CHAPTER I
INTRODUCTION

1.1 Introduction

Real estate is one of the fastest growing sectors in India. Market analyst estimates that returns from realty sector in India are growing at an average rate of 14 percent annually. Various research estimates that, the Indian real estate market is expected to grow from the current USD 4 billion to a USD 25 billion by 2020. Global FDI inflows are expected to pick up to over $1.2 trillion in 2014, rise further to $1.3-1.5 trillion in 2015, and head towards $1.6-2 trillion in 2016, (UNCTAD 2012). FDI in India increased from US$ 23.93 Billion in 2012 to US$ 28 Billion in 2013 (As per UNCTAD reports).

Indian real estate has huge potential demand in almost every sector especially commercial, residential, retail, and industrial, hospitality, healthcare, special economic zones, etc. Commercial office space requirement is led by the burgeoning outsourcing and Information Technology Industry, and led to increase exponentially as the outsourcing boom moves into the manufacturing sector.

The Indian real estate market does have a major role in paving the path of the country’s economy. In terms of employment generation, the real estate sector stands second to agriculture and has a major contribution towards the gross domestic product (GDP). Approximately, 5.9% of India's GDP is contributed by the real estate sector in FY 2012-13 (As per Economic Survey of India). As per the Government of India (GoI), estimates show that for every rupee that is invested in housing and construction, 0.78 gets added to GDP. Housing ranks fourth in terms of the multiplier effect on the economy and third amongst 14 major industries in terms of total linkage effect. The real estate industry has significant linkages (both direct and indirect) with nearly 300 sectors like cement, steel, paints, and building hardware, which not only contribute to capital formation and generation of employment and income opportunities, but also catalyze and stimulate economic growth. Therefore, investment in housing and real estate activities can be considered a barometer of growth of the entire economy (Indiabudget.nic.in, 2012).
The current study specializes on the opportunities of REITs in India. The study also focuses on the global structure of REITs. The study analyses how REITs can be beneficial for the Indian real estate firms, investors and as whole the real estate industry.

1.2 Overview of World Real Estate Investment Scenario

REITs were created by the US Congress in 1960 and played a limited role in real estate investment for more than 30 years. They were initially constrained because they were permitted only to own real estate, not operate or manage it. Since 1992, however, the REITs marketplace has grown dramatically. The main reason for the growth was the benefit of REITs to have only one level of taxation. The limitation on the REITs was that less than 10% of the earnings could be retained by the entity. The economic success story of REITs is based on enabling all investors’ accessibility to income producing commercial real estate as well as liquidity to buy and sell shares of diversified portfolios of properties – from shopping malls to apartment complexes. REITs offer investors an innovative option for trading in real estate stocks. It collects dividends from capital appreciation and rental income. It also offers a route of raising more money for the real estate business. Many private real estate companies used REITs to access capital through the public market place. A REITs operates like a mutual fund, where investments of individual investors are invested in real estate, rather than stocks of companies. REITs is one of the most popular forms of investment tool in developed markets such as the US, UK and Australia. In the US, there are over 300 publicly traded REITs whose assets total over USD 300 billion and whose daily share transaction volume has reached over USD 260 million. The New York Stock Exchange lists over 150 REITs. In fact, now that the volatile stock markets all over the world have been declining, 27% of the shifting capital from equities is going to real estate. Figure I clearly show this trend.
Figure 1.1 Percentage of Investment in Different Sectors (2010/11)

![Pie chart showing distribution of investment in different sectors.]

**Source:** National Association of Real Investment Trust, USA

The US has the most developed REITs market. There, in order for a company to qualify as a REITs, it must comply with certain provisions within the Tax Code. A REITs must be an entity that is taxable as a corporation; be managed by a board of directors or trustees; have shares that are fully transferable; have a minimum of 100 shareholders; have not more than 50 percent of the shares held by five or fewer individuals during the last half of each taxable year; invest at least 75 percent of the total assets in real estate assets; invest at least 75 percent of gross income from rents from real property, or interest on mortgages on real property; have not more than 20 percent of its assets consist of stocks in taxable REITs subsidiaries; pay dividends of at least 90 percent of its taxable income in the form of shareholder dividends.

REITs are not partnerships as in corporations but use partnerships to engage in joint ventures. The advantages of REITs over partnership companies are numerous. They include a high degree of liquidity, since they are listed and traded on stock exchanges, there is no minimum investment amounts, reinvestment plans include some at discounts, ability to leverage property investments without incurring any taxes, investors re-elect directors, stock exchange rules or state laws require majority of directors to be independent of management, beneficial owners over 100 shareholders at least and finally REITs cannot pass over losses on to investors. Historically REITs were more passive vehicles that focused on owning properties and escalating rents over time, but today they’re more dynamic and many REITs buy, sell, develop, and manage properties and 3rd party joint ventures all the time. A few of the larger REITs
in different segments include the Simon Property Group [SPG] (shopping malls), Boston Properties [BXP] (offices), Avalon Bay [AVB] (apartments), and Prologis [PLD] (industrial).

1.2.1 Countries and Regions

Having reviewed in detail the stage of development of REITs in all relevant countries throughout the world, we have selected thirteen separate countries for review in this Global REITs Report. It is our intention to expand this population in the next edition of this report as significant economies such as the UK and Germany embrace the REITs model within their regulatory regimes. There are other newer REITs markets, particularly in Asia and Europe that will be included in future years as they become more established. However, for the Global REITs, the following countries have been included.

Table 1 Global Region in REITs

<table>
<thead>
<tr>
<th>Global Region</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>United States, Canada</td>
</tr>
<tr>
<td>Europe, Middle East and Africa</td>
<td>France, Belgium, Netherlands, South Africa</td>
</tr>
<tr>
<td>Pacific</td>
<td>Australia, New Zealand</td>
</tr>
<tr>
<td>Asia</td>
<td>Hong Kong, Japan, Malaysia, Singapore, South Korea</td>
</tr>
</tbody>
</table>

Source: National Association of Real Investment Trust, USA

Throughout the report we analyze results in terms of the thirteen countries, as well as the four regions. The following charts graphically present the population, by number of REITs, in each of the regions and countries:
The above charts include a total population of individual REITs reviewed within this report of 484 individual entities, as at 30 March 2014. While 253 of these are in the United States, the presence of REITs all around the world is now also significant.
### Table 2 A Country wise Snapshot of REITs

<table>
<thead>
<tr>
<th>Country</th>
<th>US</th>
<th>Japan</th>
<th>Singapore</th>
<th>Hong Kong</th>
</tr>
</thead>
<tbody>
<tr>
<td>System</td>
<td>REIT</td>
<td>J-REITs</td>
<td>S-REIT</td>
<td>H-REIT</td>
</tr>
<tr>
<td>Date Established</td>
<td>1960</td>
<td>1971</td>
<td>2002</td>
<td>2003</td>
</tr>
<tr>
<td>Listed or Unlisted</td>
<td>Both</td>
<td>Both</td>
<td>Both</td>
<td>Only Listed</td>
</tr>
<tr>
<td>Internal or External Management</td>
<td>Both (most internally managed)</td>
<td>External</td>
<td>External</td>
<td>External</td>
</tr>
<tr>
<td>Fund Vehicle</td>
<td>Corporation, Trust</td>
<td>Trust</td>
<td>Corporation, Trust</td>
<td>Trust</td>
</tr>
<tr>
<td>Minimum Number of Stockholders</td>
<td>100</td>
<td>None</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>Investment in Real Estate</td>
<td>At least 75%</td>
<td>At least 50% of revenue from rent</td>
<td>At least 70%</td>
<td>At least 75%</td>
</tr>
<tr>
<td>Dividend Requirements</td>
<td>At least 90%</td>
<td>None</td>
<td>At least 90%</td>
<td>At least 90% of profit after tax</td>
</tr>
<tr>
<td>REIT Taxation</td>
<td>Corporation tax (35%) of unallocated amount</td>
<td>Trust tax (30%) of unallocated amount</td>
<td>Corporation tax (20%) on unallocated amount</td>
<td>Business income tax (17%)</td>
</tr>
<tr>
<td>Market cap (US)</td>
<td>271,850</td>
<td>70,747</td>
<td>23,134</td>
<td>9,518</td>
</tr>
<tr>
<td>Wtd Avg Dividend yield</td>
<td>5.6 %</td>
<td>9.7 %</td>
<td>8.9 %</td>
<td>8.1 %</td>
</tr>
</tbody>
</table>

**Source:** As compiled from literature
Figure 3 REITs Market Capitalization

Source: UBS Investment Bank Database, 2008

Figure 4 Rate of Return of REITs Stock in past 1 year as of 30 June 2012.

Rate of return – 1-year (%)

Source: SNL Financial
Figure 5 BETA of REITs in Different Geographies as of 30 June 2012.

![Beta Chart]

Source: SNL Financial

Figure 6 Dividend Yield for different countries REITs Index as on 31st March, 2013

![Dividend Yield Chart]

Source: FTSE EPRA/NA REITs Indices
1.2.2 Investment Analysis

In Europe and North America, especially the latter, real estate investment analysis has become more sophisticated and quantitative, with much usage of financial and econometric modeling borrowed from stock analysis or even quantum physics. Risk analysis and management is also an aspect that has been getting more attention as well. This in our opinion is a reflection of the real estate industry which has experienced some significant changes since the last recession in late 80s and early 90s: a) the demise of some (not all) family-owned real estate development operations and the increased participation of institutional investors, and b) the related gradual passing of ownership in some real assets from private real estate development family groups to institutional funds and investment groups. Added to this were the developments of more advanced financial products such as derivatives, hedges and so on, and the increased availability and more timely provision of real estate related data, information and statistics, part of which can be obtained via the web.

In Asia, and except for individual cases, such level of analytical sophistication and applicability is not yet overly common. Several probable reasons for this are: a) involvement of institutional real estate investors are overall still small if not in terms of capital amount at least in terms of market percentages, and only recently were there locally bred real estate trusts / funds in Korea and Japan, b) while individual cities may have good information, real estate data, information and statistics overall have yet to become inexpensively, abundantly and timely available for some of these analytical methods to be applied, in addition to the fact that individual countries may have different policies and formats, c) except for a few Asian economies, most do not have the necessary legal, financial and administrative infrastructures to encourage the development of real estate funds etc, and d) Hong Kong has most of the foregoing yet its real estate developers despite the economic downturn are still thriving and cash-rich, in addition to the low income tax environment thus making REITs (Real Estate Investment Trusts) a remote reality.

Notwithstanding the above, due in part to keener competition, real estate investment analysis is getting relatively more advanced and applied. Depending on the location, nature, scale and type of projects, some level of analysis is generally done not only for internal review but also to communicate with potential investors and financiers. How
detail one goes depends on the resources available including the time allowed, the budget available, and the inclination of the real estate developer and investor concerned. Some are more technically orientated or cautious while others may be more ‘intuitive’ or daring. Simple analyses may imply the collection of recent data and statistics and performing a relatively simple discounted cash flow estimate with sensitivity studies and so on. Some factor correlations may also be done to ascertain the factor importance. More complex analyses may involve a comprehensive collection of all / most relevant data and statistics, regression analysis, and other economic calculations. If time and budget allows, specific researches may be carried out to establish or apply macro and / or micro financial models. Naturally, the latter involves more expenses and time.

1.3 Types of REITs

Globally, there are three types of REITs: equity based, mortgage based or hybrids. Equity-based REITs own properties and receive rentals incomes from them. The revenues of mortgage-based REITs come from the loans they have disbursed. While hybrid REITs earn income from both these sources, i.e., mortgages and rentals. REITs, globally, is a large industry today and in addition to the above classification they can be divided based on the kind of properties they own. They are some, which would own and manage shopping malls, other would do the same for hotels or nursing homes or any other kind of property. So, in the US an investor can choose from close to 200 REITs based on the kind of income the REITs have and the sector they operate in.

1.3.1 Benefits of Real Estate Investment Trust (REITs)

A Real Estate Investment Trust (REITs) is a company that in most cases owns and operates income, producing real estate assets. REITs are similar to a mutual fund where in money is pulled from small investors and is invested in real estate. The income generated from these real estate investments is distributed in the form of dividends to investors. This income could be in the form of rentals from properties or it could be in the form of interest on loans disbursed by the REITs. Some REITs provide loans to the owners and operators of real estate. To qualify as a REITs under the Internal Revenue Code, a REITs is required to distribute at least 90% of its taxable
income to shareholders annually and receive at least 75% of that income from rents, mortgages and sales of property. REITs is classified into different industry and sub-industry standards. The major classifications of REITs are Diversified REITs, Industrial REITs, Mortgage REITs, Office REITs, Residential REITs, Retail REITs and Specialized REITs. Investing in property through REITs has a number of advantages. The first is liquidity. Since REITs are traded on stock exchanges you can buy or sell them just like stocks. This eliminates illiquidity, which is one of the biggest hurdles of real estate ownership. Second, to own real estate one needs to invest a large amount of money per property. Hence investor might not be able to diversify risk. If this particular property does well you are happy; but in essence you have put all your eggs in one basket. Since REITs invest in a number of properties you can diversify your risk at a much lower cost. Also, you need not commit large amounts since you can buy a single unit of REITs at a time. This would have a very low cost akin to one unit of a mutual fund. Third, owning a property means having to maintain it, keep it in good repair, find worthy tenants, sign a leave and license agreement etc. All these hassles are eliminated in REITs. So in effect you get professionals to manage your property for you. Finally, in most countries REITs receive tax concessions.

1.3.2 Investing in REITs

REITs are companies that own and often actively manage income generating real estates. The income generated (mostly rental income) is distributed to shareholders of the REITs as dividends. In the US, REITs are required to distribute at least 90% of their taxable income annually to shareholders this way. Investors in REITs get their returns from a combination of the dividend income and the capital gains from share price appreciation in the long run. The dividend income tends to be the more important component, and is far more stable and predictable than the share price fluctuations. Share price fluctuations will however be an important contributor to returns in the short to medium term. The global property funds that are coming up are generally going to be about 40-50% invested in the US, 20% in Europe, 10% in Australia and 10-20% in Asia. To better understand the outlook for REITs as an asset class, we start by looking at the historical data to gain a better overall perspective. Through most of the ’90s and early ’00s, the dividend yield from US REITs ranged
between 7% and 8%. This combined with some moderate growth in dividends each year led to good returns for investors. On top of that, investors enjoyed some capital appreciation from the share prices. In the last 1 year the performance of REITs has got affected a lot specially during the 2nd half of 2013. The reason behind this was majorly the suggestion by Chairman Ben Bernanke of Federal Reserve that Federal Reserve is going to taper its US$ 85 billion a month bond buying. As a result there was a sharp decrease in the following months as a result the dividend yield (calculated from dividends divided by share prices) has declined to about 5%, which is close to record lows.

1.3.3 REITs are essentially equities, not bonds

Investors' current interest in REITs as an asset class occurs at a time when there is general investor caution towards the global economic environment and towards equities as an asset class. We believe this development is largely because many unfamiliar investors see REITs as an income generating asset class, rather than as equities. This is where we feel that a note of caution is needed. Given that the dividend yields have declined substantially particularly in the last 12 months, the risk of loss of capital values has also gone up. Capital values can change significantly based solely on investors' expectations of the yield, even if the dividend payments do not change. For example, let's assume that a certain REITs pays a dividend per share of $0.50, and the share price of the REITs is $10. That means that the dividend yield works out to 5.0% currently. Investors at this present moment may think that a 5.0% yield is reasonable. However, conditions may change rapidly such that investors start to demand higher dividend yields. For instance, in a year's time, investors may start to say that a dividend yield of 6% is needed before it is worth investing in that particular REITs. That means that the capital value will decline to $8.33 (calculated from $0.50/6%), or a loss of 17%. If investors demand an 8% yield, the capital value will decline to $6.25 ($0.50/8%), or a loss of 37.5%! Yield expectations can change based on many factors. Firstly, if the general interest rate levels move up, yield expectations will move up accordingly. There is a real risk here because the long term bond yields have in recent months remained surprisingly low despite the various short term rate hikes (even Alan Greenspan was puzzled, calling the current situation a 'conundrum'). Yield expectations will also move up if investors start to believe that the property
cycle has peaked or has reached a plateau, and capital increases will no longer be seen in the short to medium term. A higher yield has to be in place if capital values and dividends are not expected to grow or grow significantly. Again, there is a real risk here because the property markets in the US, Europe and Australia have generally gone through a decade of good times, and property markets are always cyclical. Investing in REITs is not as simple as just looking at the dividend yield, and carries higher risk than investing in bonds. When it comes to investing in a bond, the matter is far simpler if the investor has at least a medium term horizon. For instance, take a bond that is priced at $100, has a par value of $100, pays a coupon (dividend) of $5 per year, and matures in 5 years' time. That means this bond is giving a yield to maturity of 5%. If in one year's time the expected yield for this bond moves up to 8%, the capital value of the bond will decline to about $90, or a loss of 10%. However, if the investor holds the bond for the next 4 years, the investor will get back the par value of $100 (assuming no default). With REITs, there is no such thing as a par value that the investors can expect to get back after a certain number of years. Investors are exposed to the changes in economic conditions and the boom and bust characteristics of the property markets. Hence, investing in bonds is generally safer than investing in REITs.

1.3.4 Tread with caution

While global property funds and REITs can be good additions to the overall investment portfolios in the long term, we feel that in the short term to medium there are reasons for investors to be cautious about. The first point to note is that the emphasis on dividend yield that many of these property funds seem to have, simply does not tell the full picture. Investors can get hit with significant losses in capital values for many years if they buy in at the wrong part of the property cycle. Investors are essentially investing into equities when they buy the global property funds, not fixed income instruments. Secondly, the dividend yields of REITs are currently near historical lows in the US and in a number of other markets. When yield expectations increase, whether because of increases in general interest rates or because of more negative sentiment towards the global property markets, capital losses may arise. Thirdly, the property markets of US, Australia and many European countries have gone through a decade of good times. Investors should bear in mind that property
markets are cyclical, and should never get complacent after many years of prosperity. We suggest that investors tread with caution when it comes to the various global property funds that are being launched at the moment.

1.4 The Asia’s REITs markets

Slowly over the period, REITs has become of the prominent news in the real estate in ASIA. Today in Asia, REITs are present mainly in Japan, Singapore, Hong Kong, Australia. Till April 2013, the REITs market has grown to US$ 151 billion in Japan. Still, the REITs market in South Asia is in very nascent stage. Funds from Singapore, Hong Kong, Japan as well as other countries specifically from US are investing big time in South Asia and they are getting good results. Today many REITs have already invested in many properties in India. The sectors in which they have invested include Commercial Office Space, IT SEZ, Residential projects, Hospitality projects etc. Since India does not have REITs yet, the realty becomes less attractive for the global community to invest in. However, the evolution of REITs in Asia and the advantages associated with it, has made the Indian Financial Regulators to take a look into it. In 2013, SEBI has published the draft guidelines for introduction of REITs in India.

Figure 7 Market Capitalization of Individual REITs Market in Asia (Total=US$72.16bn)
Table 3 Asian REITs Investment Focus by Country (Number of REITs)

Note: Includes listed REITs and REITs-like structure
Source: SNL, Bloomberg, UBS 27th June 2008

Figure 8 Different REITs

Source: Morgan Stanley Investment Management, Jan, 2008
Figure 9  Performance During the sub-prime Crisis, J-REITs listed on TSE Unit Price Premium to NAV per Unit

Source: STB Research Institute, June 2008

Figure 10 S-REITs yield and Spread over 10 year Government bond (15 Jan 2003 to 16 May 2008)

Source: UBS Research Database, 2008
The concept of REITs is new in India. But like most other novel financial instruments, there should be no problems for this new concept to be accepted. Real Estate Investment Trust (REITs) is a company dedicated to owning and, in most cases, operating income-producing real estate, such as apartments, shopping centers, offices and warehouses. A REITs is a company that buys, develops, manages and sells real estate assets and allows participants to invest in a professionally managed portfolio of...
properties. Some REITs also are engaged in financing real estate. REITs buy, develop, manage and sell real estate. REITs are pass-through entities or companies that are able to distribute the majority of income cash flows to investors, without taxation, at the corporate level. The main purpose is to pass the profits to the investors. Hence initially, the REITs business activities would generally be restricted to generation of property rental income.

In India, this concept is still in a very nascent stage as SEBI along with RBI and the Finance Ministry has brought a draft regulation in 2013 for introducing REITs in India. But REITs require a favorable legal, regulatory, accounting and tax system and environment which at present is lacking in India. Like securitization, REITs provide the process through which illiquid assets are transferred into a more liquid form and distributed to a broad range of investors through the capital market. The introduction of REITs in India would provide a further boost to the real estate industry. This would result in increased rental housing generation and also raise cheaper funds for this sector. REITs would certainly provide an impetus to the housing industry in India.

Figure 12 Factors affecting REITs

Source: Researcher’s compilation based on the literature.
### Table 5 Sector-wise FDI Inflows in India

<table>
<thead>
<tr>
<th>Ranks</th>
<th>Sector</th>
<th>2011-12</th>
<th>2012-13</th>
<th>2013-14</th>
<th>Cumulative Inflows</th>
<th>% age to total (in terms of US $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Service Sector</td>
<td>5,216</td>
<td>4,833</td>
<td>1804</td>
<td>39039</td>
<td>18%</td>
</tr>
<tr>
<td>2</td>
<td>Construction Development: Township, Housing, Built up Infrastructure</td>
<td>3141</td>
<td>1332</td>
<td>966</td>
<td>23047</td>
<td>11%</td>
</tr>
<tr>
<td>3</td>
<td>Telecommunications (radio paging, cellular)</td>
<td>1997</td>
<td>304</td>
<td>172</td>
<td>13028</td>
<td>6%</td>
</tr>
<tr>
<td>4</td>
<td>Computer Software &amp; Hardware</td>
<td>796</td>
<td>486</td>
<td>1020</td>
<td>13028</td>
<td>6%</td>
</tr>
<tr>
<td>5</td>
<td>Drugs &amp; Pharmaceuticals</td>
<td>3232</td>
<td>1123</td>
<td>1269</td>
<td>12711</td>
<td>5%</td>
</tr>
<tr>
<td>6</td>
<td>Chemicals (other than fertilizers)</td>
<td>4041</td>
<td>292</td>
<td>496</td>
<td>9376</td>
<td>4%</td>
</tr>
<tr>
<td>7</td>
<td>Automobile Industry</td>
<td>923</td>
<td>1537</td>
<td>1050</td>
<td>9344</td>
<td>4%</td>
</tr>
<tr>
<td>8</td>
<td>Power</td>
<td>1652</td>
<td>536</td>
<td>704</td>
<td>8538</td>
<td>4%</td>
</tr>
<tr>
<td>9</td>
<td>Metallurgical</td>
<td>1786</td>
<td>1466</td>
<td>432</td>
<td>7939</td>
<td>4%</td>
</tr>
<tr>
<td>10</td>
<td>Hotel &amp; Tourism</td>
<td>993</td>
<td>3259</td>
<td>382</td>
<td>7013</td>
<td>3%</td>
</tr>
</tbody>
</table>

**Note:** Cumulative Sector-wise FDI equity inflows (from April 2000 to January 2014).

**Source:** Department of Industrial Policy & Promotion Ministry of Commerce and Industry, January 2014.

It is well known that FDI can complement local development efforts in a number of ways, including boosting export competitiveness; generating employment and strengthening the skills base; enhancing technological capabilities (transfer, diffusion and generation of technology); and increasing financial resources for development. It can also help plug a country in the international trading system as well as promote a more competitive business environment. In view of this, India should continue to take steps to ensure an enabling business environment to improve India's attractiveness as an investment destination and a global manufacturing hub. The investment climate in India has undoubtedly become friendlier and investing in India is a much more attractive proposition today than in yesteryears. Much of the FDI has been in the form of M&A activities rather than Greenfield investment and a great deal is aimed at the attractive domestic consumer market. Large-scale Greenfield FDI into labor intensive, export-oriented manufacturing has been very disappointing. To this end, much more remains to be done to improve the consistency in policymaking and implementation and quality of governance and overall regulatory framework. This is particularly imperative in the case of investments in the infrastructure sector, such as the power sector, which is so critical for overall growth and development. Apart from taking steps to improve infrastructural facilities and enhancing labor market flexibility, we highlight ten further policy recommendations for India's FDI strategy for policy makers going forward. Most of these recommendations are not 'game changing' or innovative recommendations but are meant to be practicable. India needs massive investments to sustain high-quality economic growth, particularly in the energy and infrastructure sectors (both physical and social). Policy makers are looking at FDI as the primary source of funds. It is important to keep in mind that FDI on its own is not a panacea for rapid growth and development. What India needs is to put in place a comprehensive development strategy, which includes being open to trade and FDI. This ought to go a long way to fulfilling the ultimate goal of permanently eradicating poverty over the medium and longer-terms.
In India real estate assets are kept outside the financial market and not leveraged for investment purposes. India must try to make real estate a full-fledged investment option. Real estate as an asset class is vastly different from capital market assets. It is a natural hedge against inflation, experiences low volatility and hence generates positive long-term returns. To begin, with an exclusive stock exchange could be set up under Securities and Exchange Board of India (SEBI) guidelines for trading real estate stocks. The Government should permit the setting up of a Real Estate Investment Trust (REITs) which should be regulated by SEBI in order to open the investment floodgate for the real estate sector. The REITs would operate like a mutual fund, where investments of individual investors are consolidated to invest in real estate, rather than stocks of companies. It would provide a higher level of liquidity as well as professional advice for price discovery, as the investor would be investing through an asset management company. It also provides assured returns in the form of dividends to its investors from rental income earned on real estate assets. The essential difference between a REITs and a mutual fund is that investments made in REITs are traded in real estate stocks and not invested in stock of companies. Further the swings in this market are in the range of 5-10 per cent, which an average investor is in a better position to absorb than the 60-90 per cent swings on the stock market.
1.5 Real Estate Funds in India - Awaiting a Welcome

One sector that has assumed growing importance owing to liberalization in economy in India is its real estate sector. The consequent increase in business opportunities has escalated demands for commercial and residential space. Real estate India is currently in a nascent stage with unlimited growth options. Though unorganized unlike its counterparts in developed countries, this sector is luring foreign investors in a big way. Proactive measures taken by the government has encouraged liquidity flow into the real estate sector from the organized sectors in India as well as foreign lands. Foreign investments in India have seen a steady rise of 40%-45% per year whereas Indian financial institutions have stepped up their investments as well. The combined investment from both along with significant investments from corporate houses has pumped in billions. Real estate investment in India lures heavy weight investors with its lucrative returns. It is estimated that a similar investment in developed countries would fetch a return of 3% to 4% whereas it fetches 12% to 15% in India. The huge funds that are entering the real estate market were bound to cause a stir in an already booming sector. A slew of real estate funds promoted by both foreign and Indian financial institutions are competing to invest in the higher return segment. Some of the prominent companies promoting real estate funds in India are HDFC Property Fund, DHFL Venture Capital Fund, Kotak Mahindra Realty Fund, Kshitij Venture Capital Fund (A group venture of Pantaloon Retail India Ltd) and ICICI’s real estate fund, India Advantage Fund Regulated under SEBI’s Venture Capital Funds, these are closed ended schemes with an initial public offer (IPOs) contributing to a discount on NAVs (Net Asset Value). Moreover, there is also a long list of international investors pumping in foreign funds in India like US-based Warburg Pincus, Blackstone Group, Broadstreet, Morgan Stanley (Morgan Stanley Real Estate Fund (MSREF), Columbia Endowment Fund, Hines, Tishman Speyer, Sam Zell’s Equity International, JP Morgan Partners to name a few. In 2007 has SEBI (Securities and Exchange Board of India) has allowed the introduction of real estate mutual funds in India. These can invest in real estate in India directly or indirectly. SEBI introduced the real estate mutual funds (REMFs) as close ended units and list in stock markets. Globally, REMFs are also known as Real Estate Investment Trusts (REITs). The essential
difference between a REITs and a mutual fund is that investments made in REITs are traded in real estate stocks and not invested in stock of companies. It provides a heavier liquidity than MFs. As per the guideline by SEBI, the NAV of REMFs are required to be disclosed quarterly though many players criticize it saying that in real estate specially in India, the NAV does not get changed much in a 90 day period. But unfortunately these have not been that much successful. Now REITs are to be introduced in India following their success stories in some major economies like US, the UK, Japan, South Korea, Singapore, and Hong Kong. These shall lessen the tax burden on entities by exempting corporate and capital gains tax. At least 90 per cent profits from REITs are distributed as profits through dividends. But India shall have to wait till the end of this year to welcome REMFs as no consensus has been reached at on the valuation norms to be followed. India doesn’t have an organized valuation system adding to the deadlock. Property valuation is tagged to be the deciding factor in launching REMFs as it does in other countries. The opportunities, which can be realized through the development and participation in Real Estate Investment Trusts in Asia, must be utilized in time. This is a superb platform providing local, regional, national and international real estate developers, bankers and investors alike, an outstanding forum with a view to network, exchange ideas and to address the issues and opportunities surrounding the nascent Asian REITs market. The REITs concept was passed into law by the US congress in 1960. At that time REITs were designed to provide the public with a vehicle to participate in the equity ownership of commercial real estate. In the intervening years, tax laws were revised and various iterations of REITs were created until the early 1990's when REITs reached maturity and became a true investment vehicle. The very same opportunity has now presented itself in the world's largest democracy – India. "First-mover advantage" is a term that will increasingly resonate in the real estate community. The property market will see new kinds of player; occupiers and investors keen to capture the energy and potential of Rising Urban Stars. As the world urbanizes at a pace unequalled in recent history, evidence is already emerging of growing interest in cities that would have been "unconventional" only five years ago - cities where untapped potential and attractive performance prospects are being uncovered. As yet, only a handful of investors, developers and occupiers have tuned into the new dynamics of these emerging winners, but others will need to widen their radar to catch the pulse of these new century cities. The background on the Indian real estate market and highlight some of
the key factors that make the introduction of Real Estate Investment Trust extremely exciting for those who get involved at this nascent stage in the enormous Indian market place.

**Figure 14 Real GDP Growth Rate: India vs World**

![Real GDP Growth Rate: India vs World](image)

**Source:** Centre for Monitoring Indian Economy and IMF (CMIEF); IMF.

**Figure 15 Financial Year Wise Equity Inflows through FDI Route**

![Financial Year Wise Equity Inflows through FDI Route](image)

**Source:** Department of Industrial Policy & Promotion Ministry of Commerce and Industry, January 2014.

(http://dipp.nic.in/English/Publications/FDI_Statistics/2014/india_FDI_January2014.pdf)
Figure 16 Percentage of FDI Inflow in Housing Sector in Last 3 years


Figure 17 Growth in FDI Investment in Real Estate vs GDP

Figure 18 Sector Wise FDI Investment

Source: Department of Industrial Policy & Promotion Ministry of Commerce and Industry, January 2014.
(http://dipp.nic.in/English/Publications/FDI_Statistics/2014/india_FDI_January2014.pdf)

Figure 19 Top 10 Countries Contribution in FDI Inflow in India

Source: Department of Industrial Policy & Promotion Ministry of Commerce and Industry, January 2014.
(http://dipp.nic.in/English/Publications/FDI_Statistics/2014/india_FDI_January2014.pdf)
**Figure 20 FDI Inflow in India In last 3 Years**

![FDI Inflow Graph](image)

**Source:** Department of Industrial Policy & Promotion Ministry of Commerce and Industry, January 2014.

(http://dipp.nic.in/English/Publications/FDI_Statistics/2014/india_FDI_January2014.pdf)

**Table 6 Top 10 FDI Investing Countries in India (In INR Crores)**

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<tbody>
<tr>
<td>1</td>
<td>MAURITIUS</td>
<td>46,710</td>
<td>51,654</td>
<td>10,629</td>
<td>351,754</td>
<td>44%</td>
</tr>
<tr>
<td>2</td>
<td>SINGAPORE</td>
<td>24,712</td>
<td>12,594</td>
<td>12,403</td>
<td>102,585</td>
<td>13%</td>
</tr>
<tr>
<td>3</td>
<td>U.K.</td>
<td>36,428</td>
<td>5,797</td>
<td>416</td>
<td>80,874</td>
<td>10%</td>
</tr>
<tr>
<td>4</td>
<td>JAPAN</td>
<td>14,089</td>
<td>12,243</td>
<td>1,339</td>
<td>71,433</td>
<td>9%</td>
</tr>
<tr>
<td>5</td>
<td>U.S.A.</td>
<td>5,347</td>
<td>3,033</td>
<td>2,090</td>
<td>53,013</td>
<td>7%</td>
</tr>
<tr>
<td>6</td>
<td>NETHERLANDS</td>
<td>6,698</td>
<td>10,054</td>
<td>2,968</td>
<td>45,346</td>
<td>6%</td>
</tr>
<tr>
<td>7</td>
<td>CYPRUS</td>
<td>7,722</td>
<td>2,658</td>
<td>805</td>
<td>33,313</td>
<td>4%</td>
</tr>
<tr>
<td>8</td>
<td>GERMANY</td>
<td>7,452</td>
<td>4,684</td>
<td>2,865</td>
<td>28,377</td>
<td>4%</td>
</tr>
<tr>
<td>9</td>
<td>FRANCE</td>
<td>3,110</td>
<td>3,487</td>
<td>639</td>
<td>17,503</td>
<td>2%</td>
</tr>
<tr>
<td>10</td>
<td>U.A.E.</td>
<td>1,728</td>
<td>987</td>
<td>372</td>
<td>11,679</td>
<td>1%</td>
</tr>
</tbody>
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**Source:**

http://dipp.nic.in/English/Publications/FDI_Statistics/2013/india_FDIJuly2013.pdf
1.5.1 India - An Exciting Market of Tomorrow

With the second largest population in the world, India's market possesses inevitable characteristics that will relate strongly to the creation of enormous real estate pressure and growth in this dynamic sector. Contributing factors are; Global proliferation, a progressing economy, world’s largest middle class, huge demand and a 40-80 million housing shortage. Economic Intelligence Unit, Cities that register a decadal growth of 40%, Population increasing by 180 million every 10 years. Indian Census Bureau, A literacy rate of 70% and growing by 10% per decade, real estate values that double every 8-10 years.

This correlates to great pressure being created by an increasingly sophisticated population in this marketplace. Under these circumstances it pressure government and lawmakers to introduce an environment, with rules and regulations allowing financial structures that can help in the development of the sector to meet the enormous existing and projected demand. Failing to do so will be detrimental to a strong economic foundation and detracting from India's economic and National Security in the Global Market Place.

1.5.2 Present Real Estate Structure

The Indian economy was a closed market prior to 1991 with organized real estate in its infancy in India. Antiquated real estate laws have impeded the development in this sector until recently. The Indian real estate market was traditionally considered illiquid opaque and conservative unlike the modern western states where organized real estate is seen as an avenue for investment and forms a valuable cornerstone of the economy. To that end the Indian real estate marketplace has been locked outside the financial market and not leveraged for investment purposes. Despite this India is poised for dizzying and rapid urbanization, which will lead to major developments in Real estate. However the continued demand of quality real estate is yet to be achieved due to the shortage of space (Clear Titled Lands) and funds. Secondly developments of new towns and cities, which are on the anvil, and which India requires drastically, are in need of huge amounts of investments and technical expertise. This cannot be achieved under the present practices nor by the present domestic developers, who still works in a much disorganized manner. The Indian Government is realizing the Real
Estate sector as a key component of the infrastructure of any economy and factors inhibiting growth will have a subsequent negative impact on the economy. The real estate sector in India has an untapped potential to become a catalyst for economic growth. This has been demonstrated by the performance of the industry in other economies but this will only happen if the industry can be corporatized.

1.5.3 SEBI (Security and exchange board of India) REITs Regulations, 2013

In 2013, SEBI as the nodal agency brought the REITs regulation for the 3rd time in the country. The proposal is still at a draft stage but RBI has agreed to make changes in the different regulations like FEMA and others to encourage the growth of REITs in India. The changes related with taxation issues are yet to be cleared by the IT Department, which is expected to happen only once the General Elections are over in June, 2014.

A Summary of the Draft Regulation is as following: -

Proposed regulatory framework

Considering the important role that REITs play, a separate regulatory framework under draft SEBI (Real Estate Investment Trusts) Regulations, 2013 (referred to as "Regulations" hereafter) has been proposed for introducing REITs in India. Salient features of the proposed framework are as under:

A. Structure of the REITs

1. The REITs shall be set up as a Trust under the provisions of the Indian Trusts Act, 1882. REITs shall not launch any schemes.

2. The REITs shall have parties such as trustee (registered with SEBI), sponsor, manager and principal valuer.

B. Registration of REITs

1. The Trust shall initially apply for registration with SEBI as a REITs in the specified format. It shall fulfill eligibility criteria as specified in the draft Regulations.
2. SEBI, on being satisfied that the eligibility conditions are satisfied, shall grant the REITs certificate of registration.

C. **Offer of units to the public and listing of units**

1. After registration, the REITs shall raise funds initially through an initial offer and once listed, may subsequently raise funds through follow-on offers.

2. Listing of units shall be mandatory for all REITs. The units of the REITs shall continue to be listed on the exchange unless delisted under the Regulations. Provisions for delisting have also been specified in the Regulations.

3. For coming out with initial offer, it has been specified that the size of the assets under the REITs shall not be less than Rs. 1,000 crore which is expected to ensure that initially only large assets and established players enter the market.

4. Further, minimum initial offer size of Rs. 250 crore and minimum public float of 25% is specified to ensure adequate public participation and float in the units.

5. General procedure for initial/follow-on offer, filing of offer document/follow-on offer document, allotment and listing of units has been specified in the Regulations. Detailed disclosures required in the offer document/follow-on offer document have also been specified in the Regulations.

6. The REITs may raise funds from any investors, resident or foreign. However, initially, till the market develops, it is proposed that the units of the REITs may be offered only to HNIs/institutions and therefore, it is proposed that the minimum subscription size shall be Rs. 2 lakhs and the unit size shall be Rs. 1 lakh.
D. Responsibilities of various parties to the REITs

Responsibilities of the Trustee

1. The Trustee shall be independent of sponsor and manager and hold the REITs assets in the name of the REITs for the benefit of the investors in accordance with the Trust Deed and the proposed Regulations. The role of Trustee is primarily supervisory in nature.

2. The Trustee shall ensure that the activity of the REITs is being operated in accordance with the proposed Regulations. For achieving the same, certain specific obligations are also imposed on the Trustee, details of which have been provided in the proposed Regulations.

3. The right and obligation to convene meetings of the investors shall lie with the Trustee and he shall follow procedures for holding such meetings as specified in the proposed Regulations.

Responsibilities of the manager

1. The manager shall primarily assume all the operational responsibilities with respect to the activity of the REITs. Roles and responsibilities of the manager shall be specified in the agreement entered into between the trustee and the manager.

2. To ensure that the activities of the REITs are managed professionally, it has been specified that the manager needs to have at least 5 years of related experience coupled with other requirements such as minimum net worth, manpower with sufficient relevant experience, etc.

3. Responsibilities of manager shall range throughout the life of the REITs right from the application for registration, issue and listing of units of REITs, day to day operation and management of the assets of REITs till the delisting of units, if any. Manager shall be responsible for various operational aspects including appointment of various parties to the REITs, procedural aspects of issue and listing of the REITs units, investment decisions, disclosures and reporting, distribution of dividends etc.
Responsibilities of sponsor and the valuers

1. The sponsor’s responsibilities shall primarily pertain to setting up of the REITs including appointment of the Trustee. The sponsor shall also be obligated to maintain a certain percentage holding in the REITs to ensure a ‘skin-in-the-game’ at all times. Even in those cases where the sponsor sells its units it shall arrange for another person/entity to act as the re-designated sponsor.

2. Further, a minimum net worth and experience criteria have also been laid down for the sponsor in the proposed Regulations.

3. For ensuring fair and transparent valuation of the assets, the valuers have been obligated to follow valuation principles, have robust internal controls, have manpower with sufficient relevant experience, etc.

Investment conditions and dividend policy

1. In line with the nature of the REITs to invest primarily in completed revenue generating properties, it has been mandated that at least 90% of the value of the REITs assets shall be in completed revenue generating properties. In order to provide flexibility, it has been allowed to invest the remaining 10% in other assets as specified in the proposed Regulations.

2. To ensure regular income to the investors, it has been mandated to distribute at least 90% of the net distributable income after tax of the REITS to the investors.

3. REITs have been allowed to invest in the properties directly or through special purpose vehicles, wherein such special purpose vehicles (SPV) hold not less than 90% of their assets directly in such properties. However, in such cases, it has been mandated that REITs shall have control over the SPV so that the interest of the investors of the REITs are not jeopardized.

4. The REITs shall not invest in vacant land or agricultural land or mortgages other than mortgage backed securities. Further, the REITs shall only invest in assets based in India.
5. Investment upto 100% of the corpus of the REITs has been permitted in one project subject to the condition that minimum size of such asset is not less than Rs. 1,000 crore.

6. Other detailed investment conditions are provided in the proposed Regulations.

**Related party transactions**

1. All related party transactions shall be on an arms-length basis, in the best interest of the investors, consistent with the strategy & investment objectives of the REITs and shall be disclosed to the exchanges and investors periodically in accordance with the listing agreement and the proposed Regulations.

2. Stringent conditions have been imposed on related party transactions including detailed disclosures, valuation requirements, approval from majority of investors, related party abstaining from voting, restrictions on leasing of assets to related parties, requirement of fairness opinion for lease, etc.

3. For any related party transactions for acquisitions/sale of properties, valuation reports from 2 independent valuers shall be obtained and the transaction for purchase/sale of such properties shall be at a price not greater / less than average of the two independent valuations.

4. Investors' approval is required for all the related party transactions wherein the value is above a threshold as provided in the proposed regulations.

**Borrowings and deferred payments**

To avoid excessive leverage, the aggregate consolidated borrowings and deferred payments of the REITs have been capped at 50% of the value of the REITs assets. If the same exceeds 25%, requirement of credit rating from a credit rating agency and approval of majority of investors has been specified.
Valuation of assets

1. To ensure that the underlying assets of REITs are valued accurately, requirement of a full valuation including a physical inspection of the properties has been specified at least once a year. Further, a six monthly updation in the valuation capturing key changes in the last six months has also been specified. Consequently, the NAV shall be declared at least twice in a year. Provisions have also been specified for valuation in case of any material development.

2. Detailed disclosures have been specified for the annual and half-yearly valuation reports.

3. Further, for any purchase of a new property or sale of an existing property, it has been required that a full valuation be undertaken and the value of the transaction shall be not less than 90% / not more than 110% of the assessed value of the property for sale/purchase of assets respectively.

Rights of investors

1. In order to ensure safeguarding of interests of the investors, several rights have been provided to the investors in order to empower them.

2. The investors shall have right to remove the manager, auditor, principal valuer, seek delisting of units, apply to SEBI for change in trustee, etc.

3. Further, an annual meeting of all investors is mandatory to be convened by the Trustee wherein matters such as latest annual accounts, valuation reports, performance of the REITs, approval of auditors & their fees, appointment of principal valuer, etc. shall be discussed.

4. Further, approval of investors has been made mandatory in special cases such as certain related party transactions, any transaction with value exceeding 15% of the REITs assets, borrowing exceeding 25%, change in manager/ sponsor, change in investment strategy, delisting of units, etc.
5. In order to ensure that a related party does not influence the decision, it has been specified that any person who is a party to any transaction as well as associates of such person(s) shall not participate in voting on the specific issue.

Disclosures

1. Keeping in mind that transparency has been a cornerstone of the REITs industry globally, detailed disclosure requirements have been specified in the proposed Regulations.

2. Minimum disclosure requirements in the offer document/follow-on offer document have been specified in the proposed Regulations. Further, minimum disclosures have also been specified for the annual and half-yearly reports to be sent to the investors.

3. Certain event-based disclosures have also been specified. Further, the REITs shall additionally be bound by periodical disclosure requirements required under the listing agreement with the exchanges.

1.5.4 Additional Virtues of REITs

Predictable dividends, investment liquidity, professional management, conservative use of leverage, diversification of investment risk and independent monitoring; these are just some of the benefits the REITs product will bring to the Indian Marketplace. In this case, the Indian investor cannot lose nor can its government.

1.5.5 Outlook for Indian REITs

Against the backdrop of issuance of the Draft Report on REITs by SEBI in India in 2013, there has been quite a lot of discussion going on in different circles especially the developer community as well as the investor community. One thing for sure is that, everyone wants REITs to be introduced in India because that will help the real estate sector to grow as it will bring liquidity into the market.
Based on our discussions with different professional we have arrived on certain suggestions which is required to be brought in the present draft regulation for better prospect in the Indian market for REITs: -

1. Capital Gains Tax – At present as per the rules of Income Tax, one needs to pay capital gains tax. This tax varies depending on the time period the property was held. If the property is sold after three years of purchase, the resultant gains — known as long-term gains — are taxable at a fixed rate of 20%. Tax provisions provide for exemptions for capital gains from the sale of a house if the taxpayer invests the gains in a residential property within two years from the date of sale or constructs another house within three years.

It needs to be clarified whether REITs will also attract capital gains tax for purchase and selling of units, especially at the time of transfer of real estate asset into REITs.

2. Tax Exemption of Listed units - Moreover, in India a Service Transaction Tax is levied on every purchase of securities that are listed on the Indian stock exchanges. The STT was introduced in 2004 to stop tax avoidance of capital gains tax. Earlier, many people usually didn’t declare their profits on the sale of stocks and avoided paying capital gains tax. The government could tax only those profits, which have been declared by people. The government, in March, had lowered the STT by 20 per cent to 0.1 per cent from 0.125 per cent, in a bid to bring down costs of equity transactions. According to estimates, STT accounts for 51 per cent of the transaction cost in stock markets. STT is deducted at source by the broker or Asset Management Company, at the time of the transaction itself, the net result is that it pushes up the cost of the transaction done. This amount can be deducted from the short term capital gains to receive a tax credit. Currently, capital gains arising from sale of listed shares and units of an equity oriented mutual fund on which Securities Transaction Tax (STT) is paid are taxed favorably viz. gains from sale of listed shares or units of an equity oriented mutual fund are exempt from capital gains tax, if held for more than 12 months and gains from securities held for up to 12 months are taxable at a concessional rate of 15% plus applicable surcharge and education cess. Also, from the end-investors
perspective, income received by the unit holders by way of distributions by the REITs should not be taxable in their hands, since the same would have been taxed at the level of the REITs itself in the form of STT. Under the existing provisions of the IT Act, it is unclear if the units of REITs would get the same treatment in case of sale of units of REITs. There should be more clarity on the taxation of listed units.

3. Stamp Duty - The transfer of assets by the sponsor to the REITs could be regarded as a conveyance and therefore, would be subject to stamp duty at the prevailing rate. But stamp duty rates vary from one state to other in the country. It is believed that the levy of stamp duty on the transfer of property to the REITs would significantly increase the cost of the sponsor and might result in REITs becoming unattractive to sponsors, as fund raising by the REITs through initial public offering will happen at a later stage. On the other hand, the stamp duties need to be paid up front. Hence, there should be rationalization of stamp duties, as the sponsor could be lose all his money if the fund raising is not successful owing to market conditions or otherwise. If the minimum capital is not raised, SEBI’s draft regulations call for winding up of the REITs. Also, currently, the IT Act does not contain any specific provisions governing taxation of a trust formed to be a REITs. Thus REITs would be governed by the general trust taxation provisions contained in the IT Act. It would be helpful to further study and follow some of the best examples of REITs structure from across the world. It is worth mentioning that in countries such as the US, Australia, Singapore, South Korea and Malaysia, generally REITs are exempted to the extent of such income which is distributed to the investors.

4. Listing of Securities - The draft makes listing of units mandatory for all REITs. Since only securities can be listed on stock exchanges it may be assumed that SEBI has decided that REITs units are securities. It is recommended that an appropriate reference would be warranted in the Securities Contracts (Regulation) Act, 1956 to that effect. At present REITs would not be regarded as collective investment scheme as the same have to be incorporated as a company (not as a trust) and then registered with SEBI.
5. Valuation Standards – In India, at present, there is no prescribed valuation standards which creates lots of problems at the time of valuation of real estate properties. Lack of standards, means there is lack of accurate value for any property, especially in India. There is a requirement that along with the Draft Regulation, SEBI prescribes the guidelines for the valuation standards to be followed for e.g. like IVS (International Valuation Standards) produced by IVSC (International Asset Valuation Standards Committee) which is already linked with International Financial Reporting Standards. This would help in bringing transparency in the market related to valuation of assets providing comfort to investors as well as institutions.

6. Regular Audits – In India, it is a common well known practice, where the developer constructs some floors against the permitted height or FSI for more rents or capital gains. Normally these buildings are unsafe from the point of Structural Safety, Fire Hazards, Loss to Human Life etc. Hence, it is recommended, that it should be mandatory to get the building audited annually or half yearly from reputed Safety Auditors for all kind of safety measures.

7. Disclosures – It is suggested that there should be a proper discloser mechanism to provide all the information related to the assets especially in case of India, where this is a new concept and there is no standards and regulations related to disclosure of details related to any asset or buildings. A clear information will not only provide comfort to the investors but will also help them take decisions about where they want to invest their money.

Other than these there are many other points which has been raised by different professionals during discussions and it is expected that SEBI along with RBI and Finance Ministry will look into the merit of all the points being raised by different parties and bring a regulation in line with international REITs practices cause then only it will be successful in India and give a very much needed boost to the Real Estate sector.

1.5.9 Potential & Demand of REITs in India

For investors, real estate as an asset is not easily accessible, the reasons being large capital outlay and lack of liquidity. REITs provide a solution to both these issues. As
such there would be an inherent demand for an investment opportunity that will introduce an investor to a balanced real estate portfolio, and simultaneously manage the risks associated with this segment. Indian real estate sector is now on the way to offer an attractive investment opportunity in the wake of continued economic growth, an expanding workforce and outsourcing boom. Now if 75% of the two million Indians graduating each year are employed, then, assuming that a person needs 75 sq. ft. of space on an average, an annual demand for more than 100 million sq. ft. of office and industrial space is created every year. Added to this, the housing sector is expected to grow at above 10-15% and as per Knight Frank; the retail segment is expected to grow at 20%. Indian real estate is mostly privately owned. One would hardly find big property investors that may qualify the REITs status. So the REITs regulations may need to be adapted in the Indian context by relaxing some qualification norms about the proportion of income from investment business. In the USA, the domestic REITs market (public and private) is $300 billion or around 2.5% of the GDP. Using that norm adjusted for purchasing power parity, the potential could well be Rs. 17,000 crores for REITs in India. Here shortfalls in residential and commercial space are huge while there is no shortage of demand. As such the constraints on REITs can only emanate from inadequate supply position.

1.6 Need for Research

The scope for a real estate investment trust is due to various factors including changing real estate scenario and flexibility of entry and exit. Increasing economic development and people’s willingness to invest creates an opportunity for the real estate investment trust. It will able to meet the requirement of stakeholders and perform better. In this context, it is increasingly important to understand the extent to which we can facilitate to fulfill the expectations of customers. It is also equally important to study whether there is a relationship between internal capabilities (such as ability to control cost; ability to maintain a high and consistent quality, ability to add value throughout the value chain etc.) of individual trusts and their growth. This study could help investors, real estate firms and policy makers to formulate appropriate action plans for a better real estate investment trust. Keeping this in view the research objectives are explained in the next section.
1.7 Research Objective

The viability of a real estate investment trust depends upon the challenges at international and national level which stimulates for establishing the industry/firm level capability.

1. To study the feasibility and sustainability of REITs in India.
2. To find out the relation between effective regulation and sustainability of REITs.
3. To find out the relationship between FDI inflow and sustainability of REITs.
4. To find out the correlation between awareness on investment and REITs.
5. To find out the correlation between government policy and REITs.
6. To find out the correlation between good corporate governance and increase in FDI.
7. To find out the relationship between investment, FDI inflow and growth of REITs.

1.8 Research Model

Figure 21 conceptualizes the model used in this research to understand the international and national challenges as well as the industry capability of Indian real estate investment trust. The international and national challenges represent the independent variable, viz. Flexible to Changing Demand Condition, User Friendly Policy and Procedure, Infrastructure, High Competition in National Level, Government Policy and Capital Resources. The dependent variable is the industry capability viz. Strategic Alliance, Market Focus, Value Addition, Growing Economy and Flexible Exit Policy. The independent variables have an impact on the industry capability in determining the viability of REITs in India.
1.8.1 Constructs used in the Research

This model attempts to explain the various challenges faced by the real estate investment trust in India and the capabilities required at the national level to successfully combat these challenges. The limitations of the study and the scope for future research are also brought out.

Concept of “challenge” used in this study; the real estate sector (real estate investment trust) is a buyers-market, where there are a large number of developers but fewer number of investors. The various challenges include: (i) operating in a transparent method (ii) compliance with policy measures and (iii) keeping pace with the market.

Capability (when country is the unit of reference: the term capability is used in this study to mean the competitive ability of real estate investment trust to show higher performance than its competitors).

Capability (when industry is the unit of reference); in this study, a industry’s capability is defined as the ability of an industry to initiate or react to strategic moves and to a deal with environmental or industry events that occur (porter.1990).
Capabilities include processing, product development, operations, value chain integration, all aspects of marketing and customer service and organization design (Miller et al.2000).

1.9 Organization of the Thesis

The study integrates the findings of secondary research (literature review and analysis of secondary data) and the findings of primary research (at the industry level). The study has been organized in the following manner.

Chapter one introduces the background of the subject, viz. challenges and opportunities of the world real estate sector as well as the Indian real estate sector vis-à-vis real estate investment trust. The objective of study and conceptual model are also discussed.

Chapter two provides an extensive review of literature of the various issues being considered in the study. It tries to cover the definitions of various terms that are analyzed in this study and identifying the research gaps.

Chapter three describes research methodology used in this study. The analysis is based on secondary data and primary data. Secondary sources accessed include the journals and published articles on relevant area. The primary data has been obtained from real estate analysts, consultants, property brokers, listed real estate companies, policy makers and investors. A qualitative, in depth, exploratory approach was adopted. Methodology used was a structured questionnaire supplemented by telephonic discussions.

Chapter four discusses the global scenario of REITs and identifies the related parameters. This chapter describes the impact, risk factor, and other parameters which we can use in the Indian context with case study analysis. The different challenges and industry capability is also analyzed. The developers perception based on primary data also analyzed. The SWOT analysis for Indian REITs is also done. To supplement the study, two case studies has been given.

Chapter five discusses the analysis of primary data and the correlation of other factors, synthesis of primary data for investors, developers and policy makers and
other data in the Indian context. The validation of our objective and research model has been done by statistical analysis.

Chapter six summarizes the findings of the study and discusses its implications on the future of the real estate industry in India. The limitations of this study and the scope for future research are also brought out. The synthesis of different chapters has been done. The recommendation for future has been suggested based on analysis.

1.10 Conclusion

The chapter has provided an insight into the general characteristics of the global real estate investment trust and the unique features of the Indian real estate sector. Many of the issues introduced in this chapter have been analyzed at length in the subsequent chapters of this thesis. This chapter has also discussed the need for research, research objective and the conceptual model used in the research. A review of literature covering various research issues is reported and discussed in the next chapter. Research gap is also discussed in the next chapter.