



THE EMERGING REIT OPPORTUNITY IN INDIA

AN ALTERNATIVE WAY OF INVESTING IN REAL ESTATE



Book your **FREE** first meeting / call at www.ecftgroup.com

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Presented 2020-08-13 to CFA Society India, on-line

WE WILL COVER : REIT'S FROM THREE PERSPECTIVES

1. Investor - retail or family office
2. Asset holder
3. Asset manager

BUT FIRST: WHAT IS A REIT & WHAT IS THE RELEVANCE IN INDIA
..... & WHY ARE TWO “FERENGIS” TALKING ABOUT THIS?

ECFT GROUP



- Founded in 1991 in Sweden
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- India since 2003
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ECFT GROUP REPRESENTED IN TODAY'S MEETING BY:

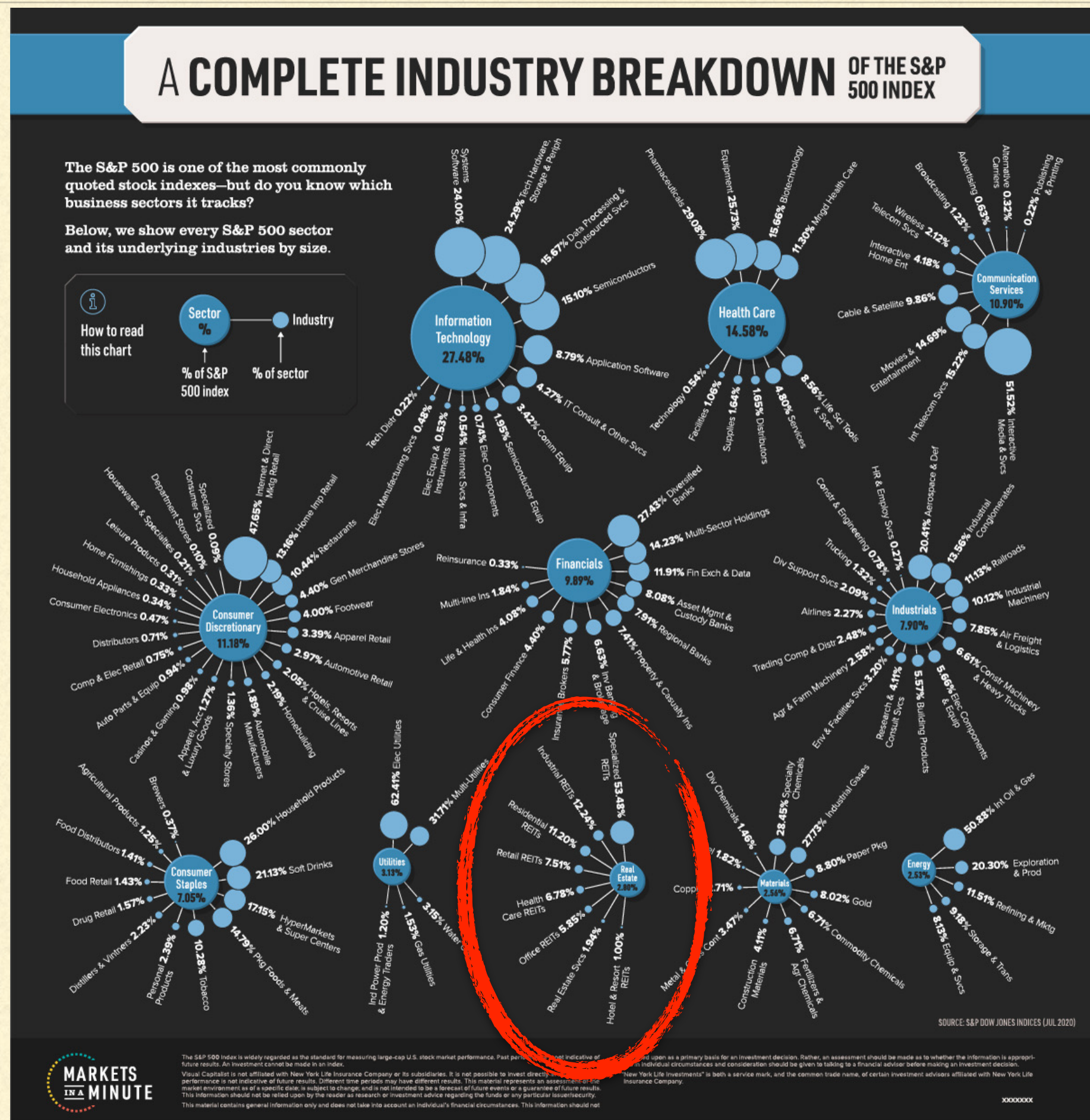


- **Lars R.K. Talwar Norberg**, Founder
- 30+ years in real estate investments
- 17 years in India + the years Europe and US
- INR 22 Lac Cr in completed transactions
- First REIT related engagement in year 2000



- **Max Qwarnström**, PE & Real Assets Investor
- 7+ years in real estate investments in Europe, and emerging markets

REAL ESTATE: A SMALLER SECTOR IN S&P 500



REAL ESTATE INVESTING

Real estate investing is an increasingly favoured method of wealth-building, and there are multiple ways today to invest private real estate. In India traditionally alongside with gold.

Investors who don't want the responsibility of managing tenants, toilets and termites themselves choose either private equity funds or real estate investment trusts (REITs).

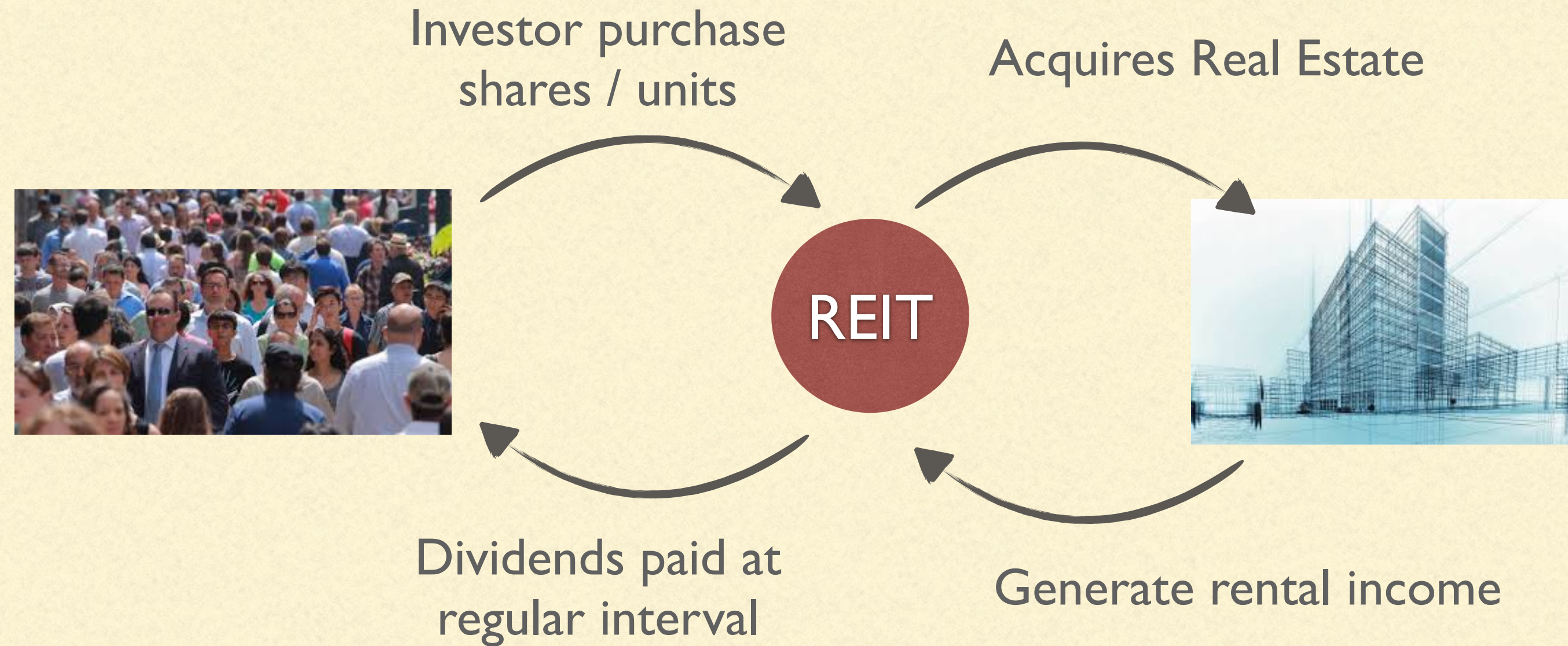
High net worth individuals holdings in PRIVATE real estate hits record highs. A Tiger 21 reported by Bloomberg of high-net-worth investors showed they had an average of 33% of their portfolios in private real estate investments.



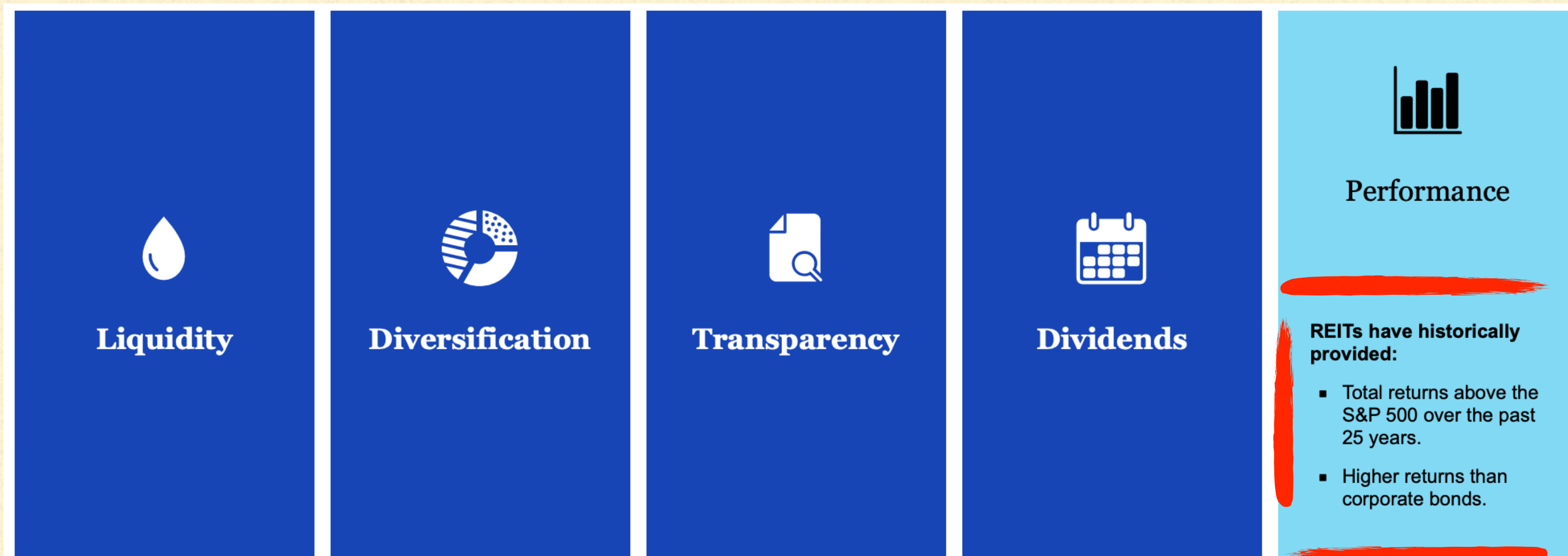
Real Estate Investment Options

1. Home
2. Direct
3. RE Mutual Fund
4. PE RE Fund
- 5. REIT**

WHAT IS A REIT?



A REIT, or real estate investment trust, is a company that owns, operates or finances income-producing real estate.



Modeled after mutual funds, REITs historically have provided investors of all types regular income streams, diversification and long-term capital appreciation.

PE REAL ESTATE FUND VS. REIT

Often, Private Equity Firms and REITs are confused for offering the same type of investment opportunities due to both deriving cash flow from rental income and operating better in environments with lower interest rates, but they are in fact distinctly different, both legally and operationally. They also employ contrasting investment strategies:

A **Private Equity Real Estate Fund** has a similar mandate as a REIT, which is to pool investor money and invest it in real estate assets.

However, they're not publicly traded and they're only available to "accredited" or high net worth investors. Because they aren't regulated the same way as publicly-traded REITs, private equity firms have wide latitude to invest in a variety of real estate asset classes, which **may or may not include income-producing real estate properties**. In addition, the legal structure may differ significantly from a REIT and they're **not required to pay out a high percentage of their income** in dividends. Instead, the majority of private equity returns are derived from **profitable investment exits** in the form of capital gains and carried interest.

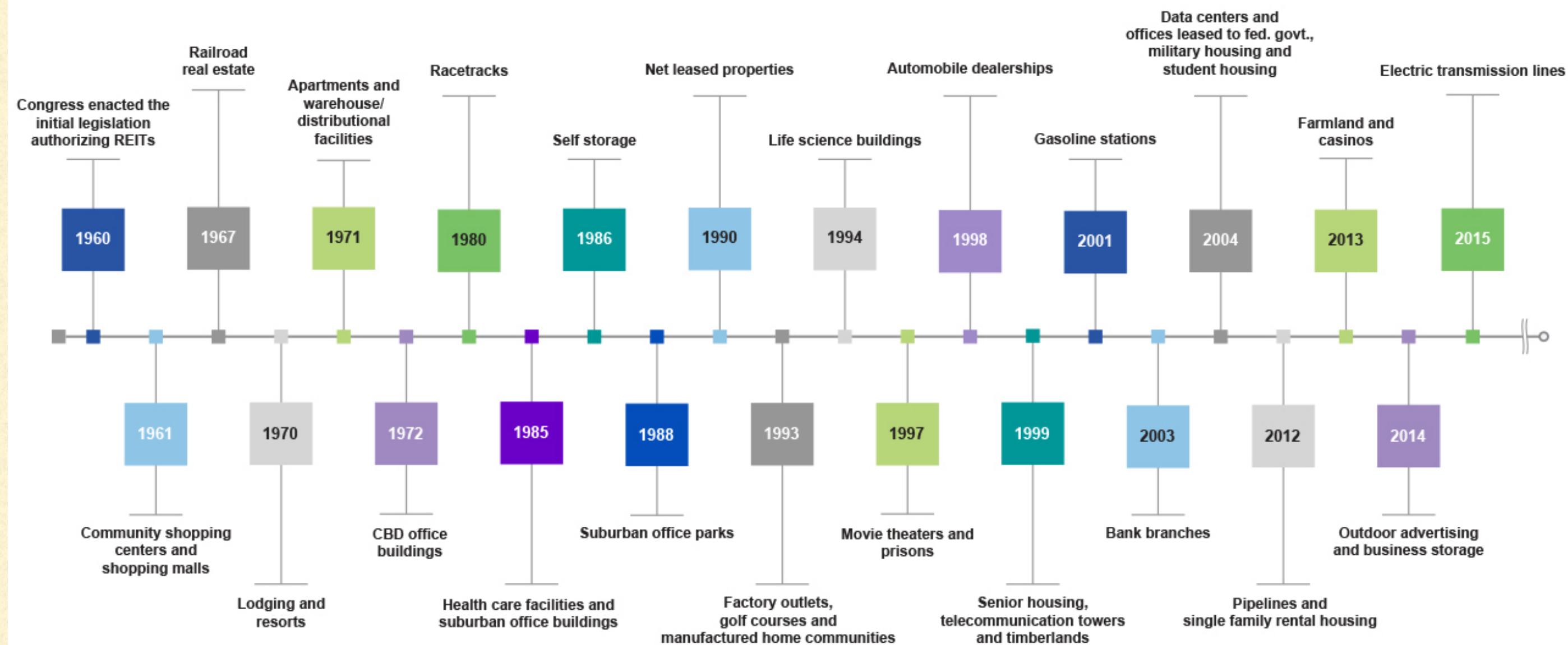
REIT is a company that owns, operates, or finances income-producing real estate. Because REITs are companies, investors can purchase shares in them, **providing exposure to the income and profits** produced by the underlying real estate assets. For a company to qualify as a REIT, they **must**:

- Invest at least 75% of total assets in real estate
- Derive at least 75% of gross income from rents on real property, interest on mortgages financing real property or from sales of real estate
- Pay at least 90% of taxable income in the form of shareholder dividends annually
- Be an entity that is taxable as a corporation
- Be managed by a board of directors or trustees
- Have a minimum of 100 shareholders
- Have no more than 50% of shares held by five or fewer individuals

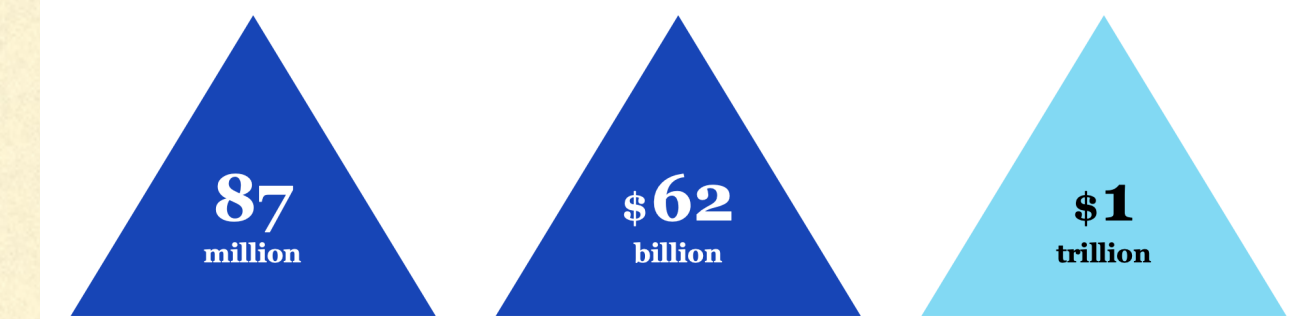
THE HISTORY OF REITS



Listings of REIT Real Estate



- 1960 in USA to give all investors, especially small investors, access to income-producing real estate.
- Investors - Dividends - AUM in listed REITs in US 2018



- Since 1960, the U.S. REIT approach has flourished and served as the model for more than 35 countries around the world.
- In India REIT's and Infrastructure Investment Trusts became SEBI regulated in 2014

WELL DEFINED PRODUCTS = THE DIFFERENT REIT SECTORS



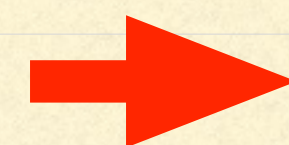
Most REITs focus on a particular property type, but some hold multiple types of properties in their portfolios.

REITs own and manage real estate and rent space in those properties to tenants.

- Office
- Industrial
- Retail
- Lodging
- Residential
- Timberland
- Health Care
- Self-Storage
- Infrastructure
- Data Center
- Diversified
- Speciality; theatres, hostels, casinos, farmland, advertising
- **NEXT UP:** Distributed Green Energy and Grid Balancing (Storage)

TODAY, SPECIALIZED REIT'S DOMINATE

Real Estate Sector S&P500	Industry	% of Sector
Percent of S&P500: 2.80%	Health Care REITs	6.78%
	Hotel & Resort REITs	1.00%
	Industrial REITs	12.24%
	Office REITs	5.85%
	Real Estate Services	1.94%
	Residential REITs	11.20%
	Retail REITs	7.51%
	Specialized REITs	53.48%



THE TYPES OF **REITS**



Most REITs are traded on major stock exchanges, but there are also public non-listed and private REITs. The two main types of REITs are equity REITs and mortgage REITs commonly known as mREITs.

- **Equity REITs** – a company that owns or operates income-producing real estate.
- **Mortgage REITs** – mREITs provide financing for income-producing real estate by purchasing or originating mortgages and mortgage-backed securities and earning income from the interest on these investments.
- **Public Non-listed REITs** – PNLRs are registered with the SEC / SEBI but do not trade on national stock exchanges.
- **Private REITs** – Private REITs are offerings that are exempt from SEC registration and whose shares do not trade on national stock exchanges.

WHY INVEST IN REIT'S?



CHOICE OF STRATEGY & PORTFOLIO DETERMINE INVESTMENT PERFORMANCE



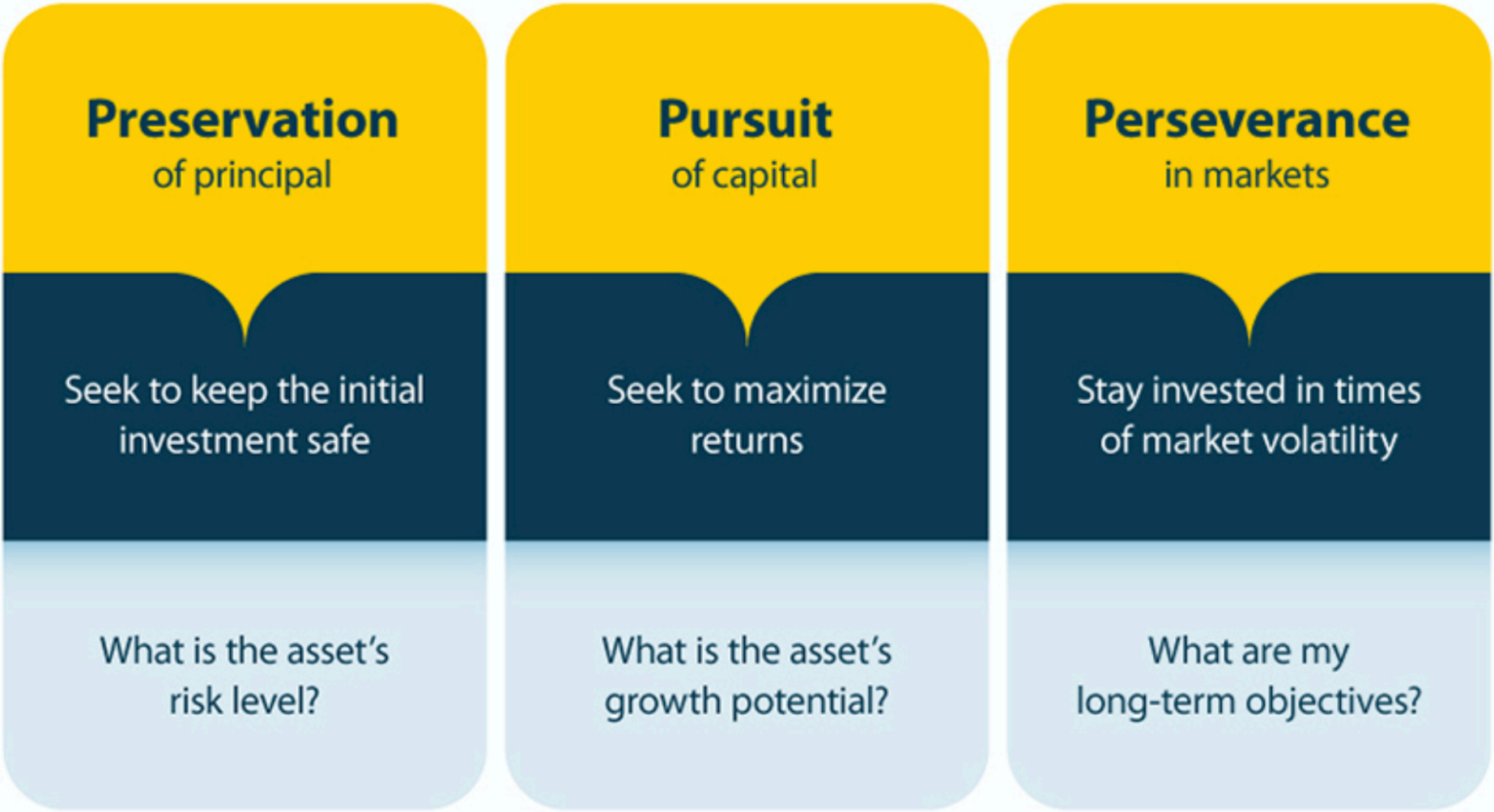
Additional Income Strategies

Luckily, there are many lesser-known asset classes that investors can consider.

As they reallocate, investors should keep three investing objectives in mind:

What it Means ➔

Question to Consider ➔



New Ideas in Practice

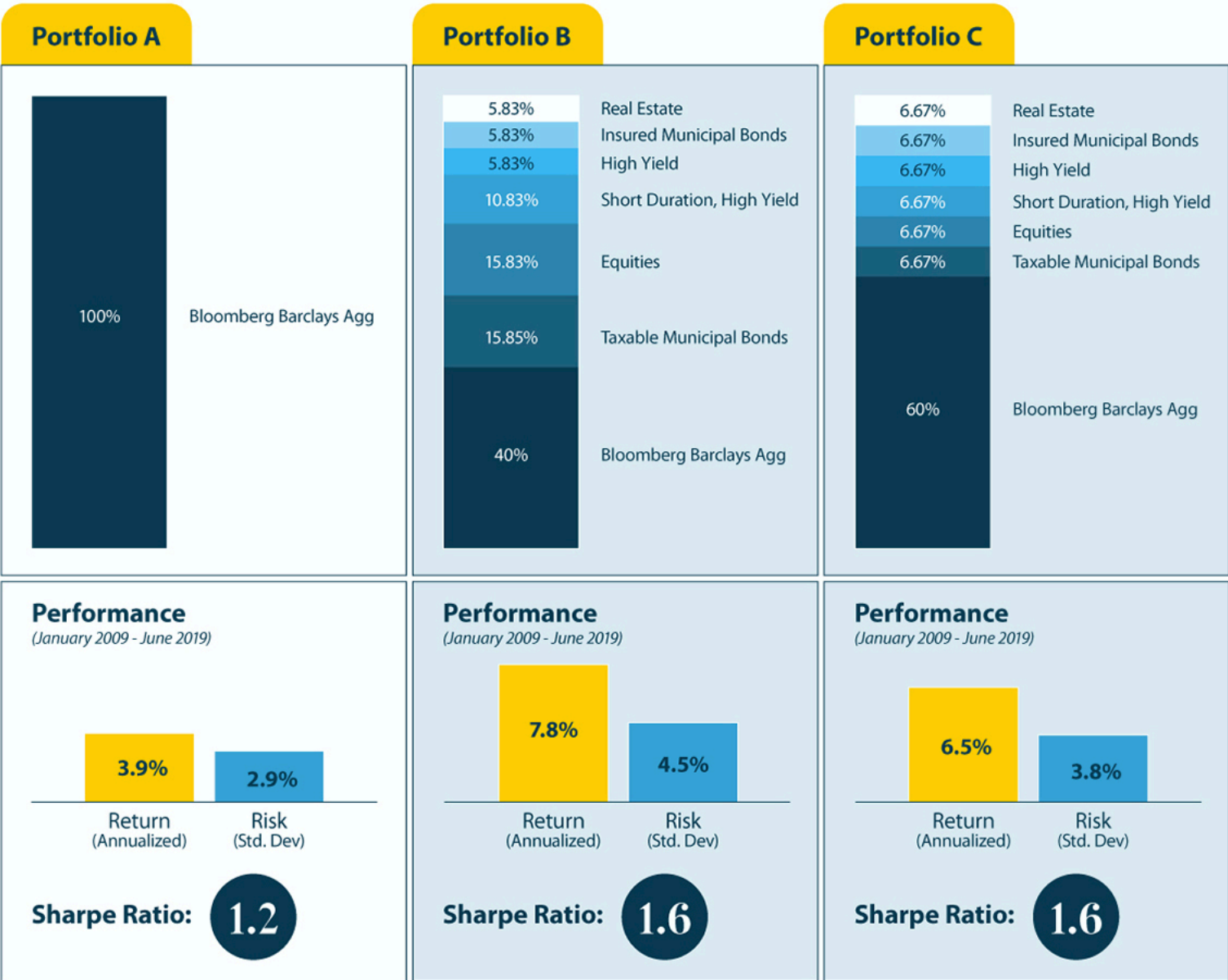
While income opportunities are traditionally characterized by their yield potential, returns are also an important metric. Enhanced potential returns contribute to investors' income streams in two main ways:

- 1

Distributions, such as dividends, can be paid out to the investor.
- 2

Principal appreciation (or depreciation) in pre-retirement years builds a larger (or potentially smaller) capital base to fund withdrawals.

Below are three model income portfolios that illustrate how additional income diversifiers may help enhance a portfolio's overall risk/return profile:³



By supplementing the typical portfolio with short-duration securities with higher yield potential, we may raise return potential with only minor increases in risk.

Source: Morningstar as of 06/30/2019. Past performance is no guarantee of future results. An investment cannot be made directly into an index.

MARKET RETURNS **EXCLUSIVE** OF DIVIDENDS

REIT'S GENERATES OTHER RETURNS AS WELL



S&P 500 Real Estate Sector (.SPLRCR:CME:Index and Options

[+ WATCHLIST](#)

Market)

Real Time Quote | Exchange | USD

Last | 5:08:43 PM EDT

Volume

52 week range

223.31 **+0.21 (+0.10%)**

63,102,155

154.86 - 260.21

1D

5D

1M

3M

6M

YTD

1Y

5Y

ALL

+ Comparison ■ .IXIC ■ .SPX

1W ▾

Display ▾

Studies ▾



A REIT INVESTMENT ARE REGARDED AS DEFENSIVE

- BUT GENERATE CASHFLOW & CORRELATE WITH THE MARKET

Certain assets have weathered periods of volatility better than others. Here are some traits to look for:

1 Low correlation with the market

These assets can zig when others zag, making them a potentially valuable hedge.

Example
Gold, alternative assets, municipal

Example
Stocks that pay dividends or bonds that pay interest

3 Generates cash flow

When times are uncertain, the market historically puts extra value on assets that generate real cash flow.

2 Defensive or non-cyclical

During uncertain times, there are still companies with stocks that will thrive. They are usually bigger companies with conservative balance sheets and durable competitive advantages.

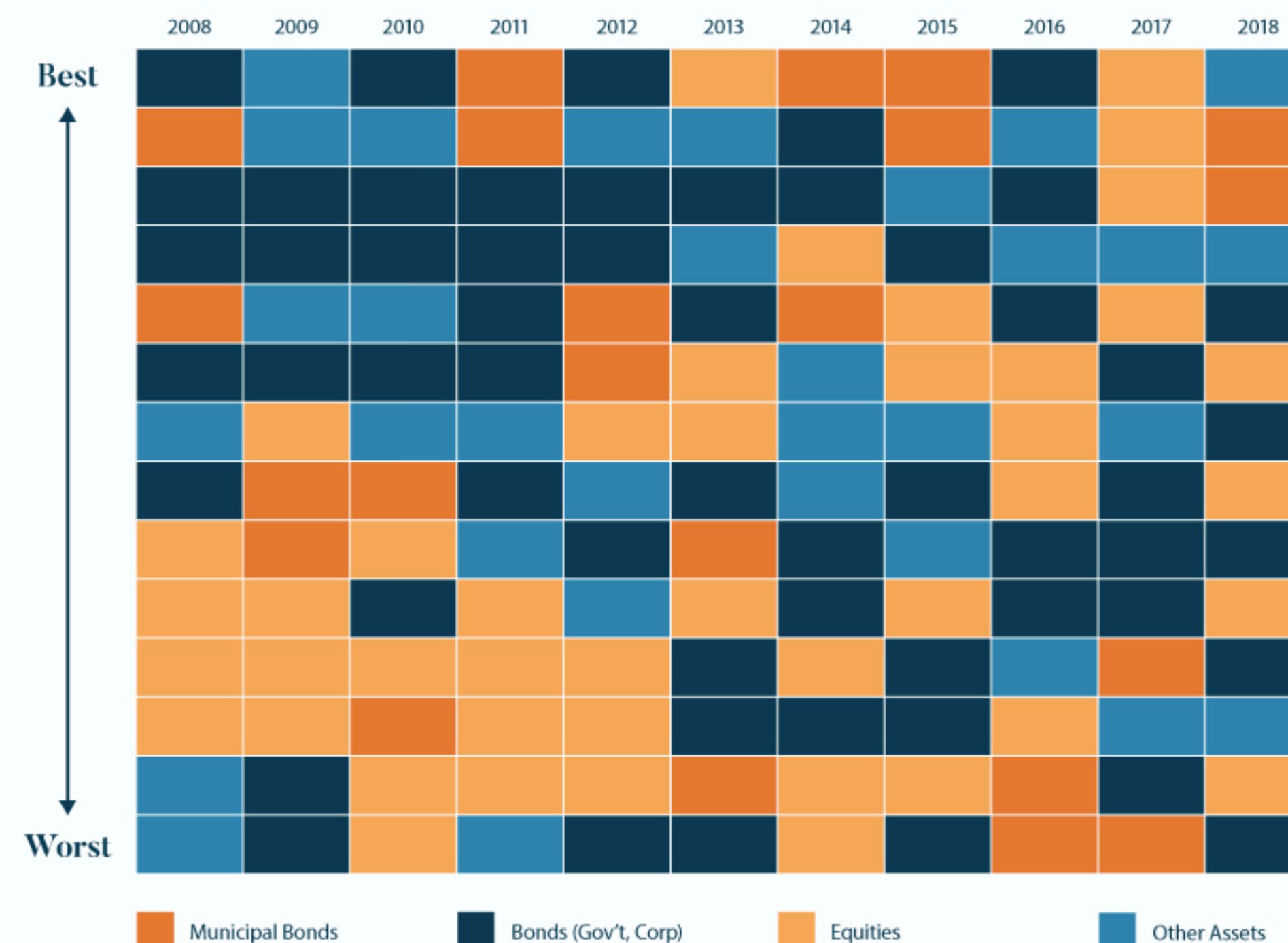
Example
Quality stocks in healthcare, consumer staples, telecoms, REITs, and utilities

Resilient portfolios seek to use these kinds of traits to their advantage.

Given that volatility has been around forever and that it's extremely common, that makes it fairly unavoidable.

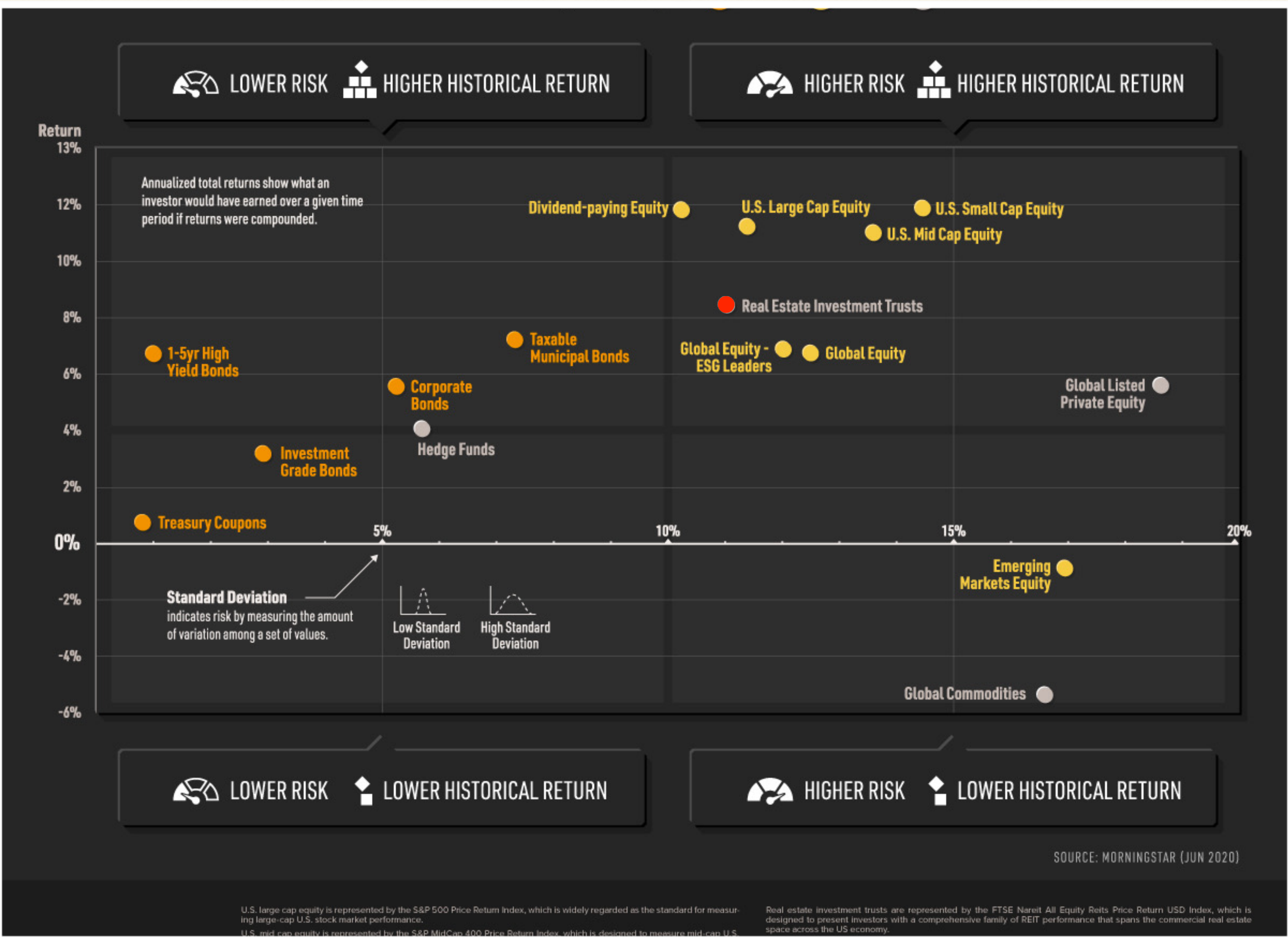
To weather periods of volatility, it is imperative to build a resilient portfolio by diversifying between different asset classes.

Year-over-year risk-adjusted returns, key asset classes⁴



[Source: Morningstar, accessed Dec 31, 2018]

WELL BALANCED RISK / RETURN



WHY INVEST IN REIT'S?...BECAUSE!



Predictable - Returns Portfolio Correlation

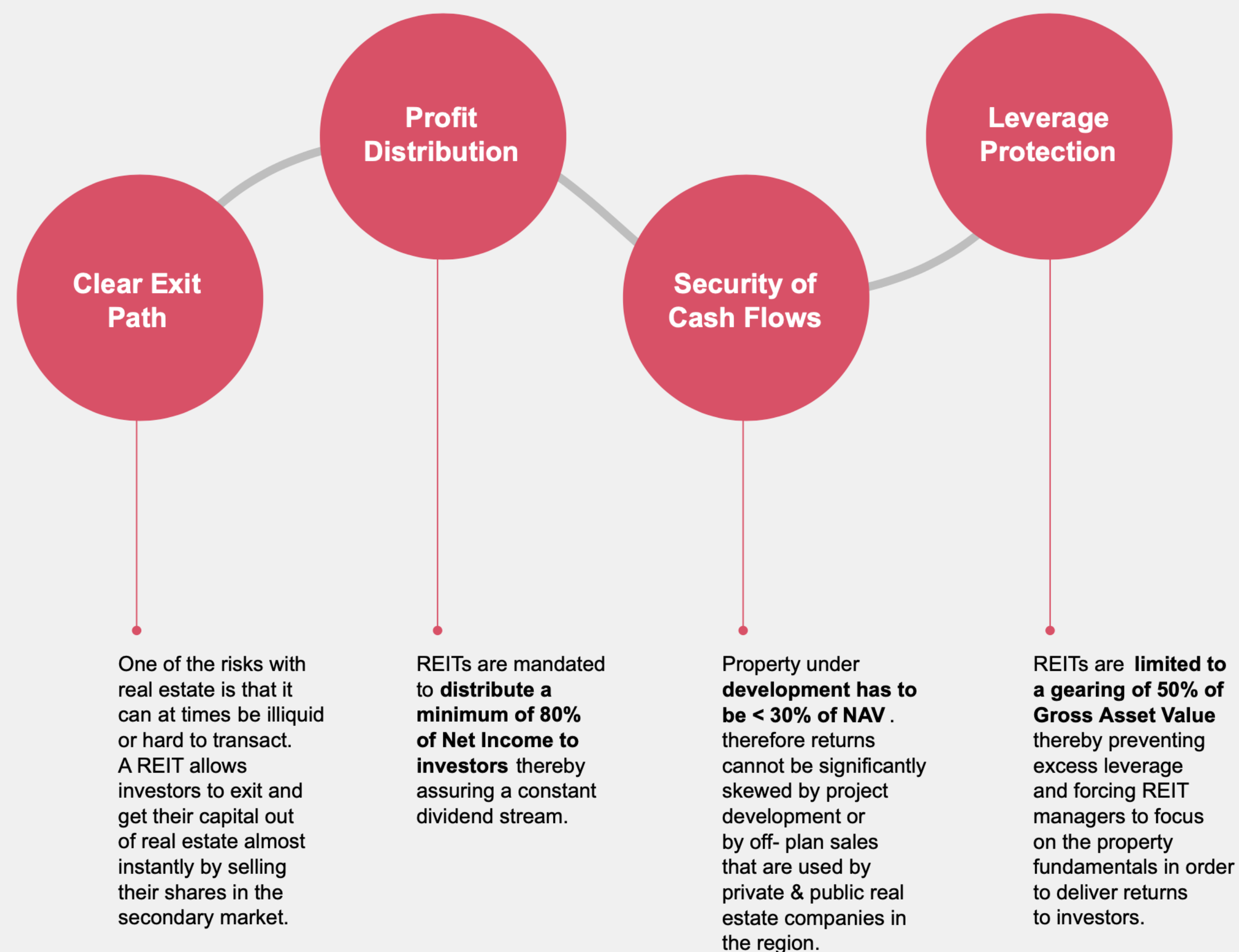
REITs are total return investments. They typically provide high dividends plus the potential for moderate, long-term capital appreciation. Long-term total returns of REIT stocks tend to be similar to those of value stocks and more than the returns of lower risk bonds.

REITs **historically** offer investors:

- **Competitive Long-Term Performance:** REITs have provided long-term total returns similar to those of other stocks.
- **Substantial, Stable Dividend Yields:** REITs' dividend yields historically have produced a steady stream of income through a variety of market conditions.
- **Liquidity:** Shares of publicly listed REITs are readily traded on the major stock exchanges.
- **Transparency:** Independent directors, analysts and auditors, as well as the business and financial media monitor listed REITs' performances and outlook. This oversight provides investors with a measure of protection and more than one barometer of a REIT's financial condition.
- **Portfolio Diversification:** REITs offer access to the real estate market typically with low correlation with other stocks and bonds.

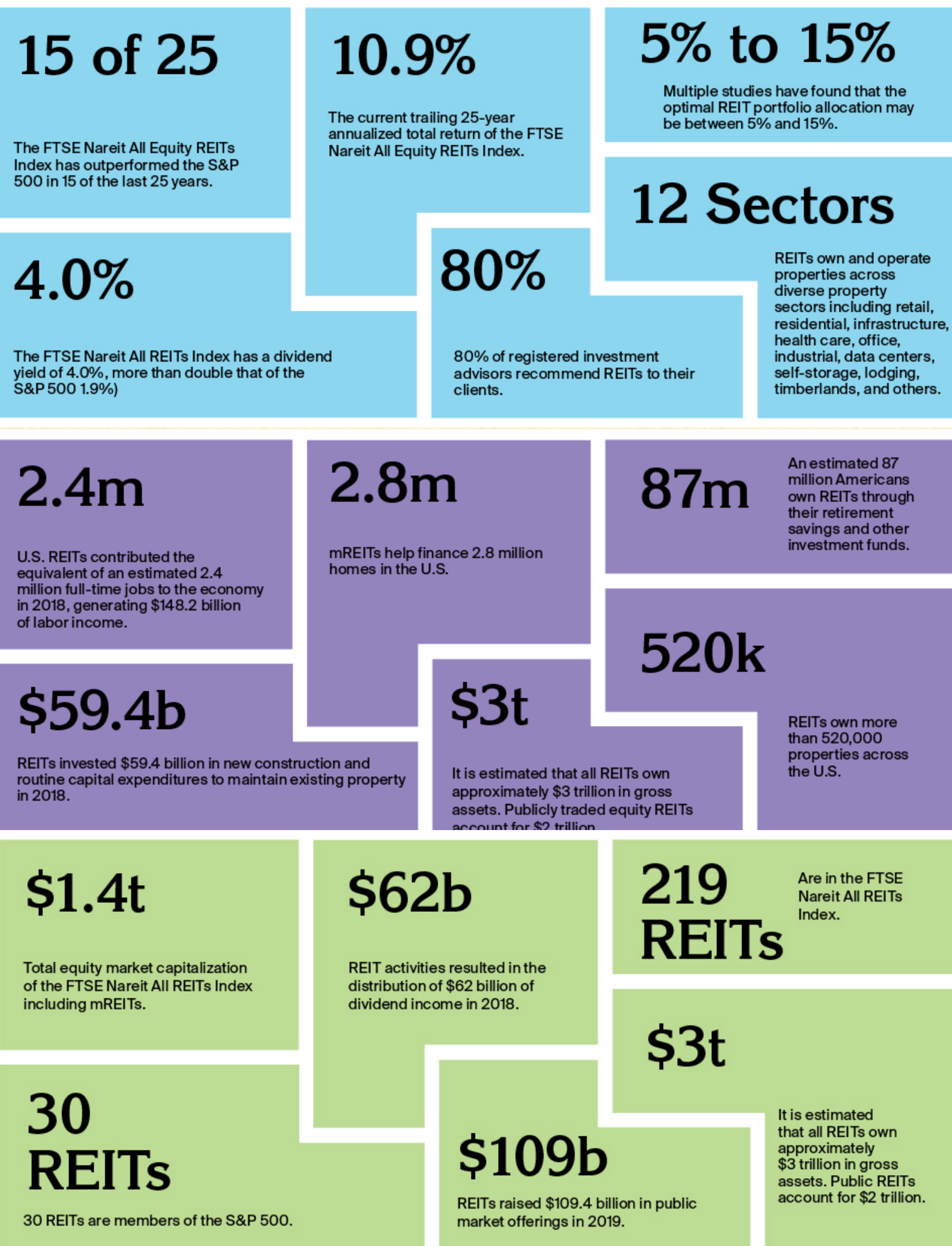
REITs historically have delivered competitive total returns, based on high, steady dividend income and long-term capital appreciation. Their comparatively low correlation with other assets also makes them an excellent portfolio diversifier that can help reduce overall portfolio risk and increase returns.

From an investor's perspective



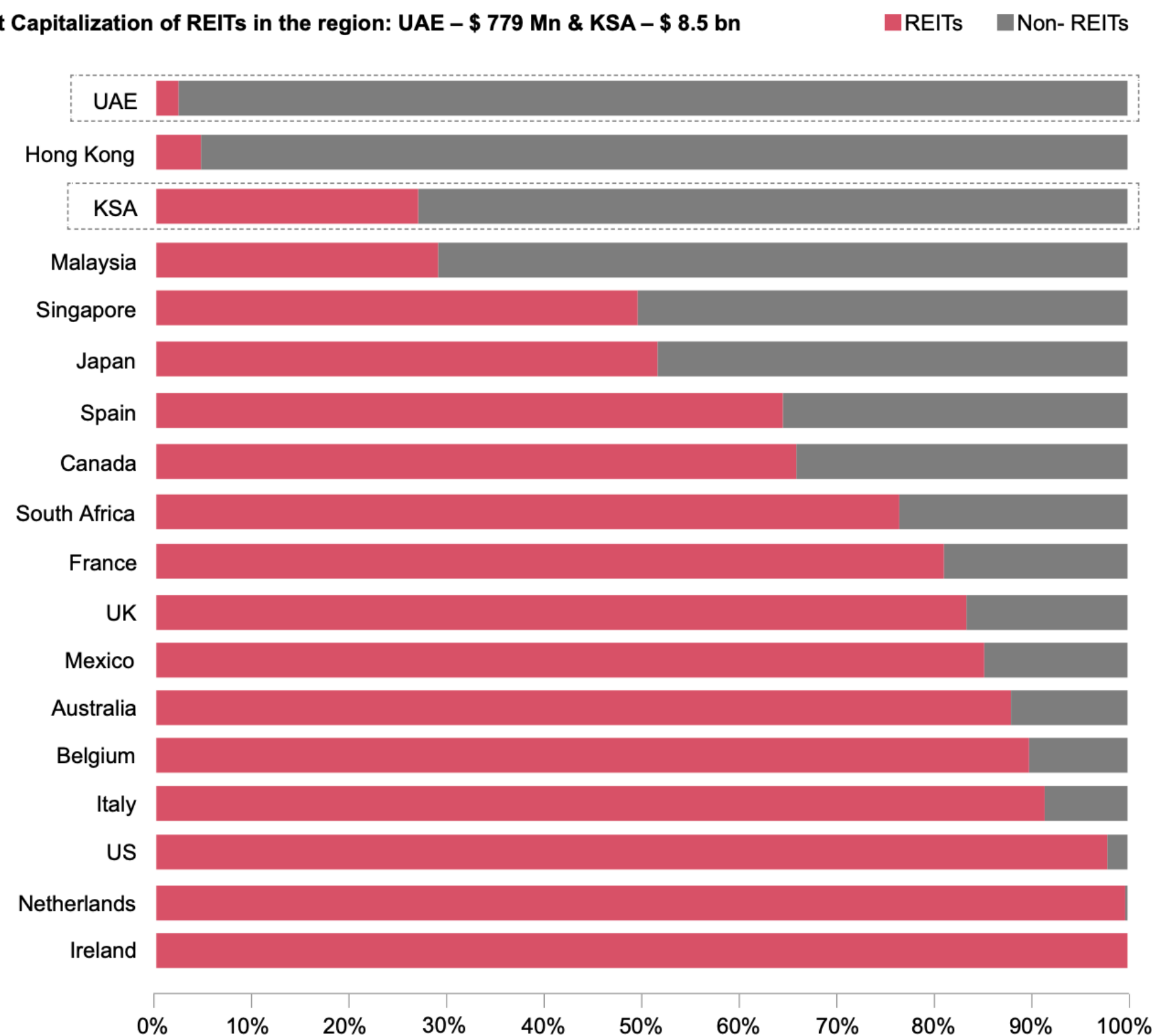
Note: Above regulations are based on NASDAQ Dubai

INVESTORS WHERE & HOW DO I INVEST IN REIT'S



REIT market capitalisation as a % age of listed real estate market cap¹

Market Capitalization of REITs in the region: UAE – \$ 779 Mn & KSA – \$ 8.5 bn

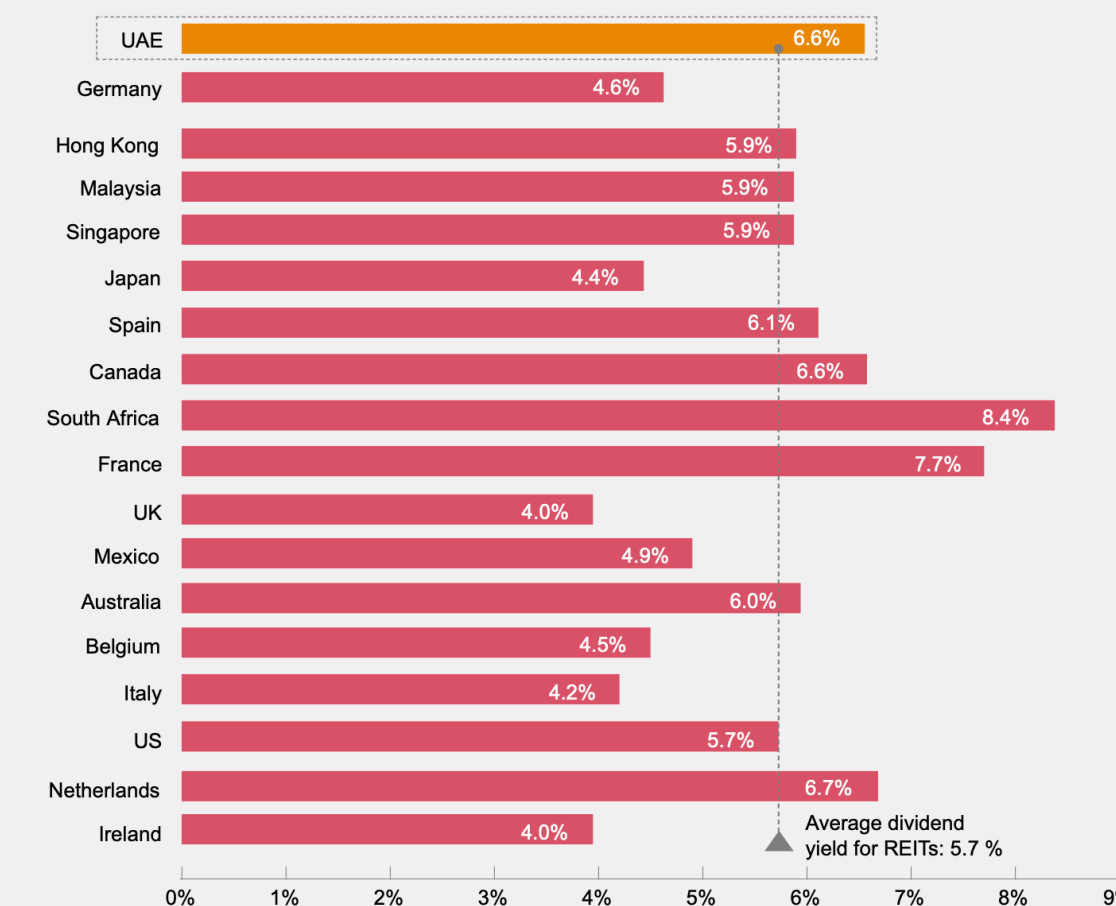


¹ Based on data extracted on 26th February 2018.

Source: Bloomberg, PwC Analysis

Pick your cherry, pretty much as when buying shares on the stock market of your choice, but the dividends is in the focus.

REITs Global Average 1-Year Dividend Yield (%)¹

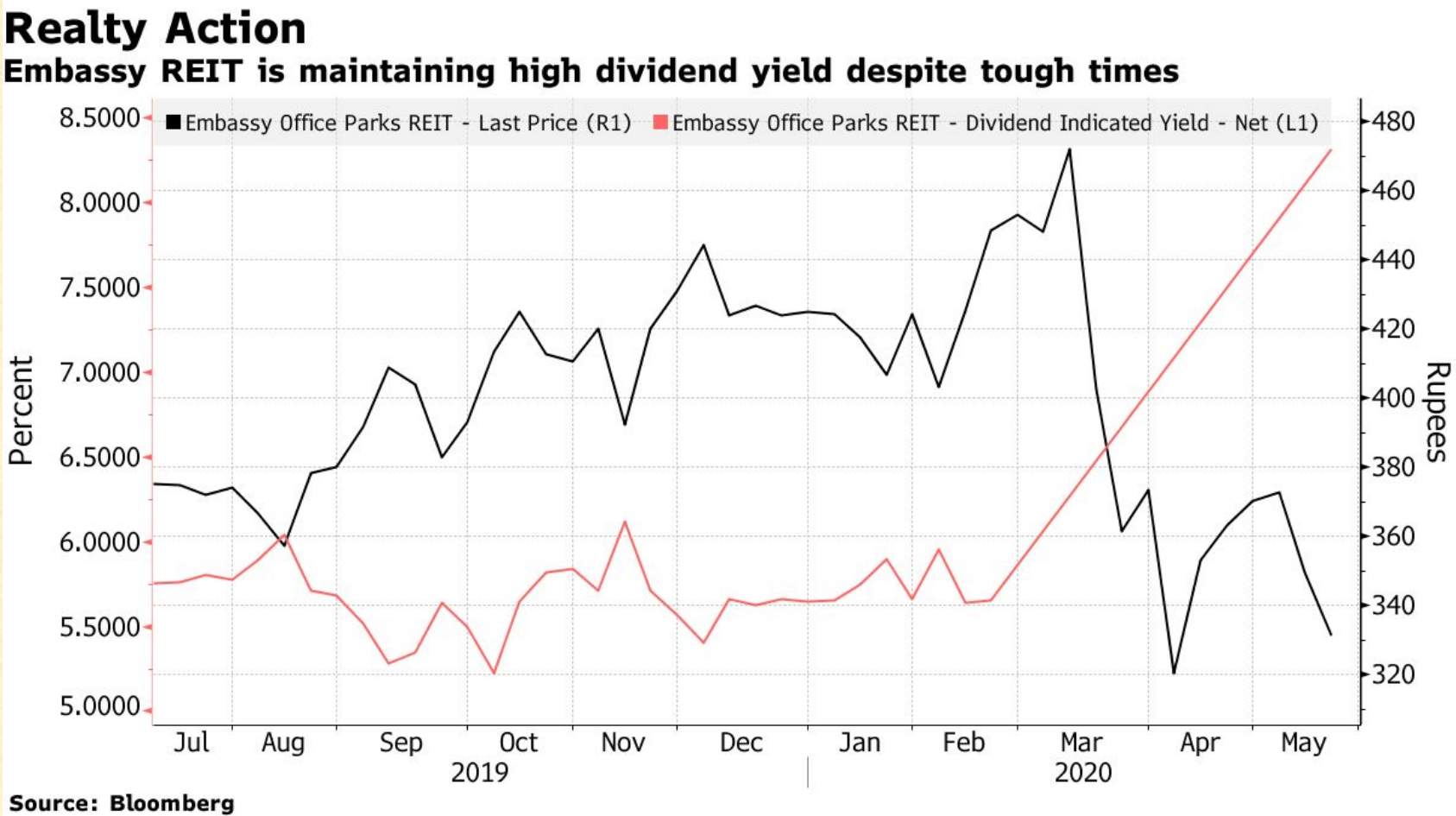


¹ Based on data extracted on 26th February 2018; Yield figures represent the annualized dividend yield based on the market closing price as of the day.

Source: Bloomberg Finance L.P., PwC Analysis

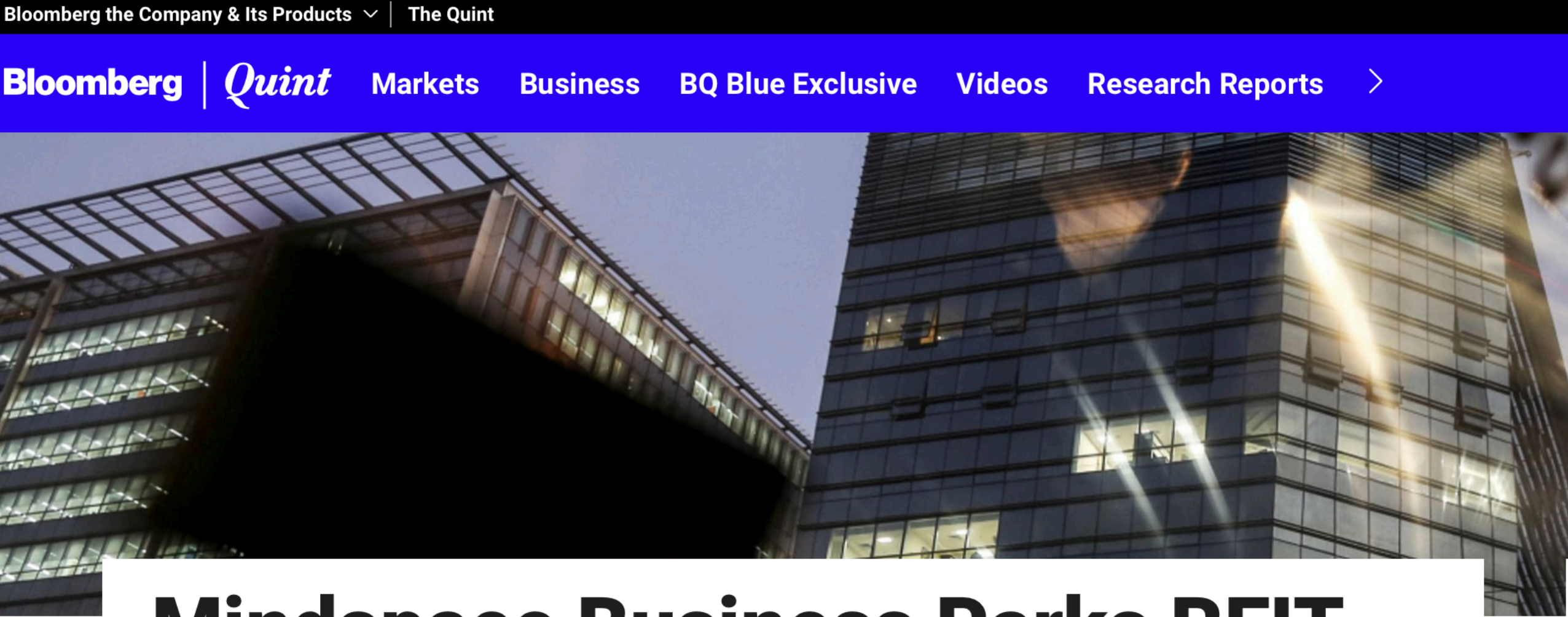
BLACKSTONE TAKING THE LEAD

- EMBASSY OFFICE PARKS REIT IPO IN MARCH 2019, APPROX. USD690M AND A MARKET CAP OF USD3B



- MINDSPACE BUSINESS PARKS REIT WITH K RAHEJA - IPO JUST COMPLETED AT RS 4,500-CRORE





Mindspace Business Parks REIT Closes 10.5% Higher On Market Debut

Hormaz Fatakia

Bookmark

Published on August 07 2020, 11:05 AM
Last Updated on August 07 2020, 5:41 PM



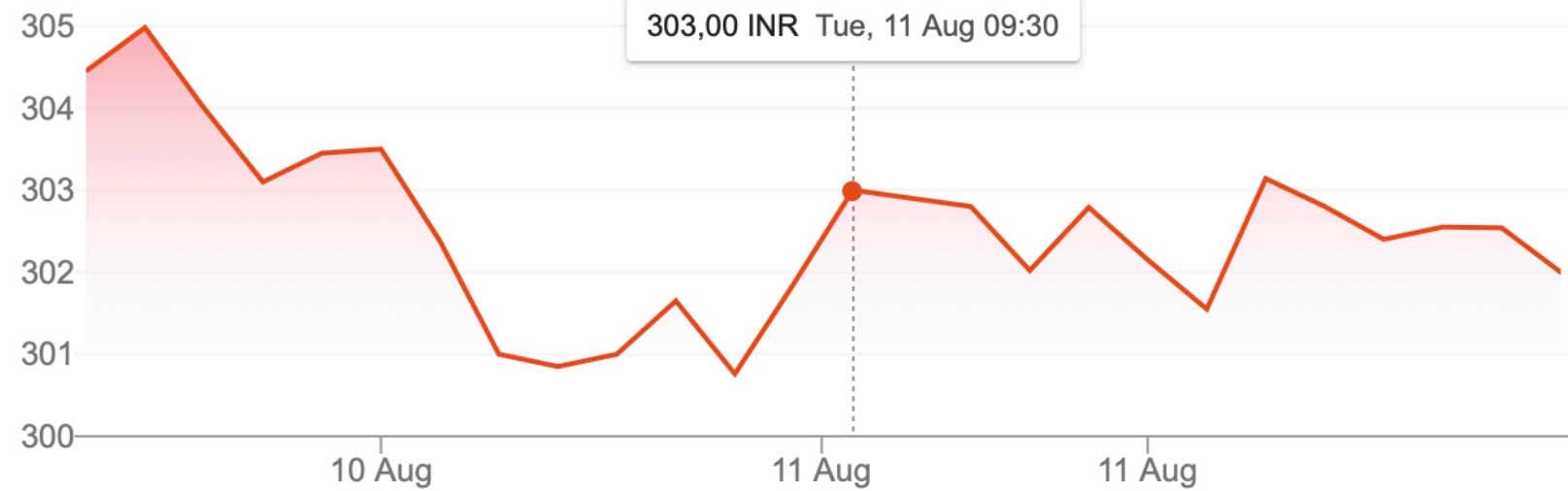
Mindspace Business Parks REIT, backed by the Blackstone Group and real estate developer K Raheja, closed 10.5% higher than its issue price on its stock market debut.

Mindspace Business Parks REIT
BOM: 543217

+ Follow

302,00 INR +1,41 (0,47 %) ↑
11 Aug, 15:30 GMT+5:30 · Disclaimer

1 day 5 days 1 month 6 months YTD 1 year 5 years Max



Open	302,10	Div yield	-
High	303,85	Prev close	300,59
Low	301,20	52-wk high	310,00
Mkt cap	-	52-wk low	299,00
P/E ratio	-		

Mindspace Business Parks REIT, backed by the Blackstone Group and real estate developer K Raheja, closed 10.5% higher than its issue price on its stock market debut.

Shares of Mindspace, the second REIT to list in India after Embassy Office Parks in April last year, began trading at Rs 302 apiece compared with the upper end of the IPO price band of Rs 275.

It subsequently closed at Rs 303.8 apiece.

EMBASSY OFFICE PARKS FY2020



Bengaluru



Mumbai



Pune



NCR

Embassy REIT: Quick facts



78

World-class office buildings



11

Commercial offices



160+

Blue-chip occupiers



100 MW

Solar park



1,096¹

Hotel keys



ICRA AAA (Stable)

Embassy Office Parks REIT
(Issuer Rating)



CRISIL AAA /Stable

Embassy Office Parks REIT
Series I NCD (Tranche I & II)

¹ Includes completed and under construction hotels

80%

Minimum investment by value in completed and income-producing assets

90%

Minimum NDCF payout to Unitholders

49%

Upper limit on debt by asset value

25%

Total returns since listing

₹19 billion

Distributions to Unitholders

99.8%

Payout ratio

Key highlights FY2020

33.3¹ msf

Portfolio

160+

Blue-chip occupiers

92.8%

Occupancy

30%

Mark-to-market upside

42%

Gross rents from
Fortune 500 occupiers

7.0 Years

Weighted average lease
expiry (WALE)

₹21,449 million

Revenue from operations
▲ 14%[^]

₹18,170 million

Net operating income
▲ 15%[^]

₹17,647 million

EBITDA
▲ 17%[^]

₹18,821 million

Distributions

99.8%

Payout ratio

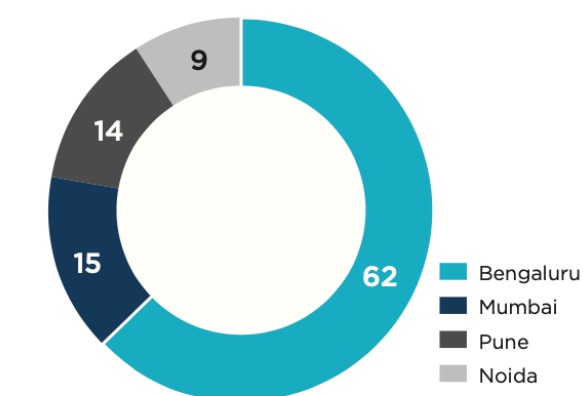
15%

Net debt/ Total
enterprise value (TEV)

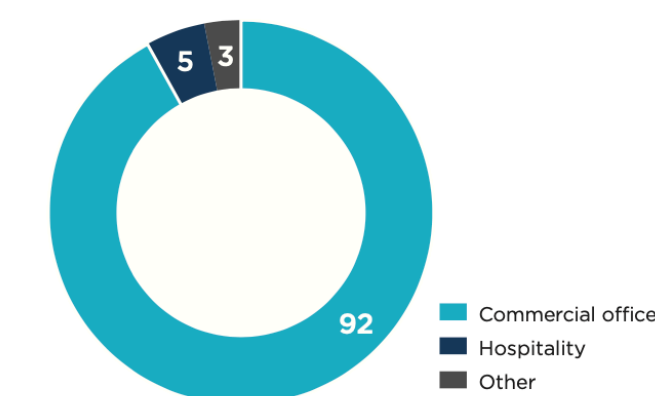
[^] Growth over FY2019

¹ Includes completed, under construction & proposed future development

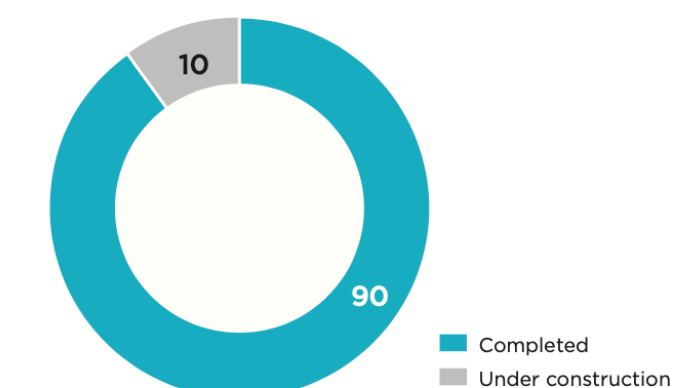
Market value by geography (%)



Market value by asset type (%)



Market value by construction status (%)



78%

Multinational
corporates



42%

Fortune 500
companies

200+

Institutional
investors
engaged
with globally

5,462

Retail
Unitholders

EMBASSY OFFICE PARKS SHARE AS PER TODAY - EXCLUSIVE OF DIVIDENDS PAID

EMBASSY:IN Natl India
Embassy Office Parks REIT [COMPANY INFO](#)

+ ADD TO WATCHLIST

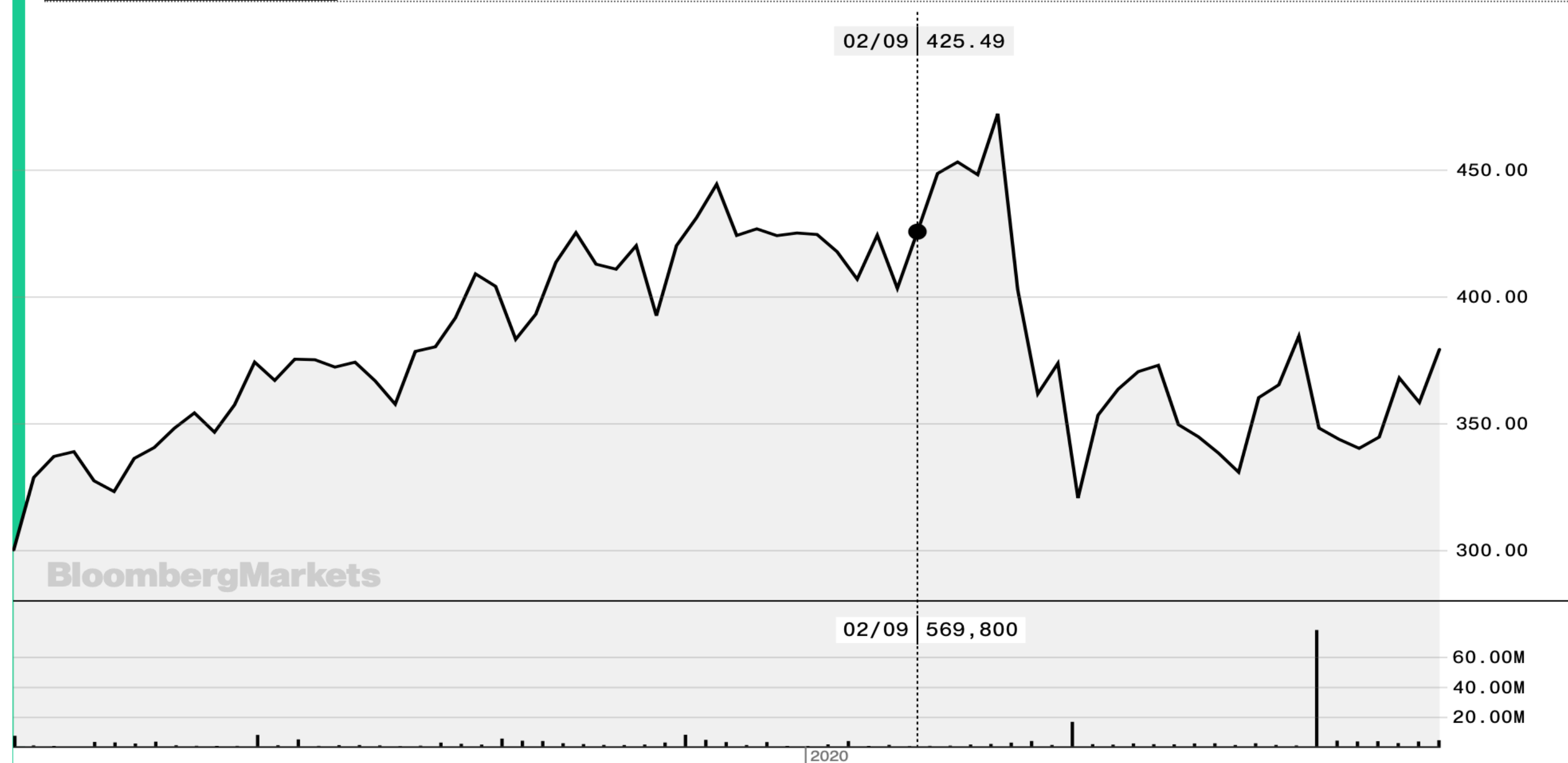
378.17 INR **+0.02 +0.01%** ▲

● MARKET CLOSED
AS OF 07:05 AM EDT 08/11/2020 EDT

1D 1M 6M YTD 1Y **5Y**

⌵ MINIMIZE CHART

Q Add a comparison



Blackstone set to ink India’s biggest real estate portfolio buyout

By Swet Sarika | 10 August, 2020



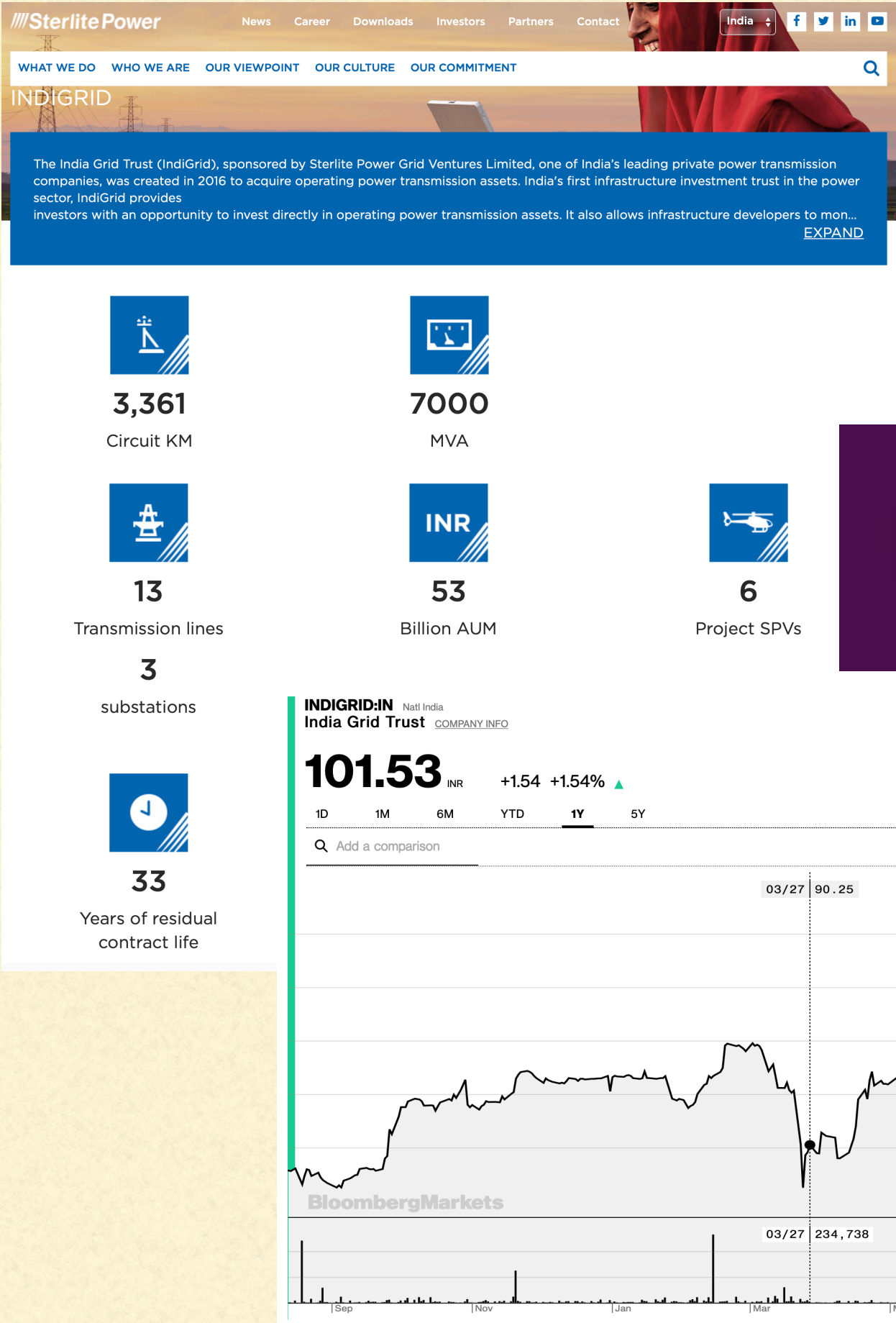
Photo Credit: 123RF.com

SHARE



Blackstone Group, whose second co-sponsored real estate investment trust made a strong debut last week, is in advanced talks for...

Mumbai|Bengaluru: US private equity giant **Blackstone** Group is **set** to acquire **property developer** Prestige Group's rental income assets for more than \$1.7 billion (Rs 12,745 crore) in the **largest real estate portfolio buyout** in India



The India Grid Trust (IndiGrid), one of India’s leading private power transmission companies, was created in 2016 to acquire operating power transmission assets.

India's first infrastructure investment trust in the power sector, IndiGrid provides investors with an opportunity to invest directly in operating power transmission assets.

It also allows infrastructure developers to monetize their operating projects.

This new financial instrument in the Indian capital market is backed by a conducive regulatory regime in a burgeoning economy in need of large infrastructure spending

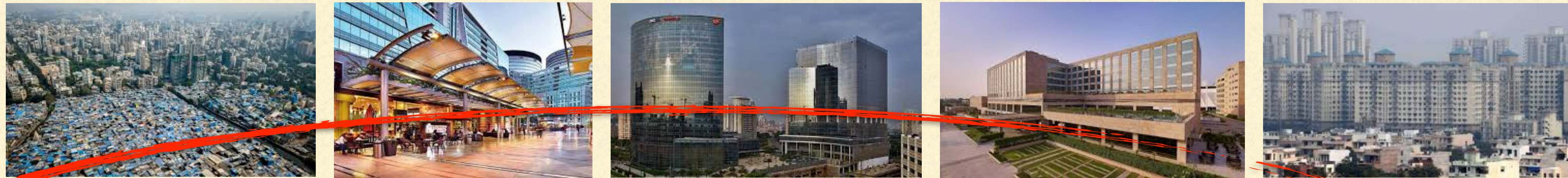
THE EMERGING REIT OPPORTUNITY IN **INDIA** FOR ASSET OWNERS, DEVELOPERS, AND ASSET MANAGERS

ARE REIT'S FOR ME? ... HOW
DO I SET UP A REIT? ... SHALL I?

IT DEPENDS WHO YOU ARE!



WHAT'S THE OPPORTUNITY - AND CHALLENGE THE INDIAN CONTEXT



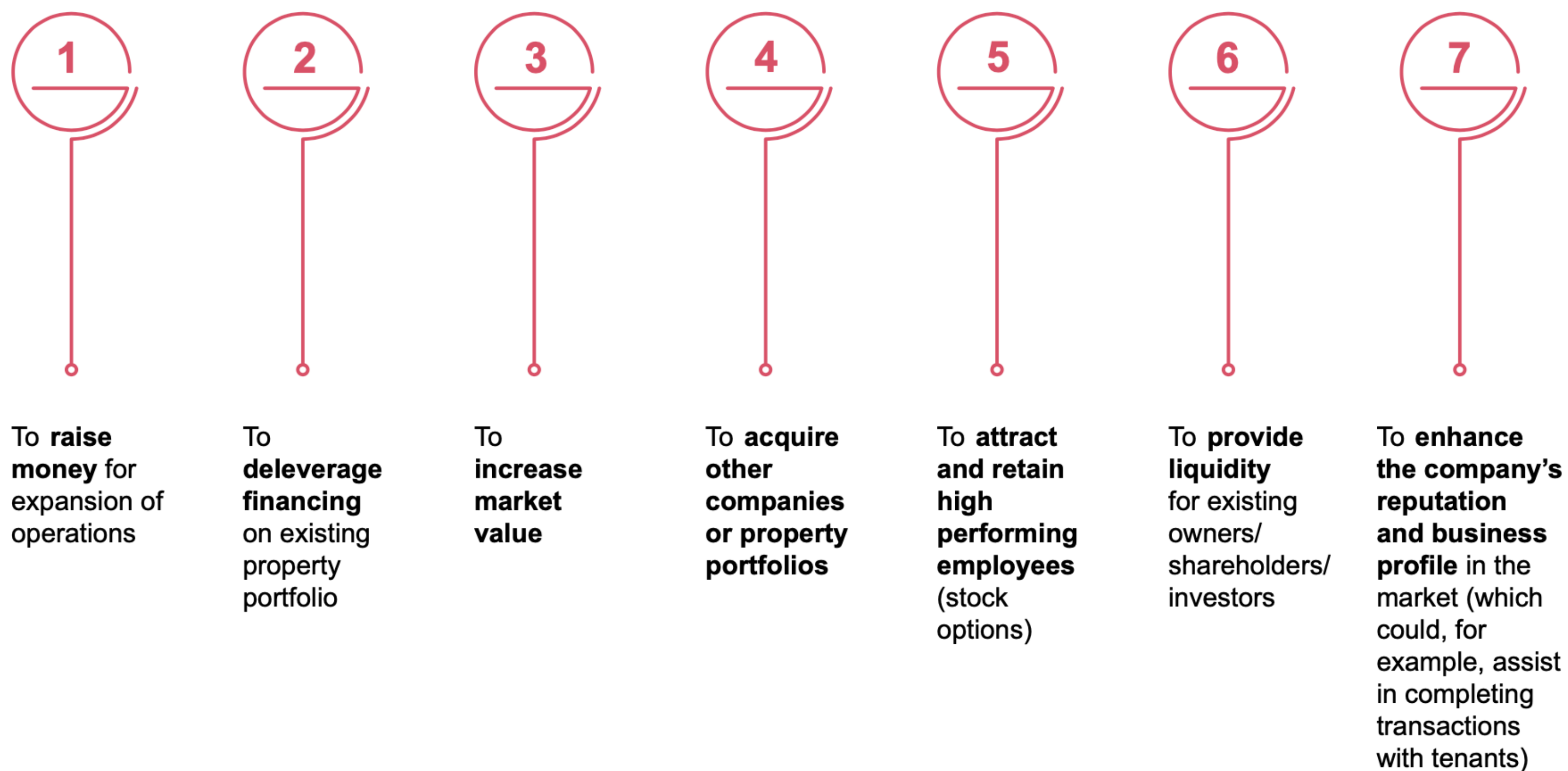
- **Aggregation:** Identify Existing Portfolios and convert to REIT/-s
 - Sweet-spot to get FII / FDI interest - think USD 500 million or more but >USD 200m (INR 15k Cr) will be sufficient for domestic and GCC distribution
- **Position** the REIT as an attractive financial product
- **Structure & Optimise:**
 - asset portfolio and the portfolio value generation model
 - financing, financial transaction structure, and legal structure
 - organisation and operations
 - digital platform
- **Onboard** world class people - board to operations

WHO ARE YOU?

- Developer
 - Asset owner
 - Asset manager
-

Developer Perspective

There are strong reasons for developers to potentially consider a REIT structure as well:



Source: PwC Analysis

REGULATORY FRAMEWORK

What is a REIT?	<ul style="list-style-type: none"> ■ A specialized vehicle owning income-producing Real Estate or Property (including leasehold properties but not being vacant land or agricultural land) ■ Assets held by the REIT leased out to operating businesses with an objective to generate rental income ■ Provides regular income, diversification and long term capital appreciation to stakeholders
Offer of Units & Listing Requirements	<ul style="list-style-type: none"> ■ Public issue, mandatory listing on recognized stock exchange ■ Minimum asset size – INR 500 Cr (~ US\$ 72 mn*) ■ Minimum offer size – INR 250 Cr (~ US\$ 36 mn*) ■ Minimum public float – 25% of post issue capital, in case of issue size >INR 1,600 Cr (~ US\$ 229 mn*) – 10% or INR 400 Cr, (~ US\$ 57 mn*), whichever is higher allowed at the time of listing. Minimum public float is to be 25% within a period of 3 years.
Other Conditions	<ul style="list-style-type: none"> ■ Sponsor ownership <ul style="list-style-type: none"> ○ Post-issue holding should not be less than 25% ○ Lock in period <ul style="list-style-type: none"> ➢ 3 years for minimum sponsor ownership; ➢ 1 year for holding in excess of minimum sponsor ownership ➢ Person other than sponsor holding units of REIT prior to initial offer shall hold the units for period not less than 1 year ➢ Post 3 years, Sponsors shall collectively hold not less than 15% and individually not less than 5% at all times ■ Distribution <ul style="list-style-type: none"> ○ Not less than 90% of net distributable cash flows of the SPV/REIT ■ Borrowings <ul style="list-style-type: none"> ○ Consolidated borrowing and deferred payments of REIT (net of cash and cash equivalent's) shall not exceed 49% of the value of REIT assets <ul style="list-style-type: none"> ➢ Upto 25% of the value of REIT assets- no credit rating required ➢ More than 25% but less than 49% of REIT assets- credit rating and unit holding prior approval ■ Strategic Investor (SI)- SI includes NBFC, Banks, FPI, International Finance Company, etc. can invest upto 25% of total offer size

* Exchange rate:1 USD = INR 70

Source: Equitativa Group

BENEFITS TO ASSET OWNERS

FINANCIAL INCENTIVES

- Higher valuation due of listing premium
- Entire yield compression benefit
- Perpetual long term capital at low cost
- Reduction in debt, higher EV
- Improvement in ROCE and ROE
- Increase in unit prices due to cap rate compression leading to long term wealth creation

NON MONETARY FACTORS

- Better mechanism for optimal asset ownership
- Efficient tool for succession planning
- Higher corporate governance and disclosures standards
- Specialist and professional asset managers
- Risk mitigation due to diversified asset portfolio

GROWTH CATALYST

- Potentially lower leverage cost against REIT units
- Perpetual source of capital for future expansion
- Fractional sale of unit holding as per requirement
- Regular income on REIT units

TAX EFFICIENCY

- No capital gain incidence at the time of swapping shares of SPV with REIT units, tax incidence deferred till sale of units
- Lower capital gain tax rate as compared to private transaction- long term capital gain tax @10% applicable in case of units as against @20% in case of unlisted shares of SPV

Source: Equitativa Group

REIT VS DEBT- ADVANTAGES TO ASSET OWNERS

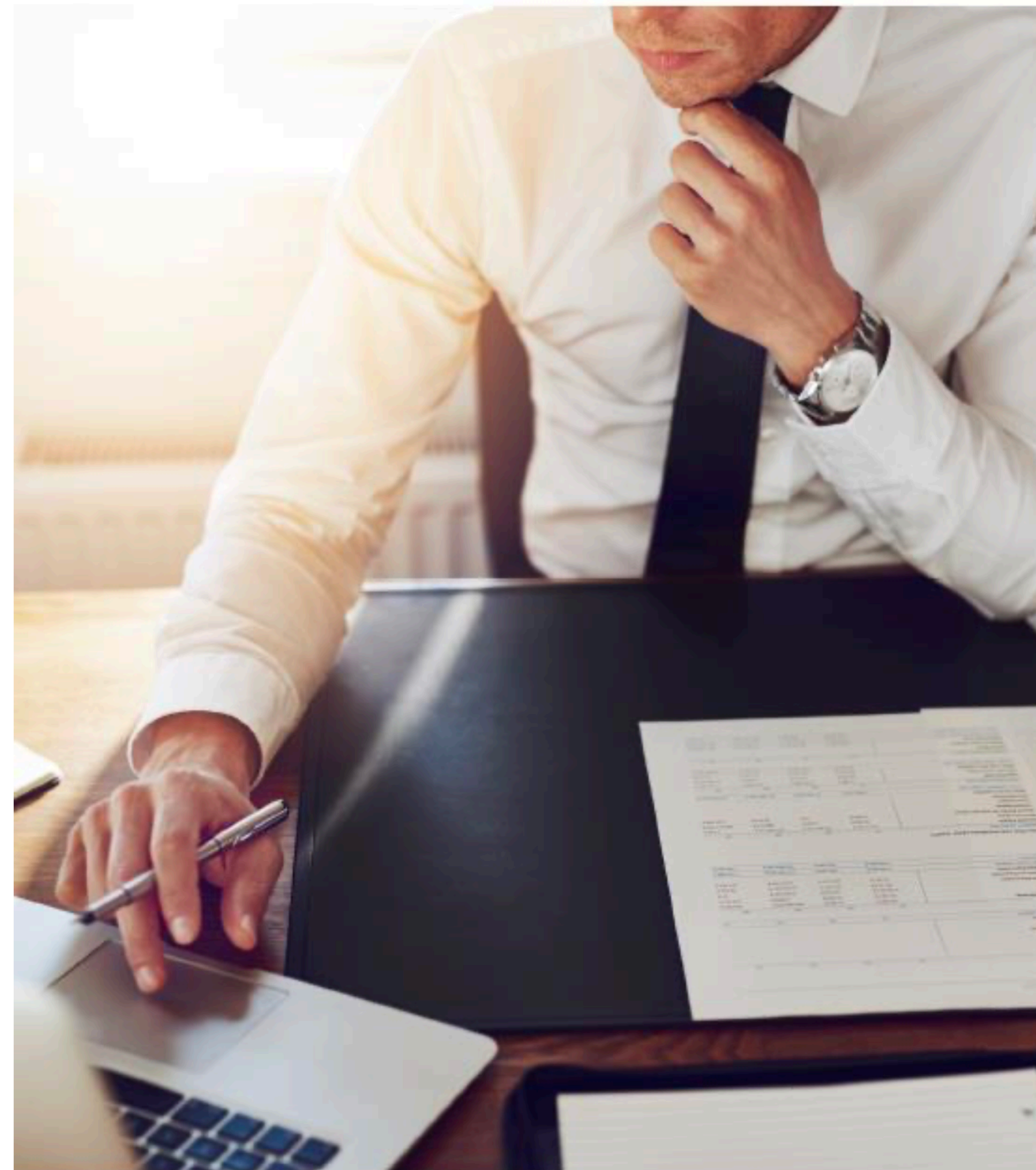
- Perpetual source of long term capital at lower cost
- No obligation to repay principal
- Monetization of assets with listing premium
- Growth capital for expansion
- Leverage at lower cost against REIT units
- Higher ROCE and ROE with cashflows for expansion rather than for repayment.



Source: Equitativa Group

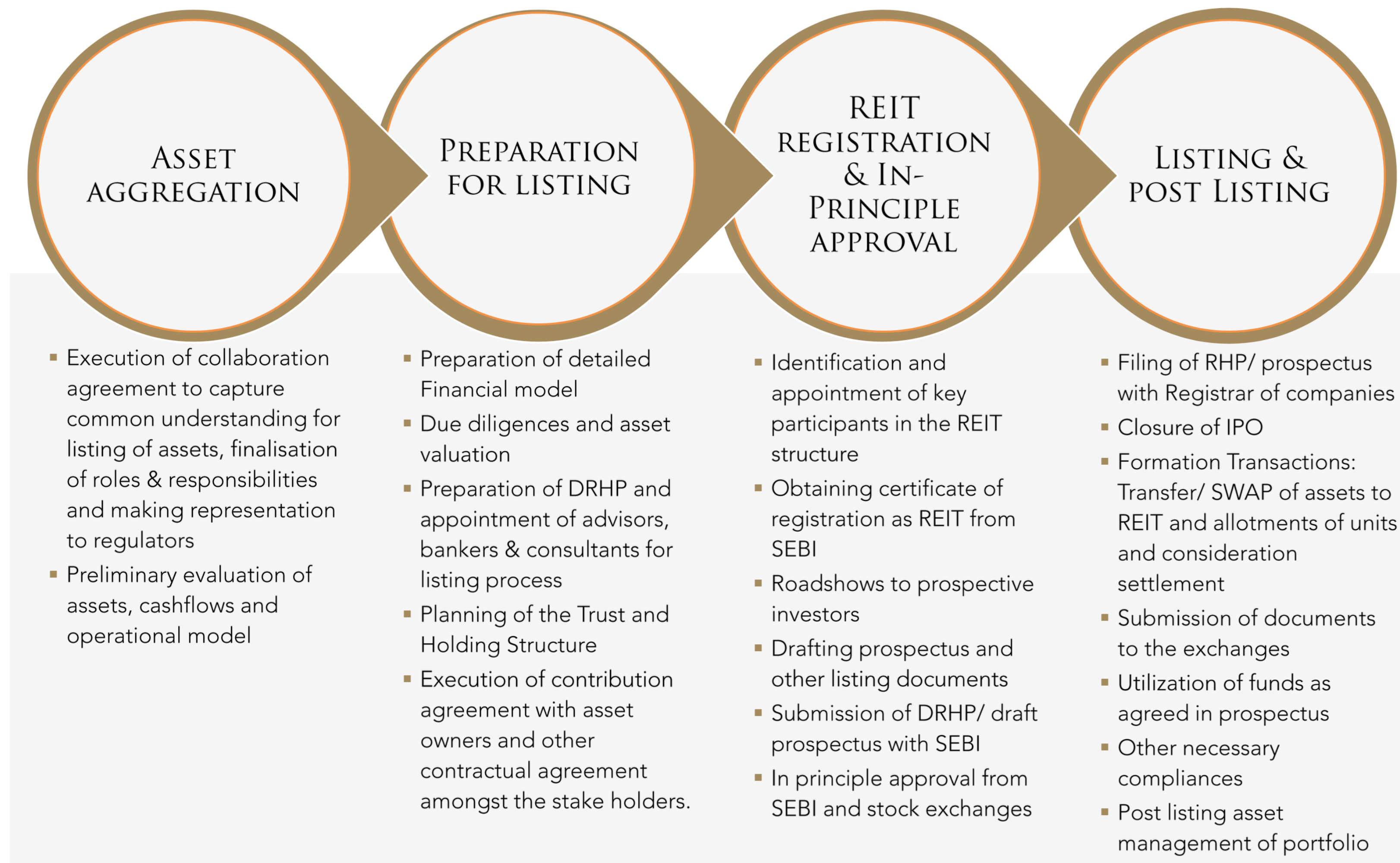
BENEFITS OF AN INDEPENDENT REIT MANAGER

- No conflict of interest
- REIT management expertise
- High corporate governance & global best practices
- Higher transparency , disclosures & credibility
- Strong investor & regulator confidence
- Proprietary asset management expertise
- Multi asset class experience
- Quality assets & diversification of portfolio
- Higher efficacy & value creation



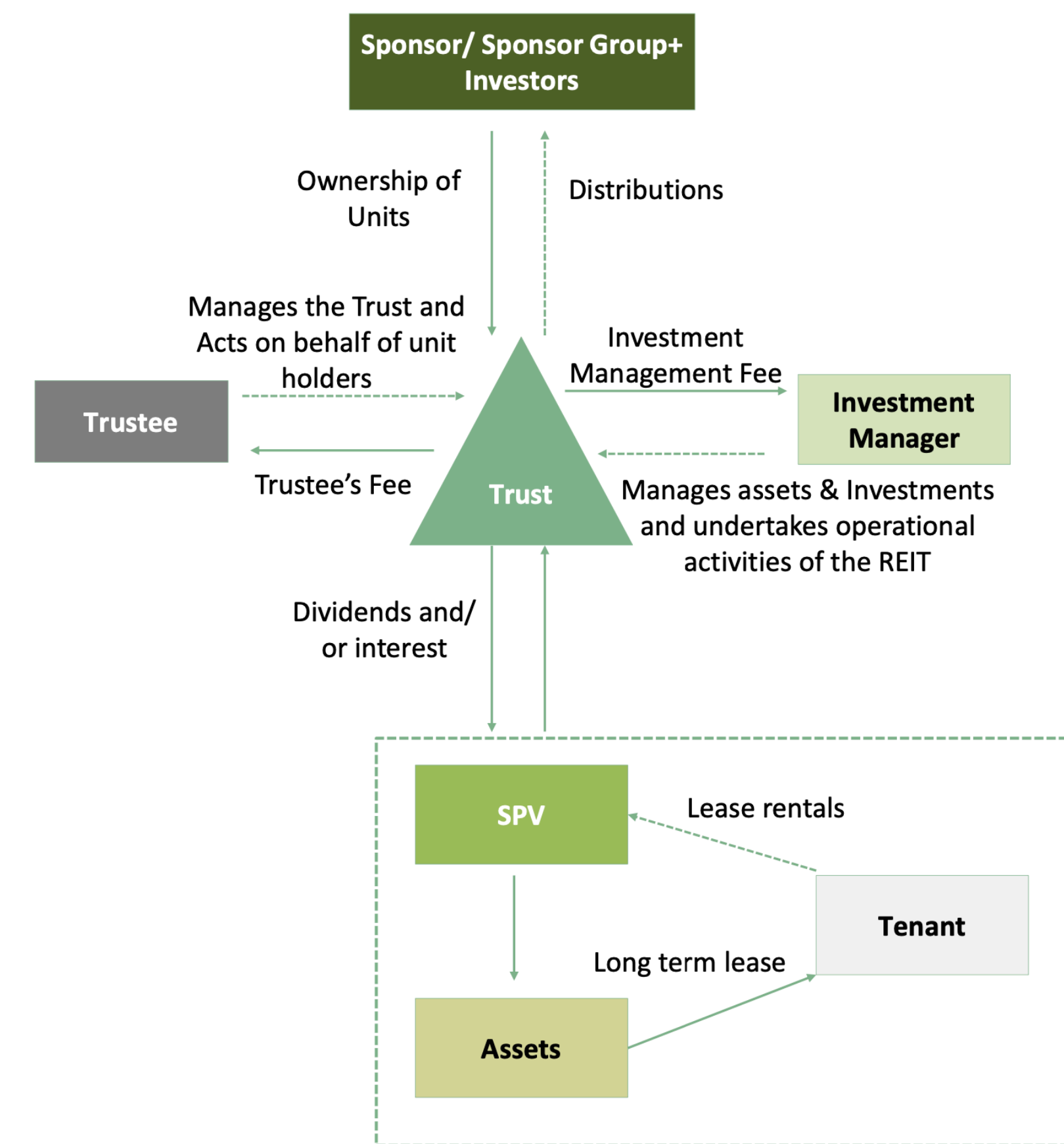
Source: Equitativa Group

BROAD STEPS FOR REIT LISTING



Source: Equitativa Group

REIT STRUCTURE & STAKEHOLDERS



Sponsor

- Asset Owner
- Company/ LLP/ body corporate
- Net worth \geq INR 200 mn (~ US\$ 2.9 mn*) for each, collectively INR 1,000 mn (~ US\$ 14.2 mn*)
- Experience – minimum five years
- Min. two completed projects

Investment Manager

- Manages assets and investments – operational activities
- Company/ LLP/ body corporate
- Net worth \geq INR 100 mn (~ US\$ 1.4 mn*)
- Track record – minimum 5 years
- Qualification criteria for key personnel prescribed
- Majority of board to be independent

Trustee

- Holds assets in trust for the benefit of the unit holders
- Registered with SEBI as a Debenture Trustee
- Oversee activities of the Manager, protect interest of unit holders and ensure compliance with regulations
- Trustee or its associates cannot invest in the units of the Trust

Investor

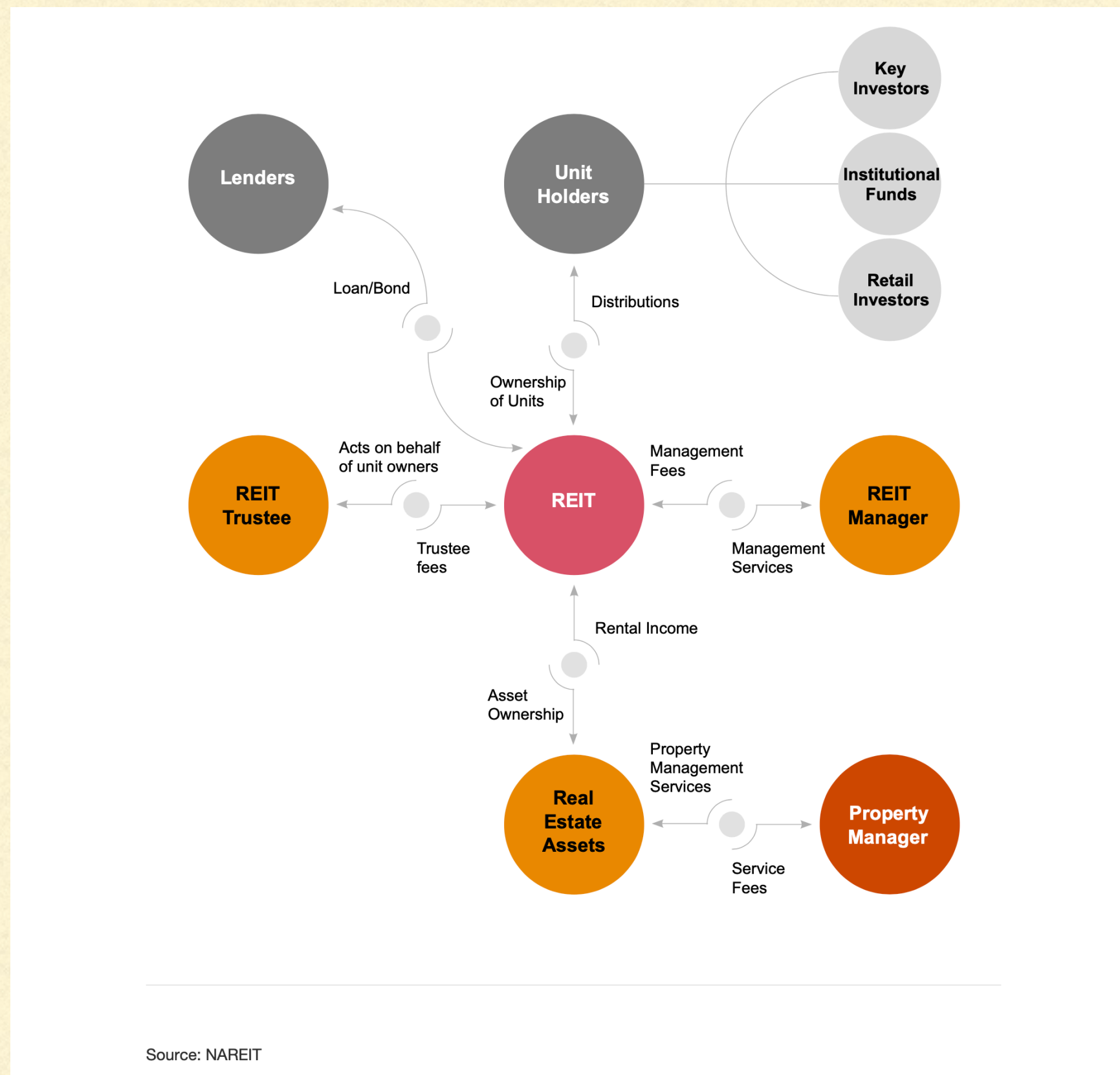
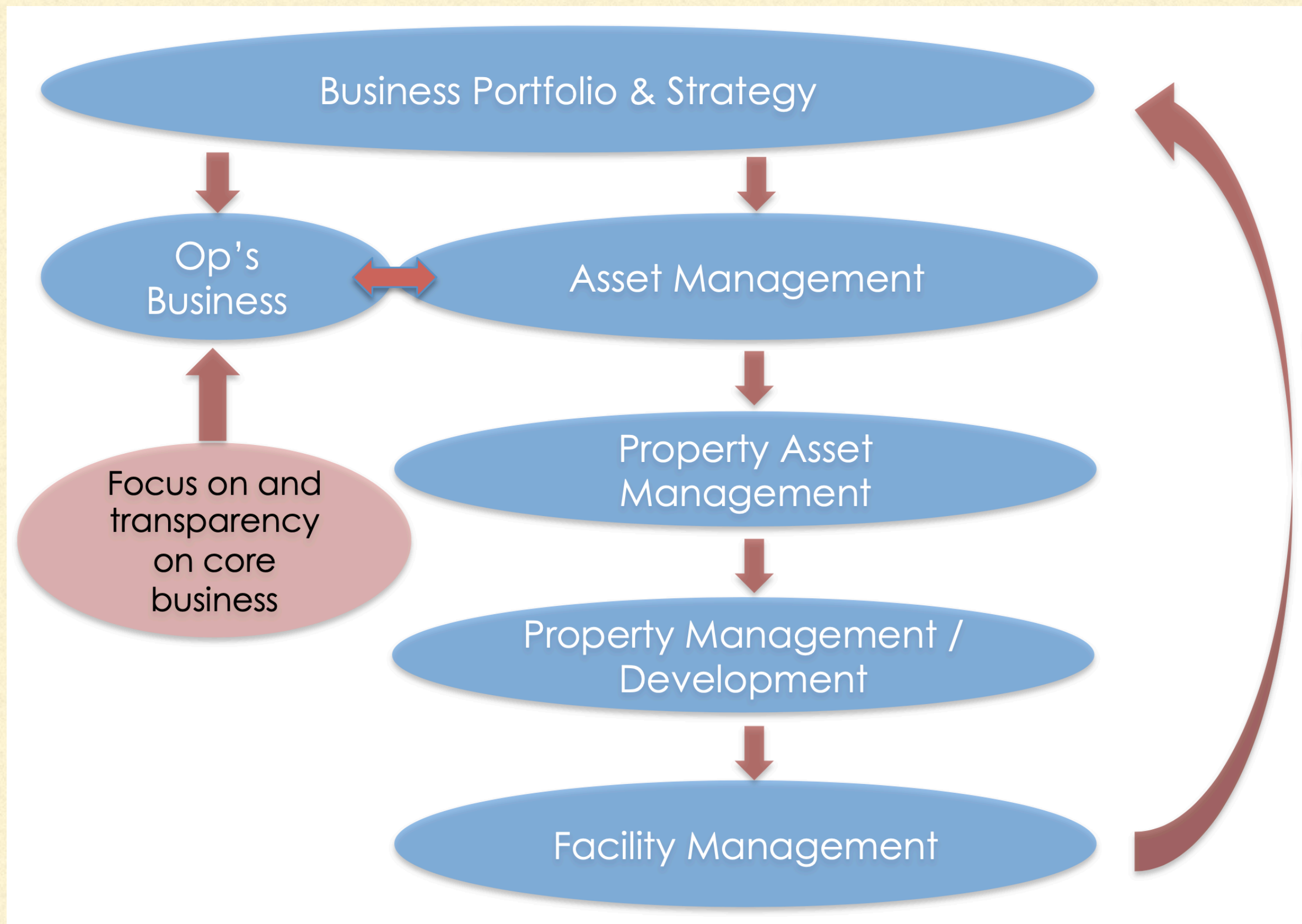
- Resident or foreign investors
- Minimum investment per investor – INR 50k (~ US\$ 700*)

* Exchange rate: 1 USD = INR 70

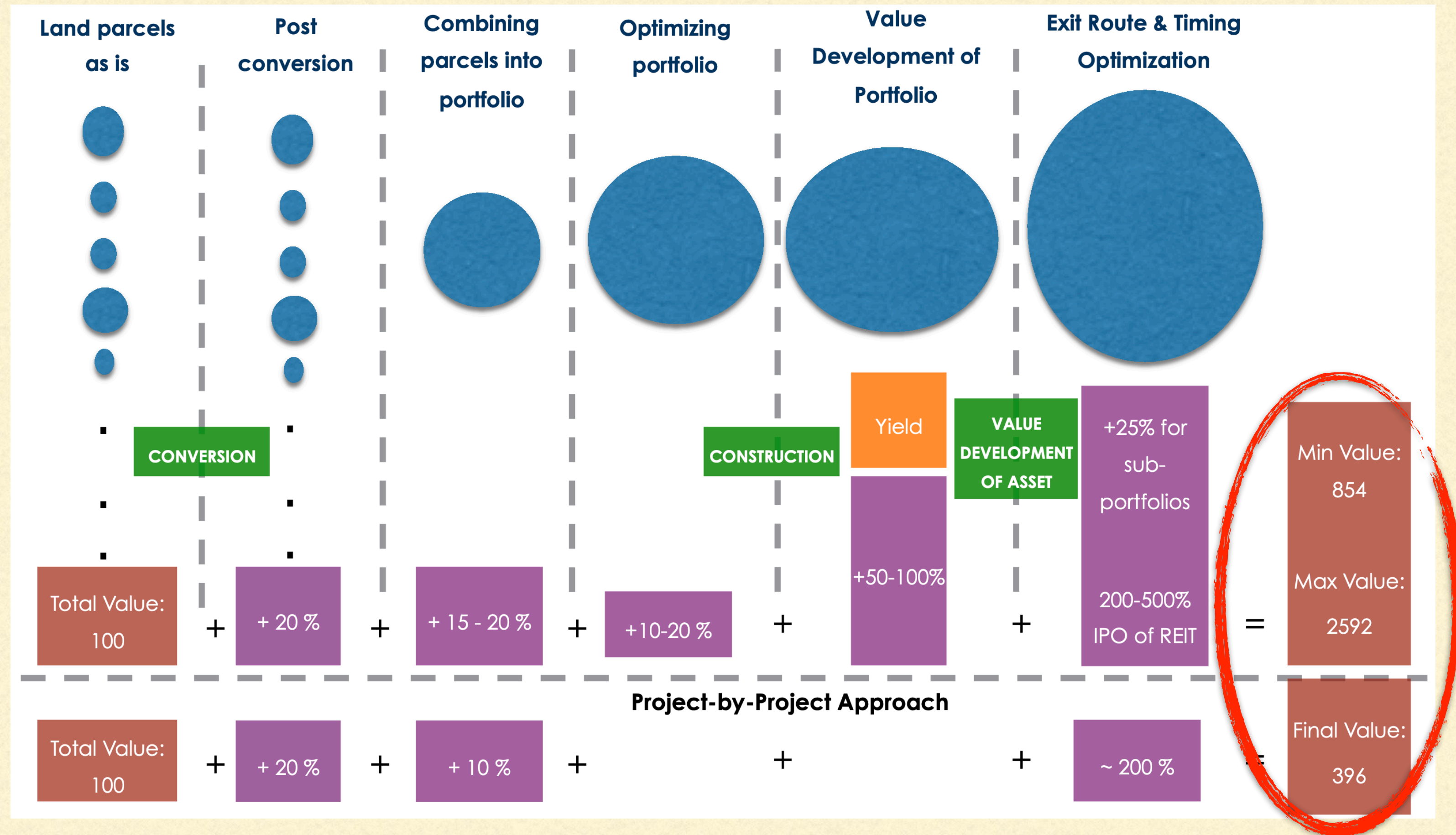
Source: Equitativa Group

WHAT WE HAVE TO DO THE INDIAN CONTEXT

- Organise the value developing roles and set the targets for each
- Set up the REIT Structure
- Ensure the interplay is optimal



THE KIND OF VALUE WE CAN CREATE IN THE INDIAN CONTEXT



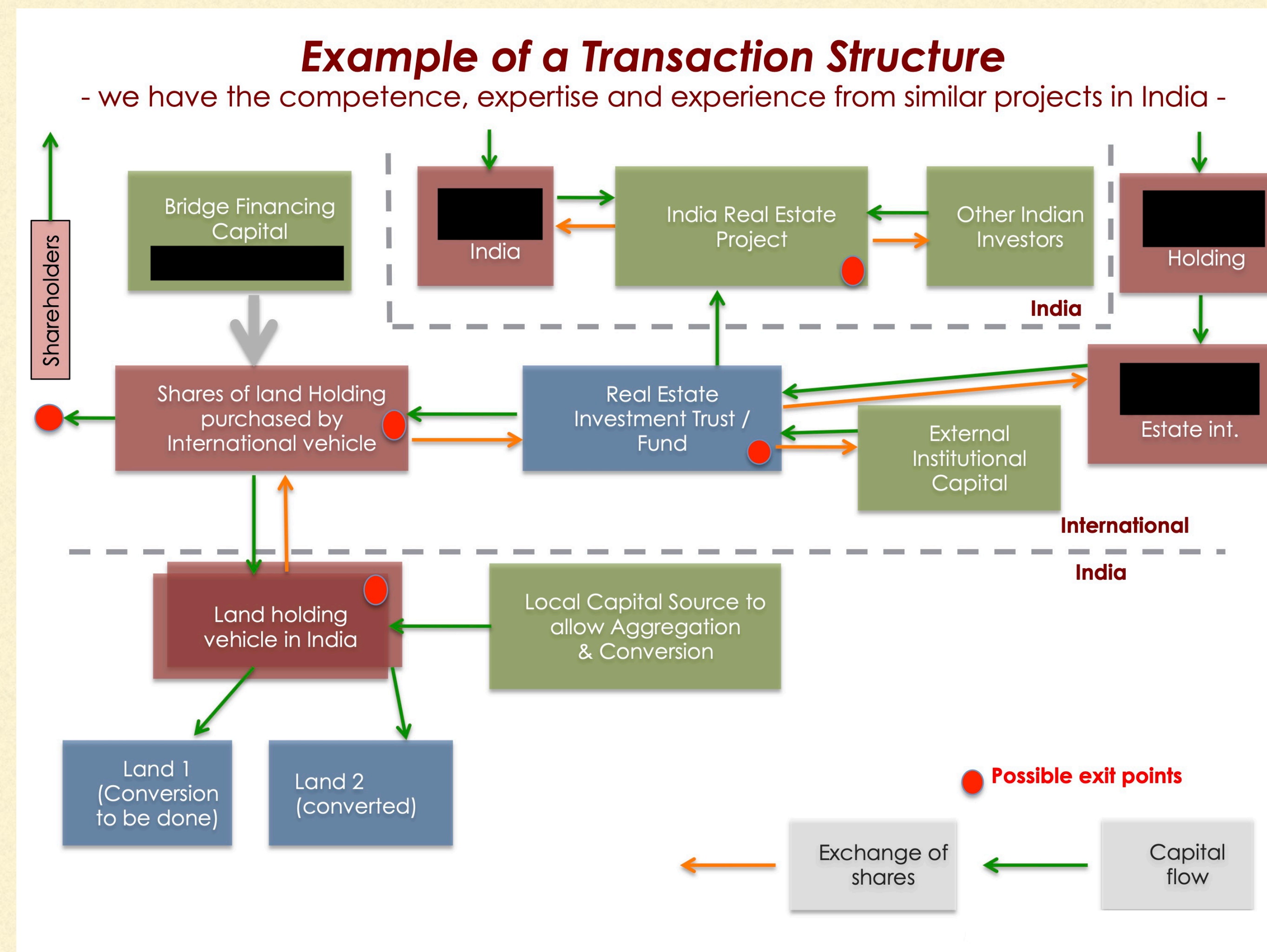
- Apply the optimal Portfolio and Value Development Model for Portfolio, sub-Portfolios, and Assets
- Example from India: 2.1x min. with a potential of 6.5 x

STRUCTURING AND FACILITATION OF CROSS BORDER TRANSACTIONS IN THE INDIAN CONTEXT

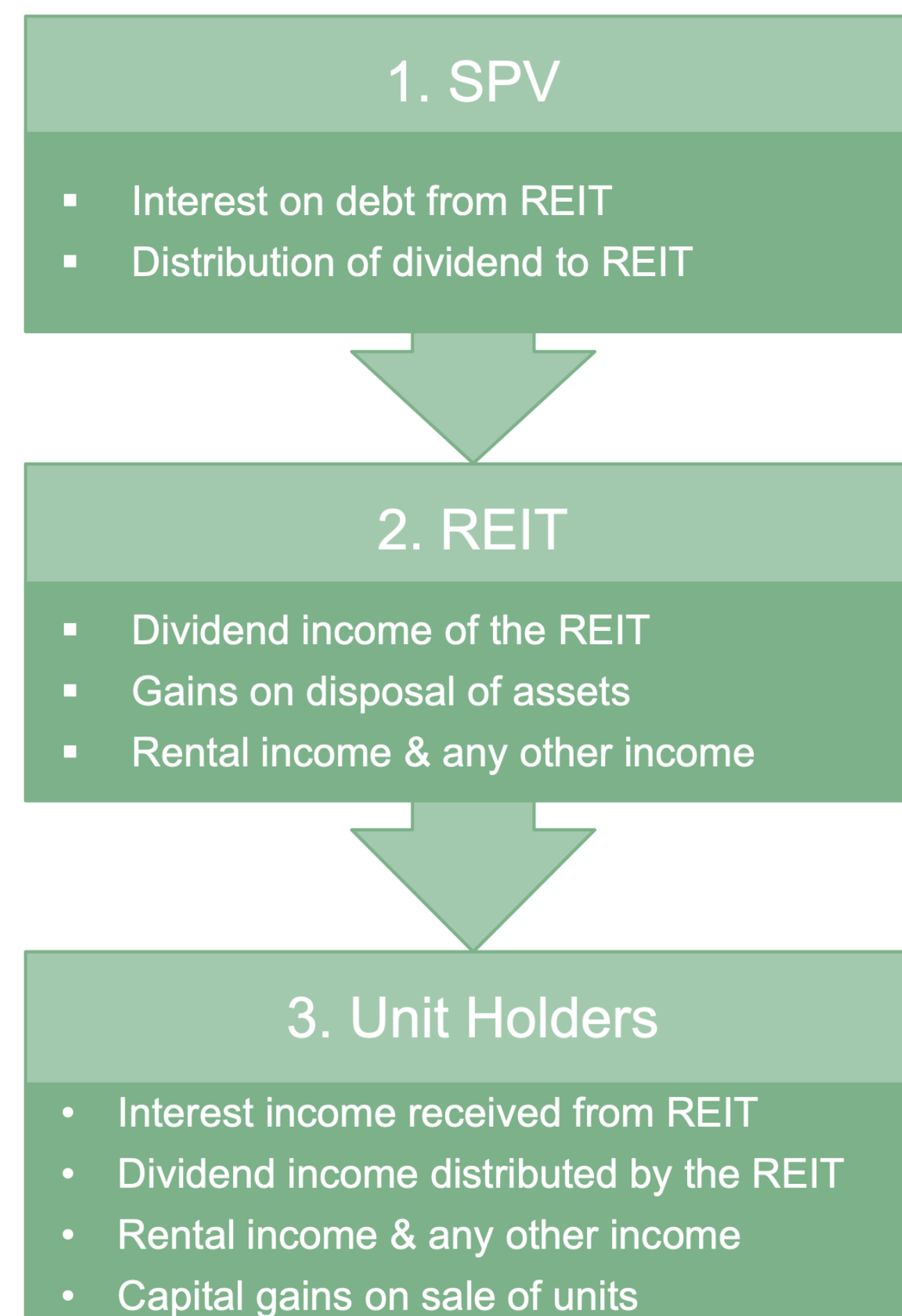
Situation specific set up of
contractual and legal structure

Managing involved parties

Sourcing and managing of
international advisors, banks, and
distributors



TAX IMPLICATIONS AT VARIOUS LEVELS



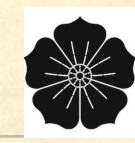
Entity	Tax Framework
SPV	<ul style="list-style-type: none"> No withholding tax obligations at SPV level in respect of interest paid on loans from the REIT Distribution of dividend to trust – not subject to DDT if REIT holds 100% interest in the SPV (DDT payable in case of Hold Co/SPV structure)
REIT	<ul style="list-style-type: none"> Income of REIT <ul style="list-style-type: none"> Dividend from 100% Subsidiary SPV – Tax Exempt; <100% subsidiary- chargeable @10% Interest from Subsidiary SPV (i.e. >50% control) – Tax exempt Capital gains on disposal of assets - Taxable in the hands of REIT Rental income – Tax exempt Any other income – Taxable at maximum marginal rate
Unit Holders	<ul style="list-style-type: none"> Taxability of distributions be based on the nature of the underlying income accrued/ received by the REIT For resident unit holders- Interest income & rental income (which is exempt to REIT) is taxable at applicable rates (withholding by REIT @ 10%) For Non-resident / offshore investors: <ul style="list-style-type: none"> Interest income @ 5% (withholding by REIT@ 5%) Rental income at applicable rates depending on their constitution Dividend income distributed to any unitholder is tax exempt Sale of listed units of REIT: <ul style="list-style-type: none"> Long term capital gains (exceeding INR 1 Mn), where units held for over 36 months, would be tax @10% and short term capital gains would be taxable @ 15% For Non-Resident Unit Holders, benefits under respective DTAA, if any, shall be available

Source: Equitativa Group

WHAT CAN WE DO IN THE INDIAN CONTEXT — PARTNER WITH ASSET AGGREGATORS



- Board & advisory board members
- REIT program management
- REIT manager
- Advisors
 - REIT set-up, IPO Preparation & Listing
 - Eco-system set-up
 - Strategy, structuring, fund raising, and governance
 - Off-shore coordination



Jai Hind



जय हिन्द

