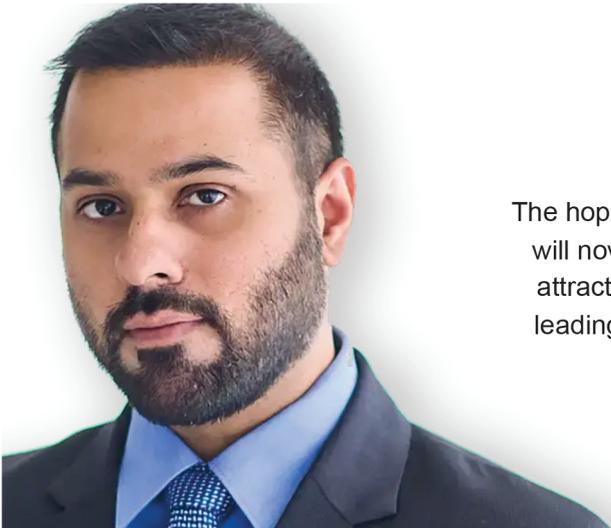


# SEBI's equity tag for REITs aligns India with global best practices: Abhinav Maker of Trilegal

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Kshitij Anand



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ET Markets

## Synopsis

SEBI's reclassification of REITs as equity is a welcome step, aligning India with global practices and potentially boosting liquidity. This move expands investment opportunities for equity mutual funds and could attract significant passive capital. While enhancing liquidity and price discovery, investors should temper return expectations, recognizing REITs' blend of stable yields and moderate risk.

*SEBI's recent decision to reclassify [Real Estate Investment Trusts](#) (REITs) as equity has sparked wide interest across the [investment](#) landscape.*

*[Abhinav Maker](#), Partner – Capital Markets at Trilegal, believes the move is a step towards aligning India's regulatory framework with global best practices.*

*In an exclusive interaction, he highlights how this reclassification could enhance [liquidity](#), broaden institutional participation, and pave the way for stronger growth in India's REIT market. Edited Excerpts -*

### **Q) What is your take on SEBI's approval of re-classification of REITs as equity?**

A) My view is that this is a very welcome step. This aligns with the global practice of classifying REITs as equity, rather than debt. It also removes the ambiguity created by the earlier "hybrid" classification and better reflects the market reality, where REIT returns have consistently behaved more like equities than debt.

We've recently seen strong IPO activity by real estate companies, with equity mutual funds providing robust support.

With REITs now eligible for inclusion in equity indices, there is strong potential for REITs to emerge as an equally compelling fundraising avenue, encouraging more developers to consider the REIT route.

Although, on the flip side, many hybrid and debt funds already have significant exposure to REITs. It remains to be seen how these existing investments will be treated going forward and how much time will be given to such funds to transition and adjust their existing portfolios.

**Q) How will this reclassification affect mutual fund investments in REITs?**

A) Needless to say, this is a big positive for equity mutual funds, which can now invest in REITs without breaching asset allocation rules (though to the best of my knowledge, no fund had actually breached allocation limits so far).

The move meaningfully expands the investible universe for equity mutual funds and should drive higher institutional participation in REITs.

Importantly, once REITs are included in equity indices, they are likely to attract significant passive capital as well. All of these developments are net positives for the REIT market.

That said, it is important to temper expectations. While REITs have delivered 12–15% returns so far, this has been against the backdrop of a buoyant real estate cycle.

In a downturn, REIT prices could soften, and their performance may not match the capital appreciation equity mutual funds typically expect. Investors must recognise that REITs are not designed as pure-play equities, but rather as instruments that combine stable yields with moderate risk.

Further, the impact of this move on the debt and hybrid funds which have meaningful exposure in REITs will need to be analysed. It will need to be seen how much time will be allowed by SEBI to debt fund to adjust their existing portfolios.

**Q) What might be the advantages and risks for investors (especially mutual funds) due to REITs now being classified as equity?**

A) This re-classification will not alter the fundamental risk–reward profile of REITs. They will continue to offer stable yields with moderate growth, and remain sensitive to interest rate movements and real estate cycles.

What it will do is enhance liquidity in existing REIT units, which over time could support better capital appreciation and lower volatility.

The key, however, is for investors to temper their return expectations - regulatory re-classification alone does not change the underlying return dynamics of the REIT asset class.

**Q) How could this change influence liquidity in the REIT market in India?**

A) Liquidity should improve significantly. With equity funds and more retail investors participating, demand for REIT units is likely to rise and also improve price discovery.

This can already be seen by the run-up in prices of listed REITs, which has jumped since the grant of equity status to REITs.

**Q) Do you think treating REITs as equity aligns with global best practices? What are examples from other countries?**

A) Yes, this move is consistent with practices in mature markets globally. In the U.S., listed REITs (excluding non-traded REITs) are classified as equities, form part of major benchmarks such as the S&P 500, and are widely held by equity funds.

Similarly, in Singapore and Hong Kong, REITs are included in equity indices and actively owned by equity mutual funds. India's shift therefore brings its framework closer to established international standards.

**Q) Since InvITs remain in a “hybrid” classification, is that fair considering their structure and risk profile compared to REITs?**

A) It really depends on the underlying assets an InvIT holds. Structurally, InvITs and REITs are quite similar, but their underlying asset base may vary widely.

For example, InvITs with exposure to warehouses or data centres (which fall under the harmonised infrastructure list and therefore qualify as InvITs rather than REITs) often generate returns more comparable to REITs than to road, highway, or renewable InvITs.

A key differentiator is the prevalence of private listed InvITs, which far outnumber the publicly listed InvIT - 12 private InvITs compared to 5 public InvITs as on date. Private InvITs, by design, are relatively closed structures with low trading turnover, and have attracted far less equity mutual fund participation than REITs or public InvITs.

That said, with several private InvITs reportedly considering conversion to public, an equity classification for such private InvITs could become more relevant going forward.

At the same time, many InvITs, especially those with underlying assets comprising by HAM road projects or renewables, have revenue streams that resemble annuity cash flows, making their risk–return profile more debt-like and less growth-oriented than REITs, which are tied to commercial real estate values.

Therefore, while the distinction between REITs and InvIT classification may have some basis, there is also a strong case for harmonising classifications between InvITs and REITs, especially as the market matures and more private InvITs move towards public listing.

**Q) Could this spur more REIT listings in India, or more capital flowing into real estate via REITs?**

A) Yes, it is definitely expected to improve capital flows in the REIT market. India has already witnessed a slew of IPOs by reputed real estate developers.

The hope is that such developers will now see REITs also as an attractive monetisation route, leading to more REIT listings.

For investors, the re-classification signals easier accessibility, potentially channelling more capital into Indian real estate through listed REITs.