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SEBI Proposes Easing of Investment Limits for Mutual Funds' Exposure to REITs and InvITs



1. Introduction

On April 17, 2025, the Securities and Exchange Board of India (SEBI) released a consultation paper seeking public feedback on a proposal to ease restrictions on mutual fund investments in Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs). The proposal allows mutual funds greater flexibility to tap into India's growing real estate and infrastructure sectors, offering investors portfolio diversification without direct property investments.

This is a big deal, especially for everyday investors who want a slice of India's booming real estate or infrastructure growth without directly buying a flat or highway stake

2. Understanding REITs and InvITs in Real Life

Let's make it real. Suppose you're a middle-class salaried professional in Mumbai or Delhi. You want to benefit from rising commercial real estate, like tech parks in Bengaluru or malls in Gurgaon, but can't afford to buy a property outright. REITs offer a solution. For example, Embassy Office Parks REIT, India's first listed REIT, owns premium office spaces leased to big tech firms. InvITs, on the other hand, allow you to invest in infrastructure like highways, power grids, or telecom towers.

Imagine your mutual fund investing a part of your portfolio in these instruments, giving you indirect exposure to India's physical infrastructure growth.

3. Current Rules – A Bit Restrictive

Under SEBI's current regulatory framework –

(a) A mutual fund scheme can invest up to 10% of its Net Value Asset (NAV) in units of REITs and InvITs.

(b) Investment in units issued by a single REIT or InvIT issuer must not exceed 5% of the scheme's NAV (e.g., only up to 5% in Embassy REIT).

(c) These limits do not apply to:

- Index funds tracking REIT or InvIT indices,
- Sector-specific or industry-specific schemes focused on REITs and In vITs

(d) A mutual fund cannot hold more than 10% of units issued by a single REIT/ InvIT across all its schemes.

These limits are designed to manage risk, but fund managers say they're too tight—especially with only a few big players in the REIT and InvIT space.

4. What Industry Wants and Why?

Over the past few years, mutual fund houses and industry associations like AMFI (Association of Mutual Funds in India) have urged SEBI to reconsider the existing investment limits. Their suggestions include:

(a) Classifying REITs and InvITs as equity instruments, not hybrids.

(b) Including them in equity indices (so index funds can invest in them).

(c) Allowing the launch of dedicated mutual fund schemes focused on REITs/InvITs.

(d) Raising the investment limits, especially for equity and hybrid mutual fund

4.1. Why These Suggestions?

These instruments offer steady cash flows. REITs and InvITs are mandated to distribute at least 90% of their net distributable cash flows to investors. They also provide investors with exposure to stable, income-generating assets.

5. SEBI's Big Proposals

The following are SEBI's key proposals

5.1 Classification as Equity Instruments

The classification of REITs and InvITs as equity instruments has been deliberated. Currently, SEBI classifies them as hybrid instruments due to the following unique features –

(a) Ownership by unitholders of the underlying assets;

(b) No obligation for principal repayment;

(c) Mandatory distribution of at least 90% of net distributable cash flow, which is variable and not guaranteed;

(d) Voting rights for unitholders on material transactions;

(e) Restriction on borrowings.

While several jurisdictions globally classify REITs and InvITs as equity instruments and include them in indices like the MSCI India Small Cap Index and the FTSE India Index, SEBI's Mutual Fund Advisory Committee (MFAC) and the Association of Mutual Funds in India

(AMFI) believe that these instruments should continue to be classified as hybrid securities rather than as pure equity or debt.

5.2 Increase Investment Limits

Scheme Type	Single Issuer Limit (Current → Proposed)	Total Limit (Current → Proposed)
Equity	5% → 10%	10% → 20%
Hybrid	5% → 10%	10% → 20%
Debt	5% → 10%	10% → 10% (unchanged)

This will give fund managers more flexibility to allocate meaningful portions to high-quality REITs and InvITs, especially considering India currently has only a few large, listed ones.

6. Real-World Implications for Investors

If these proposals are approved, it could be a win-win –

(a) Mutual funds would gain a powerful new tool to manage returns and risk.

(b) Retail investors would gain access to India's real estate and infrastructure boom without needing crores to buy property or invest in large infrastructure projects.

(c) REITs and InvITs would get more visibility and liquidity, helping them raise capital for new development.

For example, a young investor in her 30s might invest through a hybrid mutual fund that now holds 15–20% in Embassy or Mindspace REITs, earning regular rental income. A retiree may prefer a debt fund holding India Grid Trust for steady cash flows. This flexibility can lead to more inclusive wealth creation.

7. Conclusion

SEBI's proposals represent a progressive shift in India's investment landscape. By classifying REITs and InvITs as equity instruments and increasing investment limits, SEBI's proposals aim to unlock greater potential for investors. These reforms empower mutual funds to tap into a broader spectrum of asset classes, thereby deepening market participation in India's real estate and infrastructure sectors. This move promises to attract more capital into these sectors, improve liquidity, and create more inclusive investment opportunities for a broader investor base. Public comments may be submitted by May 11, 2025.

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Our Journey

Founded	1972
Evolution	From a small family business to a leading technology-oriented Publishing/Product company
Expansion	Launch of Taxmann Advisory for personalized consulting solutions

Our Vision



Aim

Achieve perfection, skill, and accuracy in all endeavour



Growth

Evolution into a company with strong independent divisions: Research & Editorial, Production, Sales & Marketing, and Technology



Future

Continuously providing practical solutions through Taxmann Advisory

Our Strength

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Editorial and Research Division

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Impact
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- ✓ Transactions Services
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A Glimpse of the People Behind Taxmann



Naveen Wadhwa

Research and Advisory [Corporate and Personal Tax]

- ✓ Chartered Accountant (All India 24th Rank)
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- ✓ Holds 30+ years of experience
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- ✓ Chartered Accountant and Cost & Works Accountant
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- ✓ Bestowed with numerous prestigious scholarships and prizes
- ✓ Author of the book GST – How to Meet Your Obligations', which is widely referred to by Trade and Industry



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- ✓ Over three decades of practising experience on tax, legal and regulatory aspects of NPOs and Charitable Institutions
- ✓ Law practitioner, a fellow member of the Institute of Chartered Accountants of India and also holds a Master's degree in Philosophy
- ✓ PhD from Utkal University, Doctoral Research on Social Accountability Standards for NPOs
- ✓ Author of several best-selling books for professionals, including the recent one titled 'Trust and NGO's Ready Reckoner' by Taxmann
- ✓ Drafted publications for The Institute of Chartered Accountants of India, New Delhi, such as FAQs on GST for NPOs & FAQs on FCRA for NPOs.
- ✓ Has been a faculty and resource person at various national and international forums



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