

# Master Circular for Real Estate Investment Trusts (REITs)

May 15, 2024

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# Background

For effective regulation of Real Estate Investment Trusts, Securities and Exchange Board of India (SEBI) has been issuing various circulars from time to time. To enable the stakeholders to have access to all the applicable circulars at one place, the provisions of the circulars issued till **May 15, 2024**, are incorporated in this **Master Circular for Real Estate Investment Trusts**.

This Master Circular shall come into force from the date of its issuance. The circulars mentioned in the Appendix to this Master Circular shall stand superseded with the issuance of this Master Circular. With respect to the directions or other guidance issued by SEBI, as specifically applicable to Real Estate Investment Trusts, the same shall continue to remain in force in addition to the provisions of any other law for the time being in force. Terms not defined in this Master Circular shall have the same meaning as provided under the relevant Regulations.

## Key chapters highlights of the master Circular.

### Chapter 1. Online Filing System for REITs

- SEBI has introduced an **online system for Real Estate Investment Trusts (REITs)** to simplify the process of registration, reporting, and compliance as per the SEBI (Real Estate Investment Trusts) Regulations, 2014. Now, anyone looking to register as a REIT must apply online through the SEBI Intermediary Portal at <https://siportal.sebi.gov.in>
- Existing SEBI-registered REITs must also use this portal for any filings or requests. You can find the portal link on the **SEBI website (www.sebi.gov.in)**. For any questions or help, users can refer to the manual on the portal or contact the **Portal Helpline mentioned in the manual**.

## Chapter 2. Guidelines for public issue of units of REITs

- A draft offer document must be filed with the SEBI, containing all material disclosures necessary for informed investor decisions.
- REITs must ensure that at least 25% of the total units are held by public investors at all times, with a minimum offer size of ₹250 crore.
- The public issue of units must be conducted through the book-building process, with at least 75% of the net offer allotted to qualified institutional buyers (QIBs) and the remaining 25% to non-institutional and retail investors.
- The price band for bidding must be disclosed at least two working days before the issue opens, with the final price determined by bids received during the book-building process.
- REITs must ensure at least 90% subscription within 30 days of the issue opening, or the issue may be withdrawn or extended with SEBI approval.
- Units must be listed on a recognized stock exchange within 12 working days from the issue closing date and be freely tradable post-listing, subject to SEBI lock-in requirements.
- A minimum subscription of 90% of the issue size is mandatory, and if not achieved, the subscription amount must be refunded.
- Post-issue, REITs must adhere to continuous disclosures and compliances as per SEBI regulations, submitting periodic reports and financial statements to stock exchanges and SEBI.

## Chapter 3. Disclosure of financial information in offer document for REITs

- The offer document must include audited financial statements of the REIT. Additionally, it should contain comparative financial statements covering the last three financial years to provide a clear financial history
- The document should include financial projections, clearly disclosing the assumptions and rationale behind these projections to ensure transparency and help investors make informed decisions.
- Valuation reports of the REIT's assets must be included and should be updated regularly to reflect current values accurately.
- Any material developments that occur after the last financial year must be disclosed to keep potential investors informed about recent changes affecting the REIT.
- A detailed discussion on the REIT's financial condition, changes in financial condition, and results of operations should be included. This section provides insights into the REIT's performance and future outlook

## Chapter 4: Continuous Disclosures and Compliances by REITs

- REITs are required to submit quarterly and annual reports to the stock exchanges. These reports should include comprehensive details on the REIT's financial and operational performance, ensuring ongoing transparency.
- Significant events affecting the REIT, such as acquisitions, disposals, major litigation, and other critical occurrences, must be disclosed immediately to keep investors and the market informed.
- A mechanism must be in place to address investor grievances promptly. Regular updates on the status of investor complaints should be provided to maintain investor confidence.
- REITs must adhere to prescribed corporate governance norms, including holding regular board and committee meetings and updating policies as needed to ensure good governance practices.
- Annual audit reports and secretarial compliance reports must be prepared and submitted to demonstrate compliance with all applicable regulations and guidelines, ensuring accountability and transparency in operations.

## Chapter 5. Participation by Strategic Investor(s) in REITs

- Strategic investors are required to invest a **minimum of 5% and a maximum of 25% of the total offer size**. This ensures that strategic investors have a significant but not overwhelming influence on the REIT.
- A binding unit subscription agreement must be established between the REIT manager and the strategic investor. This agreement ensures commitment from the investor and includes the requirement that the subscription price per unit be deposited into a special escrow account prior to **the opening of the public issue**.
- The unit subscription agreement stipulates that the price agreed upon cannot be lower than the public issue price. **If the public issue price turns out to be higher, the strategic investor is obligated to pay the difference within two working days. Conversely, if the public issue price is lower, the strategic investor receives the units at the agreed price with no refund for the difference.**
- The draft and offer documents must fully disclose the details of the unit subscription agreement. This includes information such as the names of the strategic investors, the number of units subscribed, and the subscription price, ensuring transparency for all stakeholders.
- Units that are subscribed by strategic investors are subject to a lock-in period of **180 days from the listing date**. This provision helps to stabilize the **unit price by preventing immediate resale of a large number of units**.

## Chapter 6. Guidelines for Issuance of Debt Securities by REITs

- REITs planning to issue debt securities must adhere to the **SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021**. These regulations provide a structured framework to ensure the orderly issuance and listing of debt securities.
- Certain regulations, specifically **Regulation 25(4) and Regulation 16 of the NCS Regulations**, do not apply to REITs issuing debt securities. This provides REITs with some flexibility in the issuance process.
- In addition to the **SEBI regulations**, **REITs must comply with the applicable provisions of the Companies Act, 2013**. This ensures that the issuance of debt securities is in line with broader corporate governance and regulatory standards.

## Chapter 7: Issue and Listing of Commercial Paper

- REITs must meet the eligibility criteria set forth under the applicable SEBI regulations to issue commercial paper. This ensures that only qualified REITs can participate in this form of **short-term financing**.
- REITs must adhere to the specified guidelines for the issuance process. This includes proper documentation and filing requirements to ensure that the **issuance of commercial paper is transparent and well-regulated**.
- Comprehensive disclosures must be made in the offer documents regarding the issuance of commercial paper. This includes detailed information about the terms of the issuance, ensuring that potential investors have **all necessary information to make informed decisions**.
- REITs must follow the specified procedures for listing commercial paper on stock exchanges. This ensures that the commercial paper is easily accessible to **investors and that the trading process is transparent and efficient**.

## Chapter 10. Guidelines for Preferential Issue and Institutional Placement of Units by Listed REITs

- "Institutional Placement" refers to a preferential issue of units by a listed REIT exclusively to Institutional Investors as defined under the REIT Regulations or related circulars. This ensures that the units are offered to qualified and regulated entities.
- Issuance of units requires a resolution passed by existing unitholders in accordance with Regulation 22(6) of the REIT Regulations. Furthermore, the units proposed for allotment must have been listed on a stock exchange for at least six months prior to issuing notice to unitholders for the resolution. In-principal approval from the stock exchange(s) for listing the proposed units must be obtained. Compliance with continuous listing and disclosure obligations under REIT Regulations and related circulars is mandatory. Additionally, none of the promoters, partners, or directors of the sponsor(s), manager, or trustee of the REIT should be declared fugitive economic offenders. Lastly, no subsequent institutional placement should occur until two weeks have passed from the previous institutional placement based on one or more resolutions.
- Specific procedures outlined in the guidelines must be followed for the issuance of units. This ensures a standardized and transparent process.

## Chapter 11: Guidelines for Rights Issue of Units by a Listed REIT

- The REIT must comply with the eligibility criteria set by SEBI for rights issues. Approval from unitholders and the stock exchange(s) is required before proceeding with the rights issue
- Comprehensive disclosures must be made in the offer documents regarding the rights issue. This includes necessary documentation and adherence to filing requirements to ensure transparency and regulatory compliance.
- The issue price should be determined based on prevailing market conditions and regulatory requirements. The allotment of units must be conducted in a fair and transparent manner, ensuring equal opportunity for all eligible unitholders

## Chapter 12. Encumbrance on Units of REITs

- Any encumbrance on units of REITs must be promptly reported to the stock exchange(s). Detailed disclosures regarding the nature and extent of the encumbrance must be provided to maintain transparency and inform stakeholders.
- The REIT must ensure compliance with SEBI regulations concerning encumbrances. This includes filing periodic updates and confirmations regarding the status of encumbrances with the regulatory authorities to ensure ongoing compliance and transparency.

## Chapter 13: Manner and Mechanism of Providing Exit Option to Dissenting Unit Holders

- The exit option must be provided to dissenting unitholders in specified circumstances, such as significant changes in the REIT's structure or strategy. This ensures that unitholders have an option to exit if they disagree with major changes.
- A clear and transparent procedure for exercising the exit option is outlined. Dissenting unitholders should be informed about the process and timelines for exiting to facilitate an orderly and informed exit process.
- The exit price should be fair and reflective of the market value of the units. Mechanisms for determining the exit price must be disclosed to unitholders to ensure transparency and fairness.
- The REIT must ensure that the exit process complies with SEBI regulations. Regular reporting and documentation of the exit process should be maintained for regulatory review to ensure adherence to legal and regulatory standards.



## Chapter 16: Format of Compliance Report on Governance for REITs

- The REIT Manager must submit a quarterly compliance report on governance to recognized stock exchanges **within 21 days after each quarter**.
- This report must be signed by either the compliance officer or the CEO of the Manager
- There are three parts to the Compliance Report on Governance
  - i. **Part A:** To be submitted **within 21 days after each quarter**
  - ii. **Part B:** To be submitted **within 21 days after the end of the financial year (annually)**
  - iii. **Part C:** To be submitted **within three months after the end of the financial year (annually)**.
- The compliance report on governance must also be included in the **REIT's annual report**.
- Stock exchanges are responsible for **monitoring compliance** and taking **appropriate action** as directed by the SEBI

## Chapter 17: Manner of Achieving Minimum Public Unitholding for REITs

- The chapter aims to ensure that REITs **maintain a minimum level of public unitholding** as per SEBI guidelines. This requirement promotes wider ownership and liquidity in the market.
- To achieve the minimum public unitholding, **REITs can use various methods** such as **issuing new units, offering units for sale, or other methods that are approved by SEBI**. These options provide flexibility in meeting the public unitholding requirements.
- REITs are given a period of three years from the date of listing to comply with the **minimum public unitholding requirement**. This grace period allows REITs adequate time to adjust their ownership structures.
- Failure to comply with the minimum public unitholding requirement may result in penalties or restrictions on the REIT's ability to raise further capital. These consequences **emphasize the importance of adhering to the guidelines**.

## Chapter 18: Board Nomination Rights to Unitholders of REITs

- **Unitholders** who hold a significant percentage of the REIT's units, typically specified by regulations, are eligible to nominate members to the REIT's board. This provision empowers large unitholders to have a **direct influence on the REIT's governance**.
- The nomination process involves detailed steps, including eligibility criteria and the necessary documentation required for the nomination. This ensures a structured and fair approach to **board nominations**.
- Nominees must meet the fit and proper criteria as specified by SEBI. This includes evaluating the nominee's qualifications, experience, and integrity to ensure they are suitable for the role.
- **REIT managers** are responsible for reviewing and reporting on the status of eligible unitholders' holdings on a monthly basis. This ongoing monitoring ensures that eligibility criteria are continuously met, and adjustments are made as necessary.

## Chapter 19: Procedural Framework for Dealing with Unclaimed Amounts Lying with REITs and Manner of Claiming Such Amounts by Unitholders

- Regulation 18(16)(b) mandates that at least **90% of the Net Distributable Cash Flows (NDCFs)** must be distributed to unitholders. This ensures that the majority of the earnings are passed on to investors
- Any unclaimed amounts must be transferred to the **Investor Protection and Education Fund (IPEF)** in accordance with SEBI regulations. This transfer helps safeguard the funds and ensures they are available for claim by rightful owners.
- The chapter outlines the detailed process by which unitholders can claim their unclaimed amounts from the IPEF. This process includes necessary documentation and steps to verify the claimant's identity and entitlement, ensuring that the rightful owners can reclaim their funds efficiently.

# APPENDIX: LIST OF SUPERSEDED CIRCULARS.

Date	Circular No.	Subject
06/07/2023	SEBI/HO/DDHS-PoD-2/P/CIR/2023/116	Master Circular for Real Estate Investment Trusts (REITs)
11/09/2023	SEBI/HO/DDHS-PoD-2/P/CIR/2023/154	Board nomination rights to unitholders of Real Estate Investment Trusts (REITs)
08/11/2023	SEBI/HO/DDHS/DDHS-RAC-1/P/CIR/2023/177	Procedural framework for dealing with unclaimed amounts lying with Real Estate Investment Trusts (REITs) and manner of claiming such amounts by unitholders.
06/12/2023	SEBI/HO/DDHS/DDHS-PoD/P/CIR/2023/185	Revised framework for computation of Net Distributable Cash Flow (NDCF) by Real Estate Investment Trusts (REITs)

## Note (Other Chapters of the Master Circular)

- **Chapter 8** focuses on the dematerialization of securities holdings by REITs in Holding Companies (Hold Cos) and Special Purpose Vehicles (SPVs), ensuring a streamlined and electronic approach to managing securities.
- **Chapter 9** details the procedures and protocols for conducting meetings of unit holders, aiming to maintain transparency and effective communication within the REIT framework.
- **Chapter 14** introduces the Investor Charter and the requirements for Merchant Bankers to disclose investor complaints related to public offers by REITs, promoting investor protection and accountability.
- **Chapter 15** provides the format for the Annual Secretarial Compliance Report for REITs, ensuring that REITs adhere to regulatory compliance and governance standards on a yearly basis.



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