Institutionalizing Real Estate Investments: The Emerging REIT Regime in India

Abhirup Ghosh* & Amit Kumar**

ABSTRACT

REITs concept has claimed its presence in the developed countries for quite a long time; however, its import into India is comparatively a recent phenomenon. In general, REITs are comparable with mutual funds. In other words, REITs can be said to be the mutual funds of real estate investors. India has a very sound real estate market with enormous potential growth opportunity. The real estate sector plays a significant role in the country’s economy.

Authors seek to draw the attention of the readers in to this growing investment sector, though which is in its nascent stage in India. Indian regulators and the investors are watching it very closely and carefully to draw out maximum benefit out of this scheme and make it investment friendly.

This article seeks to introduce to the reader REITs structure and its present legal framework in India, Prospective regulatory regime for REITs in India, Foreign Investment & REITs and A brief overview of REIT in South Korea.

KEYWORDS: Real Estate Investment Trusts, Indian Regulatory Regime, Foreign Investment, Real Estate Investment Management Company (REMIC), and SEBI Venture Capital Fund Regulations (VCF)

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*5th Year B.A.LL.B (Hons.), Gujarat National Law University, Gujarat, India.
**5th Year B.A.LL.B (Hons.), Gujarat National Law University, Gujarat, India.
I. INTRODUCTION

India has a very sound real estate market with enormous potential growth opportunity. The real estate sector plays a significant role in the country’s economy. Along with counting heavily towards country’s gross domestic product (GDP), the sector is also regarded as a major protagonist in employment generation in the country. Further, with the central government’s commitment towards rapid development and allowing 100% Foreign Direct Investment (FDI) in almost all the sectors has turned India to become one of the world’s leading investment hub has also had prominent impact on the real estate sector of the nation and the same has necessitated few more major policy changes in the sector to make the related operations smoother. Despite investment attractiveness, however, the sector has been traditionally confined by a number of constraints including absence of transparency, lack of institutionalization and dearth of liquidity. Though the state governments are continuously endeavoring to take care of the transparency aspect, however, the rest is best expected to be capable of being taken care of by active operation of Real Estate Investment Trusts (REITs). The current regulatory framework in the nation’s real estate sector triggers high transaction costs, difficulty in ensuring clear land titles, considerable delay in granting of clearances and approvals etc. Further, lack of credible real estate market database, shortage of adequate standardized property valuation norms have also advocated strongly in favor of REITs. Through the present article the authors are trying to vindicate REITs as a concept in India in correlation with the regulatory aspects including administration, taxation and foreign investments.