

# REITs & InvITs: The Yield-Bearing Trusts Poised to Reshape Indian Portfolios



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## 1. A Quick Primer and Global Evidence

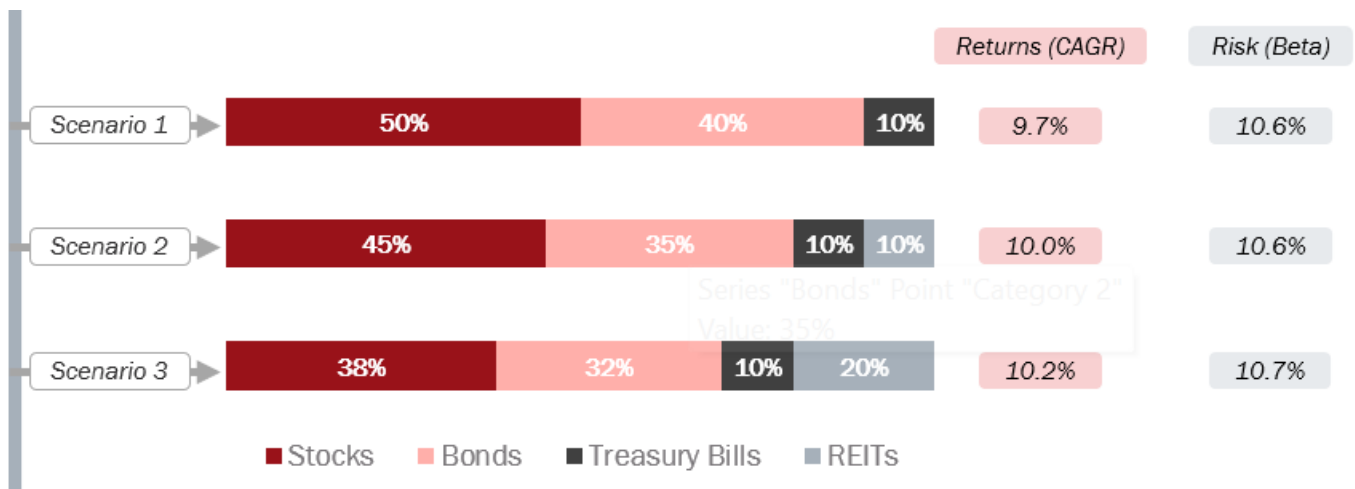
Real Estate Investment Trusts (REITs) originated in the United States in the 1960s with a clear purpose of democratizing ownership of income-producing commercial real estate. By letting ordinary investors buy fractional interests in large-scale properties while leaving professional managers to run the assets, REITs opened a once-exclusive market to the broader public, and the concept quickly gained traction worldwide. What began as a niche experiment in the US, now spans across 40 countries, with over 1,000 listed REITs/InvITs having a combined market capitalization of USD 2 Tn. Today, they are part of every portfolio and their appeal rests on four major qualities:

- **Diversification Benefits:** REITs and InvITs tend to move on property-market and long-lease fundamentals that are partly correlated with the broader equity and bond cycles, lowering overall portfolio volatility
- **Inflation protection:** Most REIT-InvIT contracts have an automatic rent or tariff “step-ups” (Ex: 5% rental escalation in Commercial REITs). These contractual rent or Tariff Escalators are often index-linked, while the underlying “real” assets generally reprice upward when replacement costs rise, thereby ensuring the cash flows and capital base keep pace with inflation.
- **Visible Cash Flows:** Regulations require both the REIT and InvIT structure to distribute at least 90 per cent of net distributable cash flow (NDCF), creating a quasi-bond-like income stream without giving up the upside of growth and active management

- **Access to institutional-grade real assets:** By purchasing a single unit, investors gain fractional ownership of high-quality offices, malls, highways or power lines that would otherwise be inaccessible both financially and operationally

Historical data back up the case. A Wilshire/NAREIT study of a traditional U.S. portfolio from 1972-2022 found that substituting **10 per cent REITs for equities lifted the 50-year CAGR from 9.7 per cent to 10.0 per cent**, with identical standard deviation, proving that “more income for the same risk” is not a theoretical claim but an empirical reality.

**Chart 1:** Analysis of a hypothetical portfolio’s performance (1972-2023) based on varying asset mix



## 2. Indian REIT/InvIT Ecosystem: The US 1970s Moment

India’s REIT–InvIT ecosystem today looks like the US REIT market of the early 1970s, **small in market-cap terms but standing on huge latent demand** for institutional-grade real-asset exposure. As of 30 June 2025, the country hosts **four listed REITs, five publicly listed InvITs and a further 21 privately listed InvITs**, spanning commercial offices, organized retail malls, road assets, transmission lines, pipelines, data centers and telecom-tower networks. Collectively, the REITs and InvITs manage real-asset AUM exceeding ₹8.5 Tn.

## 3. How the Structure Works?

A listed REIT/InvIT interposes a tax-pass-through trust between investors and a portfolio of rent- or toll-generating special-purpose vehicles (SPVs). Key safeguards are baked into India’s SEBI regulations:

- At least 80 % of assets must be **completed and income-producing**; leverage cannot exceed 70 % of asset value for InvITs and 49% for REITs
- **Independent valuers** must appraise the portfolio twice a year and determine NAV
- **Distributions of  $\geq 90$  %** of net cash are mandatory every six months

For investors this means professional asset management, granular public disclosure, limited development risk and a cleaner entry into real estate or infrastructure than buying fractional physical assets or unrated private debt.

#### 4. Early-Cycle Headwinds

REITs and InvITs have had a difficult domestic journey. The first REIT (Embassy Office Parks) listed only in April 2019; within a year COVID-19 shuttered offices and malls. Occupancies plummeted, re-leasing were tough, rentals across micro-markets suffered and vacancies went up. Even as leases recovered post the pandemic, the U.S. Federal Reserve's fastest rate-hiking cycle in four decades pushed Indian gilt yields above 7.4 % in 2022-23, compressing yield spreads and stalling new issuances.

Additionally, REITs and InvITs have been characterized by low liquidity. Average daily turnover for the four REITs and five public listed InvITs hovers below ₹80 crore and ₹25 crore, discouraging larger allocations from mutual funds and pension plans.

#### 5. Scale Despite Shocks

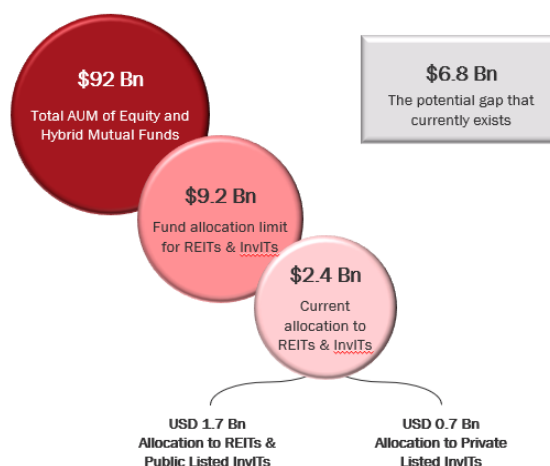
Despite early headwinds, the four listed REITs have steadily compounded value, distributing a cumulative **₹22,818 crore** since their IPOs. In FY 2024-25 alone, payouts climbed **13 % year-on-year to ₹6,070 crore**, now benefiting more than **2.6 lakh unitholders** versus roughly 55,000 at launch. Quarterly net operating income also advanced **16% to around ₹89,100 crore**, outpacing most standalone office developers.

On the infrastructure side, the five publicly listed InvITs manage over **₹2.4 Tn of market value** and disbursed ₹24,267 crore in FY 2024-25 showing steady progress.

#### 6. Broadening Investor Base

REIT IPO books were initially 70-plus per cent foreign-portfolio-investor (FPI) money, but the cap table has since normalized: domestic mutual funds, insurers and alternative-investment funds (AIFs) now hold meaningful slices, and retail HNIs are following suit. SEBI proposal to allow mutual funds to invest **up to 20 % of a scheme's NAV in REITs/InvITs** (vs 10 % earlier) is further expected to improve the demand outlook.

**Chart 2: Domestic Mutual Funds – Current Untapped Investment Potential**



Further, if the investment limits are enhanced, then the amount of USD 6.8 Bn would rise to **USD 15.9 Bn**, further reinforcing the REIT/InvIT movement in India.

Retail investors are also increasingly getting accustomed to this asset class. The **tax- advantaged dividend leg** of distributions, potential onset of low-interest rate environment and ready liquidity from retail perspective have been key triggers for the retail interest.

#### 7. Inside the REIT Opportunity Set

- **Commercial offices:** Embassy, Brookfield and Mindspace collectively own ~129 million sq ft of Grade-A offices that ride the secular growth of Global Capability Centers and high-end flex-space. With the listing of Knowledge Realty Trust (KRT) and market chatter of couple of other listings in the near-to-medium term, Commercial Real Estate is set to be the backbone of REIT ecosystem in India.

- **Organized retail:** Nexus Select Trust's 9.8 million sq ft retail-mall platform was India's first non-office REIT (May 2023) and has posted double-digit tenant sales growth as consumption rebounds.
- **What Next:** Logistic Parks, Data Centers and even purpose-built student-housing portfolios are maturing under private ownership; several developers have publicly stated their intention to REIT these assets as soon as they cross SEBI's stabilized-asset thresholds.
- **SM REITs:** Notified in Mar'2024, SM REIT pulls the fractional ownership platforms into the REIT regulations. Under these regulations, a scheme can list with an asset size of less than ₹500 Cr. It must have at least 200 investors with 95% of the asset being completed and income-generating.

#### 8. InvITs: Still an Institutional Club, for now

InvITs have mirrored the public-private funding gap in India's infrastructure build-out. While FPIs, sovereign wealth funds and domestic insurers have been happy to write cheques for roads, power transmission and fibre-optic networks, retail participation is minimal. The reasons are familiar: larger unit size at IPO, limited analyst coverage and lower secondary liquidity. Additionally, while REITs are largely anchored in commercial office assets, making it easier for investors to assess REITs, InvITs straddle a wider range of infrastructure classes, making it difficult for investors to assess them through a single, uniform lens (The 26 InvITs cover 9 sectors, with road assets being the most prominent)

SEBI is pushing reforms, to make InvITs more "MF-friendly" (Fast-Rack Issuance, Easing conversion norms for private InvITs). Backed by these measures, Bharat InvITs Association expects InvIT AUM to triple to **₹21 Tn within five years** as more privately held trusts come to market.

#### 9. Easing Overhangs

As mentioned, REITs and InvITs have had a difficult ride in the Indian context. However, with the onset of low-interest rate environment, positive outlook towards commercial spaces, high infrastructure spending, dynamic regulatory changes and increasing liquidity, the overhangs are easing, paving way for a full-fledged development of this asset class

#### 10. The road ahead

- **More listings:** Listing of KRT and other potential listing two large office REITs, one logistics REIT and three power-transmission InvIT IPOs over FY 2026-27, together adding another ₹75-85 thousand crore of float.
- **Deeper indices & ETFs:** The NSE's **Nifty REITs & InvITs Index**, launched in July 2023, already serves as the underlying for two passive funds; a dedicated REIT ETF of scale would be the next catalyst.
- **Retail engagement:** As SEBI nudges lot sizes down to ₹100-200 units and fintech platforms enable fractional trading, the trust model could become to income investors what SIPs are to equity savers.
- **Tighter governance:** Expect mandatory ESG disclosure, unified lease data rooms and stricter "skin-in-the-game" norms for sponsors as the market matures

#### 11. Conclusion: Strengthening of Yield Play

India is at an inflection, like America's in the 1970s, physical assets are institutionalizing, regulation is largely in place, and investors are searching for real-return instruments that can outpace inflation without adding equity beta.

History suggests that when policy certainty, depth and performance line up, capital follows quickly. **REITs and InvITs offer precisely that alignment today, professional management of hard assets, statutory cash-flow distribution and proven, portfolio-level diversification.**

For Indian savers accustomed to toggling between volatile small-cap equities and low-yield fixed deposits, REITs and InvITs provide a middle path: a regulated gateway to productive real-asset ownership with liquidity, transparency and an embedded inflation hedge. The next decade is likely to see these trusts evolve from niche instruments to core portfolio building blocks, just as they did in the United States half a century ago

India's listed REIT/InvIT market is at a very nascent stage, yet the foundations are firmly in place for them to witness a decisive growth phase. With supportive industry tailwinds, a gentler interest-rate climate, and deepening retail participation, the heavy lifting is largely complete, and the domestic ecosystem now looks set for growth.