



Reits are a good option for long-term investors

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The Brookfield real estate investment trust (Reit) IPO is open for subscription for investors. After the successful listing of two Reits—Embassy Office Parks and Mindspace Business Parks—this is the third Reit to be listed on Indian bourses.

What are Reits?

Reits are products like mutual funds through which investors can own income-generating properties such as commercial buildings and office spaces which they otherwise can't afford to invest in. Sebi regulations require Reits to invest 80% of their assets in developed and income-generating assets. Currently, Reits are allowed to invest only in commercial real estate and office spaces. They need to distribute 90% of the rental income as dividends. Reits also receive interest income from special purpose vehicles (SPVs) through which they hold properties. They lend money to SPVs and distribute the interest income among unitholders. Investors also gain from the appreciation in the price of the underlying real estate of the Reit. The minimum investment required is low compared to owning a physical commercial asset. In Reits, one can invest a minimum of ₹50,000 or a lot of 100 units, whichever is of higher value. In the case of Brookfield IPO, an investor is required to invest in at least 200 units.

How to evaluate?

Just like any other instrument, you should look at the quality of the underlying asset of the Reit. "An investor should evaluate a Reit on factors such as how well the micro market in which the assets are held has performed, how has been the rental growth across various market cycles, who is the manager of the assets and who are the tenants and what kind of lock-in they have," said Raja Seetharaman, co-founder, Propstack, a commercial real estate research firm.

Brookfield Reit is managed and sponsored by Brookfield Asset Management. It is one of the world's largest alternative asset managers with approximately \$575 billion in assets under management, as of 30 September 2020. Brookfield has a decade-long track record in India.

Another factor that you should look at is the geographical spread. "In case the underlying assets are geographically more diversified, then the risk gets reduced as the impact on a particular geography will have lesser impact on the earnings of the overall

Reits," said Vishal Dhawan, founder of Plan Ahead Financial Advisors, a Sebi registered investment adviser.

"Brookfield is a very large private equity investor, and this certainly helps to boost the overall credibility of its Reit offerings. In another major advantage, while Embassy Reit largely focused on the southern market and K Raheja towards the western market, Brookfield Reit has assets in the north and the east. This has widened the geographical spread of the overall portfolio," said Anuj Puri, chairman, Anarock Property Consultants.

Apart from this, one should also look at the quality of tenants. As per a report from Angel Broking, 75% of gross rentals in the Brookfield Reit come from MNCs such as Accenture, Barclays, RBS, TCS and Cognizant. Another aspect to look at is the rental growth prospects. The returns can increase with any rise in rents, leasing of vacant space, addition of new properties through new development, leasing of under-construction projects.

Taxation

The dividend received was earlier tax-free in the hands of investors, but budget 2020 made it taxable at slab rates. The government later amended the announcement, but with a caveat. Now, if a Reit opts for a lower corporate tax rate of 22% instead of 30%, the dividend will be taxable in the hands of investors. However, most Reits including Brookfield have opted for a higher rate of corporate tax, therefore, the dividends will be tax-free in the hands of the investors. As Reits are listed, in case an investor sells it before 3 years, the gains will be considered as short-term and will be taxed at 15%, while long-term gains (after 3 years) above ₹1 lakh will be taxed at the rate of 10%.

Should you invest?

Reits are a good product for someone looking for exposure in commercial real estate and willing to remain invested for long.

"Reit is a good way to take exposure to real estate when an investor does not have any real estate in their portfolio and want dividend income," said Renu Maheshwari, Sebi-registered investment adviser, CEO and principal adviser at Finzscharz Wealth Managers LLP.

So, if you are planning to invest in a Reit, evaluate properly and stay put for the long term.