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IN BRIEF

REITS IN INDIA: REGULATORY DEVELOPMENTS, GOVERNANCE REFORMS AND THE FOREIGN INVESTMENT FRAMEWORK

Introduction

Real Estate Investment Trusts (REITs) have become an important part of India's real estate and capital markets framework since the introduction of the Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014 (REIT Regulations). The REIT framework enables pooled investment in income-generating real estate assets through a regulated structure governed by the Securities and Exchange Board of India (SEBI). Over time, the framework has expanded beyond traditional commercial office assets to include industrial parks, warehousing and logistics assets, hospitality-linked developments and other integrated real estate projects.

In recent years, the SEBI has introduced several amendments to strengthen governance standards, improve investor protection, widen the scope of permissible assets and increase institutional participation in REITs. At the same time, the Foreign Exchange Management Act, 1999 (FEMA), the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 (NDI Rules) and the Reserve Bank of India (RBI) framework continue to regulate foreign investment into REITs and related structures.

This article discusses key regulatory developments affecting REITs in India, including reforms relating to Small and Medium REITs (SM REITs), governance standards, strategic investors, disclosure obligations and the applicable foreign investment framework.

Introduction of SM REITs and Regulation of Fractional Ownership Structures

One of the significant developments in the Indian REIT framework was the introduction of the Securities and Exchange Board of India (Real Estate Investment Trusts) (Amendment) Regulations, 2024, which introduced a separate framework for SM REITs.

The amendment revised Regulation 2(1) (zm) to clarify that a "REIT" includes an SM REIT under Chapter VI B of the REIT Regulations. The amended provision also clarifies that a REIT is a person pooling INR 50 crore or more for acquiring and managing real estate assets or properties for investors without granting day-to-day control over management of such assets.

The amendments introduced a separate regulatory framework governing SM REITs, including registration requirements, disclosure obligations, governance standards, valuation requirements and investor protection measures. The framework formally brings smaller pooled real estate investment structures within the SEBI regulatory framework and integrates them into the broader securities market regime.

Expansion of Permissible REIT Assets and "Common Infrastructure"

The Securities and Exchange Board of India (Real Estate Investment Trusts) (Amendment) Regulations, 2025 introduced important changes relating to permissible REIT assets and infrastructure-linked facilities.

The amendment inserted Regulation 2(1) (ga), introducing the concept of 'common infrastructure'. The provision defines common infrastructure to include facilities or amenities such as power plants, district or retail heating and cooling systems, water treatment or processing plants, waste treatment or processing plants, and facilities incidental to real estate business that exclusively supply or cater to, or are exclusively consumed by, the REIT, its holding companies or special purpose vehicles.

The provision further permits sale or supply of excess production or capacity to central or state grids or utilities, subject to disclosure and audit requirements.

The 2025 amendments also expanded the scope of "real estate" or "property" under Regulation 2(1) (zi). The Regulation clarifies that hotels, hospitals and convention centres forming part of composite real estate projects, as well as common infrastructure forming part of composite real estate projects, industrial parks and special economic zones (SEZs), may qualify as "real estate" or "property" under the REIT framework.

These amendments broaden the categories of assets that may form part of REIT structures, particularly in relation to industrial parks, warehousing, logistics developments and integrated real estate projects.

Governance Reforms and Sponsor-Related Amendments

The Securities and Exchange Board of India (Real Estate Investment Trusts) (Second Amendment) Regulations, 2023 introduced significant governance reforms relating to sponsors, managers and unit holders.

One of the key amendments revised sponsor holding requirements under Regulation 11(3). Under the amended framework, sponsors and sponsor groups are collectively required to hold at least 15% of the total REIT units for the first three years following listing, 5% from the fourth to fifth year, 3% from the sixth to tenth year, 2% from the eleventh to twentieth year and 1% thereafter. The amendments also strengthened unitholder participation rights. Regulation 4(2)(g) now permits unitholders holding at least 10% of the total outstanding REIT units, individually or collectively, to nominate one director to the board of the manager. The provision further requires such nominated directors to recuse themselves from matters involving the nominating unitholder or its associates.

Additional governance reforms were introduced through the Securities and Exchange Board of India (Real Estate Investment Trusts) (Amendment) Regulations, 2025. Regulation 4(2)(e)(iv) now prescribes timelines for filling vacancies of independent directors. Vacancies arising due to expiry of term must be filled before the office is vacated, while vacancies arising for other reasons must be filled within three months.

The 2025 amendments also strengthened trustee responsibilities under Regulation 9 and Schedule XII. Trustees are required to comply with principles relating to transparency, accountability, due diligence and protection of unitholder interests. Trustees are also required to oversee management activities and ensure effective governance standards.

Other reforms introduced through recent amendments include insertion of the definition of "Senior Management" under Regulation 2(1) (zrb), recognition of employee unit option schemes under Regulation 2(1)(la) and revised provisions relating to appointment and rotation of auditors.

These amendments reflect SEBI's continuing focus on governance standards, fiduciary accountability and investor protection within REIT structures.

Expansion of Institutional and Strategic Investors

The Securities and Exchange Board of India (Real Estate Investment Trusts) (Third Amendment) Regulations, 2025 introduced changes relating to institutional participation and strategic investors.

The amendment inserted Regulation 2(1) (sa), which defines "institutional investor" to include qualified institutional buyers (QIBs) and family trusts or SEBI-registered intermediaries having a net worth exceeding INR 500 crore based on audited financial statements. The amendment also aligned the definition of "qualified institutional buyer" with Regulation 2(1) (ss) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018. Importantly, the category of "strategic investor" under Regulation 2(1) (ztb) was expanded to include institutional investors, foreign portfolio investors (FPIs), middle layer, upper layer and top layer non-banking financial companies (NBFCs) registered with the RBI and such other entities as may be specified by SEBI.

The amendment further provides that such investments remain subject to compliance with the FEMA and the applicable rules, regulations and guidelines issued thereunder. These changes broaden the categories of entities eligible to participate as strategic investors in REIT offerings and may support greater institutional participation in the REIT market.

Disclosure and Liquidity Management Reforms

The Securities and Exchange Board of India (Real Estate Investment Trusts) (Second Amendment) Regulations, 2025 strengthened disclosure and reporting obligations applicable to REITs.

Under Regulation 10(18), valuation reports prepared under Regulation 21 are required to be submitted simultaneously to trustees and stock exchanges. The amendments also aligned quarterly reporting timelines with financial reporting timelines applicable to listed entities. Further reforms were introduced through the Securities and Exchange Board of India (Real Estate Investment Trusts) (Amendment) Regulations, 2026. The amendment revised the definition of "liquid asset" under Regulation 2(1)(ta) by reducing the minimum "credit risk value" threshold from 12 to 10, expanding eligible investments to include "Class B-I" schemes under the potential risk class matrix and clarifying that REITs may invest in Government Securities, treasury bills and repo on Government Securities as part of their liquid asset framework. Corresponding amendments were also made to Regulation 18 relating to investment conditions for liquid assets.

FEMA and RBI Framework Governing Foreign Investment in REITs

Foreign investment in REITs is regulated under the FEMA, the NDI Rules and the RBI regulations governing investment vehicles.

The RBI Master Direction – Foreign Investment in India recognises REITs as "investment vehicles". Paragraph 2.19 of the Master Direction includes REITs governed by the REIT Regulations within the definition of investment vehicles. Further, Paragraph 2.22 classifies units of REITs as "non-debt instruments". Importantly, Paragraph 2.26 clarifies that investment in units of REITs registered and regulated under the REIT Regulations is excluded from the definition of "real estate business". This clarification is significant because foreign investment in "real estate business" is generally restricted under FEMA. Investment, however, in REIT units registered under the REIT Regulations is specifically excluded from the definition of 'real estate business' and is therefore permitted subject to applicable FEMA and RBI regulations.

The foreign investment framework also governs downstream investment structures and reporting requirements applicable to REIT investments and associated entities. The recent SEBI amendments expanding the categories of strategic investors to include FPIs and regulated NBFCs also reflect greater integration between the REIT framework and India’s broader foreign investment regime.

Conclusion

The Indian REIT framework has evolved substantially through successive SEBI amendments and related FEMA and RBI reforms. The amendments introduced between 2023 and 2026 strengthen governance and fiduciary oversight, expand the categories of permissible REIT assets, introduce a framework for SM REITs, broaden institutional participation and enhance disclosure and liquidity management standards. The reforms also recognise the increasing importance of industrial parks, logistics developments, warehousing assets and integrated infrastructure-linked real estate projects within India’s evolving real estate sector.

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