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Commercial realty to attract more foreign funds

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Tradable REITs makes exit from projects easy for foreign realty investors.

With the implementation of the Real Estate Investment Trust (REIT) Fund, reinforced by the Real Estate Regulatory Agency, foreign investment funds are shifting their investments to annuity income bearing assets like malls, warehouses, office parks, etc as against the earlier residential projects.

Over the years, residential projects have attracted maximum inflow of foreign investment. In 2015-16, more than 70 per cent of the investment from FIIs was in the residential real estate sector.

In the last fiscal, foreign PE funds invested \$2.77 billion in the real estate sector, which was predominantly in the form of equity investment in large projects. Local institutions and NBFCs have funded projects, but more in the form of structured debt rather than equity.

"However," said Deep Kantawala, group CFO and head investment advisory, ICS Group, "we see the trend changing with the advent of REITs, wherein there is a gradual change in the investment landscape from pure debt to equity."

An REIT is a company that invests in income-producing commercial property or mortgages and often trades on major exchanges like a stock. REITs provide investors with an extremely liquid stake in real estate.

One of the key issues, which was faced by the real estate sector and hindering the development of annuity bearing assets earlier, has been limited avenues for exits, he said.

But with the advent of REIT, Mr Kantawala said there will be unlocking of value for the developers of such asset class and in fact with a surge in demand, there will be more quality yield bearing assets which will get developed.

"This bodes well for the creation of large physical assets, which are required for the growth of the nation," he said.

Mr Kantawala said that there is in excess of 300 million sq.ft. of commercial space, which are REIT-compliant. These assets, which are primarily located in the top eight cities, would be worth more than \$40 billion.

Asked if REIT required any changes, he said the law should bring within its preview the bureaucracy and they need to be made equally accountable to ensure that permissions and approvals are provided within prescribed time-frames.

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