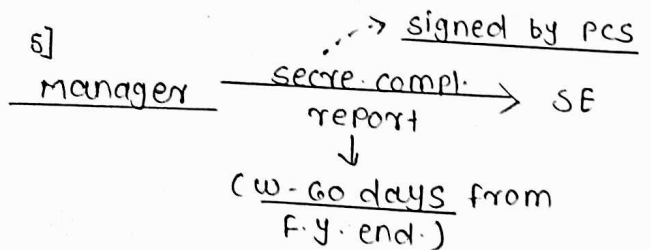
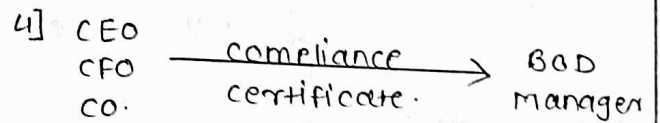
- Min 6 directors.
- at least one ind. women dir.

2] quorum of BM of manager.

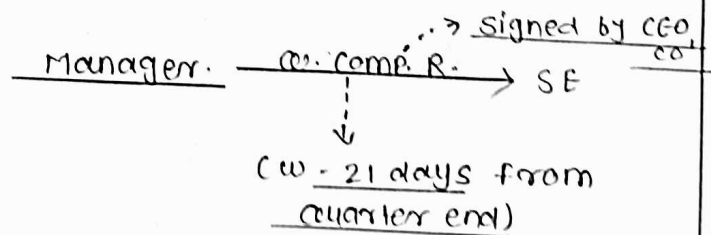
- 1/3<sup>rd</sup> of total or 3 directors  
director

w.e. is higher  
 (incl. at least 1 ind. dir)

3] manager to formulate a vigil mechanism



6] quarterly compliance Report on corpa. governance -



## ⇒ Strategic investor for REIT

- Schedule comm. Bank
- Insurance co.
- Mutual fund.

- Foreign portfolio investor
- Syst. imp. NBFC.
- Infra. Fin. co. (NBFC)

- Bilateral / multilateral FI

+ Invest not less than 5% of the total offer size.

⇒ Strategic Investor for REIT

## ⇒ Provision for strategic investor.

- Min Holding. - 5%
- Max Holding - 25%
- Lock in - 180 Days. --- → For listing
- Units can not be issued to SI at a price lower than public issue price.

SEBI's Guidelines For Public Issue of Units.

<p>1] <u>Filing of offer DOC.</u></p>	<pre> graph TD     REIT[REIT] -- "1 DOD" --&gt; SE[SE]     REIT -- "1 DOD + due dili cert." --&gt; SEBI[SEBI]     SEBI -- "3 obj^n (21 days)" --&gt; REIT     REIT -- "4 SEBI SE OD 5" --&gt; Investor[Investor]     SE -- "2" --&gt; website[website]     </pre>												
<p>2] <u>Allocation in Public Issue -</u></p>	<ul style="list-style-type: none"> <li>• <u>Minimum public Hol.</u> - 25%</li> <li>• <u>Max. hold. by inst. invt</u> - 75% - (indiv - limit max 25%)</li> </ul>												
<p>3] <u>Anchor Investor</u></p>	<ul style="list-style-type: none"> <li>• @IB + Application for 10 cr or more + on main Board + in a book build issue</li> <li>• <u>Provisions -</u> <ul style="list-style-type: none"> <li>→ Bidding for AI opens <u>one day prior</u></li> <li>→ <u>Allotment</u> is done on <u>same day</u>.</li> <li>→ Lock in - <u>30 days</u> from allotment.</li> <li>→ IF the BOOK build. Price is higher than the price for AI, AI has to bring in the <u>additional amt. in 2 days</u>.</li> <li>→ <u>60%</u> of portion for institutional investor can be allotted to AI</li> </ul> </li> </ul>												
<p>4] <u>Security Deposit:</u></p>	<ul style="list-style-type: none"> <li>• <u>0.5% of the issue size</u> or <u>5 cr.</u> } w.e. is <u>lower</u>.</li> </ul>												
<p>5] <u>Opening of an issue and subscription period</u></p>	<table border="1"> <tr> <td>Filing of OD with SEBI</td> <td>Issue open</td> <td>Issue close</td> <td>allotment/ Refund</td> </tr> <tr> <td align="center"> ----- </td> <td align="center"> ----- </td> <td align="center"> ----- </td> <td align="center"> ----- </td> </tr> <tr> <td align="center">5 days</td> <td align="center">8 - 30 Days</td> <td align="center">w- 12 Days</td> <td></td> </tr> </table> <ul style="list-style-type: none"> <li>→ The off. Period can be max 30 days.</li> <li>→ in case of revision off. Period will be ex. for 10 days sub to max - 30 Days, can be revised twice</li> </ul>	Filing of OD with SEBI	Issue open	Issue close	allotment/ Refund	-----	-----	-----	-----	5 days	8 - 30 Days	w- 12 Days	
Filing of OD with SEBI	Issue open	Issue close	allotment/ Refund										
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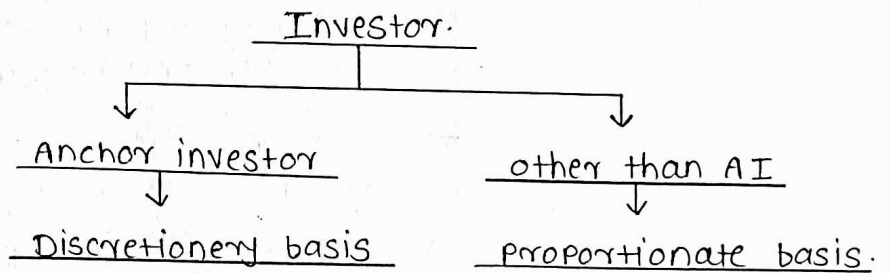
6] Price & Price band.

- If the issue is through BB mechanism, price band to be announced two days prior to the issue opening - on website, in N.P.
- Post bidding manager in con. with MB, determine the cut off price.
- All those bidding above the cut off price get the units at the cut off price.

7] Bidding process.

- Bidding only through ASBA, by submitting a bid cum application form to SCSB where a Funds will be blocked and app<sup>n</sup> forwarded to REIT through SE.
- Bidding may be closed for institutional invt. one day prior. sub. to condition that bidding shall stay open for 3 days for all categories of investors.
- No investor can lower or withdraw <sup>the</sup> a bid.
- The identity of bidder can not be made public (except Anchor investor)

8] Basis of allotment.



[ in case of under subscription in any category the unsubscribed portion may be allotted to applicant of other category ].

9] other-

- REIT. Parties to REIT their P/D.

- Not be debarred from SEBI  
wilful defaulter.
- compliance officer to be appointed.

### 10] Distribution -

- 95% of the net distributable CF of SPV are distributed to SM REIT
- 100% of the Net distributable CF of SM REIT to be distributed to UH.
- dist. to be declared once in every quarter, within 15 days from quarter end.

### 12] other points.

- IM to maintain a functional website of SM REIT
- Issue period max - 30 days
- Units of SM REIT - only in demat form.
- Min public holding - 25%.

### 11] Rights and meetings of UH.

#### • Rights.

- To receive distributions.
- To vote in unit holders meeting

#### • Meetings

- Annual meeting of UH within 120 days from year end. and max gap bet<sup>n</sup> 2 meetings - 15 m.
- Notice of 21 clear days for the meeting (shorter notice if 95% consent)
- int. unit hol can not vote
- Meeting may be conducted thr. video conf. or thr. other audio visual means.

Some latest additions to the concept of REIT

1] Minimum public unitholding

Post issue cap. of REIT	Min Pub Unit-hol.
• <u>Less than 1600 cr.</u>	25%
• <u>1600 cr or more less than 4000 cr.</u>	400 cr.
• <u>More than 4000 cr.</u>	10%

2] Sponsor holding.

- each sponsor to hold 5% units
- collectively all the sponsors to hold 15%

• Lock in

<u>First 3 yrs from listing</u>	15%
<u>4<sup>th</sup> and 5<sup>th</sup> (next 2 yrs)</u>	5%
<u>6<sup>th</sup> and 10<sup>th</sup> (next 5 yrs)</u>	3%
<u>11<sup>th</sup> to 20<sup>th</sup> (next 10 yrs)</u>	2%
<u>Post 20<sup>th</sup> yr</u>	1%

3] [stewardship code] Right to appoint nominee director.

↓

Unit holders holding 10% unit hol. (Ind. / collectively)

↓

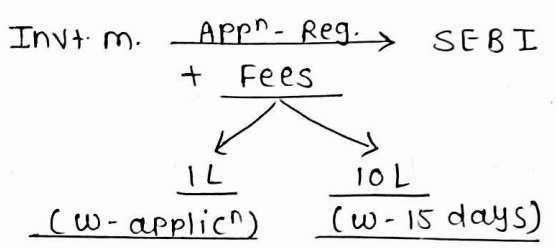
can nominate one director on the board of manager.

4] Distribution by REIT

REIT distribute 90% of its income after tax once in every 6m within 5 days from record date.

SM REIT

1] Registration.



2] Eligibility.

Inv. manager.

- Min NW - 20 cr. [incl. 10 cr - Liquid NW]
- IM - 2 yrs experience or 2 key persons - [5 yrs exp.]
- Min 50% of dir : Incl. and not dir. of any other REIT

Other.

- No multiple classes of REIT
- No sup. voting rights in REIT
- All parties are Fit & Proper Person

3] Entities not eligible.

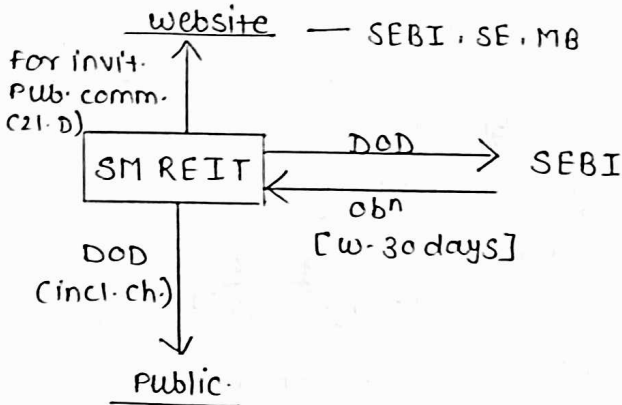
- REIT / Parties to REIT } Deb. REIT
- P / PG / D. of Parties to REIT
- P / D of REIT are P / D of any co. which is debarred.
- REIT / Parties / P / D - wilful d.
- P / D - fugitive eco. offender.
- any pending fine / penalty - SEBI / SE

#### 4] Size of SM REIT

- Value of SM REIT Assets - 50 cr. to 500 cr.
- Min NO. of unit hol. - 200.

#### 5] Initial offer of SM REIT [cond<sup>n</sup>]

- Draft offer document to SEBI



- Min Price of each unit - 10,00,000.
- Min Value of REIT Assets - 50 cr.
- Prop. docs to be kept at safe deposit boxes at a SCB (Annually inspected by trustees)

#### 6] Investment condition

- at least 95% of the Value of REIT to be invested in completed and revenue gen. assets and shall not invest in under construction or non rev. gen. assets.
- up to 5% can be Invested in unencumbered liquid assets.
- SM REIT / SPV can not lend to any entity.

#### 7] Modes of Fund Raising.

- Fund raising  $\begin{cases} \rightarrow \text{equity (Issue of units)} \\ \rightarrow \text{Debt (borrow / Issu of debt sec)} \end{cases}$
- Total borrowing and def. Payment (net of CICE) if exceed 25% of the value of assets, obtained
  - credit rating
  - DPP from unit hol.
- Total borrowing and def. Payment shall not exceed 49% of the Value of asset.

#### 8] Lock in requirement.

- First 3 yrs from listing (if opted to undertake leverage)	5% / 15%
- 4 <sup>th</sup> and 5 <sup>th</sup> year	5%
- 6 <sup>th</sup> to 10 <sup>th</sup> year	5%
- 11 <sup>th</sup> to 20 <sup>th</sup> year	2%
- Post 20 <sup>th</sup> year	1%

#### 9] Allotment and Listing.

- Units of SM REIT	listed
- if IM fails to list, ref. the money with int	15% P.A
- traded, cleared and settled	by laws of SE
- Max unit holding by a single UH (other than IMIRPIA)	25%

⇒ Diff. bet<sup>n</sup> REIT and SM REIT - Note - [Just for clarity and understanding]



REITs	SM REIT
→ <u>Min Asset Value.</u> 500 cr.	50 cr.
→ <u>Min Investment.</u> 80% - Rev. gen. Asset 20% - other	100% - Rev. gen. Assets
→ <u>Distrib<sup>n</sup> to investors</u> 90% - once in every 6m	100%
→ <u>Investment manager.</u> Min NW - 10 cr.	20 cr.
→ <u>observation from SEBI</u> within - 21 days	30 days
→ <u>Exp. → invt. manager.</u> Min 5 years exp. and Min 2 key persons having 5 years of experience.	Min 2 years exp. or Min 2 persons having 5 years of exp.

→ Amendment - For [REIT and INVIT]

statement ensuring that all the investor complaints are redressed.

→ Placed before Dir / Gov. Bodies of manager and trustees [quarterly] for review.



post review.



Submitted to SE