REITs: Recent Regulatory Developments in India (2025)

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Introduction

The regulatory framework for real estate investment trusts (REITs) in India has completed over a decade. Six REITs are currently registered with the Securities and Exchange Board of India (SEBI), the securities market regulator in India. The past decade has seen four successful REIT public listings, and one proposed listing (until June 2025).

REITs are required to have a minimum asset value of INR 5,000 million. In March 2024, the SEBI introduced a framework for small and medium REITs, or SM REITs, with a scheme-wise asset value of at least INR 500 million and less than INR 5,000 million. Four SM REITs are currently registered with the SEBI, out of which one SM REIT has publicly listed a scheme (until June 2025).

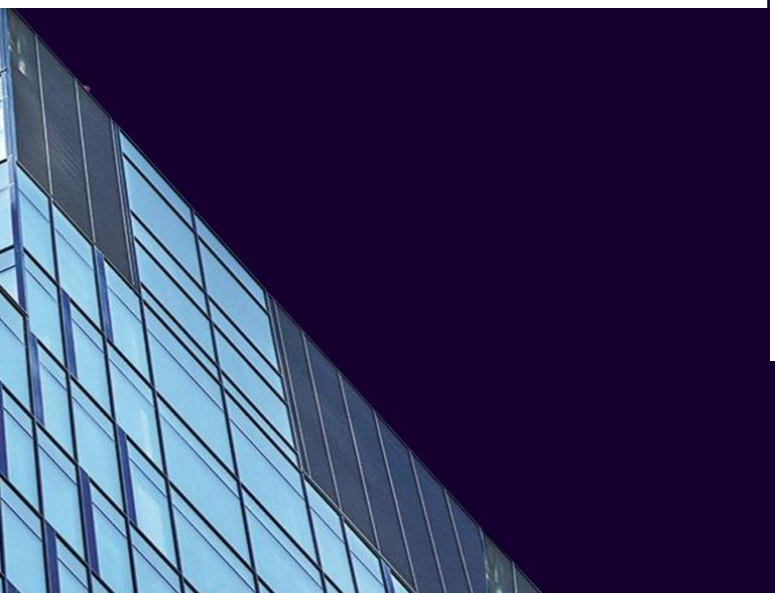
This article discusses certain regulatory changes to the REIT framework in 2025.

Key regulatory changes in 2025

REITs and SM REITs are organized as private trusts in India. The parties to a REIT include the manager, the trustee, one or more sponsors and sponsor groups (entities identified based on their relationship with the sponsor). SM REITs have an investment manager and a trustee.

An overview of the key amendments to the REIT framework issued by the SEBI in 2025, including pursuant to amendment regulations dated April 23, 2025 (2025 Amendments) is set out below:

- ***Enhancement of the role of the trustee:*** The role and responsibilities of the trustee have been enhanced and an illustrative list of roles and responsibilities to guide the trustee, covering matters including asset management oversight, regulatory compliance and reporting, managerial oversight, information and documentation, record-keeping, ethics and conflict of interest, auditing and financial review and due diligence, has been included in the regulations. A period of 180 days has been provided for such amendments to become effective, to enable trustees to engage in capacity building. These amendments are expected to enhance governance and transparency in the REIT and SM REIT structure.



- ***Investment in 'infrastructure' and 'common infrastructure':*** The REIT regulations distinguish between 'real estate' and 'infrastructure' for purposes of investment by REITs (including SM REITs). As a general matter, infrastructure investment trusts or InvITs (also regulated by the SEBI) are permitted to invest in infrastructure projects, while REITs focus on investment in real assets other than infrastructure, subject to certain exceptions.

  Earlier, REITs were not permitted to invest in sectors notified as infrastructure sub-sectors by the Government of India, except (i) hotels, hospitals and convention centers, forming part of composite real estate projects; or (ii) common infrastructure for composite real estate projects, industrial parks and special economic zones. Pursuant to the 2025 Amendments, REITs are permitted to invest in infrastructure assets if the holding of such infrastructure asset is to earn fixed rental income from leasing out of such asset without assumption of any risk or reward arising out of or related to the operation of such asset. This will expand the asset classes available to REITs for investment.

  In addition, a definition of 'common infrastructure' has been included under the regulations, which is expected to remove ambiguity. Common infrastructure includes power plants, district or retail heating and cooling systems, water treatment or processing plants, waste treatment or processing plants and any facilities or amenities incidental to real estate business which exclusively supply or cater to, or are exclusively consumed by the REIT and its assets, subject to certain conditions, irrespective of whether or not such facilities or amenities are co-located within any project of REIT.

- ***Investment in derivatives:*** The REIT regulations did not include any instrument to hedge the interest rate risk on borrowings through interest rate swaps. Pursuant to the 2025 Amendments, an additional category of permitted investments has been introduced for investment in interest rate derivatives by REITs and SM REITs, including interest rate futures, forward rate contract and interest rate swap, subject to specified conditions; and conditions have been introduced for investment in liquid mutual fund schemes (*i.e.*, mutual fund schemes where the credit risk value is at least 12 and which falls under the Class A-I in the potential risk class matrix as specified by the SEBI). It has also been clarified that an issuer credit rating of the REIT is required to be obtained for borrowing above specified thresholds.

- ***Investment in property management companies:*** The 2025 Amendments enable REITs to invest in wholly-owned unlisted companies that provide property management, property maintenance, housekeeping and other incidental services to the REIT's portfolio, subject to specified conditions.

- ***Investment in unlisted equity shares of real estate companies:*** REITs were earlier permitted to invest in unlisted equity shares of a company that derived at least 75% of its operating income from real estate, subject to such investment, taken together with other permitted investments, not exceed 20% of the value of the REIT's assets. As an investor protection measure, REITs are no longer permitted to undertake such investments. Investments prior to the 2025 Amendments have been grandfathered.

- ***Inter se transfer of locked-up units:*** Sponsors and sponsor groups are subject to certain minimum unitholding requirements based on a sliding scale linked to the life of the REIT since listing under the regulations. The transfer of such locked-up units held by sponsor/sponsor group has been permitted: (i) among a sponsor and its sponsor group subject to the lock-in continuing in the hands of the transferee and the transferee not being eligible to transfer such units until expiry of lock-in; or (ii) from an outgoing sponsor/sponsor group to an incoming sponsor/sponsor group in case of change in sponsor, subject to the incoming sponsor/sponsor group meeting minimum unitholding requirements after the transfer; or (iii) from outgoing sponsor/sponsor group to self-sponsored manager in case of conversion to self-sponsored manager, subject to the self-sponsored manager meeting minimum unitholding requirements after the transfer. Such amendments are expected to enhance liquidity.

- ***Director vacancies, committee constitution:*** REITs and SM REITs have been provided a time period of up to three months from the date of a vacancy to fill vacancies in the office of independent directors and other directors subject to certain conditions. Further, the Nomination and Remuneration Committee of the board of directors of a REIT manager is now permitted to include non-executive directors (this was earlier limited to independent directors).

- ***SM REITs:*** Amendments have been made to the process and disclosures for offerings by SM REITs, and certain governance requirements for SM REITs.

- ***Other regulatory changes.*** In addition to the 2025 Amendments, earlier in the year, the SEBI relaxed sponsor/sponsor group lock-up requirements for preferential issues and issued a framework for follow-on public offers by REITs, to promote fund-raising. An investor charter for REITs has also been introduced, to facilitate financial literacy and investor protection. Further, at a recent board meeting held on June 18, 2025, the SEBI approved further ease of doing business measures, including clarifications on public unitholding and calculation of distributable cash flows, as well as the alignment of regulatory timelines for the submission of periodic financial, valuation and other information.

Conclusion

The regulatory and policy developments for REITs in 2025 primarily focus on ease of doing business and investor protection. The protection of investor interests is important, even in the nascent REIT sector in India. In May 2025, the SEBI issued a public advisory cautioning investors with respect to an SM REIT and engaged with the SM REIT to surrender its registration, in light of news reports and legal proceedings involving the SM REIT.

The regulatory framework for REITs continues to evolve to keep pace with the dynamic nature of the REIT product. Optimum regulation and transparency will be key drivers for the continued growth and development of the sector in India.

Disclaimer: *This article has been authored by Pratichi Mishra (Partner, S&R Associates), Siddharth Urs (Senior Associate, S&R Associates) and Shiv Kumar Sharma (Associate, S&R Associates). They can be reached at pmishra@snrlaw.in, surs@snrlaw.in and shivkumar@snrlaw.in, respectively, for any questions. This article is intended only as a general discussion of issues and is not intended for any solicitation of work. It should not be regarded as legal advice and no legal or business decision should be based on its content.*

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