Indian REIT, SM REIT and InvIT Market

New Age Investments in India's Real Assets

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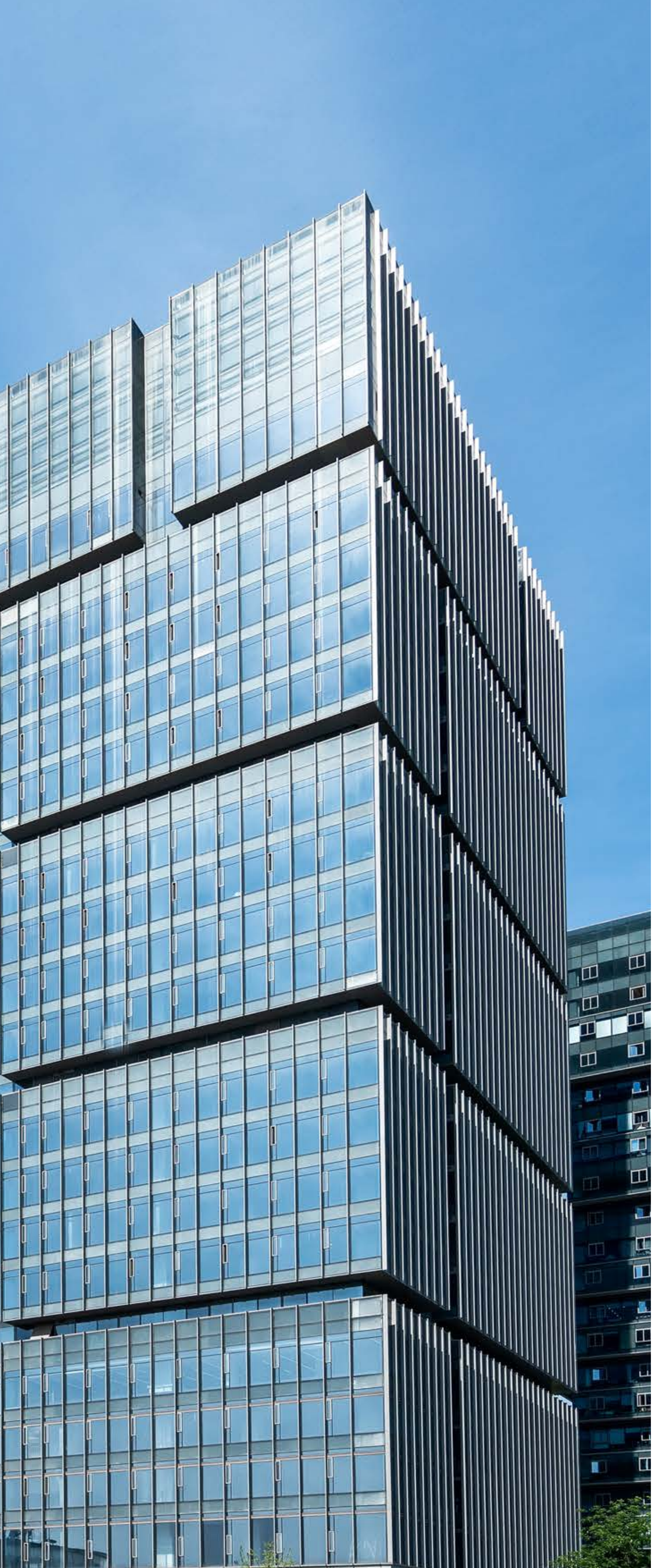

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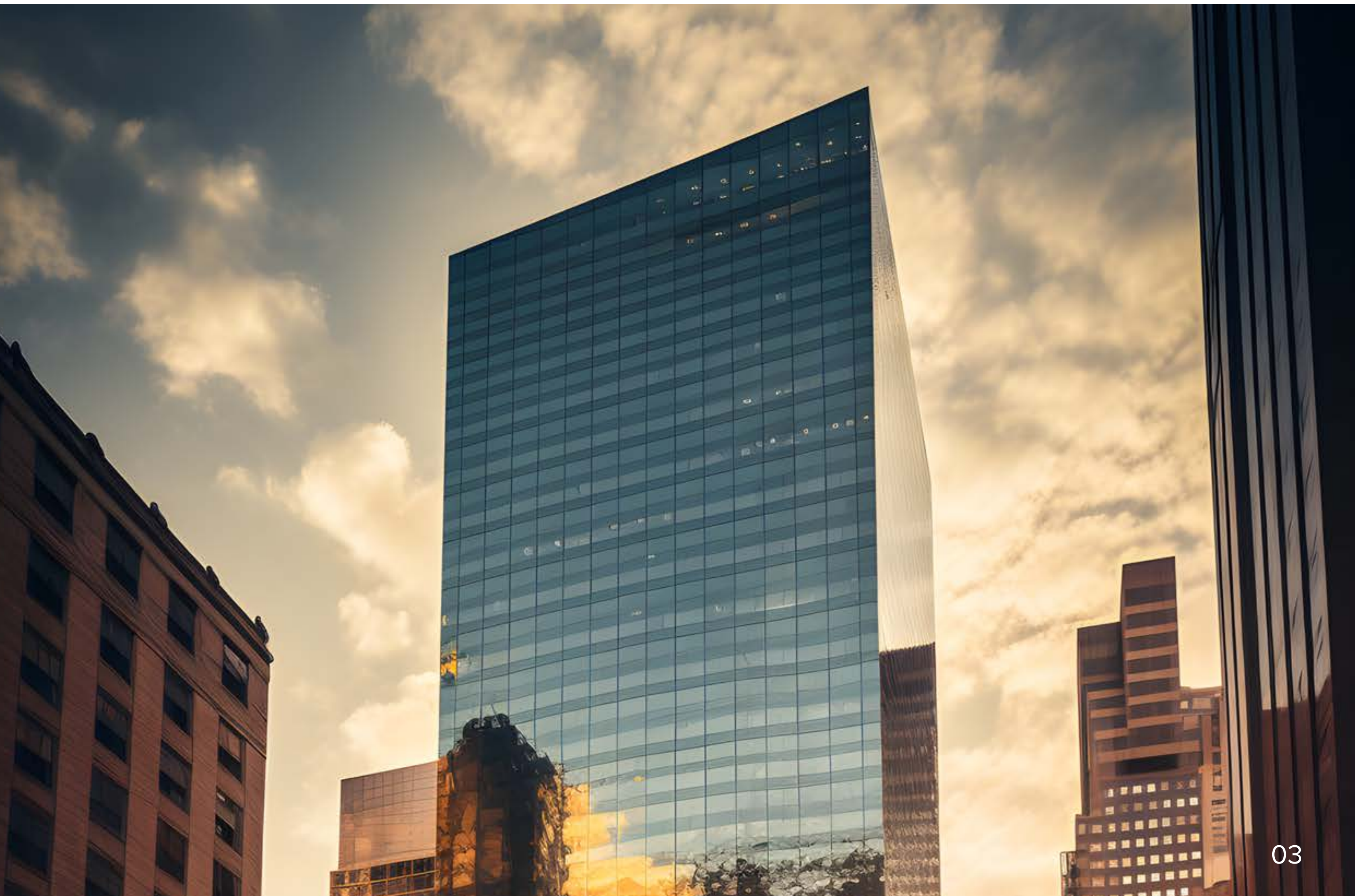
Introduction

Introduction

Real Estate Investment Trusts (REITs), Small & Medium REITs (SM REITs) and Infrastructure Investment Trusts (InvITs) are SEBI-regulated investment vehicles that allow investors to own a portion of income-generating real estate and infrastructure assets. Structured as trusts under the Indian Trusts Act, 1882, they pool investor funds to purchase and operate portfolios of properties (for REITs) or infrastructure projects (for InvITs). REITs and SM REITs typically hold portfolios of commercial real estate (such as office parks, shopping centres, etc.), earning rental income, whereas InvITs hold infrastructure assets like highways, power transmission lines, telecom towers, pipelines, or renewable energy projects, earning user fees or tariffs.

These trusts must adhere to stringent regulations as mandated by SEBI, from time to time. For example, REITs and InvITs must invest at least 80% of their assets in completed, rent-producing properties and distribute at least 90% of their net distributable cash flows to unitholders. They also have caps on leverage and restrictions on speculative development. They must be listed on the stock exchanges, providing transparency, liquidity, and regular disclosure under SEBI's oversight. The trust structure also provides tax pass-through on most income, avoiding double taxation and ensuring most cash flows are passed on to investors. SEBI's regulations mandate high standards of governance (separation of sponsor, trustee, and manager roles) and regular valuation and reporting, ensuring that investors can invest with confidence in a transparent vehicle.

Overall, REITs and InvITs have democratized access to asset classes that were once accessible only through direct ownership or blind-pool private equity funds while offering the income stability of real assets combined with the liquidity and regulatory safeguards of capital markets.



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Market Evolution

Market Evolution

Initial Launch

REITs were originally envisaged in the US, over 60 years ago, to allow all investors to invest in large-scale, well-diversified, real estate portfolios, just like other pooled asset classes. By 2010, REITs in the US had reached over $500 billion in gross asset value with nearly 150 listed REITs across a wide range of sectors – ranging from offices to farms to casinos (1). Their success encouraged other countries including the UK, Singapore, Japan and Australia. The Securities and Exchange Board of India (SEBI), taking into account the global adoption of REITs, finally introduced the first regulatory framework for REITs in 2014 and followed it up with InvITs in 2016.

India's first InvIT – the IRB InvIT Fund (focused on toll road assets) was launched in 2017. However, it took time for REITs to materialize since there were many concerns from the industry on issues like dividend distribution tax and large minimum investment sizes that made REITs less accessible to smaller investors. Regulators responded by refining the rules: the 2016-2018 period saw several amendments, including clearer tax pass-through provisions (e.g., exempting REIT distributions from additional taxes at the trust level) and reductions in minimum subscription sizes. This led to the launch of India's first REIT – Embassy Office Parks (an office portfolio backed by Blackstone) in April 2019. These initial offerings were landmark events, opening up Indian commercial real estate and infrastructure to public investors.

Market Evolution

Market Response

The first REIT (Embassy Office Parks REIT) raised ~₹47.50 billion in its 2019 IPO and was met with strong investor interest, getting subscribed 2.57 times, signalling confidence in this new asset class. Over the next few years, three more large REITs debuted – Mindspace Business Parks in 2020, Brookfield India Real Estate Trust in 2021 and Nexus Select Trust in 2023. A fifth REIT: Knowledge Realty Trust is expected to list in the second half of 2025. In the InvIT space, after IRB's debut in 2017, other infrastructure sponsors followed suit – notably, Indigrid Trust in 2017, PowerGrid Infrastructure InvIT in 2021, Indus InvIT in 2024, and Capital Infra Trust earlier this year.

Regulatory Evolution and Support

SEBI and the Ministry of Finance have been highly supportive of these asset classes. They have progressively updated regulations and guidelines, in consultation with industry, to address practical challenges. For example, SEBI reduced minimum investment in REITs and listed InvITs to a single unit (REIT units range from ₹100–₹400 and InvIT units range from ₹50–₹150). The Ministry of Finance also clarified of tax treatment in 2020, post abolition of dividend distribution tax: interest and rental income portions of REIT/InvIT distributions remain taxable for investors, but any dividend from underlying SPVs (subject to certain conditions) and debt amortization payouts are tax-exempt in the hands of investors, which continued to keep the post-tax yields attractive. Moreover, the government has consistently backed these vehicles to deepen capital markets – allowing EPFO (Employees' Provident Fund) and domestic institutions to allocate a portion of funds to REITs/InvITs.

Emergence of Small & Medium REITs

In March 2024, in continuation of the continuous support on this asset class, SEBI rolled out a framework for Small & Medium REITs specifically to bring fractional ownership real estate platforms (FOPs) such as Property Share under the ambit of REIT regulations. An SM REIT functions much like a regular REIT but on a smaller scale – an investment manager sets up and manages a Trust with an independent trustee being appointed. This Trust can launch multiple "schemes" (akin to sub-trusts), each holding one or more properties worth ₹500 – ₹5,000 million and is required to be listed on an exchange, giving investors an exit route via trading of units. The regulatory and taxation guardrails mirror those for larger REITs, with tweaks to suit smaller assets: at least 95% of the scheme's assets must be invested in completed, rent-generating properties (no under-construction risk), and must be distributed quarterly. Additionally, there are entry criteria for investors – notably a minimum investment of ₹1 million for any investor in an SM REIT scheme, and at least 200 investors must participate in each scheme with no single investor being allowed to hold more than 25% of the scheme.

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Current Market Landscape

- REITs
- InvITs
- SM REITs

Current Market Landscape: REITs

Size and Players

India has four publicly listed REITs currently, with a combined gross asset value exceeding ₹1.6 trillion (2). These four trusts – Embassy Office Parks REIT, Mindspace Business Parks REIT, Brookfield India Real Estate Trust, and Nexus Select Trust – together own about 129 million square feet of Grade-A commercial real estate across major cities (2). Their collective market capitalization is almost ₹1 trillion[1], reflecting the equity value that investors ascribe to their rental streams. Each REIT is backed by prominent industry players or sponsors: for example, Embassy REIT was co-sponsored by Blackstone and Embassy Group, Mindspace REIT by K Raheja Corp, Brookfield REIT by Brookfield Asset Management, and Nexus Select REIT (which listed in 2023 as India's first retail mall REIT) by Blackstone's retail arm. The sectoral composition of REIT assets is currently skewed towards office real estate – roughly 85–90% of REIT portfolio value is in office (IT parks, corporate office campuses), with the remainder in retail malls (Nexus's portfolio) and some hotel components (Embassy REIT, for instance, includes a few business hotels as part of its office parks) (3; 4; 5; 6).

Investor Base and Participation

From an investor participation standpoint, REITs have seen rapidly growing acceptance. There are now over 260,000+ REIT unitholders, up from just 6,000 in 2019, receiving quarterly distributions – a base that includes large institutions (sovereign wealth funds, insurance companies, mutual funds) as well as tens of thousands of retail investors (2). In addition, few REITs now trade with volumes and analyst coverage comparable to mid-cap stocks, indicating that the market has absorbed them as mainstream products

Based on closing prices of each REIT as on May 30, 2025

Current Market Landscape: REITs

Key Metrics and Performance Snapshot

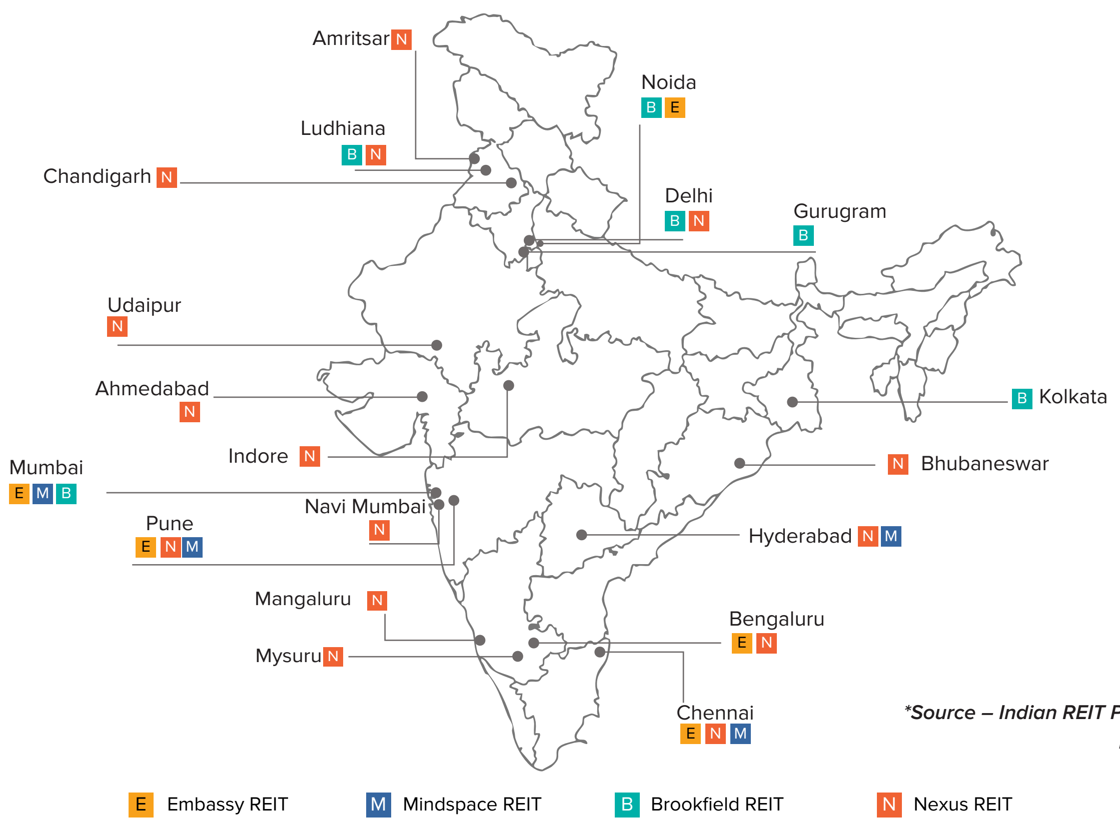
The current REITs have maintained high occupancy (87–97% occupied across their office portfolios) and growing rental incomes, leading to robust Net Operating Income (NOI) growth. In FY2025, the four REITs collectively posted an NOI of over ₹77 billion. They distributed over ₹60 billion to unitholders in FY25 (3; 4; 5; 6), underlining the sector growth. The below table summarizes the current scale and key metrics of REITs in India:

Key metrics of REITs in India

REIT	Area (mn sf)	WALE* (years)	Occupancy (%)	Avg. Rental (₹/sf/month)	MTM Potential (%)	Gross Asset Value (₹ bn)	FY 25 NOI (₹ bn)	LTV (%)
Embassy REIT	51.1	8.4	87%	92	5%	611.6	32.8	32%
Mindspace REIT	37.1	7.4	91%	71	13%	366.5	20.6	24%
Brookfield REIT	29.0	7.0	88%	97	18%	379.5	19.5	25%
Nexus Select REIT	11.9	4.9	97%	134	10%	275.0	4.4	16%
Total/Wtd. Average	129.1	7.5	89%	91	11%	1,632.6	77.4	27%

Source: Q4 FY2025 Earnings Presentations for REITs (5; 3; 6; 4; 7)   * **WALE** - Weighted Average Lease Expiry

Geographic asset distribution of REITs in India:



**Source – Indian REIT Primer May 2025*
Map not to scale

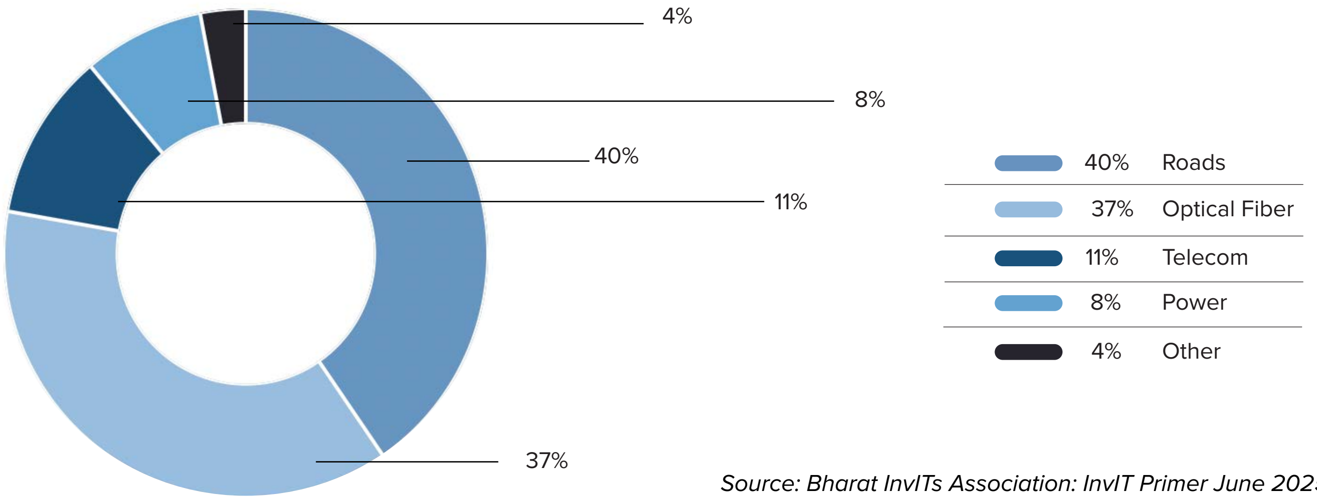
Current Market Landscape: InvITs

Size and Players

The InvIT market has grown even larger in asset terms, given India's massive infrastructure monetization drive. As of May 2025, there are 5 publicly listed InvITs in India (and 21 more privately placed or institutionally held InvITs) (8), spanning sectors such as roads and highways, transportation, energy, warehousing and telecom. The publicly traded InvITs include prominent names like Indigrid Infrastructure Trust (sponsored by KKR) and PowerGrid Infrastructure Trust (sponsored by Power Grid Corp) in power transmission sector and IRB InvIT Fund, Indus Infra Trust and Capital Infra Trust in roads and highways sector.

Together, the listed InvITs command a combined market capitalization of ~₹2.4 trillion[2]. In terms of assets under management, the entire InvIT sector (listed and unlisted) manages about ₹7 trillion worth of infrastructure assets nationally (8). These range from hundreds of kilometres of highways and power corridors to telecom fibre networks, renewable power plants, and warehousing parks. Notably, road projects form the single largest category – approximately 40% of InvIT industry AUM is in road assets, followed by power transmission and other segments including renewable energy, telecom, gas pipelines, and logistics facilities (8).

Sectoral asset distribution of InvITs (listed & unlisted)



Source: Bharat InvITs Association: InvIT Primer June 2025

Based on closing prices of all listed InvITs as on May 30, 2025

Current Market Landscape: InvITs

Investor Base and Participation

InvITs have an investor profile similar to REITs – a mix of institutional and retail money – though initially they were more institution-focused. By 2025, however, total InvIT unitholders reached ~280,000 (8), thanks to initiatives like public InvIT offerings and exchanges allowing lot size trading of 1 unit (earlier, InvIT units had higher trading lot minimums) highlighting that retail investors now see InvITs as a lucrative passive income alternative. At the same time, foreign investors (FPIs, global pension and sovereign funds) and domestic institutions like mutual funds, insurance companies, and pension funds have been ramping up exposure after regulatory changes allowed them to invest in these trusts.

Key Metrics and Performance Snapshot

The currently listed InvITs currently have long project residual lives (11 - 14 years for the roads and highways sector and 25+ years for the power transmission sector) as well as a large and well-diversified project portfolio. In FY2025, the five public InvITs collectively posted gross revenues of ₹69 billion and have distributed roughly ₹32.6 billion in distributions to investors.

Key metrics of InvITs in India:

InvIT	Sector	Road / Powerline (km)	Residual Life (years)	Gross Asset Value (₹ bn)	FY 2025 Revenue (₹ bn)	LTV (%)
IRB InvIT Fund	Roads	2,421	14	78	5.4	32%
IndiGrid Infrastructure Trust	Transmission	9,060	26[3]	296	34.4	59%
PowerGrid Infrastructure Trust	Transmission	3,699	27	90	13.1	6%
Indus Infra Trust	Roads	2,614	11	70	14.5	31%
Capital Infra Trust	Roads	2,100	11	49	1.7[4]	44%
Total/Wtd. Average		19,894	21	583	69.1	43%

Source: Q4 FY 2025 Earnings Presentations for InvITs (9; 10; 11; 12; 13)

[3]Residual life for transmission assets only
[4]FY 2025 only includes the period from January 17, 2025 (listing date) to March 31, 2025.

Current Market Landscape: SM REITs

Size and Players

The SM REIT market, while fairly nascent at this stage, is expected to grow over 10 times reaching $5billion by 2030 (14). As of May 2025, there are 4 registered SM REITs in India with 2 more applications under process. However, only Property Share Investment Trust has a listed Scheme – PropShare Platina, which listed on the Bombay Stock Exchange in December 2024, marking an important milestone for this emerging asset class. The PropShare Platina Scheme used the proceeds of the issue to acquire 6 floors in a LEED Gold commercial asset on Outer Ring Road, in Bangalore (15). Property Share Investment Trust has followed the successful issue with the filing of their 2nd Scheme – PropShare Titania, which aims to acquire a LEED Platinum commercial asset in Thane, Mumbai (16) and is expected to launch in Q3 2025. Together, they will cumulatively account for ₹8.25 billion in SM REIT investments, within a short half-year duration.

Investor Base and Participation

SM REITs, given their nascent stage and large ticket size of ₹1 million, have a more niche investor profile as compared to REITs and InvITs with interest mainly from HNIs, retail investors as well as family offices and corporates given their higher yield and tax-efficient structure (a large component of the distributions in SM REITs are though repayment of shareholder capital, which is tax-free at the time of distributions). As of May 2025, nearly 80% of the units of PropShare Platina were held by body corporates while the remaining was held by individuals (17).

Key metrics of SM REITs in India

The currently listed SM REIT has a WALE of ~8.7 years and an occupancy of 100% as of March 31, 2025.

REIT	Area (mn sf)	WALE (years)	Occupancy (%)	Avg. Rental (₹/sf/month)	Gross Asset Value (₹ mn)	FY 25 NOI (₹ mn)
PropShare Platina	0.25	8.7	100%	103.2	3,594	95.8[5]

Source: Annual Report of PropShare Platina (7)

[5]*FY 2025 only includes the period from December 10, 2024 (listing date) to March 31, 2025.*

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Performance Analysis

Performance Analysis

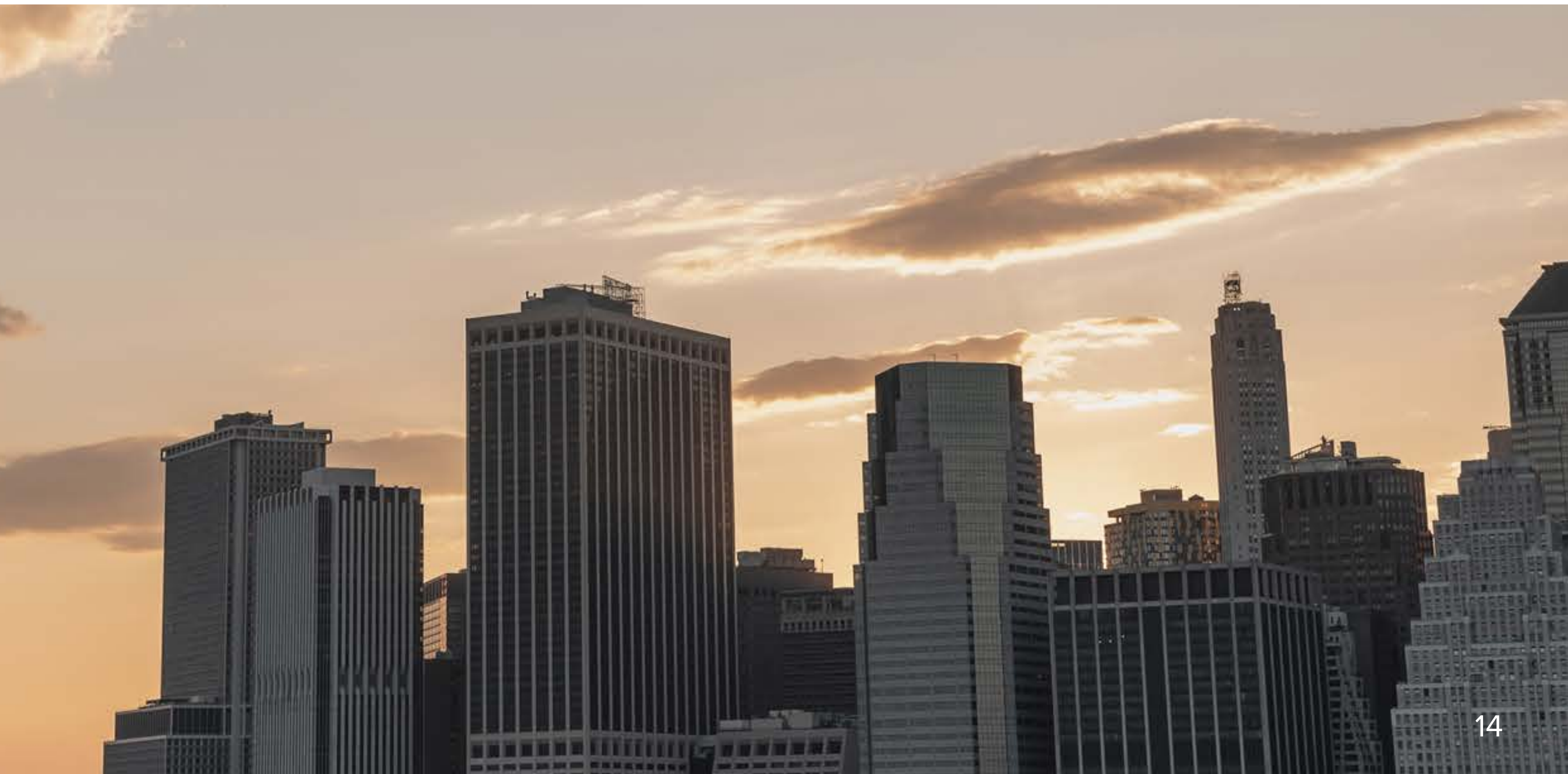
Total Returns and Income Yield

Indian REITs and InvITs are fundamentally income-generating investments, with a capital appreciation kicker, so a large portion of their return comes from regular distributions. Current distribution yields (annual cash payout divided by unit price at the time of issue) for listed REITs range roughly from 7.0% to 8.5% while InvITs have offered even higher yields ranging from 8% to 15% based on FY2025 distributions. However, investors must note that the yields for InvITs are higher because the residual value for their underlying projects (typically 25 years long) is generally zero. This is unlike REITs where they typically also acquire the land underneath their assets for perpetuity, which they can either sell or redevelop.

Both, REITs and InvITs, also offer growth potential in the form of capital appreciation of the unit price and rising payouts over time. While investors in REITs benefit from rental escalations (commonly 5% per year or 15% every 3 years in office leases), which leads to a higher distribution per unit, InvITs generally have toll rate indexation or regulated tariff hikes that preserve real returns. Additionally, both REITs and InvITs continue to acquire projects which may be accretive to the distributions and the unit price.

The table below presents the annualized returns (IRRs) for all listed REITs and InvITs across 1-year, 3-year, 5-year, and since-IPO periods. For each time frame, a notional investment on the respective start date has been assumed based on the price on that day, and returns have been calculated based on unit prices as of May 30, 2025. All cash distributions declared during the period were included on their actual record dates. These IRRs reflect the total annualized returns to investors, accounting for both capital appreciation and income received.

For example, Embassy REIT was listed on April 1, 2019, and declared ₹133.7 in cumulative distributions while its unit price grew from ₹300 to ₹381.4 by May 30, 2025. The annualized returns of 10.8% capture both the ₹81.4 price appreciation as well as the timing of the ₹133.7 in distributions to reflect the effective annual return over the holding period.



Performance Analysis

Performance analysis of listed REITs and InvITs in India

REIT/InvIT	IPO Price	IPO Date	Current Price	Annualized Returns 1 Y	3 Y	5 Y	Since IPO
Embassy REIT	300.0	01-Apr-19	381.4	16.1%	10.9%	9.0%	10.8%
Mindspace REIT	275.0	07-Aug-20	395.3	21.9%	10.0%	-	13.8%
Brookfield REIT	275.0	16-Feb-21	305.9	25.9%	3.0%	-	9.3%
Nexus REIT	100.0	19-May-23	134.9	12.3%	-	-	23.4%
IRB InvIT	102.0	18-May-17	54.9	-4.2%	16.3%	37.5%	4.4%
IndiGrid InvIT	100.0	06-Jun-17	147.0	22.5%	12.4%	22.6%	16.3%
PowerGrid InvIT	100.0	14-May-21	82.0	-1.1%	-4.7%	-	7.8%
Indus InvIT	100.0	12-Mar-24	111.9	28.4%	-	-	22.4%
CapInvIT	99.0	17-Jan-25	91.9	-	-	-	18.0%
NIFTY REIT/InvIT Index (Total Returns)	1,000.0	01-Jul-19	1,857.1	15.6%	6.5%	14.6%	11.0%

Comparison with Other Asset Classes

Indian large-cap stocks (e.g., the Nifty 50 index) have historically delivered around 12–13% annualized returns over the long term, mostly via price appreciation and a small dividend yield (~1.5%). REITs, in contrast, target a more balanced return composition: a substantial current yield component and moderate capital appreciation. For example, the Embassy REIT listed at ₹300 in 2019; as of May 30, 2025 its unit trades at ₹381.4 and it has distributed roughly ₹21–23 per unit each year (18). An investor from the IPO would thus have seen roughly 7-8% annual cash yield plus price appreciation, totalling 10.8% annually on a pre-tax basis and 9.6% annually on a post-tax basis[6]. InvITs launched in 2017–18, have shown similar returns, buoyed by their higher initial yields, for example, the Indigrid InvIT listed at ₹100 in 2017 has seen around 12-15% annual cash yield plus price appreciation to ₹147.0 totalling 16.3% annually on a pre-tax basis and 12.5% annually on a post-tax basis[6].

It is also worth noting that REIT/InvIT returns tend to exhibit lower volatility than pure equities and very low correlation. Nifty REIT and InvIT Index, which is a benchmark for the listed REITs and InvITs. The index's volatility has been just two-thirds of the Nifty 50 index with a beta of just 0.14 (beta is a measure for correlation with Nifty 50 index, with the value of 1 implying that it is fully correlated to index) over the last 5 years.

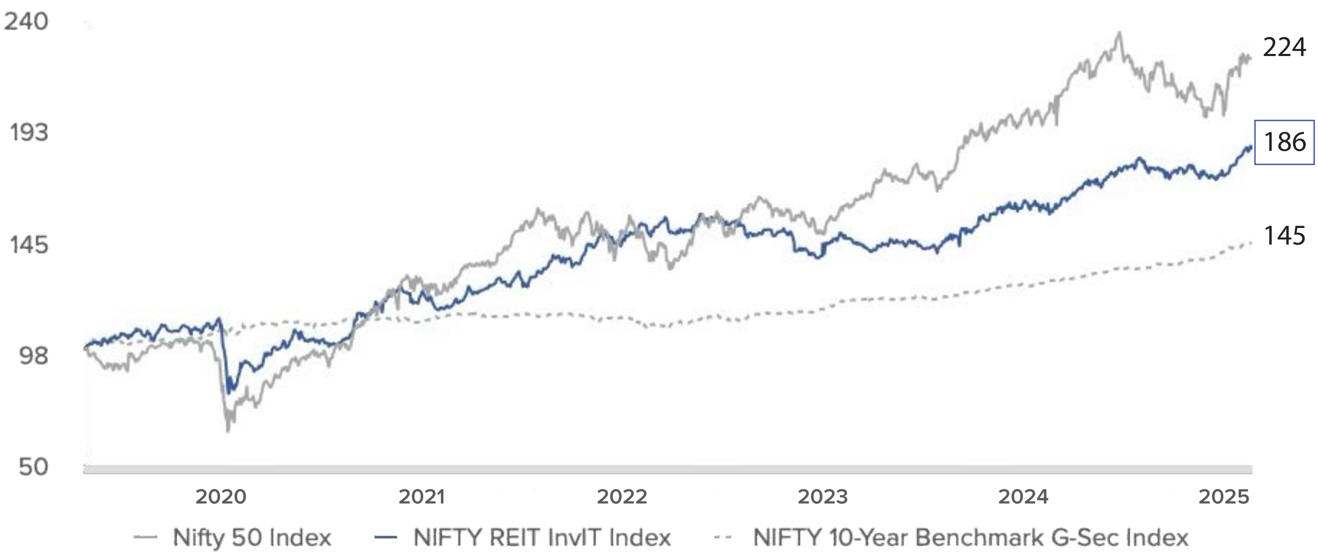
When comparing with bonds, the key factor influencing REIT/InvIT performance is the interest rate environment. Because these trusts are prized for their dividend-like income, their unit prices are sensitive to interest rate movements much like bonds. When interest rates rise, new bonds offer higher yields, and hence REIT/InvIT prices may face downward pressure (yields are inversely proportional to prices) to stay competitive.

[6]Taxation assumed for an investor with an annual income between ₹2.4 and ₹ 5 million (slab rate of 31.2%). Tax charged on the interest and other income portions of the distributions. Long term capital gains tax (12.5%) charged on capital gains.

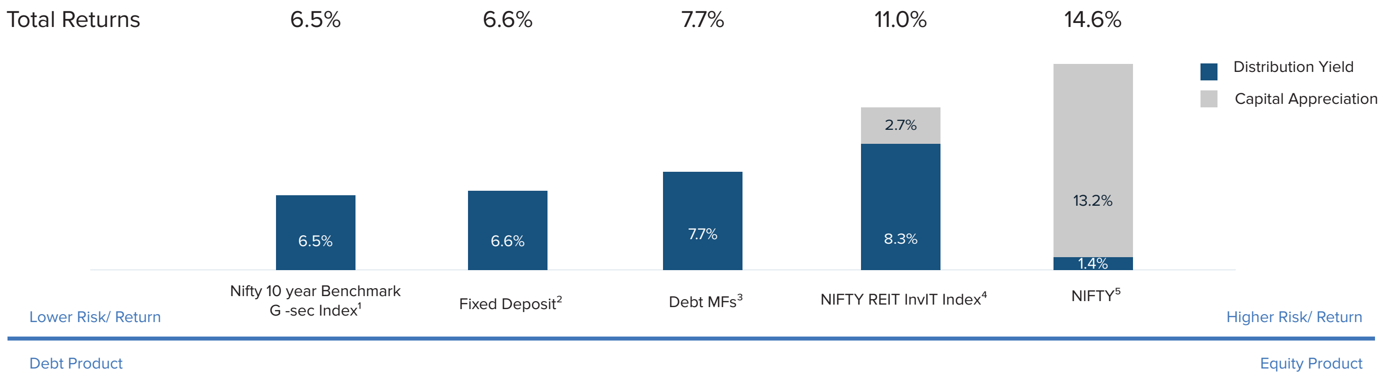
Performance Analysis

Conversely, if interest rates decline in the future, REITs/InvITs become more attractive as not only yield-seeking investors flock to them, potentially driving up prices, but the financing costs also decrease, increasing the future distributions. The below table clearly shows the hybrid nature of REITs and InvITs. The total returns of the NIFTY REIT InVIT Index have been compared with the total returns of the NIFTY 50 (equity) and the total returns of the NIFTY 10-Year Benchmark G-Sec Index (debt), where for a majority of the comparison period, the REIT/InvIT index has been right in-between equity and debt, both in terms of returns and volatility.

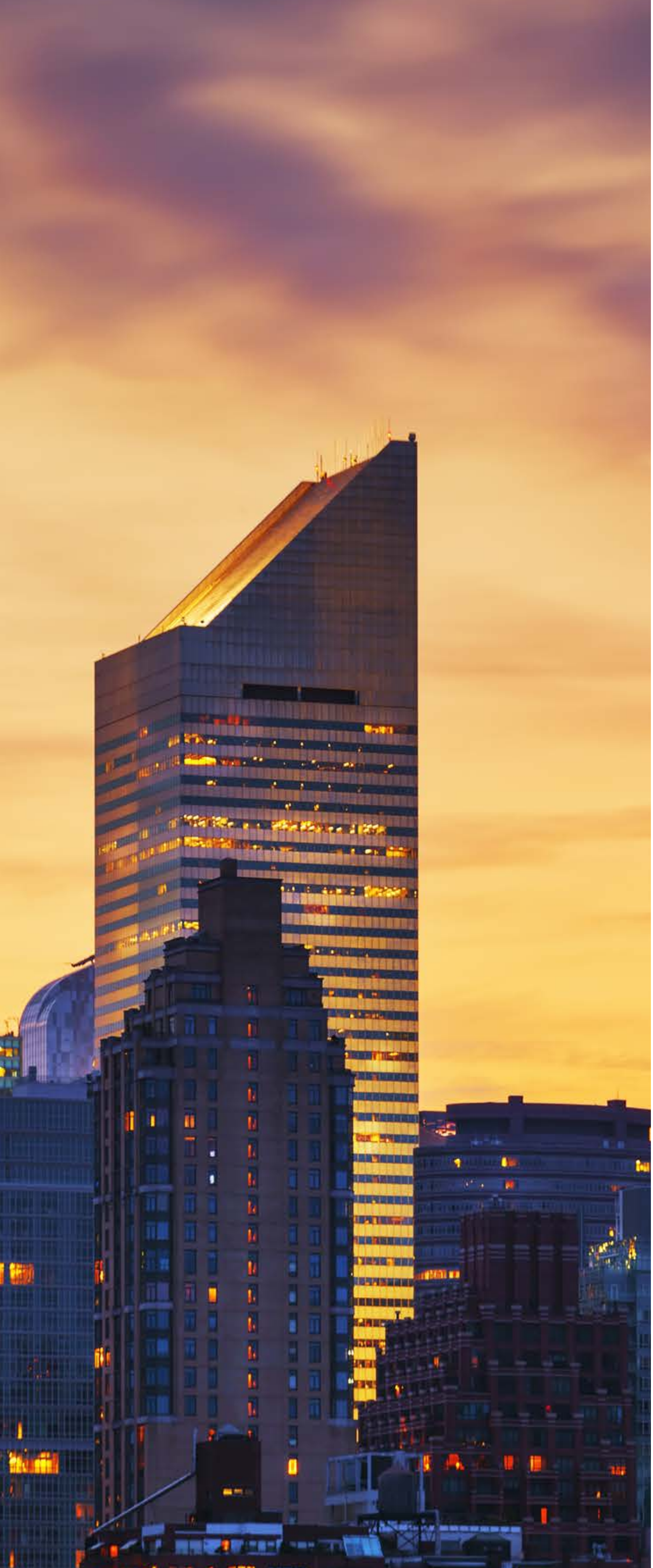
Performance of REIT/InvITs, equities and bonds



Historical returns of REIT/InvITs in comparison with other asset classes



Source: SBI, MoneyControl, NSE Indices
Notes: Time period under consideration: July 01, 2019 – May 30, 2025 (July 01, 2019 was the inception date for the NIFTY REIT/ InvIT index).
(1) Refers to annualised returns for NIFTY 10 year Benchmark G-sec Index.
(2) Refers to the SBI bank domestic fixed deposit rate for 5 years and upto 10 years (for amount less than ₹2 crores) as on May 09, 2019.
(3) Refers to the returns of all open-ended long duration debt mutual funds from July 01, 2019 – May 30, 2025.
(4) The total and capital appreciation is based on NIFTY REIT InvIT Index factsheet as on May 30, 2025. Balance return is assumed to be distribution.
(5) The total returns are based on NIFTY 50 total returns index. Capital appreciation is based on NIFTY 50 Index. Balance return is assumed to be dividend.



05

Evaluating REITs and InvITs

Evaluating REITs and InvITs

Evaluating REITs (including SM REITs) and InvITs involves examining key performance metrics that reflect the performance of their underlying. Below are the core parameters that informed investors should consider:

Occupancy Rate: It is the percentage of area that is currently leased out. A high occupancy (typically >85%) indicates strong tenant demand and stable rental income. Low vacancies reduce the risk of cash flow disruptions, making a REIT's income stream more predictable.

Weighted Average Lease Expiry (WALE): The average time until all leases in the portfolio expire, weighted by area (or rent, in some cases). A longer WALE (measured in years) implies that tenants are locked in for longer periods, reducing near-term vacancy risk and providing revenue stability. Trusts with a high WALE face a lower risk of sudden income drops, as lease renewals are staggered over time. Similarly, for InvITs, the comparable metric is Weighted Average Residual Life of their projects.

Net Operating Income (NOI): It refers to the net rental income from properties after reducing operating expenses like maintenance, property taxes etc. Growth in NOI (through rent escalations, leasing new space, or acquisitions) drives higher distributions to investors. A consistent YoY increase in NOI signals improving asset utilization and effective property management. For InvITs, a comparable metric is their gross revenue, which is a great indicator of how their projects are performing over time.

Distribution Yield: It is the annualized distribution (including dividends, interest and capital repayment from the trust) divided by the current market price of the unit. A higher distribution yield indicates more cash income for investors. Investors compare the yield against alternative assets (bonds, deposits) to judge relative attractiveness.

Evaluating REITs and InvITs

Leverage: The level of debt in the trust's capital structure is measured as total debt divided by total asset value. Moderate leverage can enhance returns, but excessive debt increases financial risk. A lower gearing (e.g. <30% LTV) implies prudent borrowing, lower interest burden, and more flexibility to raise funds in the future. SEBI has a cap of 49% for REITs (including SM REITs) and 70% for InvITs.

Sponsor/Investment Manager Quality: The pedigree and financial strength of the sponsor (the entity that created and often manages the trust). A reputable sponsor/Investment Manager with a solid track record (e.g. established developers, real estate asset management firms or infrastructure firms) can instil trust and often provides a pipeline of assets for future acquisition. Sponsor quality also matters in downturns – strong sponsors may support the trust via additional capital, proactive management, or backstopping tenancies, thereby reducing investment risk. In case of SM REITs, the sponsor and investment manager are the same entity.

Asset Diversification: The breadth of the trust's portfolio across geographies, asset types, and tenants. Diversified REITs/InvITs owning multiple properties or projects spread across cities and sectors are less vulnerable to localized slumps. Similarly, a diverse tenant mix ensures that no single tenant or industry contributes an outsized portion of rent. High dependence on a few tenants or one region can be risky but gives higher yields, e.g. SM REITs, which are relatively more concentrated, have higher yields at 8.5-9%, as compared to around 6% for the larger REITs

Market Capitalization and Liquidity: The size of the trust as indicated by its market cap. Larger REITs/InvITs (with higher market cap) tend to have better liquidity – their units trade in higher volumes on exchanges, allowing HNIs to enter or exit sizeable positions more easily. While SM REITs can offer niche opportunities, they may be relatively less liquid.

Taxation: REITs (including SM REITs) and InvITs are structured as pass-through trusts (in which portion of the income is tax-free for investors in order to avoid double taxation), typically giving out income in the form of interest, dividend and capital repayment. Interest paid by the underlying SPVs to the trust is passed through to unitholders and taxed as "Interest" income for investors at their applicable slab rate. Dividends received by the trust from the SPVs holding assets are either taxed or exempt depending on the corporate tax status of the SPV. Most of the REITs and InvITs' SPV's (in fact, all barring a few of Powergrid InvIT's SPVs) are structured so that the dividend income for the investors is tax-free in their hands. Income in the form of return of capital is tax-free for unitholders till the time the total income is equal to the IPO price (though it reduces the cost base for capital gains). All other incomes are taxable in investors' hands, including the rental or interest on FDs/liquid funds etc. Since part of the income is non-taxable for investors (REITs, cumulatively, have given nearly 75% distributions as tax-free since inception), they become more attractive as compared to holding direct real estate. Moreover, capital gains in listed REITs/InvITs is considered long term after 12 months, as compared to 24 months in case of direct real estate.

By scrutinizing these parameters, investors can gauge the quality of a REIT/InvIT's underlying assets and the reliability of its income.

06

Benefits and Risks

Benefits and Risks

Investing in REITs and InvITs provides a unique mix of advantages and exposures. Investors should weigh the stable income and transparency of these vehicles against market and operational risks, and consider mitigation strategies for a balanced approach.

Key Benefits

Stable Income and Mandatory Distributions: REITs/InvITs are required to pay out a large share of their distributable cash (at least 90% of net cash flows) to unitholders. This results in regular income (usually quarterly) for investors, akin to bonds, as the underlying rental or toll revenues tend to be relatively stable.

Portfolio Diversification: These trusts allow investors to gain exposure to multiple properties or projects reducing the impact of any one asset's underperformance. Moreover, the returns from commercial properties or infrastructure projects often have low correlation with traditional equity or bond markets, improving the overall risk-adjusted return of their portfolio.

Liquidity and Accessibility: Unlike physical real estate which is illiquid and requires large capital, REITs (including SM REITs) and InvITs' units are listed on stock exchanges and can be liquidated easily. The minimum investment ticket size is much lower at 1 unit (₹100 - 400 for REITs/InvITs and ₹1 million for SM REITs) as compared to buying properties outright, making these vehicles accessible to a range of investors. This liquidity is a significant benefit, as it combines real estate exposure with the flexibility of listed securities.

Regulated Structure and Transparency: REITs/InvITs in India operate under stringent SEBI regulations that mandate regular disclosures, performance updates, independent valuations, and governance norms. The trusts are also managed by professional asset managers, ensuring that properties and projects are run efficiently. Such institutional-grade management and reporting reduce the risk of fraud or mismanagement, unlike typical real estate where information can be opaque.

Benefits and Risks

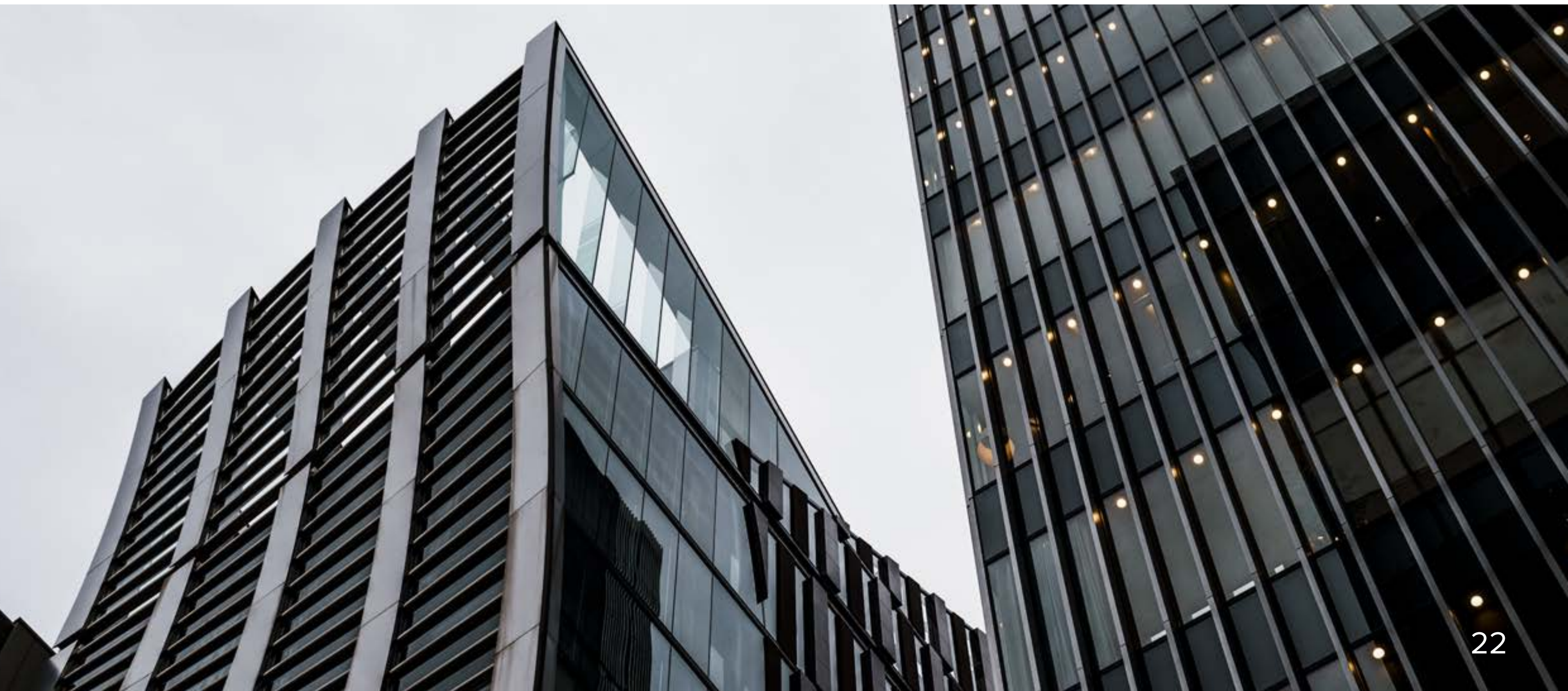
Inflation Hedge and Upside Potential: Real estate and infrastructure revenues often have inflation-linked characteristics – commercial leases in REITs have escalation clauses and toll/tariff rates in InvITs can be indexed to inflation e.g. commercial leases typically have 5% yearly or 15% triennial rent bumps, toll road tariffs may be linked to CPI inflation or WPI, and power transmission tariffs are fixed-return (with pass-through of inflation on certain costs). This leads to increase in distributions, providing a hedge against inflation as well as increase in unit price further providing long-term capital growth.

Potential Risks and Mitigants

Interest Rate Sensitivity: REIT and InvIT prices are influenced by interest rate movements. When interest rates rise, the distributions from these trusts may become less attractive relative to bonds, leading to softening demand and lower unit prices. Additionally, rising rates increase borrowing costs for the trusts, which can squeeze margins if they carry significant debt. This risk can be mitigated by focusing on trusts with prudent leverage and considering the interest rate outlook – those with predominantly fixed-rate debt or longer debt maturities are less exposed to rate spikes. A long-term investor might also mitigate this risk by holding through rate cycles, relying on the underlying property cash flows to remain robust.

Occupancy Risk: For REITs, rental income depends on tenants paying on time and renewing leases. An economic downturn or tenant bankruptcy can lead to vacancies or rent defaults, directly reducing the trust's income. Also, if a few tenants contribute a large portion of rent, their exit could materially hit NOI. This risk can be mitigated by selecting REITs with a diversified tenant base (no single tenant or sector dominates), long lease terms (high WALE) to ensure steady occupancy and high quality blue-chip tenants.

Price Volatility: Since REITs/InvITs are traded on stock exchanges, market sentiment can cause unit prices to fluctuate beyond fundamental values, making it challenging for investors to liquidate a large position at a fair price e.g. pandemic-related fears sharply devalued office REIT units even if rents were largely intact. This can be mitigated by maintaining a medium to long-term investment perspective riding out short-term volatility.



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Future Outlook

Future Outlook

Thus far, 3 out of 4 listed Indian REITs have been in commercial offices while Nexus Select Trust has retail assets reflecting the availability of yield-generating office assets. In fact, as per Anarock, only about 23% of India's Grade-A office stock is currently REIT-owned, leaving roughly 400 million sq. ft of quality office stock still in private hands (19). This represents immediate potential for existing REITs to acquire new assets (e.g. Brookfield REIT acquired 3.3 mn sf of Bharti's realty portfolio in 2024) or for new REIT IPOs backed by developers of those properties (e.g. Knowledge Realty Trust, backed by Blackstone and Sattva, is expected to get listed in the Q2 FY2025 while the Bagmane Group have also applied for the REIT license).

Beyond offices and retail, segments like industrial & logistics parks, data centres, hotels and hospitals are expected to enter the REIT space over the next few years as SEBI expanded the 'real estate' classification (subject to certain conditions) in April 2025. Hence, one can envision a far more diversified REIT landscape in India, akin to global markets where there are hospitality REITs, healthcare REITs, logistics REITs, residential REITs etc. over the next 5-10 years. The REIT umbrella may also expand to non-traditional assets like student housing, senior living, or education campuses as the market matures – SEBI's flexible approach thus far suggests openness to innovation as long as investor interests are protected.

Future Outlook

In the InvIT domain, the expansion is equally robust. The Government of India's emphasis on infrastructure monetization (via its National Monetization Pipeline) means a steady flow of highways, rail assets, power grids, and pipelines being moved into InvIT structures. The Bharat InvITs Association projects InvIT AUM to triple to ₹21 trillion by FY2030 from ~₹7 trillion in Mar-2025 (8). New sectors in InvITs are already emerging: for instance, FY2024 saw the debut of 2 private InvITs in new sectors – one in renewable energy, one in warehousing. There is talk of port trusts and airport assets being bundled into InvITs if regulatory clarity allows. While the road sector will continue to dominate InvIT additions in the near term, a more balanced mix: transmission and renewable energy yield assets could be 25–30% of the InvIT space, transportation (roads, rail, ports) around 50%, and telecom/digital infrastructure (towers, fibre) and others making up the rest is expected over a 5-10 year horizon.

Crucial changes are also in the pipeline: one proposal is to classify REITs and InvITs as "equity" instruments for investment limits, rather than "hybrid securities". This seemingly technical change (being advocated by industry bodies) would allow equity-oriented mutual funds and ETFs to allocate to REITs, and could lead to their inclusion in benchmark indices. Already, Indian REITs have been included in global real estate indices (like FTSE EPRA/NAREIT indexes), and if domestic indices follow suit, it could trigger passive inflows and improve liquidity further. SEBI has also proposed doubling the cap on how much a mutual fund scheme can invest in REITs/InvITs from 10% to 20%, which can lead to additional fund flow into the sector.

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Conclusion

Conclusion

REITs, SM REITs and InvITs in India have transitioned from nascent concepts to mainstream investment options in a short span, and they offer a compelling proposition for both retail and high-net-worth investors. For retail investors who may not have the ticket size to buy physical real estate beyond their home, REITs and InvITs offer a path to become a landlord of Grade A properties with as little as a few hundred rupees. For HNIs, these trusts can be an efficient way to gain commercial real estate exposure at scale, something that would be operationally challenging to replicate individually (for instance, owning a piece of a large IT park or a national highway system).

As outlined, these instruments combine the tangible stability of real assets (land and infrastructure that have enduring value) with the financial advantages of marketable securities (liquidity, transparency, and professional management). For investors looking to diversify their portfolios, REITs/InvITs can provide enhanced risk-adjusted returns as they are neither as volatile as equities nor as low-return as fixed deposits, but rather strike a unique middle ground – delivering regular income with moderate growth. Hence, embracing this asset class could be a prudent move as part of long-term wealth management.

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Co-founder, Alt

Rahul is a seasoned investment professional with over 13 years of experience. His experience includes managing a $350mn fund at a single-family office in Middle East, investing globally across asset classes, focusing on REITs, bonds, equities and other alternates. Previously, he has worked at Deutsche Bank and Standard Chartered Bank also. At Alt, Rahul heads the Public Markets division, looking after the PMS products. He holds B.Tech. in Electrical Engineering from IIT Bombay and MBA from IIM Lucknow, along with clearing all levels of CFA (USA).

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About Alt

About Alt

Founded by IIM-A batchmates Kunal Moktan and Hashim Khan, Alt is India's leading platform to access a wide variety of alternative investment products at lower investment thresholds.

Alt's leadership team comes with experience of having invested and managed more than $1 billion of real estate and is backed by some of the largest institutional investors globally - WestBridge Capital, Lightspeed Ventures, Pravega Ventures and BEENEXT.

Lightspeed WESTBRIDGE CAPITAL pravega BEENEXT

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