

REIT and InvIT Regulations - A Synopsis

Background

The Securities & Exchange Board of India has released the much awaited Real Estate Investment Trusts (REIT) and Infrastructure Investment Trusts (InvIT) regulations.

This could provide a positive push to the Indian Capital Markets and Real Estate & Infrastructure sectors. It could also create liquidity to some extent for Real Estate and Infrastructure players. Further, it would provide investors an opportunity to invest in Indian stabilised assets through an Indian listed platform.

Key features of the final REIT and InvIT regulations are summarised below:

REITs

- REITs can invest in special purpose vehicles (SPVs) which are set up as Limited Liability Partnerships
- Definition of Real Estate now does not specifically exclude Transferable Development Rights
- Developer sponsors to demonstrate a track record of completion of 2 projects
- Concept of multiple sponsors (maximum 3) introduced
- Net worth requirements for sponsors enhanced [(a) collectively INR 1 billion; (b) each sponsor INR 200 million]
- Mandatory transfer of entire holding in SPV to REIT by the sponsor (subject to any legal and regulatory restrictions)
- 25% lock-in to be computed on post-issue basis
- Minimum asset value reduced to INR 5 billion
- Withdrawal of single project REIT concept - there should be at least 2 projects
- Investment in completed and rent-generating assets reduced from 90% to 80%

- 90% distribution to be computed on net distributable cash flows (in compliance with applicable laws).

InvITs

- Differentiation between Infrastructure Assets with rental / leasehold income is done away with - all assets which qualify as 'Infrastructure' will be eligible under InvIT
- Concept of multiple sponsors (maximum 3) introduced
- Net worth requirements for each sponsor enhanced to INR 1 billion
- Sponsor lock-in (a) 25% - 3 years; (b) above 25% - 1 year
- No concept of re-designated sponsor. Appears to have relaxed continued lock-in requirements after 3 year for sponsors
- Minimum subscription amount for investors enhanced to INR 1 million
- Eligibility criteria laid out for inclusion of under-construction projects (both Public-Private Partnership (PPP) & Non-PPP)
- 1-year lock-in for investors (other than sponsors) holding units prior to initial public offer
- Investment Manager restricted from earning any remuneration other than specified in offer documents

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