Managing the REITs

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Introduction

SEBI Introduced the Final REIT Regulations in September 2014

Regulations prescribe the Management Framework for REITs

Arguments in favour/against Internal / External Management Structures

SEBI REIT Regulations have in-built safeguards to project investor interest

Key to success of REITs – Governance, Transparency, Returns
Real Estate Investment Trusts – Overview

- Professionally managed portfolio of rent generating real estate assets
- Publicly traded investment platform
- Investment without large capital outlay and reduced risk
- Greater liquidity and flexibility to unitholders
- Improved efficiency in asset management
- Managed Externally or Internally
## Global - REIT Management Structures

<table>
<thead>
<tr>
<th></th>
<th>United States</th>
<th>Australia</th>
<th>Japan</th>
<th>Singapore</th>
<th>Hong Kong</th>
<th>India</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal structure</strong></td>
<td>Corporation, Partnership, Business Trust or Limited Liability Company</td>
<td>Stand-alone Trust with RE portfolio; or Stapled security including company plus Trust or multiple Trusts</td>
<td>Trust or Corporate</td>
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<td><strong>Prevalent management structures</strong></td>
<td>Internal/External</td>
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<td><strong>Examples of Internal</strong></td>
<td>Vornado Realty Trust, One Liberty Properties Inc.</td>
<td>Abacus Property Group, GPT Group</td>
<td>-</td>
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<td>The Link REIT, Yuexiu REIT</td>
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<td><strong>Examples of External</strong></td>
<td>Washington REIT, Hospitality Properties Trust</td>
<td>Charter Hall Retail REIT</td>
<td>Nippon Building Fund Inc, Japan Real Estate Investment Corporation</td>
<td>CapitaMall Trust, Ascendas REIT</td>
<td>Fortune REIT, Prosperity REIT</td>
<td>-</td>
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Most traditional form
Managed by an external manager who manages the REIT portfolio, makes investment decisions, ensures compliances with all regulations, etc.
Has an independent governing Board
Manager charges a management fee
In certain cases, REIT Sponsor maintains significant control over the REIT manager
Internal Management Structure

- REIT employs its own staff to manage its assets & REIT Operations

  OR

- REIT owns the assets & the management company (Fig 1)

  OR

- Internal management through Stapled securities
  - Management duties are carried out by an internal management company that is “stapled” to the trust
  - Structure gives investors one unit in the trust and one share in the management company
  - Stapled securities are popular in Australia (Fig 2)
Internal vs External Management ....the debate

Internal Management

**Perceived advantages**
- Reduced operating /agency costs
- Elimination of third party fees
- Minimization of conflict of interest between REIT & the Manager

**Some findings....**
- Operating expense ratio of externally managed REIT is less than internally managed REITs
- Acceptable level of transparency achieved through institutional investor monitoring
Internal vs External Management ....the debate

**External Management**

- Perceived advantages
  - Economies of scale through large fund management platforms
  - Sponsor backing / Supply of assets by Sponsor – Key to growth of the portfolio
  - Adaptability to changing dynamics of real estate markets

- Some findings....
  - Fee based on asset value hence focus of the Manager could be on size of the portfolio more than returns
  - External Management better suited to emerging real estate markets
Indian REIT Structure

SEBI (REIT) Regulations, 2014

Sponsor
- Setup REIT and appoint trustee
- Hold minimum required percentage of total units of REIT

Trustee
- Hold REIT assets in trust for the benefit of unitholders
- Oversee activities of manager
- Timely payment of dividend

Manager
- Manage REIT portfolio
- Take investment decisions
- Ensure reporting and disclosures
Manager should have at least 5 years experience in fund or property management /development of real estate

Minimum 2 key personnel with at least 5 years experience as above

Sufficient personnel with adequate infrastructure and experience to manage REIT

Manager Responsibilities

Management of REIT Activities

- File offer document, manage issue and listing of units
- Appoint all service providers including Valuer, Auditor, Merchant Banker, etc.
- Make Investment Decisions
- Declare dividend
- Redress investor grievances
- Convene meetings of unitholders
- Ensure compliance with all rules and regulations
### SEBI (REIT) Regulations: Manager Responsibilities

#### Management of assets in the Portfolio
- Lease management, maintenance of assets, structural audits, etc.
- Manage development of under-development assets
- Ensure assets have proper legal & marketable titles
- Ensure adequacy of Insurance coverage
- Have the assets valued in accordance with the Regulations

#### Reporting & Disclosures
- Audit of accounts, Reporting NAV
- Submit to Stock Exchanges Half-yearly, Annual Reports, etc.
- Report REIT performance to the Manager Board & Trustee - Quarterly
- Submit compliance certificate to Trustee – Quarterly
- Submit to SEBI any information as required by SEBI
## Indian REIT Structure: Safeguards

<table>
<thead>
<tr>
<th>Related Party Transactions</th>
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<tr>
<td>- Arms length basis</td>
<td>- Disclosed to unitholders and stock exchanges</td>
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<tr>
<td>- Independent valuations / Fairness reports</td>
<td>- Unitholder approvals (excl related parties) for transactions beyond thresholds</td>
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<th>Independence of Manager Board / Governance</th>
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<td>- Manager Board – 50% Independent</td>
<td>- External Trustee - Not an associate of the Sponsor or Manager</td>
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<tr>
<td>- Quarterly reporting to Trustee on REIT performance / Compliance</td>
<td>- Unitholder approval for key matters</td>
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<td>- Unitholders have the right to remove / change the Manager</td>
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<td>- Comprehensive disclosure requirements</td>
<td>- Half yearly report</td>
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<tr>
<td>- Annual report</td>
<td>- Price sensitive information</td>
</tr>
<tr>
<td>- Valuation as per International Valuation Standards</td>
<td>- Half yearly valuation &amp; its disclosure</td>
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Key drivers of success of REITs in India

- In longer established markets like US, External Management structures were prevalent until around 1990s. However over years these markets have transitioned to Internal management structures

  - Evolution & maturity of REIT markets and Investor preference will guide the management framework of REITs in the emerging markets

- Regardless of the Management Structure the key to success of REITs in India will be:
  - Governance
  - Transparency / High standards of Disclosure to unitholders
  - Unitholder returns
Thank You