



## SEBI advocates regularization of Fractional Ownership Platforms: Market float to the tune of INR 4,500 billion available through complete listing of strata office assets by 2026

- Currently, over 200 million sq ft of Grade A office stock, 28% of total office stock accounts for strata sold form of fractional ownership
- SEBI push pivotal in enhancing liquidity of INR 40 billion of real estate asset under fractional ownership platforms
- FOPs upon listing, will witness democratization of ownership; unitholders base may witness 20x growth in next 4-5 years

**Gurugram, 30 April 2024: With Securities and Exchange Board of India (SEBI) formulating detailed guidelines for Small and Medium REITs (SM-REITs), a large number of erstwhile unregistered Fractional Ownership Platforms (FOPs) for real estate assets are expected to get listed as SM REITs.** This will effectively have the potential to regularize underlying real estate assets to the tune of over **INR 40 billion** in the near to midterm. With an effective regulatory framework in place, the liquidity of assets under fractional ownership is likely to get enhanced and can command significant traction in equity markets.

It is worthwhile to iterate that fractional ownership of real estate assets can be broadly in form of two modes – either through direct ownership by developers (Strata sale model in case of commercial realty and web-based Fractional Ownership Platforms) or through the stock markets (REITs and SM REITs). While direct ownership enables developers to tap multiple asset buyers at a larger level, FOPs and SM REITs facilitates the eventual ownership by small scale investors at the retail level. Interestingly, even though residential, warehousing, agro-farms and retail assets come under the anvil of various web-based platforms, the current FOP universe is dominated by commercial office spaces.

The recent SEBI guidelines will be beneficial in regulating the fractional ownership market and increase retail participation. FOPs will ultimately find it prudent to list as SM REITs and gain access to granular level of funding. From an asset owner perspective, an eventual listing will lead to increase in fair value of assets, democratisation of ownership and reduction in transaction costs during exit.

*“SM REITs will not only foster retail investors’ interest in the real estate sector but will ensure investment portfolio diversification in a regulated environment. Aspects like reduction in minimum investment amount, mandatory manager holding period, and 95% presence of income generating assets will make SM REITs more endearing to the informed investor. Interestingly, **the number of unitholders for the three office REITs in India have shown an annual growth of 60-80% since listing.** On similar lines, SM REITs have a potential to witness an increase in ownership base by up to 20 times in the next 4-5 years. Altogether, Indian realty sector will witness fractional ownership being established as a promising*



alternative investment avenue in the coming years.” said **Badal Yagnik, Chief Executive Officer, Colliers India.**

### Fractional ownership in CRE: Strata sale Grade A office stock to cross 260 million sq ft by 2026, translating into a valuation of around INR 4,500 billion

Strata sale form of fractional ownership is mostly prevalent in office buildings. **As of March 2024, office market in top six cities of the country hold over 200 million sq. ft of Grade A strata sale stock, constituting 28% of total Grade A office stock.** Mumbai followed by Delhi NCR are the leading cities in terms of quantum and strata penetration. 40-50% of their respective overall office stock is strata sold.

#### City-wise strata sold stock and penetration as of March 2024

City	Strata Sold Stock (in million sq ft)	Strata Penetration (%)
Mumbai	60.3	49%
Delhi NCR	55.6	41%
Bengaluru	40.3	19%
Hyderabad	22.4	21%
Chennai	12.9	16%
Pune	10.6	15%
<b>Pan India</b>	<b>202.1</b>	<b>28%</b>

Source: Colliers

Data pertains to Grade A office buildings

Strata penetration refers to strata sold stock as % of overall Grade A office stock of respective city

Of the ~200 million sq ft of Grade A properties under the Strata sale model, it is estimated that only 10-20% office assets are currently being offered by FOPs that are accessible to the retail investor. **A vast majority of commercial asset developers are yet to fully tap the potential investment coming in from small scale retail investor. Colliers predicts that strata stock in top six cities in India will swell to 260-270 million sq ft in next two years, with an estimated market value of around INR 4,500 billion.** As SM REITs will gain more popularity, the share of commercial assets accessible to the retail investor will also increase in the future. Fractional ownership of commercial real estate is set for a boost and the SEBI's veil is likely to accentuate the transition of existing FOPs, especially ones within the office segment into SM REITs in the future.

### Fractional ownership activity varies across cities, to pick up significant pace albeit by varying magnitudes

Interestingly, in Delhi NCR, strata sale is the most popular form of fractional ownership of office assets wherein developers offer office floors or even entire buildings to multiple owners. With about 55 million sq ft of office strata sold stock, the region accounts for the second highest share across the top six cities. However, web-based FOP activity is quite low in the region and very few office buildings have been put up for retail investment by major FOP operators. However, with a

regulatory framework in place, the region holds huge potential for offering fractional ownership of office assets through web-based FOPs/SM REIT and attract retail investments in the next few years.

### City-wise Fractional ownership activity (as of March 2024)

City/Fractional ownership channel	Web-based platform activity*	Strata sale activity	REIT activity
Mumbai	High	High	Medium
Bengaluru	High	Medium	High
Delhi NCR	Low	High	High
Hyderabad	Medium	Medium	Medium
Chennai	Medium	Low	Low
Pune	Low	Low	Medium

Source: Colliers

Data pertains to Grade A office buildings

\*The above activity matrix covers only Grade A commercial office assets

Note: High Activity: Above 20%; Medium Activity: Between 10-20%; Low Activity: Below 10% (Current activity is percentage share of each city in area managed by respective fractional ownership channel)

*“Within the fractional ownership ecosystem, commercial real estate segment holds significant growth potential. Grade A strata sale stock is likely to rise from the current levels of around 200 million sq ft to over 260 million sq ft by 2026. **Correspondingly, the market value of strata sale Grade A commercial developments is poised to reach ~INR 4,000 - 4,500 billion in next three years from the existing ~ INR 2,500 - 3,000 billion level.** Furthermore, higher quantum of commercial office assets is likely to be listed as SM REITs to tap the full market potential while enhancing tradability of erstwhile closely held assets. This has the potential to be a win-win situation for leading commercial developers and retail investors targeting comparatively higher, stable and assured real estate returns” said **Vimal Nadar, Senior Director & Head of Research, Colliers India.***

### Regulated fractional ownership of real estate to expand beyond commercial real estate

A well-regulated market of fractional ownership will attract a larger number of investors across various asset classes. SM REITs will attract a larger number of investors for co-ownership of prime commercial offices, thus bringing in more funds to manage and upgrade office assets as per international standards. In the residential segment, post covid-19, there is an increased investor preference of owning villas and luxury apartments as second homes in the popular tourist destinations. In the coming years, premium residential properties in the major offbeat destinations like Alibaug, Lonavala, Goa, Kodagu, Rishikesh and Shimla, is likely to see rising demand. Fractional ownership market is also likely to diversify in other alternative asset classes like industrial & warehousing, data centres, retail, student housing and healthcare in the years to come.



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