

Facilitation of Micro Small & Medium REITs (“MSM REITs”) - Amendments to SEBI (Real Estate Investment Trusts) Regulations, 2014 (“REIT Regulations”) for creation of new regulatory framework

1. Objective

1.1. This memorandum seeks the approval of the Board to amend the provisions of SEBI (Real Estate Investment Trusts) Regulations, 2014 (‘REIT Regulations’) to facilitate Micro Small and Medium REITs (‘MSM REITs’) by introducing a new framework for providing due regulatory oversight, adequate disclosures, and investor grievance redressal mechanism.

2. Background

2.1. In the past few years, there has been a mushrooming of structures offering fractional ownership of real estate assets. These structures are typically private limited companies or limited liability partnerships that facilitate investment in real estate assets.

2.2. Real Estate Investment Trust (REIT) registered under REIT Regulations facilitate pooled investment in real estate assets or properties and is required to be set up as a trust registered with and regulated by SEBI. Also, the minimum value of REIT assets presently specified under REIT Regulations is Rupees 500 crores.

2.3. SEBI had notified REIT Regulations on September 26, 2014. As on date, there are five REITs registered with SEBI. Out of these five REITs, four REITs have raised funds from the public and are listed on the stock exchange(s). The cumulative net assets managed by the four listed REITs as on September 30, 2023 is more than INR 90,000 crores.

2.4. An introduction of MSM REIT framework with a reduced asset size of INR 25 crores (as against the current requirement of minimum asset value of INR 500 crores for REITs), will facilitate pooled investment in a wider range of real estate assets as a regulated financial product thereby facilitating further growth of REITs in India, thereby facilitating greater growth of the real estate sector and all related sectors of the economy.

3. Benefits of proposed regulatory framework of MSM REITs

3.1. An introduction of regulatory framework for MSM REITs under SEBI REIT Regulations, as proposed, will be beneficial to the market and market participants as:

- 3.1.1. Development of the market through the creation of a new asset class.
- 3.1.2. Development of the market through creation of access to a wider set of investors in the REIT space.
- 3.1.3. Ease of investment in assets that have started to show traction in the unregulated space.
- 3.1.4. Formalization of a hitherto unregulated space.
- 3.1.5. The applicability of code of conduct mandated for MSM REIT and other parties to the MSM REIT, including Investment Managers, will ensure fairness in investment manager's dealings with clients.
- 3.1.6. Regulatory inspections and oversight would provide more confidence to investors and hence, will have the potential to attract more investors.
- 3.1.7. Standard KYC requirements will be applicable while registering clients.
- 3.1.8. Net worth criteria prescribed for an Investment Manager will ensure sound and stable financial health and the norms specified for an Investment Manager will mitigate the risks related to potential conflicts of interest.
- 3.1.9. It is proposed to allow existing structures which have facilitated fractional ownership of real estate to migrate to the REIT structure, which will bring benefits of uniformity and regulated structure, thereby bringing transparency related to income reporting and taxation and aligning tax treatment of such structures as Business Trusts as defined under the Income-tax Act.
- 3.1.10. In order to balance the ease of doing business with investor protection, a regulatory framework with risk management measures should be applicable when there is public interest involved and the activity crosses a minimum threshold that reflects such public interest.
- 3.1.11. Currently, REIT Regulations provide that (a) the number of investors forming part of the public should be at least 200 and (b) the value of assets should be at least rupees 500 crores.

- 3.1.12. To facilitate investments into wider range of real estate assets in the REIT structure and to aid further growth of REITs, it is proposed to introduce MSM REIT (as a sub-set of REITs) that has a reduced minimum asset value threshold of rupees 25 crores (compared to the current threshold of rupees 500 crores) and which adopts a scheme structure akin to mutual fund schemes (compared to current single pooled structure).
- 3.1.13. Accordingly, it is proposed that the REIT Regulations incorporating the concept of MSM REITs would be applicable only if: (a) the number of investors forming part of public is at least 200 AND (b) the value of assets held is at least rupees 25 crores.
- 3.1.14. Hence, an entity would be out of purview of REIT Regulations if either of the following conditions are met:
- 3.1.14.1. Number of investors is less than 200 – since a pooling of money from less than 200 investors may not reflect a wide public interest.
 - 3.1.14.2. The value of assets being managed is less than rupees 25crores – since an amount lesser than rupees 25 crores may not be large enough to pose a systemic risk.
- 3.1.15. Regulated entities in the financial services sector would be able to undertake distribution of units of MSM REIT schemes.

3.2. Listing of units and trading through stock exchanges will provide the following benefits:

- 3.2.1. Robust Risk Management framework and Surveillance mechanism;
- 3.2.2. Fair and transparent pricing;
- 3.2.3. Guaranteed settlement;
- 3.2.4. Liquidity and Exit opportunity to the investors;
- 3.2.5. Well defined framework for redressal of Investor grievances; and
- 3.2.6. Efficient offering of services to the non-institutional investors.

4. Consultations and proposals thereon

4.1. In view of the increasing value of investments and investors with structures facilitating investments in real estate assets and in order to bring about, inter-

alia, regulatory oversight, adequate disclosures, investor redressal mechanism, SEBI issued a consultation paper titled “Regulatory Framework for Micro Small and Medium REITs (MSM REITs)” on May 12, 2023 proposing to regulate entities offering fractional ownership of real estate assets as MSM REITs under REIT Regulations, 2014.

4.2. The proposed regulatory framework for MSM REITs was placed in the consultation paper for public comments.

4.3. The consultation paper received more than 70 responses from the public. Respondents included organizers and sponsors and facilitators of such structures, law firms, individual investors in real estate, developers, industry bodies and asset managers.

4.4. The following items on which public comments were received were discussed along with SEBI’s recommendations thereof, in the Hybrid Securities Advisory Committee (HySAC):

4.5. Bringing persons /entities organizing or facilitating fractional real estate investments under regulatory perimeter

4.5.1. Proposal, and its rationale, in the Consultation Paper

4.5.1.1. In order to bring about regulatory oversight, adequate disclosures, investor redressal mechanism, in current structures facilitating fractional ownership in real estate, it was felt that there is a need to regulate such structures, keeping in mind the core objective of investor protection particularly for non-institutional investors.

4.5.1.2. Accordingly, it was proposed to extend the regulatory ambit / regulatory perimeter and facilitate the creation of a new regulated financial product by introducing a chapter under REIT Regulations termed as MSM REITs or Micro Small and Medium Real Estate Investment Trusts that can issue units of schemes established by its investment manager.

4.5.2. Public Comments

4.5.2.1. An overwhelming majority of respondents supported introduction of MSM REITs by the Board which can facilitate fractional real estate investments in real estate assets of value of Rupees 25 crore and above. The rationale for the same included enhanced transparency, protection of interest of investors, increase in liquidity of fractional investments in real estate, etc.

4.5.2.2. With regard to the question on whether the proposed regulatory framework was appropriate, respondents have provided various suggestions and comments (such as, regulation may be structured similar to AIFs) which have been detailed issue-wise in this memorandum.

4.5.3. Consultation at the HySAC

4.5.3.1. Based on the responses received, the proposal was placed for discussion in the HySAC meeting dated June 01, 2023, wherein members of the committee deliberated and agreed on the need for creating a new asset class that facilitates fractional investments in real estate.

4.5.4. Proposal to the Board and its rationale

4.5.4.1. It is proposed to facilitate the creation of a new asset class through the introduction of a regulatory framework for MSM REITs in the REIT regulations wherein the asset size can range from Rupees 25 crores to Rupees 500 crores per scheme (as against Rupees 500 crores and above for existing REITs)

4.5.4.2. Definition of “REIT” or “Real Estate Investment Trust” under Regulation 2(1)(zm) of REIT Regulations shall be revised to also include MSM REITs. The revised definition proposed is as under:

(This has been excised for reasons of confidentiality)

4.5.4.3. With regard to comments suggesting prescription of an AIF-type model for fractional ownership in real estate, it may be noted that AIFs operate under a limited-life model, issue unlisted units to its investors and invest as per its private placement memorandum. It

is felt that REITs (being perpetual-life vehicles, with listed units and comprising completed/revenue-generating assets) are better suited for pooled investments in real estate assets.

- 4.5.4.4. The proposed regulatory framework for MSM REITs has been amended in view of public comments to SEBI's consultation paper. The revised regulatory framework for MSM REITs, in view of public comments and HySAC deliberations, are detailed below in this memorandum.
- 4.5.4.5. It is also noted that the migration of existing structures into MSM REIT will be by way of swap of shares of Special Purpose Vehicle held by the investors into units of MSM REIT scheme. As per the extant provisions of the Income-tax Act, 1961, this swap of shares into units of MSM REIT scheme does not incur any additional tax burden on the investor. The income tax on any capital gains is applicable on the investors at the time of sale of units of MSM REIT Scheme.
- 4.5.4.6. Post migration of existing structure into MSM REIT Scheme and all new MSM REIT Schemes established, the investor grievances, if any, shall be handled and monitored in terms of the Board's SCOREs platform (with due role of the designated body corporate recognized by the Board for first-level review of escalations of investor grievance) and the Online Dispute Resolution framework administered by the Market Infrastructure Institutions, as specified by the Board..

4.6. Limitations on Asset Size under an MSM REITs and its schemes

4.6.1. Proposal, and its rationale, in the Consultation Paper

- 4.6.1.1. For an initial offer of a scheme, the size of the asset proposed to be acquired should be at least Rupees 25 crores and should not exceed Rupees 499 crores.
- 4.6.1.2. Whether a cap on asset size across schemes of MSM REIT be prescribed.

4.6.2. Public Comments

4.6.2.1. With regard to assets at scheme-level, most respondents agreed with asset size being between Rupees 25 crores and Rupees 499 crores, but a few respondents suggested decreasing/ increasing the lower/ upper ceiling at scheme level.

4.6.2.2. Majority of respondents supported that no ceiling be prescribed for total assets that can be housed within a MSM REIT across its schemes. The rationale being that some entities already have established multiple structures which in the aggregate are close to or above Rupees 1000 crores, and that asset transfer to avoid such ceiling will have tax/cost implications, growth potential of the real estate sector, no upper cap prescribed for traditional REITs, etc.

4.6.3. Consultation at the HySAC

4.6.3.1. The responses received were placed for discussion in the HySAC meeting dated June 01, 2023, wherein members of the committee deliberated on the limitations on asset size under a scheme of MSM REIT. The members recommended the proposal detailed below.

4.6.4. Proposal to the Board and its rationale

4.6.4.1. In view of public comments, it is proposed that no ceiling or cap shall be prescribed on the amount of assets that can be housed in the MSM REIT across all its schemes.

4.6.4.2. For an initial offer of a scheme, it was reaffirmed that the size of the asset proposed to be acquired should be at least Rupees 25 crores and should be less than Rupees 500 crores.

4.7. Time period for migration of existing Persons/Entities/structures with SPVs to MSM REIT

4.7.1. Proposal, and its rationale, in the Consultation Paper

4.7.1.1. The consultation paper proposed a time-frame of six months for existing persons/ entities / structures to migrate to MSM REIT structure.

4.7.2. Public Comments

4.7.2.1. Majority of respondents suggested extension of the timelines for migration of existing persons/entities/structures with SPVs to MSM REITs. The rationale are as below:

4.7.2.1.1. Migration to the proposed regulatory framework will require new persons to be appointed, listing requirements, exchange of existing securities with units of the MSM REIT scheme, etc.

4.7.2.1.2. Short timeline may lead to sub-optimal means of transfer of the SPV to the MSM REIT Scheme or of the property to an SPV owned by the MSM REIT Scheme.

4.7.2.1.3. Short timeline may create unnecessary pressure among market participants.

4.7.2.1.4. Longer timeline will be fair to existing persons/entities/structures.

4.7.2.2. A few respondents also suggested that existing persons / entities / structures may be grandfathered, i.e. existing players need not migrate to MSM REITs structure all-together, or only investments made subsequent to the notification of the regulatory framework be subject to such regulations.

4.7.3. Consultation at the HySAC

4.7.3.1. The responses received and our views were placed for discussion in the HySAC meeting dated June 01, 2023, wherein members of the committee deliberated timelines for migration of existing persons, entities or structures to MSM REIT.

4.7.3.2. Based on the deliberations the HySAC recommended the following.

4.7.3.2.1. For migration of existing persons, entities or structures, an applicant shall apply to SEBI for registration within four months from date of notification of these amendments

4.7.3.2.2. Further, the existing persons, entities or structures shall be migrated to MSM REIT structure within twelve months from the date of grant of certificate of registration.

4.7.4. Proposal to the Board and its rationale

4.7.4.1. Considering the feedback received from public and recommendations of HySAC, the following is proposed for migration of existing investments into MSM REIT structure:

4.7.4.1.1. Considering that sufficient time may be required to come out with the migration plan along with the application of registration, the time period for submitting the application to SEBI may be specified as six months (instead of four months as recommended by the HySAC) from date of notification of these amendments

4.7.4.1.2. Considering that migration plan is already finalized and submitted at the time of application itself, an additional time of six months (instead of twelve months as recommended by HySAC) for migration from the date of grant of certificate of registration would be sufficient

4.7.4.1.3. The above revised requirements will provide sufficient time (time period of six months for making an application, plus a time period of another six months from the date of grant of registration) for an applicant to migrate its existing investments in MSM REIT structure. Further, issues, if any, arising related to migration of existing structures into MSM REIT Scheme shall be dealt with considering ease of doing business or ease of compliance and issuance of necessary circulars or clarifications.

4.8. Sponsor and Investment Manager – Separate or Same Entity

4.8.1. Proposal, and its rationale, in the Consultation Paper

4.8.1.1. The consultation paper proposed two options:

4.8.1.1.1. Option-1: The Investment Manager of MSM REIT shall have its primary business to manage assets and investments of the MSM REIT and undertake operational activities of the MSM REIT, and shall be a distinct entity from the Sponsor.

4.8.1.1.2. Option-2: Alternatively, the role of Sponsor and Investment Manager could be combined to make the Investment Manager

as a self-sponsored entity. The above proposals for Sponsor/Investment Manager, such as net worth and experience requirement, could accordingly be combined for such an approach.

4.8.2. Public Comments

4.8.2.1. Majority of respondents suggested that the same entity may undertake operations of sponsor and investment manager to reduce costs of compliance and in view of synergies in their operations. In such a case, the net worth requirement may be placed just for the single entity, rather than separate net worth prescriptions for the sponsor and investment manager.

4.8.2.2. Certain respondents suggested that both models may be allowed, and the choice of a separate or same sponsor/ Investment manager entity may be left to the discretion of the applicants.

4.8.2.3. A few respondents also suggested that to begin with, separate sponsors and investment managers may be prescribed, and once investment managers gain reasonable experience, a self-sponsored entity to be investment manager /Sponsor of MSM REIT may be allowed.

4.8.3. Consultation at the HySAC

4.8.3.1. The responses received were placed for discussion in the HySAC meeting dated June 01, 2023, wherein members of the committee deliberated whether the same entity may act as the sponsor and investment manager. The members recommended the proposal detailed below.

4.8.4. Proposal to the Board and its rationale

4.8.4.1. It is proposed that only one entity shall take up the roles and responsibilities of both sponsor and investment manager, which will also facilitate reduced compliance costs and compliance burden.

4.8.4.2. Accordingly, under the proposed regulatory framework for MSM REIT, the applicant company, as settlor of the trust, shall appoint a trustee to the MSM REIT. Thereafter, the trustee shall appoint the

applicant company as the Investment Manager for the MSM REIT, in terms of the investment management agreement.

4.9. Sponsor Net worth

4.9.1. Proposal, and its rationale, in the Consultation Paper

4.9.1.1. The Sponsor shall have a net worth of at least Rupees 20 crores. Out of the same, an amount of Rupees 10 crores shall be in the form of positive liquid net worth.

4.9.1.2. Liquid net worth shall mean net worth deployed in liquid assets which are unencumbered. Liquid Asset shall be a financial asset in the form of cash in bank, fixed deposits, overnight or liquid mutual fund schemes, Government Securities, T-bills and Repo on Government Securities.

4.9.1.3. The Investment Manager of MSM REIT shall have a net worth of at least Rupees 10 crores. The net worth shall be in the form of positive liquid net worth.

4.9.1.4. The Investment Manager of MSM REIT shall not pursue any other business other than management of MSM REIT and its Schemes or SPV(s) held by such Schemes.

4.9.2. Public Comments

4.9.2.1. Majority of respondents suggested that minimum net worth should be less than Rupees 20 crores (for sponsor) and less than Rupees 10crores (for investment manager), and that net worth requirement may be linked to assets under management, to not create barriers to entry for new entrants or startups or new players in the industry.

4.9.2.2. However, a few respondents suggested increasing the net worth requirement for sponsors/ investment managers.

4.9.2.3. A few respondents suggested that the requirement of liquid net worth may be dropped.

4.9.3. Consultation at the HySAC

4.9.3.1. The responses received and our views thereof were placed for discussion in the HySAC meeting dated June 01, 2023, wherein members of the committee deliberated on the net worth

requirements of sponsor and investment manager. The members recommended the proposal detailed below.

4.9.4. Proposal to the Board and its rationale

4.9.4.1. Considering that the proposed regulatory framework for MSM REITs envisages the same entity to act as manager and sponsor, the minimum net worth requirement of the investment manager shall be at least Rupees 20 crores.

4.9.4.2. The proposed net worth requirement of Rupees 20 crores is lower as compared to the originally proposed requirement of collective net worth of Rupees 30 crores to be maintained across sponsor and investment manager

4.9.4.3. Further, to ensure that the investment manager is able to quickly use/deploy its net worth at any time of need, it is proposed that at least Rupees 10 crores shall be held in the form of positive liquid net worth.

4.10. **Relevant experience of Sponsor and Investment Manager**

4.10.1. Proposal, and its rationale, in the Consultation Paper

4.10.1.1. The Sponsor shall have at least five years' experience in real estate industry as either a developer or a fund manager. The Investment Manager and its associates shall have at least five years' experience in real estate industry as either a developer or a fund manager.

4.10.2. Public Comments

4.10.2.1. Various respondents requested that given the nascent stage of the industry and to allow more participants into the industry, the requirement of experience of investment manager may be relaxed from the proposed five years as real estate developer or fund manager.

4.10.2.2. Certain respondents stated that a majority of current players may not be able to fulfill the requirements proposed for the investment manager of MSM REITs.

4.10.3. Consultation at HySAC

4.10.3.1. In view of the responses received from public, the matter was taken up in HySAC, wherein the following was proposed:

4.10.3.1.1. the minimum experience requirement for the Investment manager (which shall also act as sponsor) may be reduced to at least two years' experience in the real estate industry and/or fund management in real estate from the original proposal of five years in the consultation paper.

4.10.3.1.2. in case the Investment manager is unable to meet this requirement, the Investment manager must appoint at least two key managerial personnel, each of whom must have not less than two years' experience in the real estate industry and/or fund management in real estate

4.10.3.2. The responses received were placed for discussion in the HySAC meeting dated June 01, 2023, wherein members of the committee deliberated on the experience requirements of the investment manager. Based on the deliberations, the HySAC members recommended that while the minimum experience requirement for the Investment Manager may be kept as two years, but the minimum experience requirement for at least two key managerial personnel (in case the Investment manager is unable to meet the above requirement) may be kept as five years instead of two years.

4.10.4. Proposal to the Board and its rationale

4.10.4.1. In light of public comments and recommendations of HySAC, it is proposed that the Investment Manager (which shall also act as sponsor) shall have at least two years' experience in the real estate industry and/or fund management in real estate.

4.10.4.2. Further as per recommendation of HySAC, it is proposed that if the investment manager is unable to meet experience requirements, it may employ at least two key managerial personnel, each of whom must have not less than five years' experience in the real estate industry and/or real estate fund management.

4.11. **Minimum Unitholding of Investment Manager and Lock-in of Units**

4.11.1. Proposal, and its rationale, in the Consultation Paper

4.11.1.1. The sponsor shall be required to hold a minimum of fifteen percent of the total units of the MSM REIT for each scheme for a period of at least three years from the date of listing of such units of such scheme pursuant to initial offer on a post-issue basis. Any holding of the sponsor exceeding the minimum holding, shall be held for a period of at least one year from the date of listing of such units.

4.11.1.2. The minimum holding requirement for the sponsor in each scheme post completion of three years shall be as prescribed for existing REITs.

4.11.2. Public Comments

4.11.2.1. Majority of respondents supported the concept of alignment of interest for investment managers in MSM REITs.

4.11.2.2. However, most respondents suggested that the 15% figure be reduced given the nature of business of MSM REIT, to provide flexibility, type of investment managers in MSM REITs vs existing REITs, etc.

4.11.3. Consultation at the HySAC

4.11.3.1. The responses received were placed for discussion in the HySAC meeting dated June 01, 2023, wherein members of the committee deliberated on the minimum unitholding requirement for investment manager. The members recommended the proposal detailed below.

4.11.4. Proposal to the Board and its rationale

4.11.4.1. The intent behind prescribing minimum unit holding for investment manager is to ensure alignment of interest of investment manager and unitholders.

4.11.4.2. However, for MSM REITs, it may also be noted that it is not proposed to permit an MSM REIT or any of its schemes to take on any debt or to engage in any related party transaction.

4.11.4.3. Considering the absence of leverage and absence of RPTs and considering the feedback from respondents, the minimum unit holding prescriptions for Investment Managers of MSM REITs for each scheme is proposed as follows:

S. No.	Time Period from initial listing of scheme's units	Minimum Unitholding of Investment Manager
1	Up to 5 years	5% of total outstanding units of the scheme
2	6-10 years	3% of total outstanding units of the scheme
3	11-20 years	2% of total outstanding units of the scheme
4	Post 20 years	1% of total outstanding units of the scheme

4.11.4.4. Minimum unitholding should be locked-in and cannot be encumbered.

4.11.4.5. Compliance with minimum unitholding requirements shall be adhered to at all times.

4.11.4.6. The above framework proposes a gradual reduction in minimum unitholding requirement on a scheme wise basis for the investment manager of MSM REIT (similar to the requirements instituted for existing REITs).

4.11.4.7. Further, at the time of initial offer of units of a scheme, any holding of the investment manager exceeding the minimum holding shall be held for a period of at least one year from the date of listing of such units of such scheme (in line with the requirement for existing REITs).

4.11.4.8. Moreover, to facilitate smooth migration of existing persons, entities or structures to MSM REIT, the following is proposed:
 "Where an applicant is migrating the existing persons, entities or structures as on the date of notification of MSM regulatory framework, the above lock-in requirements shall not be applicable on units issued to investors against swap of securities allotted prior to the date of notification"

4.12. **Minimum Subscription Size and Trading Lot**

4.12.1. Proposal, and its rationale, in the Consultation Paper

4.12.1.1. The minimum subscription size to the units of a MSM REIT Scheme shall be Rupees 10 lakhs and the unit size shall be Rupees 10 lakhs.

4.12.2. Public Comments

4.12.2.1. Majority of respondents suggested that the quantum of minimum subscription and trading lot be reduced from Rupees 10 lakhs as proposed to around Rupees 1 lakh or under, in order to incentivize young/small/retail investors, and to enhance liquidity.

4.12.2.2. A few respondents suggested increasing the amount to Rupees 1 crore since this product is used by HNIs and UHNIs.

4.12.2.3. Various respondents suggested that minimum subscription and trading lot be kept at the same value.

4.12.2.4. A few respondents suggested that Rupees 10 lakh may be prescribed to begin with, but the amount may eventually be lowered over time.

4.12.3. Consultation at the HySAC

4.12.3.1. The responses received were placed for discussion in the HySAC meeting dated June 01, 2023, wherein members of the committee deliberated on the minimum subscription size and trading lot for MSM REITs. The recommendations of the Committee members have been set out in the proposal detailed below.

4.12.4. Proposal to the Board and its rationale

4.12.4.1. For MSM REITs, it is possible that a scheme might hold a single property or a highly concentrated portfolio. Considering the above concentration risks, it would be prudent to keep a high minimum subscription and trading lot initially and based on the experience in the market, the respective amounts can be reviewed from time to time.

4.12.4.2. Accordingly the subscription amount should be INR 10 lakh or such amount as may be specified by the Board from time to time.
Further, in order to ensure a trading lot of INR 10 lakh, the issue price of each unit of the scheme shall be INR 10 lakh or such amount as may be specified by the Board from time to time.

4.13. **Frequency of Asset Valuation**

4.13.1. Proposal, and its rationale, in the Consultation Paper

4.13.1.1. To ensure that the underlying assets of a MSM REIT are valued accurately, a full valuation including a physical inspection of the properties shall be carried out on a quarterly basis for each scheme.

4.13.1.2. Detailed disclosures are proposed to be specified for the quarterly valuation reports.

4.13.1.3. The NAV of each scheme shall be required to be declared on quarterly basis.

4.13.2. Public Comments

4.13.2.1. It was suggested that quarterly valuation of assets may add to cost and since real estate assets generally do not undergo change or deteriorate in value in a short span of time. Accordingly, an annual or semi-annual valuation may be prescribed. Material events may require immediate valuation.

4.13.3. Consultation at the HySAC

4.13.3.1. The responses received were placed for discussion in the HySAC meeting dated June 01, 2023, wherein members of the committee deliberated on the frequency of asset valuation for MSM REITs. The members recommended the proposal detailed below.

4.13.4. Proposal to the Board and its rationale

4.13.4.1. It is proposed that in order to ensure that the underlying assets of a MSM REIT are valued accurately, a full comprehensive valuation including a physical inspection of the properties shall be carried out on a half-yearly basis for each scheme.

4.13.4.2. However, in case of any material development that may have impact on the valuation of the assets of MSM REIT scheme, it is proposed that the Investment manager shall be required to undertake full valuation of the property under consideration by the valuer.

4.13.4.3. The NAV of each scheme shall be required to be declared based on the latest valuation report as available.

4.14. **Leverage**

4.14.1. Proposal, and its rationale, in the Consultation Paper

4.14.1.1. MSM REIT Schemes shall not be allowed to raise debt.

4.14.2. Public Comments

4.14.2.1. Few respondents suggested that some minimal amount of debt may be permitted (even if the same has to be subject to a particular level of credit rating or loan-to-value).

4.14.2.2. Real estate is capital-intensive and commercial real estate is generally funded by a mix of debt and equity, and therefore many of these existing persons, entities or structures could have debt taken for acquisition of the assets in the portfolio and may find it difficult to make the portfolio debt free.

4.14.3. Consultation at HySAC

4.14.3.1. The responses received were placed for discussion in the HySAC meeting dated June 01, 2023, wherein members of the committee deliberated on the leverage requirements for MSM REITs. The members recommended the proposal detailed below.

4.14.4. Proposal to the Board and its rationale

4.14.4.1. At this stage, it is proposed that MSM REIT Schemes shall not be allowed to raise debt, for the following reasons:

4.14.4.1.1. MSM REITs might hold a single property or a highly concentrated portfolio.

4.14.4.1.2. Also, investors in MSM REITs may predominantly include non-institutional investors.

4.15. **Related Party Transactions (RPTs)**

4.15.1. Proposal, and its rationale, in the Consultation Paper

4.15.1.1. MSM REIT shall not enter into any transaction with related parties. However, payment of fees to the Investment Manager and trustee for carrying out the activities of MSM REIT shall be allowed.

4.15.2. Public Comments

4.15.2.1. With regard to RPTs, various respondents suggested that RPTs be allowed subject to the same being done at arms-length basis with adequate disclosures and/or unitholders approval.

4.15.2.2. It was also suggested that while the MSM REIT shall not enter into any transaction with related parties, the transactions for facility management and property management may be permitted.

4.15.3. Consultation at the HySAC

4.15.3.1. The responses received were placed for discussion in the HySAC meeting dated June 01, 2023, wherein members of the committee deliberated on the RPT norms for MSM REITs. The members recommended the proposal detailed below.

4.15.4. Proposal to the Board and its rationale

4.15.4.1. At this stage, it is proposed that MSM REIT shall not enter into any transaction with related parties including transactions for facility management and property management. However, payment of fees to the investment manager and trustee for carrying out the activities of MSM REIT shall be allowed.

4.15.4.2. The rationale for the same is as under:

4.15.4.2.1. Currently, it is observed that some of the existing persons, entities or structures are promoted / sponsored by real estate brokers or those new to such business, rather than developers

who may bring in their own assets. Therefore, RPTs in the MSM REIT model are expected to be very limited.

4.15.4.2.2. Also, investors in MSM REITs may predominantly include non-institutional investors and may not be able to assess risks related to conflict of interest inherent in RPTs.

4.16. **Compulsory Listing**

4.16.1. Proposal, and its rationale, in the Consultation Paper

4.16.1.1. After registration, the MSM REIT shall raise funds initially through an initial offer of units of a scheme.

4.16.1.2. The listing of units of the MSM REIT Scheme/s shall be mandatory and shall be listed on stock exchange. The units of such MSM REIT Scheme will be held in dematerialized form. Further, any investments of MSM REIT Scheme in SPV(s) shall also be held in dematerialized form.

4.16.2. Public Comments

4.16.2.1. Certain respondents suggested that compulsory listing requirements may be done away with. The rationale for the same included:

4.16.2.1.1. MSM REITs may not be required to be listed to ease cost of compliance.

4.16.2.1.2. New platforms under BSE SME or NSE Emerge may be introduced, to list MSM REITs.

4.16.2.1.3. The underlying assets are fundamentally illiquid and compulsory listing may mislead investors into an incorrect notion of the liquidity of such instruments.

4.16.2.1.4. MSM REITs may utilize their own private technology or block-chain solutions to store user data and facilitate trading of fractional real estate units.

4.16.3. Consultation at HySAC

4.16.3.1. The responses received were placed for discussion in the HySAC meeting dated June 01, 2023, wherein members of the committee

deliberated on the listing requirements for MSM REITs. The members recommended the proposal detailed below.

4.16.4. Proposal to the Board and its rationale

4.16.4.1. In view of the Board's mandate pertaining to the securities market and to allow broader participation in MSM REITs, including providing exit opportunities to unitholders, it is proposed that units of MSM REIT schemes shall be required to be listed on a recognised stock exchange.

4.16.4.2. It is also noted that private technology or block-chain solutions to store user data and facilitate trading of fractional real estate units could transgress norms for licensed and regulated stock exchanges, and hence cannot be considered.

4.17. **Investments in Under-Construction Real Estate**

4.17.1. Proposal, and its rationale, in the Consultation Paper

4.17.1.1. The schemes of MSM REIT shall not be allowed to invest in under-construction or non-revenue generating real estate properties.

4.17.2. Public Comments

4.17.2.1. Various respondents suggested inclusion of under-construction assets in MSM REITs, even if limited to a certain percentage.

4.17.2.2. Alpha / risk-adjusted-returns can be significantly increased through greenfield/brownfield/ under-construction acquisitions thereby maximizing benefits for investors corresponding to their risk profiles.

4.17.2.3. It has also been suggested that entry be permitted in cases of assets where a binding agreement with a tenant is in place, or the asset is a Built-to-Suit project and is a RERA registered project.

4.17.3. Consultation at the HySAC

4.17.3.1. The responses received were placed for discussion in the HySAC meeting dated June 01, 2023, wherein members of the committee deliberated on whether investments in under-

construction properties may be allowed for MSM REITs. The members recommended the proposal detailed below.

4.17.4. Proposal to the Board and its rationale

4.17.4.1. The predominant feature of REITs is to have regular cash flow distributions to unitholders.

4.17.4.2. Further, since the MSM REIT Schemes may already carry concentration risks, allowing an exposure to under-construction assets will also add to risk for the investors.

4.17.4.3. Hence, at this stage, it is proposed that MSM REIT Schemes may not be permitted to invest in under-construction properties, given the inherent risks in such assets and given that such under-construction properties will not be revenue generating.

5. Proposed Regulatory Framework for MSM REITs

5.1. Based on public responses to SEBI consultation, deliberations undertaken, including at the HySAC, the following regulatory framework is proposed for MSM REITs.

5.2. It is proposed to facilitate the creation of a new asset class through the introduction of a regulatory framework for MSM REITs in the REIT regulations wherein the threshold for minimum asset size would be Rupees 25 crores (as against Rupees 500 crores as applicable for existing REITs)

5.3. Definition of “REIT” or “Real Estate Investment Trust” under Regulation 2(1)(zm) of REIT Regulations shall be revised to also include MSM REITs. The revised definition proposed is as under:

(This has been excised for reasons of confidentiality)

5.4. Further, the following provisions applicable to REIT shall, mutatis mutandis, be made applicable for MSM REIT:

- 5.4.1. Rights and responsibilities of Investment Manager, Trustee, Valuer and Auditor
- 5.4.2. Requirement to make initial offer within three years of registration
- 5.4.3. Filing and processing of offer document and issue period
- 5.4.4. Eligibility criteria for offer of units
- 5.4.5. Disclosures to stock exchanges
- 5.4.6. Maintenance of records
- 5.4.7. Governance norms on Investment Manager
- 5.4.8. Inspection by the Board
- 5.4.9. Procedure for Action in case of Default
- 5.4.10. Power to relax strict enforcement of the Regulations

5.5. Considering the consultation and feedback received from public and recommendation of HySAC, the provisions related to registration, offer of units, delisting, valuation, investment conditions, rights of unitholders and meeting of unitholders has been separately specified for MSM REIT (distinct and different from those applicable to existing types of REITs), the same are detailed as under:

5.6. Registration of MSM REITs under REIT Regulations:

- 5.6.1. An application for grant of certificate of registration as MSM REIT shall be made, by the Investment Manager on behalf of the Trust in Form A as specified in the Schedule IA to these regulations and shall be accompanied by a non-refundable application fee of such amount and shall be payable in the manner as specified in Schedule IIA to these Regulations.
- 5.6.2. For migration of existing persons, entities or structures into MSM REIT structure, the application for registration as a MSM REIT shall be made to the Board within six months from the date of notification of the regulatory framework for MSM REITs or such period as may be granted by the Board.
- 5.6.3. The migration of existing persons, entities or structures shall be completed within six months from the date of grant of registration or such period as may be granted by the Board.

5.7. Fees to SEBI:

- 5.7.1. The application fees for MSM REITs will be prescribed as Rupees 1 lakh. This amount is the same as prescribed for existing types of REITs.
- 5.7.2. The registration fees for MSM REITs will be prescribed as Rupees 10 lakh. This amount is the same as prescribed for existing types of REITs
- 5.7.3. For initial offer and follow-on offer of REITs, regulations require fees payment of 0.1% of the total issue size. However, for MSM REIT, in view of the smaller offer size of as low as Rupees 25 crore as compared to REITs where minimum offer size is Rupees 250 crores, it is proposed that the fees for initial offer for MSM REITs may be kept as higher of 0.1% of total issue size, or Rupees 5 lakh.

5.8. Structure of MSM REIT

- 5.8.1. MSM REIT shall be set up as a Trust with an ability to establish separate scheme(s) for owning of real estate asset(s) through special purpose vehicle(s) (SPVs) constituted as companies under the Companies Act, 2013.
- 5.8.2. MSM REIT shall have full control and shall hold hundred percent equity share capital in all SPV(s). SPV(s) shall not have any other form of capital or ownership interest. The equity share capital of the SPVs shall be held by the MSM REIT in demat form. The SPV(s) shall be required to have full control and shall hold hundred percent ownership in all the underlying property(ies).
- 5.8.3. MSM REIT shall have parties such as Trustee and Investment Manager with each such person being a separate entity.
- 5.8.4. The MSM REIT and parties to the MSM REIT shall be fit and proper persons based on the criteria as specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.

5.9. Role of Investment Manager in MSM REIT:

- 5.9.1. The application for registration as a MSM REIT shall be made by the investment manager on behalf of the Trust in the format specified by the

- Board and the instrument of Trust shall be in the form of a deed duly registered in India under the provisions of the Registration Act, 1908.
- 5.9.2. The Trust deed shall have its main objective as undertaking activity of MSM REIT through one or more schemes.
- 5.9.3. The investment manager, who shall also set up the trust, shall be clearly identified in the application of registration and in the offer document.
- 5.9.4. The Investment Manager of MSM REIT shall be a company incorporated under the Companies Act, 2013.
- 5.9.5. The Investment Manager of MSM REIT shall be a distinct entity whose only business is to manage assets and investments of the MSM REIT and undertake operational activities of the MSM REIT.
- 5.9.6. The investment manager shall ensure that the trademark, brand name, website and other medium of communication of the MSM REIT shall be used exclusively for the activities of MSM REIT and no links or information about any other entity, structure or person shall be made on its website or any other medium of communication.
- 5.9.7. The Investment Manager of MSM REIT shall have at least half of its directors as independent. Such an independent director should not be a director of the Investment Manager or Manager of another MSM REIT or REIT respectively.
- 5.9.8. The investment manager shall have at least two years' experience in the real estate industry or real estate fund management. Alternatively, the investment manager shall employ two key managerial personnel (KMP), each having at least five years' experience in real estate industry or real estate fund management.
- 5.9.9. The Investment Manager shall have a net worth of at least Rupees 20 crores. Out of the same, a minimum amount of Rupees 10 crores shall be in the form of positive liquid net worth. Liquid net worth shall mean net worth deployed in liquid assets which are unencumbered. Liquid Asset shall be a financial asset in the form of cash in bank, overnight or liquid mutual fund schemes, fixed deposits, Government Securities, T-bills and Repo on Government Securities.
- 5.9.10. The Investment Manager shall abide by the Board's SCOREs system and the Online Dispute Resolution framework as applicable for resolution

of investor grievances and claim/disputes as arising (including depositing such amount with the designated body as may be specified by the Board from time to time in terms of the Online Dispute Resolution framework).

5.9.11. The Investment Manager shall be required to hold a minimum of five percent of the total units of the MSM REIT for each scheme for a period of at least five years from the date of initial listing of the units of such scheme. Any holding of the investment manager exceeding the minimum holding, shall be held for a period of at least one year from the date of listing of such units.

5.9.12. The minimum holding requirement for the Investment Manager in each scheme of MSM REIT shall be as under:

S. No.	Time Period from initial listing of scheme's units	Minimum Unitholding of Investment Manager
1	Up to 5 years	5% of total outstanding units of the scheme
2	6-10 years	3% of total outstanding units of the scheme
3	11-20 years	2% of total outstanding units of the scheme
4	Post 20 years	1% of total outstanding units of the scheme

5.9.13. Minimum unitholding should be locked-in and unencumbered.

5.9.14. Compliance with minimum unitholding requirements shall be adhered to at all times.

5.9.15. Moreover, to facilitate smooth migration of existing persons, entities or structures to MSM REIT, the following shall be mandated:

“Where an applicant is migrating the existing investments as on the date of notification of MSM regulatory framework, the above lock-in requirements shall not be applicable on units issued to investors against swap of securities allotted prior to the date of notification”

5.10. Role of Trustee in MSM REIT:

5.10.1. The Investment Manager shall establish a trust and appoint a SEBI registered Debenture Trustee as a Trustee.

- 5.10.2. The Investment Manager of MSM REIT shall enter into an Investment Management Agreement with the trustee which provides for the responsibilities of the Investment Manager in accordance with the Regulations.
- 5.10.3. The trustee shall be registered with the Board under SEBI (Debenture Trustees) Regulations, 1993 and shall not be an associate of the Investment Manager.
- 5.11. Schemes under MSM REITs
- 5.11.1. MSM REIT will be permitted to launch schemes. Each Scheme will be identified by a separate name. The name of the scheme shall not be misleading and shall not portray any guaranteed returns to the investors.
- 5.11.2. The investment manager shall appoint a merchant banker to carry out obligations related to the issue.
- 5.11.3. After registration, the MSM REIT shall raise funds initially through an initial offer of units of a scheme. The Scheme offer document of the MSM REIT shall be filed with the Board and the stock exchanges. The Scheme offer document of the MSM REIT Scheme shall contain material, true, correct and adequate disclosures to enable the investors to make an informed decision.
- 5.11.4. The disclosure in the scheme offer document shall not be misleading and not contain any untrue statements or mis-statements;
- 5.11.5. The scheme offer document shall not provide for any guaranteed returns to the investors.
- 5.11.6. The listing of units of the MSM REIT Scheme/s shall be mandatory and shall be listed on a recognized stock exchange. The units of such MSM REIT Scheme will be issued and held in dematerialized form.
- 5.11.7. In case of delisting, the investment manager shall be required to wind up and sell all the assets of MSM REIT Scheme to redeem the units of the unitholders for the purpose of delisting of the units of MSM REIT Scheme.
- 5.11.8. If all schemes of MSM REIT are delisted, the MSM REIT shall surrender its certificate of registration to the Board and shall no longer undertake activity of a MSM REIT.

- 5.11.9. No unit holder of the MSM REIT scheme will enjoy superior voting or any other rights over another unit holder in the same scheme. The rights of each unitholder in the scheme shall be pro-rata and pari-passu. Multiple classes of units in a scheme shall not be permitted.
- 5.11.10. For an initial offer of a scheme, the size of the asset proposed to be acquired should be at least Rupees 25 crores and should be less than Rupees 500 crores.
- 5.11.11. Investments by Schemes of MSM REIT:
- 5.11.11.1. The schemes of MSM REIT shall not be allowed to invest in under-construction or non-revenue generating real estate.
 - 5.11.11.2. At least ninety-five percent of the value of the scheme's assets shall be invested in completed and revenue generating real estate properties at all times.
 - 5.11.11.3. The balance five percent of the value of the scheme's assets can be deployed in liquid assets which are unencumbered. Liquid Asset shall be a financial asset in the form of cash, fixed deposits, overnight or liquid mutual fund schemes, Government Securities, T-bills and Repo on Government Securities.
- 5.11.12. With respect to distributions to be made by the scheme of MSM REIT and/or SPV
- 5.11.12.1. not less than ninety-five percent of net distributable cash flows of the SPV shall be distributed to the scheme of MSM REIT subject to applicable provisions in the Companies Act, 2013; the amount retained at the SPV level may be utilized only in the manner specified by the Board from time to time.
 - 5.11.12.2. hundred percent of net distributable cash flows of the MSM REIT Scheme shall be distributed to the unit holders in such schemes.
- 5.11.13. The MSM REIT Scheme shall raise funds from at least two hundred investors that are unrelated to the Investment Manager, its related parties and its associates.
- 5.11.14. MSM REIT Scheme may raise funds from any investors, resident or foreign. In case of foreign investors, such investment shall be subject to guidelines as may be specified by Reserve Bank of India and the government from time to time.

- 5.11.15. The Investment Manager of the MSM REIT shall use the book building platform of stock exchange to accept bids from investors for units of MSM REIT scheme, where the amount shall be blocked through the Application Supported by Blocked Amount mechanism.
- 5.11.16. The Investment Manager of the MSM REIT shall provide the web link of stock exchange platform on the website of MSM REIT to make application for subscription of the units of MSM REIT scheme
- 5.11.17. The Investment Manager and the Trustee shall ensure that the assets of each scheme, the bank accounts, investment or demat accounts and the books of accounts of each scheme are segregated and ring-fenced; Further, the property documents evidencing the title to the real estate assets or properties along with the related papers shall be duly maintained in safe-deposit box/es at a scheduled commercial bank, and be annually inspected by the Trustee;
- 5.12. Leverage, Related Party Transactions and Other Provisions
- 5.12.1. MSM REIT or its schemes shall not be allowed to raise debt. The SPVs also shall not be allowed to raise debt.
- 5.12.2. MSM REIT and its Schemes shall not enter into any transaction with related parties including transactions for facility management and property management. However, payment of fees to the Investment Manager and trustee for carrying out the activities of MSM REIT shall be allowed.
- 5.12.3. The minimum subscription and the issue price of each unit of the scheme shall be Rupees ten lakh or such amount as may be specified by the Board from time to time.
- 5.12.4. No person, other than investment manager, its related parties and its associates, shall hold units of a MSM REIT Scheme which taken together with units held by him and by persons acting in concert with him in such MSM REIT Scheme, exceeds twenty-five per cent of the total outstanding units of such MSM REIT Scheme
- 5.13. Valuation of assets

- 5.13.1. Valuation of assets shall be carried out by a valuer as defined under Regulation 2(1)(zz) of SEBI (REIT) Regulations, 2014.
 - 5.13.2. The valuer shall not be an affiliate of the Investment Manager or trustee of the MSM REIT and the signatory to the valuation reports shall have not less than five years of experience in valuation of real estate, and such further qualifications, experience and track-record that the Board may specify from time to time.
 - 5.13.3. To ensure that the underlying assets of a MSM REITs are valued accurately, a full comprehensive valuation including a physical inspection of the properties shall be carried out on a half-yearly basis for each scheme, within two months from the end of such half year.
 - 5.13.4. However, in case of any material development that may have impact on the valuation of the assets of MSM REIT scheme, it is proposed that the Investment manager shall require the valuer to undertake full valuation of the property under consideration within two months from the date of such event.
 - 5.13.5. Valuation reports received by the Investment Manager shall be submitted to the recognized stock exchange and unit holders within one working day from the receipt of such valuation reports.
 - 5.13.6. The NAV of each scheme shall be required to be declared and disclosed on the stock exchange platform based on the latest valuation report as on September 30, March 31 and date of a material development.
 - 5.13.7. Similar to the requirement applicable to existing REITs, the Investment manager shall ensure that NAV of MSM REIT scheme is declared no later than fifteen days from the date of valuation, to the stock exchange(s).
 - 5.13.8. Further, for any purchase of a new property or sale of an existing property, a full valuation shall be required to be undertaken by the valuer.
- 5.14. In order to ensure safeguarding of interests of the investors, the following rights shall be specified for the investors in order to empower them.
- 5.14.1. The investors shall have the right to remove the Investment Manager, auditor, valuer and seek winding up of the scheme.

- 5.14.2. An annual meeting of all investors of each MSM REIT Scheme is mandatory to be convened by the Trustee/ investment manager wherein matters such as latest annual accounts, audit report, valuation reports, performance of the MSM REIT Scheme, approval of auditors & their fees, appointment of valuer/relevant intermediary, shall be discussed.
- 5.14.3. The unitholders of the scheme of MSM REIT may request any matter to be taken up in the unitholders' meeting of such scheme if ten percent of the unitholders of a particular scheme by value apply, in writing, to the trustee. On receipt of such application, the trustee shall require the Investment Manager to place the matter for voting in the manner as specified in these regulations.
- 5.14.4. An approval from unitholders of the concerned scheme shall be required, (where votes cast in favour of the resolution shall be more than the votes cast against the resolution) prior to any transaction, value of which is equal to or greater than ten percent of the value of the assets of the particular scheme of MSM REIT.
- 5.14.5. In case a property is proposed to be purchased / sold at a value which is greater than 105% / less than 95% of the value of property as assessed by the valuer respectively, approval from unitholders shall be required wherein votes cast in favour of the resolution shall be at least three times the number of votes cast, if any, against the resolution.
- 5.14.6. Further, approval of investors shall be mandatory in cases of change in Investment Manager, change in investment strategy.
- 5.14.7. 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 or is an associate of such person(s), shall not participate in voting on the specific issue.
- 5.15. To further safeguard the interest of the investors, it is proposed that the Board may specify the cap on total expense ratio for MSM REITs. This shall be based on observing the experience of MSM REITs and their schemes for a period of time. .

- 5.16. Keeping in mind that transparency has been a cornerstone of the REIT industry globally, the following disclosure requirements shall be prescribed for MSM REIT Schemes:
- 5.16.1. Minimum disclosure requirements in the scheme offer document.
 - 5.16.2. Minimum disclosures for the annual and half yearly reports to be sent to the investors.
 - 5.16.3. Periodical disclosure requirements required under the listing agreement with the exchanges.
 - 5.16.4. Property-wise lease rental income along with comparable lease rental income of other similar properties should be disclosed in the scheme offer document for each property proposed to be acquired by the MSM REIT. The above comparable disclosures shall be sourced from and/or certified by an independent registered valuer or any other intermediaries specified by the Board from time to time.

6. Proposal to the Board:

6.1. The Board is requested to

- 6.1.1. consider and approve the proposals as detailed under paragraphs no. 4 and 5 above and the consequent draft amendment notification placed at Annexure A:
- 6.1.2. authorize the Chairperson to take necessary steps to implement the proposals including notification of amendments, wherever necessary with consequential and appropriate changes, as may be required.

Draft Notification

Amendment shall be notified after following the due process