News Release

REIT–able Space in India: A Closer Reality

Mumbai, March 24, 2017: The much awaited REIT (Real Estate Investment Trust) listing is inching closer to reality. **KPMG, NAREDCO, Hariani & Co. and Knight Frank** jointly released a report today titled '**REIT-able Space in India: A Closer Reality'**. According to the report, REIT is expected to have a large opportunity in the Indian real estate market, which is supported by a strong economic growth, a large portfolio of completed commercial real estate and conducive investment climate.

Key takeaways:

- REIT as an investment vehicle has huge potential in India
- India has a rent yielding office inventory to the tune of 537 mn. sq. ft. worth more than USD 70 billion. Warehousing, retail malls, shopping centers and school buildings to name a few comprise a massive REITable assets spread
- REITable assets may cover completed and rent-generating real estate assets. It is estimated that approximately USD 121 billion or 1.73 billion sq. ft. occupied CRE (Commercial Real Estate) across office, retail and warehouse segments could potentially benefit from the REIT opportunity
- In the case of office and retail, approximately 537 mn. sq. ft. and 75 mn. sq. ft. respectively is REIT-able area located in the top seven cities, namely Mumbai, NCR, Bengaluru, Chennai, Hyderabad, Kolkata and Pune. With respect to warehousing space, the all-India estimate is approximately 1127 mn. sq. ft.
- Returns on equity of traded REITs fared better than returns on leading stock markets indexes globally over the past 10 years
- Five year returns for REITs was between 7 and 16 per cent globally. With Japanese and Malaysian markets providing returns in the range of 8 to 10 per cent, expectations from Asian economies on the rise
- In Asia, REITs debuted in Japan followed by Singapore, Indonesia, South Korea, etc. Japan and Singapore are the market leaders in Asia for REIT. More than 20 countries now have REIT or a similar structure. Since, its birth in the US close to five decades ago the REIT market has mushroomed across the globe
- The global REIT market over the years has showcased a gradual yet substantial growth following investor-friendly changes in the REIT tax and regulatory

- Internationalisation of REIT has deepened the global real estate sector and boosted market liquidity. Key takeaways from international REITs which currently do not form part of the REIT regime in India are the concepts of stamp duty remission, overseas property portfolio
- Foreign exchange regulations applicable to REITs: RBI has granted permission for foreign investment and ECB in REIT, which shall channelize overseas investment into India and shall provide low cost funds to cash strapped real estate sector in India
- Income tax implications: Budget 2017 pronounced certain direct tax proposals for the real estate sector albeit a miss on aspects such as 'pass through' regime to Hold Co Structure under REIT, including LLP in the definition of 'SPV' (Special Purpose Vehicle) etc. Appropriate representations should be made before the Finance Ministry to consider the same for removing road blocks and making REIT structure successful in India

Commenting on the report, **Rajeev Bairathi, Executive Director & Head – Capital Markets, Knight Frank India said**, *"REITs may prove to be a game changer for Indian Real Estate Industry. Creation of broader public markets for any asset class brings in transparency and discovery of fair pricing; REIT would serve this purpose for commercial real estate assets in the country. While, on one hand, it would help developers unlock value from their leased out assets and generate much needed capital; it would also provide a much needed entry and exit vehicle for the global institutional investors looking to invest in non-residential real estate assets in India."*

Dr. Samantak Das, Chief Economist & National Director - Research, Knight Frank India added, *"REITs have the potential to transform the Indian real estate sector. While a cursory look may identify benefits such as the improving fund availability for the sector and a new investment vehicle for the public, further probing would highlight the immense gains that would occur on account of elevated transparency and governance standards."*

Ameet Hariani, Founding & Managing Partner, Hariani & Co. said, *"Real estate can be hard to liquidate. Indian REITs will help to split the bill on real estate investments. Developers divesting through REITs can get in and out of developments quickly. Investors can also make lower ticket investments in property through REITs. Last year has seen a considerable easing up of Indian REIT regulations – it's time for investors, developers and owners to get in on the REIT action. It appears that, now, the REIT way is the right way."*

Neeraj Bansal, Partner and Head – ASEAN Corridor and Real Estate Sector, KPMG India, *"REITs regulations have come a long way since the first draft of regulations was introduced by SEBI - the regulator of REITs in India - in 2008. Government has recently liberalised several provisions of the REITs regulation which have augmented the tax efficiency of transacting and holding commercial property through REITs. The new regulations have significantly bridged the gap between Indian REITs* *and successful global REITs market regulation, and we may witness first listing on India REITs in coming year."*

Girish Vanvari, Partner and Head – Tax, KPMG India said, *"The Indian REIT Regulations have been aligned with the global regulations in many aspects and the Government has provided pass-through tax treatment for REITs so as to ensure tax efficiency barring few areas like direct transfer of property to REIT, payment of interest by LLP, pass-through tax treatment for two level holding company, etc. We expect further liberalization in the REIT regime especially in the area of income-tax, stamp duty and foreign exchange regulations so that Indian REITs become more competitive with the global REITs."*

Sai Venkateshwaran, Partner and Head – Accounting Advisory Services, KPMG India, *"REITs provide a good opportunity for foreign investors to participate in the Indian real estate market. The regulations have also been developed with the intent of making this platform attractive to the international investor community by adopting standards on reporting, disclosures and compliance in line with global norms. Apart from bringing in the much needed additional funds into the sector, this will also help reduce the reliance on banks for funding, and also free up capital for deployment in other projects."*

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