A. Sensemaking

At a glance:Background

Traditionally, real estate has been characterised as being illiquid and having high initial costs. And from the symphony of these qualities, the beast named 'Housing Affordability Crisis' was borne.

The problem seems especially pronounced in urban India, and especially among the lower-income groups, as the salaries failed to keep up with the increase in housing prices and due to the rapid migration to urban areas. Further, in the rural parts of the country, reduced land entitlements and accelerated housing for the privileged have contributed to the exacerbated demand for housing.

In the past, Real Estate as a sector has often had the reputation of being 'orthodox' or 'resistant to change' in terms of embracing new advancements. However, the intersection of financial technology and real estate has brought about fundamental changes in the way that alternative investments in real estate could now be made.

From conversion of tangible real estate assets into digital tokens to being able to have fractional ownership of assets by investing through crowdfunding platforms and REITs, real estate fintech has made some big leaps. Additionally, with the advent of concepts such as rental housing and co living, which require drastically reduced capital investments, the prevailing situation could potentially change.

Affordability Crisis- Basics and Definitions:

In the simplest of terms, affordability generally refers to the amount of capital available relative to the price of the goods to be obtained.
Extending the same logic, housing affordability could be broadly defined as "the cost of housing services and shelter - both for renters and owner occupiers - relative to a given individual's or household's disposable income"[1].

In relation to India, there is a significant housing affordability crisis, with large portions of the population unable to access decent and affordable housing. The crisis is particularly pronounced in urban India, and especially among the lower-income groups, due to the rapid migration to urban areas. Further, in the rural parts of the country, reduced land entitlements and accelerated housing for the privileged have contributed to the exacerbated demand for housing.
However, before we begin, it is first important to establish a proper definition of term- 'Affordable Housing':

- As per the government benchmark established in 2008, housing is considered affordable if monthly payments do not exceed 30% of a household's gross income.[2]

- Further, as per the GST norms, in metropolitan cities like Delhi NCR, Mumbai, Kolkata, Bengaluru, Chennai Hyderabad, etc. if the price of the housing unit is ₹45 lakh or below and the carpet area of the unit is 60 sq meter or below, then the housing unit will qualify as an affordable house. Further, in non-metro cities, price of an affordable housing will be ₹45 lakh or below but the carpet area can be 90 sq meter or below.[3]

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[1] https://www.researchgate.net/publication/256033580_Housing_Affordability

[2] https://www.livemint.com/industry/redefining-strategies-for-indias-affordable-housing-challenges-11706944997430.html

[3] https://www.livemint.com/money/personal-finance/what-is-affordable-housing-as-per-gst-explained-11619668821063.html

According to India's Ministry of Housing and Urban Affairs, there was a housing gap of about 19 million units throughout Indian cities in 2012. The study, done considering the 2011 census, added that housing for low-income groups accounted for more than 95 percent of the deficit. Further, India's 2021 census was suspended due to the coronavirus pandemic and is yet to be announced.

However, another study by the Indian Council for Research on International Economic Relations (ICRIER) in 2020 found that India's urban housing shortage rose 54 percent to 29 million in 2018 from 18.78 million in 2012. It included households that were homeless, households that lived in inadequate houses that could not be upgraded, houses that were obsolete and those that lived in congested conditions.

Additionally, the share of affordable housing in overall sales during H1 2023 has seen a steep decline, dropping to approximately 20%. This represents an alarming 11% decrease compared to the same period in 2022. Even in the top 7 cities of India, the share of affordable housing in the overall housing supply has plummeted to just 18% during H1 2023, down from 23% in H1 2022.[4]

Criticisms of the Benchmarks:

Despite the existence of these defined benchmarks, the standard struggles to fully capture the reality of affordability in the current housing landscape.

Firstly, the expenditure method used for calculating this benchmark overlooks critical factors such as housing price fluctuations and the limited disposable income among lower-income brackets, often offering a skewed view of India's housing situation.

With an estimated shortfall of 18.78 million households needing housing, according to the technical group on urban housing shortage, and independent studies indicating a demand for 29 to 50 million homes, the significant discrepancy points to the underestimation of India's housing crisis.

Additionally, we must realise that housing demand is not a static number but a constantly evolving challenge. The acknowledged demand for 11.2 million houses barely scratches the surface. In cities like Mumbai, the existing definitions of affordability—such as the central government and GST's cap of ₹45 lakh and an area under 60 sqm—are out of reach for many, with even government-provided MHADA houses starting at ₹60 lakh.[5]

The current method's shortcomings suggest that policies based on this criterion may not effectively address the housing demand-supply gap.

Regulatory Framework

In recent months, there has been significant regulatory activity in India aimed at formalizing informal investment practices, particularly in the office market. India's office market, encompassing over 800 million square feet, has seen substantial growth with the introduction of REIT regulations, boosting the market cap of listed REITs to around $15 billion. Despite institutional investors managing a significant portion of this market, a large segment remains untapped, presenting a $50-$60 billion opportunity, especially for domestic managers.

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4 https://www.thehindu.com/real-estate/the-growing-challenges-of-affordable-housing-in-india/article67895595.ece#:~:text=This%20represents%20an%20alarming%2011,from%2023%25%20in%20H1%202022.

5 https://www.livemint.com/industry/redefining-strategies-for-indias-affordable-housing-challenges-11706944997430.html

The new regulations aim to formalize this segment, attracting retail investors and improving asset management quality. While large funds focus on big transactions, these changes open up opportunities for smaller, localized managers to organize and channel retail capital into smaller, high-yield investments. Challenges include educating investors, ensuring liquidity, and managing asset quality. However, with effective execution and regulatory support, this sector is poised for substantial growth, benefiting both investors and the broader market.

Assessing the contours of the SM REIT Regulations including the legal-regulatory challenges

Key regulatory considerations of SM REIT

1. Structure: SMREIT shall be established in form of a trust (duly registered) which may launch multiple schemes. Each scheme will invest in special purpose vehicle/s (SPVs) which will be wholly owned/controlled by that scheme
2. Investment Manager:
   - Need to be set up in the form of a company
   - Networth requirement: Atleast INR 20 crore out of which not less than rupees INR 10 Crores should be in the form of positive liquid net worth (cash, FD, etc)
   - Experience Criteria: At least 2 years' experience in the real estate industry or real estate fund management OR employ at least 2 key managerial personnel, each of whom have not less than 5 years' experience in the real estate industry or real estate fund management
   - Independent directors: At least 50% of the directors are to be independent directors
   - Minimum unit holding requirement(continuing interest) : SEBI has prescribed that for the first five years, the manager has to maintain at least 5% of the overall total outstanding units, from the sixth to the 10th year that reduces down to 3% of the overall units, from 11th Till the 20th year it reduces further down to 2% and post the 20th year they have to maintain 1% until the trust is dissolved. If the scheme of SML it is proposing to undertake leverage, then for the first three years the manager entity, which was required to keep at least 5%, increases to 15%.
3. Trustee: Should be registered under SEBI (Debenture Trustees) Regulations, 1993 and Should not be an associate of the Investment Manager
4. Asset size/Scheme: Min. INR 50 Crores, Max. INR 500 Crores per scheme. It should be noted that every asset in the scheme can be lower than 50 Crore till the time the overall asset size of the scheme is met. Also if you have a 1000 Crore property which can legally be bifurcated into two ownership patterns per 500 Crore being owned by one SPV of one scheme and the other 500 brought by another SPC of another scheme, both house in the same umbrella is also fine.
5. Initial Offer and Listing: SM Reits shall raise funds through an initial offer of units of the scheme and units of the scheme shall be mandatorily listed on a recognised Stock Exchange
6. Minimum price of unit: INR 10 lakhs per unit , higher than a normal REIT(10 thousand per unit).
7. Minimum no of unitholder: 200(excluding IM, related parties and associates of SM REIT)
8. Unit Holding Thresholds: At least 25% of the total outstanding units of a scheme shall be offered and allotted to the public. If it is less than 25% then the delisting process will begin. Each investor (other than the IM, related parties and associates of SM REIT), either individually or together with persons acting in concert with him, shall not hold more than 25% of the total outstanding units of such scheme of the SM REIT.
9. Type Of investors: Resident India/Foreign allowed
10. Classes of Units: Only one class of unit per Scheme

11. Investment Conditions: At least 95% of the value of the scheme's assets shall be invested in completed and revenue generating properties. Up to 5% of the value of the scheme's assets may be invested in liquid, unencumbered assets.

12. Distributions: At least 95% of net distributable cash flows (NDCF) of the SPV shall be distributed to the scheme of SM REIT. 100% of the NDCF of the scheme of SM REIT shall be distributed to the unit holders. Distribution Declaration has to happen within 15 days of end of every quarter and distribution to account holders have to happen within 7 days of the 15 days. If the manager fails to do that there is a penalty of 15% per annum.

13. Leverage: Allowed to undertake leverage through borrowings or issuance of debt securities, if the option to undertake leverage is disclosed in the scheme offer document. Max 49% of scheme assets. Undertaking leverage in excess of 25% of scheme assets shall require (i). >50% investor consent; and (ii). credit rating

14. Related Party Transaction: Not permitted to enter into any transaction with related parties including transactions for facility management and property management

15. Migration: Registration application to be made within 6 Months (i.e., by 08.09.2024) from the date of notification of the SM REIT chapter. Migration to be completed within 6 months from the date of grant of registration

SM REIT Vs AIF

Factors favouring SM REITS	**Factors favouring AIFs**
Lower minimum investment amount: INR 10 lakhs	Investment allowed in under construction projects
Leverage/Borrowing is allowed up to 49% of asset size	No mandatory listing requirement of units
No diversification requirement	Minimum scheme size: INR 20 Crore
Liquidity for investors	Diversified portfolio / asset class

Certain Legal- Regulatory Issues

1. Trademark: Trademark, Brand name and website used for SM REIT should not be used for any other businesses.
2. Private Placement and further issuances of units: Private placement, bonus issue, rights issue are not enabled.

SEBI Fees: Application Fees: INR 1 Lakh, Registration fees: INR 10 Lakhs, Initial/Follow-on offer Fees: Higher of (i) INR 5 Lakhs and (ii) 0.1% of issue size.

Set-up Process

1. Preparation of trust documents, Trust Deed registration, Obtaining PAN and opening bank account of trust
2. Self-Registration on Si Portal, payment of Application Fees and filing SEBI Application Set, Receipt of registration certificate
3. Identifying real estate assets/ properties proposed to be acquired or its features, setting up of SPV, Preparing the offer documents
4. Identifying designated stock Exchange, Executing listing agreement
5. Filing the draft offer document with SEBI and stock exchange along with requisite fee
6. Filing an application for procuring in-principle approval from the designated stock exchange
7. Hosting of offer document on the website as per applicable law, Issuance of public notice in newspapers for pre-issue advertisement
8. Finalization of Scheme Offer Document
9. Listing of units of SM REIT on stock exchange(s)

Understanding taxation and other attendant aspects impacting SM REITs

Key aspects in Migration of existing FOPs to SM REIT structure

1. No specific migration process defined
2. Swap of equity shares is tax exempt but swap of any other instruments(Including Debentures) is subject to tax
3. Severance of all related party agreements between SPV and IM prior to transfer to SM REIT

Taxation of SM REITs

For Unitholders:

1. Migration: Capital Gains-On swap of shares- exempt, On swap of other securities taxable
2. Income recognition and distribution: **Dividend** - Taxable @ 20%++ (non-residents)/applicable tax rate (residents), if the SPV opts for new tax regime u/s 115BAA, Exempt, if SPV does not opt for new tax regime u/s 115BAA, **Interest** - Taxable @ 5%++(non-residents) / applicable tax rate, Rent - Taxable @ 40%++ (non-residents) / applicable tax rate (residents), Other repayments / distributions - Taxable, to the extent of amount of aggregate distributions (other than interest, dividend, rent and capital gains income) reduced by cost of units and distribution offered to tax previously
3. Exit: **LTCG** - Listed - 10%++, **STCG** - Listed - 15%++ (+ surcharge/cess)

SM REIT:

1. Income recognition and distribution: Tax exempt (except for any other income which is taxed at MMR), WHT on interest, dividend (if SPV opts for new tax regime) and rent payments to unit holders
2. Exit: Gains on sale of securities- taxable

Asset SPV:

1. Income recognition and distribution: Income Tax / MAT/ AMT and No WHT on dividend and interest payments to REIT
2. Exit: Gains on sale of assets - taxable

C. Prospective startups

Residential

Company	ALYF	Brikitt	Fracspace	YOURS	Equity Address
Asset Type	Second/ Vacation Homes (Villas, Apartments)	Residential (Villas, Vacation Homes)	Residential (Under Construction)	Residential (Villas, Bungalows, Apartments)	Residential (Apartments, Villas, Estates)
Established	2022	2021	2022	2022	2021
Co-owners/Home	10	10	20 -30	8	10
Locations	• Goa • Alibaug • Lonavala	• Uttrakhand • Goa • Kasauli • Orissa • West Bengal	• Goa (Calangute, Moira) • Hyderabad	• Alibaug • Goa • Nilgiris • Wayand	• Goa
Ticket Size / Share (INR)	• Fractional: 10- 55 Lacs • Full Asset: 5- 8 Cr	7 lacs - 33 Lacs	5 Lacs - 20 Lacs	70 Lacs - 2.25 Cr	18 Lacs - 80 Lacs
SPV	LLP	PVT	LLP	PVT	NA
Properties Sold	48 Properties	42 Properties	8 Properties	6 Properties	9 Properties
Total AUM (INR Cr)	102	45	5	30	27
Revenue FY23 (INR Cr)	1.51	NA	NA	NA	NA
EBITDA FY23	(5.23)	NA	NA	NA	NA

(INR Cr)					
Rental	8- 10%	6- 8%	10%+ post possession	Nil	6- 8%
Property Management	Stay Alyf (Partner: Embassy Services)	Conventional way	Conventional way	Conventional way	Venya
Management Fees	20% of Revenue: Management fee	NA	NA	NA	• 20% of Revenue: Management fee • 5% platform fee • 3% on resale
Exit	ROFR to Co-Owners, Open Market	ROFR to Co-Owners, Open Market	Buy Back	ROFR to Co-Owners, Open Market	• Lock In: 3 years • ROFR to Co Owners, Open Market
Other Information	• Sells Ready homes via full ownership or time share model. • Property type: Premium (INR 80 Lakhs- 8 Crore) • Revenue mix: 35% (sale of full asset), 65% (sale of fractional units)	• Offers Ready vacation or second homes in time share model. • Typical property type: Mid Income (INR 1 Cr-3.5 Cr) • Sale of full asset requires 6+ member's consent	• Offers under construction homes • Property type: Mid Income (INR 50 Lakhs-4 Crore) • Provides property management, complimentary stays, BROI till possession.	• Offers Time share in Ready homes. • Property Type: Luxury (INR 6 cr+) • Each buyer gets 45 days of stay.	• Offers fractional units of Ready second vacation homes. • Property type: Mid income (INR 1 crs+) • Applying for SM REIT
Website	https://alyf.in/	https://brikitt.com/	https://www.fracspace.com/	https://www.youhouse/	https://equityaddress.com/

Commercial

Company	Strata	PropShare	Aurum WiseX	Asset Monk	hBits	Propreturns	Therestack.com	BHIVE ALts
Asset Type	Pre-leased offices, warehouses, and industrial	Pre-leased Retail, Warehousing	Pre-leased Commercial	Commercial	Pre-leased office, data centres	Pre-leased/ vacant warehousing, office, shop, bank, retail, school	Pre-leased office (Grade A)	Commercial
Established	2019	2016	2020	2019	2018	2021	2021	2020
Locations	• Gujarat • Bangalore • Maharashtra • Karnataka • Tamil Nadu	• Bangalore • Mumbai • Pune • Hyderabad • Jaipur • United Kingdom	• New Delhi • Mumbai • Bangalore	• Hyderabad • Chennai • Bangalore	• Mumbai • Bangalore	• Mumbai • Navi Mumbai • Thane	• Bangalore	• Bangalore
Ticket Size / Share (INR)	25 Lacs+	10 Lacs+	25 Lacs+	5 Lacs+	25 Lacs+	Varies	10 Lacs	10 Lacs
Properties Sold	35	23	NA	NA	12	NA	NA	NA
Total AUM (INR Cr)	1600	1515	400+	350	310+	NA	NA	100+
Revenue FY23 (INR Cr)	16.35	NA	NA	NA	.97	1.61	NA	1.6
EBITDA	(10.49)	NA	NA	NA	(4.7)	-2.51	NA	(1.34)

FY23 (INR Cr)								
Rental	8 - 11%	8 - 10%	8-10%	NA	8 -10%	NA	NA	10.6% (avg.)
Property Management Fees	• Management Fee: 1% • Performance Fee: 10% (10% Huddle)	• Management Fee: 1% • Performance Fee: 5 -10%			• Management Fee: 1% • Performance Fee: 5 -10%	NA	NA	NA
Exit	ROFR to co Owners, Open Market	• No Lock in • ROFR to Co-Owners, Open Market	• Lock In: 5 years	• Lock in: Varies	• No Lock in • ROFR to Co-Owners, Open Market	NA	NA	NA
Other Information	• 20-25% repeat Investors. • Inst. Investors: Gruhas, Elevation, Sabre Partners.	• Institutional Investors: Lightspeed India Partners.	• Strong NRI base (15%), Domestic (15%) • Largest office portfolio in fractional space.	• 10,000+ users • Avg. IRR ~14-24%	• 20,000+ registered Investors. • Inst. Investors: Naman Group, Patni Fin. Advisors	• Allows to invest, rent or lease in RE • 20,000+ Users	• Upto 16% IRR with annual cash yields>8%	• No. of units can vary, but 1 unit must be a min. of 1% of the total Investment
Website	https://strataprop.com/	https://www.propertyshare.in/	https://aurumwisex.com/	https://assetmonk.com/	https://hbits.co/	https://www.propreturns.com/	https://therestack.com/	https://bhivealts.com/

Mixed

Company	Micromitti	PropLyft	360Frxnl
Asset Type	Residential, vacation, Commercial (Grade A)	Residential, Commercial, and industrial RE	Residential, land, Commercial, holiday homes/ timeshare
Established	2023	2022	2023
Locations	Indore	• Hyderabad • Bangalore	Gurgaon
Ticket Size/ Token (INR)		10 Lacs+	10 Lacs+
SPV	PVT	NA	
Rental		NA	7-9% (grade A Commercial)
Property Management	NA	Fee: Varies	NA
Exit	• Lock in: Varies, from 2-3 years up to 5-10 years.	• Lock in: None	Resale through platform, private sale, property sale (subject to majority)
Other Information	• 3 investment funds (Premium Commercial, plots, residential flats) • Hyperlocal focus	• Crowdfunding platform for RE builders • 3000+ users	• Group Companies: 360 Realtors, Axon Developers, 360XLR8, 360AIF, 360EDGE. • Capital appreciation: 8-10% /year.
Website	https://www.micromitti.com/	https://www.proplyft.com/	https://360frxnl.com/

Tokenisation

Company	Micromitti	PropLyft	360Frxnl
Asset Type	Residential, vacation, Commercial (Grade A)	Residential, Commercial, and industrial RE	Residential, land, Commercial, holiday homes/ timeshare
Established	2023	2022	2023
Locations	Indore	• Hyderabad • Bangalore	Gurgaon
Ticket Size/ Token (INR)	Varies	10 Lacs+	10 Lacs+
SPV	PVT	NA	NA
Rental		NA	7-9% (grade A Commercial)
Property Management	NA	Fee: Varies	NA
Exit	• Lock in: Varies, from 2-3 years up to 5-10 years.	• Lock in: None	Resale through platform, private sale, property sale (subject to majority)
Other Information	• 3 investment funds (Premium Commercial, plots, residential flats) • Hyperlocal focus	• Crowdfunding platform for RE builders • 3000+ users	• Group Companies: 360 Realtors, Axon Developers, 360XLR8, 360AIF, 360EDGE. • Capital appreciation: 8-10% /year.
Website	https://www.micromitti.com/	https://www.proplyft.com/	https://360frxnl.com/

Foreign

Company	RealT	Reinno	Fundrise	Roofstock One	Realty Mogul	Cadre	Stake
Asset Type	Residential (Plans to add Commercial)	Commercial RE	Commercial RE	Residential (single-family homes)	Commercial	Commercial (Hotel, Industrial, Office, Multifamily, Mixed Use)	Residential, Commercial
Established	2019	2019	2010	2019	2012	2014	2021
Locations	U.S.	U.S.	U.S.	U.S.	U.S.	U.S.	Dubai
Ticket Size / Share ($)	50-150	Varies	10+	5000+	• 5,000+(REITs) • 25,000 to 50,000+ (individual)	• 25,000+ (deal by deal) • 50,000+ (funds)	136+ (AED 500)
Property Management	Outsources locally; costs subtracted from rental income	Designated RE management company.		NA	RM Adviser (Wholly owned subsidiary)	NA	NA
Exit	• Uniswap • Sellback to RealT	Usual holding period: 1 Year	Offers quarterly liquidity	NA	Sellback of Shares through ‘Share Repurchase Program’ after 1 year lock in.	Secondary market offers potential liquidity (quarterly)	Lock in: 1 year

Other Information	• Series LLC • Based on Ethereum • Secondary market (DEX/ OTC) to buy fractions of tokens.	• Tokenized $350M+ of Commercial RE	• Offers quarterly liquidity • 155 complete, 289 active projects	NA	• Investment Options: o REIT o Individual (3-7 years, accredited investors only)	• Investment Options: o Deal by deal o Fund • Presence: 24 markets	• Eligible properties can be listed for sale for 2 week exit windows (May and November).
Website	https://realt.co/	http://reinno.io/	https://fundrise.com/	https://www.roofstock.com/	https://www.realtymogul.com/	https://cadre.com/	https://getstake.com/welcome