money basics

REIT: Here's all you need to know

WHAT IS IT?

Real estate investment trusts (REITs) are collective investment vehicles that operate and manage property portfolios and give returns to investors. Securities and Exchange Board of India (Sebi) mandated that all REITs be listed on exchanges and make an initial public offer to raise money.

There are three types of REIT available: equity REITs which purchase, own and manage income-generating properties; mortgage REITs which lend money directly or indirectly to real estate owners; and hybrid REITs which are a combination of the first two, according to a report by CareRatings.

HOW DOES IT WORK?

The structure of a REIT is similar to the structure of a mutual fund, but the money is invested in commercial real estate rather than equities and fixed income securities, said Vishal Dhawan, founder, Mumbai-based Plan Ahead Wealth Advisors. There is a sponsor or investor who invests the money, a trustee that manages the trust and acts on behalf of the unit holders, a fund manager who makes the investment decisions. The investor makes money on a yearly basis. REITs are mandated to give investors a certain portion of the money back on a yearly basis. Investors also earn from capital appreciation.

WHO SHOULD INVEST

Commercial real estate yields are better than residential real estate yields, Dhawan said. Since it is managed by an expert, the investor can tap the benefits of diversification. "REITs help the investors get exposure in properties from all geographies and of all sizes, which may not be possible while investing in real estate directly," he said.

Those seeking regular income can look at REITs but the holding period should be around 10-20 years for all investments, he said. First time investors can look at REIT only if they can invest in other instruments and above the ₹2-lakh requirement, he added.