

REITs and InvITs: Opportunities at GIFT IFSC India's Massive Infrastructure and Real Estate Needs – An Enormous Opportunity

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INTRODUCTION

With a GDP of USD 3.75 Trillion, placing it at the 5th rank in terms of the world's largest economy, today India stands as an emerging economic powerhouse. The nation's trajectory towards a USD 5 trillion economy is underpinned by robust structural reforms and a strategic vision to become a developed nation by 2047. Central to this sustained growth are the infrastructure and real estate sectors, which are vital for the economic and social development.

Over the past few years, India has witnessed a historic transformation with large-scale infrastructure

projects undertaken at an accelerated pace. From ambitious highway construction plans, smart cities mission, modernization of railways, airports and urban infrastructure, investing in logistics, clean energy and net-zero initiatives, the country has achieved significant milestones in infrastructure development. Under Interim Budget 2024-25, capital investment outlay for infrastructure has been increased by 11.1% to Rs. 11.11 lakh crore (USD 133.86 billion). While this trend is likely to continue further, there is a huge scope and opportunity for private capital. As per some estimates, more than half of India's urban infrastructure needs till 2030, including housing, electricity, transportation, water, and waste management, are yet to be developed. India needs to invest approx. USD 4.5 trillion in infrastructure to enhance economic growth and societal well-being¹.

The real estate sector in India is expected to reach USD 1 trillion in market size by 2030, up from approx. USD 200 billion in 2021 and contribute 13% to the country's GDP by 2025². Along with private demand and investments, the government's target of "Housing for All" has also fueled demand for real estate, making it a lucrative investment opportunity.

Due to the long gestation period and illiquid nature of assets, infrastructure and real estate are the perfect use cases for patient capital. This creates a huge opportunity for large foreign institutions, such as Sovereign Wealth Funds, Pension Funds, Endowment Funds, Multilateral Institutions, etc., which are typical providers of patient capital, to participate in the India's growth journey. While the Government has already permitted foreign investments in infrastructure and a wide variety of real estate developments under the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019, there is a need to provide alternative routes / channels to such investors to facilitate their investments into India, depending on their preference, risk appetite, etc. Therefore, attracting patient domestic and global capital into investment vehicles like Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) is imperative for the developmental ambitions of the country.

¹ India Brand Equity Foundation (<https://www.ibef.org/blogs/sustainable-infrastructure-india-s-path-to-a-resilient-future>)

² India Brand Equity Foundation (<https://www.ibef.org/industry/real-estate-india.aspx>)

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REITs AND INVITs: BRIDGING THE FUNDING GAP

The concept of REITs originated in the United States in 1960. Since then, numerous jurisdictions, including Singapore, Japan and Hong Kong in Asia, have established successful regulatory frameworks for these investment vehicles. In India, the capital market regulator, SEBI, has created regulatory frameworks for REITs and InvITs in 2014. As per a recent report³, REITs and InvITs in India have raised INR 17,116 crore in FY 2023 -2024, which is demonstrative of the rising demand for such investment opportunities.

REITs and InvITs offer innovative solutions for developers and asset owners seeking to monetize their income-generating real estate or infrastructure assets. By flipping these assets under a trust structure, they can unlock capital deployed in such assets while retaining a stake in the ownership. Units representing ownership in these trusts may then be traded on stock exchanges, allowing for wider participation and enabling investors to participate in this sector and earn a share of the income without directly purchasing the assets themselves. While REITs focus on income-generating properties like office buildings, shopping malls, etc., InvITs typically invest in infrastructure assets such as roads, renewables, tower infrastructure, etc.

REITs and InvITs provide investors with a *sachetized* way to invest in established, rent-generating assets and receive a portion of the income through regular distributions. This combines the potential for capital appreciation associated with real estate and infrastructure with the liquidity of publicly traded stocks. In a way, REITs and InvITs share the features of both equity and debt, classifying them as **hybrid instruments**. Over time, REITs have demonstrably transformed the real estate market, benefiting both investors and developers.

³. *Business Standard* (https://www.business-standard.com/industry/news/fundraise-by-invits-reits-surges-multi-fold-to-rs-17-116-cr-in-fy24-124040700133_1.html)

SEBI regulations facilitated the launch of first InvIT in 2017, followed by the first REIT in India in 2019. These paved the way for more real estate and infrastructure development companies with sizeable portfolios of income-generating properties to establish their own REITs and InvITs, significantly boosting investor confidence in these sectors.

Further, several reforms brought by the Government in these sectors, such as notification of Real Estate (Regulation and Development) Act, 2016, which led to institution of Real Estate Regulatory Authority; launch of National Monetisation Pipeline under Union Budget 2021-22, which provides a clear roadmap for monetization of infrastructure assets to tap private sector investment, and many more, have further aided in inspiring trust in these sectors, making it more lucrative for private investments.

GIFT IFSC: GATEWAY FOR FOREIGN INVESTMENTS IN INFRASTRUCTURE & REAL ESTATE SECTORS

GIFT City is India's first operational Greenfield smart city which also houses India's maiden International Financial Services Centre (IFSC). Regulated by a unified regulator, International Financial Services Centres Authority (IFSCA), GIFT IFSC aims to bring to Indian shores all those India-centric financial products and services which have over the years migrated to offshore financial centres. Due to its globally benchmarked regulatory regime, competitive taxation treatment, best-in-class infrastructure and policies that foster ease of doing business, GIFT-IFSC is rapidly emerging as an attractive destination for international financial service providers.

Notified in April 2022 pursuant to an extensive consultation exercise, the IFSCA (Fund Management) Regulations, 2022 provide a unified regulatory regime for all types of fund management activities, including management of REITs and InvITs (investment trusts). Depending on the nature of fund management activities that a Fund Management Entity (FME) intends to pursue in GIFT-IFSC, it may obtain a registration in any one of the 3 categories – Authorised, Registered (Non-Retail) and Registered (Retail), which entail regulatory requirements, such as net worth, infrastructure and manpower, commensurate to the nature and scale of business operations.

Within a short span of approx. 2 years since the notification of the regulations, the fund management industry in GIFT-IFSC has grown at a healthy pace. As on May 31, 2024, there are 124 FMEs registered with IFSCA, which have collectively launched more than 130 investment schemes, targeting to raise corpus of approx. USD 37 Billion.

While the fund management activities in IFSC so far have been largely centered around Venture Capital Schemes and Restricted Schemes (similar to Alternative



Investment Funds under SEBI's regulatory regime), there is an immense potential for GIFT-IFSC to act as the landing point for India-bound investments into Infrastructure and Real Estate sectors through REITs and InvITs (investment trusts). Further, due to its innate advantages of availability of skilled manpower, low cost of operations and competitive tax framework, GIFT IFSC also has the potential to become the preferred destination for launching international REITs and InvITs, which may cater to the investment needs of global investors.

ADVANTAGES FOR REITs & INVITs IN GIFT-IFSC

Launching REITs and InvITs (investment trusts) in GIFT-IFSC offers several advantages to the investors and developers:

- **Reduced Currency Risk:** Irrespective of the currency of the jurisdiction where the assets reside, units of investment trusts in IFSC will be denominated in one of the freely convertible foreign currencies specified by IFSCA. This significantly reduces the currency risk of the investors, brings about efficiency of operations, thereby, leads to enhancement of return.
- **Tax Advantages:** Units of investment trusts traded on IFSC stock exchanges are exempt from capital gains tax. This reduces the effective rate of taxation for the investors and leads to achievement of better returns.
- **Simplified Onboarding Process:** As an international financial centre, the investor onboarding process in IFSCA regulated entities is simplified to a great extent, with efforts being made to bring further improvement.
- **Access to Global Capital & Global Assets:** The IFSC platform unlocks the opportunity to tap a vast pool of

global capital and allows management of global assets. These features along with the globally benchmarked regulatory regime brings a compelling opportunity for the asset managers to plan their global REITs in GIFT-IFSC.

- **Private Placement:** The regulations allow FMEs to raise funds either by public issuance of their units or by private placement, providing them with wider options to raise capital and cater to the demands of investors of different profiles.
- **Diversified Capital Raising:** Multiple avenues exist for raising capital:
 - ♦ **Primary listing:** Access to a broader international investor base, globally benchmarked regulations, flexibility and scalability of operations.
 - ♦ **Secondary Listing:** Existing REITs and InvITs from other jurisdictions can gain access to a much larger global capital pool, including offshore non-residents.

GIFT IFSC presents a compelling opportunity for the growth and development of REITs and InvITs in India. The IFSCA's well-defined regulatory framework and competitive tax framework offered by the Government make these investment vehicles significantly more appealing to global investors. As India's infrastructure and real estate sectors flourish, GIFT IFSC is poised to emerge as a preferred global hub for listing domestic as well as international assets. This will aid in attracting a wider pool of global capital to India and empower Indian developers to access global markets, ultimately accelerating India's economic growth and realization of the vision of *Viksit Bharat @ 2047*.

