
REAL ESTATE INVESTMENT TRUSTS IN INDIA: REGULATORY EVOLUTION AND FOREIGN INVESTMENT UNDER FEMA

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ABSTRACT

Real Estate Investment Trusts (REITs) have become a revolutionary mechanism to invest capital in India's real estate sector, providing investors an alternative to owning physical property through transparent, regulated and income-generating vehicles. In this paper, the authors critique the gradual evolution of REITs in India from a regulatory standpoint, beginning with the SEBI (REIT) Regulations, 2014 and progressing to the various significant amendments that ultimately resulted in a comprehensive set of reforms in 2025. It highlights the structural and operational framework of REITs (e.g., the investment mandate, distribution requirements, and governance structures), as well as analyzing the legal and financial interplay with foreign investment regulations under FEMA. Although direct investment of foreign direct investment (FDI) in REITs is prohibited, other alternative methods exist for international participation, e.g., Foreign Portfolio Investment (FPI), Special Purpose Vehicles (SPVs), etc., even though compliance complexities arise. Overall, the paper reveals that the recent reforms have achieved greater flexibility, widening of asset classes, and investor protection, establishing REITs as mainstream tools of capital formation. At the same time, it makes the case for greater convergence between SEBI, RBI and taxation regulations to fully harness the potential of REITs in meeting India's infrastructure and housing needs and attracting long-term capital investment from abroad.

Keywords: Real Estate Investment Trusts (REITs); SEBI (REIT) Regulations; Regulatory reforms; Foreign investment; FEMA compliance; Investor protection; Capital formation; Infrastructure financing.

INTRODUCTION

Real estate has been a cornerstone of India's economic growth for many years, standing as the second-largest employer after agriculture and contributing considerably to India's GDP. With the increasing urbanization and consequent increase in the demand for housing and the expansion of commercial infrastructures, the sector is estimated to grow at an annual rate of almost 30%, and the market size is expected to reach over USD 1 trillion by 2026. The Indian real estate sector is a promising sector, but it has been fragmented, under-regulated, lacks standardization of practices, limited finance availability issues and limited foreign investment. Such inefficiencies in the structure have often led to projects not being completed on time or even not at all. The investors have lost their confidence, which has shown the need for innovative financing mechanisms to be implemented.

It was against this backdrop that the first Indian REIT was introduced in 2008 when the Securities and Exchange Board of India (SEBI) issued a draft framework for REITs in India. However, political instabilities, the global financial crisis and an unsettled tax regime made it impossible for the draft to become enforceable law. Real Estate Investment Trusts REITs are companies that own, manage, or finance income-producing real estate. REITs are similar to a mutual fund investment option that benefits both the developer and the investors. In the modern financial markets, REITs are considered to be extremely important as they offer small investors access to easy source of income through real estate investment and as well as an efficient way of hedging against inflation. On the Global front, REITs had already secured worldwide acceptance, originating in the 1960s in the United States, subsequently expanding to the markets of Australia, Japan, Singapore and South Korea. These jurisdictions demonstrated the value of REITs by democratizing real estate ownership through the collection of capital from a broad base of investors and guaranteeing liquidity by listing on the stock exchanges.

After considering various steps for several years, SEBI issued a notification for SEBI (Real Estate Investment Trusts) Regulations, 2014¹ on 26th September 2014 and it marked a watershed moment for Indian real estate finance. The regulations envisaged REITs must be listed on the main boards of NSE or BSE and would mainly hold completed and revenue-generating assets, either directly or through Special Purpose Vehicles (SPVs). To ensure

¹ Securities & Exch. Bd. of India (Real Estate Investment Trusts) Regulations, 2014, Gazette of India, Sept. 26, 2014.

accountability and reduce conflicts of interest, the regulations mandated a clear separation of the sponsor, the trustee and the manager. The trust deed, registered under the Registration Act, 1908², serves as the constitutional charter of the REIT, formalising the regulatory framework and as they are regarded as trusts, the Indian Trusts Act, 1882³, governs the REITs.

In parallel, tax reforms introduced in the 2014 Budget, along with subsequent clarifications under the Income-tax Act, 1961⁴ were aimed at making the ecosystem more investor-friendly. Additionally, the consonance of the REIT framework to the foreign exchange laws of India passed under the Foreign Exchange Management Act (FEMA)⁵, which opened the avenues for participation by foreign portfolio investors, non-resident Indians and institutional investors in the growth story in India's real estate was equally important.

This paper seeks to provide an overview of the REITs in India, the evolution of the regulatory framework, and the process of foreign investments in REITs through FEMA.

OVERVIEW AND STRUCTURAL, OPERATIONAL FRAMEWORK

MEANING:

Real Estate Investment Trusts (REITs) in India are the investment vehicles registered as private trusts under the Indian Trusts Act, 1882⁶ and governed by the Securities and Exchange Board of India (SEBI)⁷. They pool funds from investors to invest in completed, income-generating real estate assets such as commercial buildings, malls, offices and warehouses. In contrast to conventional real estate companies, the REITs purchase and operate the properties as a component of the investment portfolio, and do not develop them for resale. A unit of REIT represents fractional ownership of the real estate held by the Trust. REIT pools capital and raises funds by issuing units to its unitholders and investing the capital in the assets. The income generated from these assets through rent or lease is distributed as dividends and interest to the unitholders in return. REITs are also listed on stock exchanges, making it relatively simple for

² The Registration Act, 1908, No. 16 of 1908, INDIA CODE (1908).

³ The Indian Trusts Act, 1882, No. 2 of 1882, INDIA CODE (1882).

⁴ The Income-tax Act, 1961, No. 43 of 1961, INDIA CODE (1961).

⁵ The Foreign Exchange Management Act, 1999, No. 42 of 1999, INDIA CODE (1999).

⁶ *Supra* note 3.

⁷ Securities & Exch. Bd. of India (Real Estate Investment Trusts) Regulations, 2014, Gazette of India, Sept. 26, 2014.

investors to buy and sell units and providing liquidity over direct real estate investments.

The statutory basis for REITs in India is laid down under the SEBI (Real Estate Investment Trusts) Regulations, 2014⁸. According to Section 2(zm) of SEBI (Real Estate Investment Trusts) Regulations, 2014⁹, “REIT or Real Estate Investment Trust refers to a trust registered as such under these regulations”. Similarly, Section 2(zn)¹⁰ defines “REIT assets as real estate assets and any other assets held by the REIT, on a freehold or leasehold basis, whether directly or through a holdco and/or a special purpose vehicle”. In this context, “Real estate has been defined to mean land and any permanently attached improvements to it, whether leasehold or freehold including buildings, sheds, garages, fences, fittings, fixtures, warehouses, car parks, etc., and any other assets incidental to the ownership of real estate”¹¹. However, real estate shall exclude mortgage and assets falling in the definition of 'infrastructure' under the notification of the Ministry of Finance dated 7th October 2013¹². For a Company to be designated as a REIT, a company must establish a trust under the Indian Trusts Act, 1882¹³, and be registered in compliance with SEBI Real Estate Investment Trusts Regulations.

PARTIES OF REITS:

The Indian REIT framework follows a well-defined three-tier system comprising a Sponsor, a manager, and a Trustee, each entrusted with key responsibilities in order to ensure effective performance of the REIT. This structure improves the control, management and ensures the protection of the interests of the investors and other interest holders.

Sponsors are companies/groups or individuals with assets of Rs 100 crore and above who promote a REIT. They pay up with the capital required to set up a REIT. Their roles include the formation of the REIT and designating a Trustee. Additionally, the Sponsor's real estate assets are conveyed to the REIT to provide the basis of the trust's asset portfolio. The Trustee holds the REIT's assets for the benefit of the unitholders in the name of the trust and appoints the Manager while regulating the REIT's activities. The manager is, in turn, responsible for making essential decisions about the investments and divestments of the REIT and related

⁸ *Supra* note 7.

⁹ *Id.* § 2(zm).

¹⁰ *Id.* § 2(zn).

¹¹ *Id.* § 2(zz).

¹² Ministry of Fin., Notif. No. 13/2013, Gazette of India, Oct. 7, 2013 (defining “infrastructure” for the purposes of investment).

¹³ *Supra* note 3.

financial issues. The Trustee discharges this arrangement by entering into a management agreement with the Manager on behalf of the REIT.

In order to uphold the integrity of this structure, the sponsor(s), manager, and trustee are all separate and non-connected entities, with the trustee explicitly prohibited from being associated with the sponsor(s) or manager.

INVESTMENT:

The REITs are permitted to invest in real estate properties, Transferable Development Rights, and securities (TDRs) directly in India, or in all the above through Special Purpose Vehicles (SPVs) indirectly.

Additionally, an REIT is mandated to invest in at least two projects and the maximum threshold limit for investment in a single project is 60% of the value of the REIT's assets. Notwithstanding this, REITs are prohibited from investing in other REITs, vacant land, agricultural land and mortgages other than mortgage-backed securities. However, this restriction does not apply to any contiguous land and an extension of an existing project being implemented in stages.

Additionally, Regulation 18 of the SEBI (Real Estate Investment Trusts) Regulations, 2014¹⁴ provides the investment scheme in REIT as follows:

- At least 80% of the value of a REIT's assets must be invested in completed, rent-generating or income-producing properties.
- A maximum of 20% of the asset value can be invested in the following:
 - Properties under construction themselves require a minimum holding period of 3 years after completion.
 - Listed or unlisted debt instruments issued by companies or bodies corporate engaged in the real estate sector.

¹⁴ Securities & Exch. Bd. of India (Real Estate Investment Trusts) Regulations, 2014, reg. 18.

- Mortgage-backed securities.
- Equity shares of listed or unlisted companies, provided that at least 75% income from their operating activities is obtained from real estate activities.

BORROWING AND DEFERRED PAYMENTS:

According to Regulation 20 of the SEBI (Real Estate Investment Trusts) Regulations, 2014¹⁵ lays down borrowing restrictions for REITs. It provides that the accumulated consolidated borrowings and deferred payments of the REIT, net of cash and cash equivalents, should not exceed 49% of the value of the assets of the REIT. Such borrowings and deferred payments shall exclude any refundable security deposits received from tenants. In case the consolidated borrowings are more than 25% of the asset value of the REIT, any additional borrowing upto 49% limit requires a credit rating by a recognized credit rating agency and the consent of the unitholders. If the specified conditions are breached due to market fluctuations in the value of the underlying assets or securities, the manager must notify the trustee of such breach and take necessary steps to restore compliance with the regulation within six months.

SOURCE OF INCOME:

The primary source of revenue for REITs is governed by Regulation 18(6) of the SEBI (Real Estate Investment Trusts) Regulations, 2014¹⁶, which mandates, “at least 50% of the consolidated revenues of the REIT, its holding company, and its SPVs (other than gains from disposals of property) have to be derived from renting, leasing, letting real estate assets, or from incidental income in connection with leasing”. This regulatory requirement ensures that the income stream of REITs is continuous and consistent, and is in line with their aim of delivering periodic returns to unitholders.

DISTRIBUTION REQUIREMENTS:

To ensure that income generated by a REIT is distributed efficiently and timely to the investors, the following structured distribution framework has been established. In this regard, Regulation 18 (16) of the SEBI (Real Estate Investment Trusts) Regulations, 2014¹⁷ provides for a detailed

¹⁵ Securities & Exch. Bd. of India (Real Estate Investment Trusts) Regulations, 2014, reg. 20.

¹⁶ Securities & Exch. Bd. of India (Real Estate Investment Trusts) Regulations, 2014, reg. 18(6).

¹⁷ *Supra* note 16.

regime regarding distribution by the REIT, its holding company and its special purpose vehicles (SPVs as determined under sub-regulation (17))¹⁸-

- **SPV level:** Minimum 90% of net distributable cash flows flowing from SPV to be transferred to REIT or its holding company in proportion to its shareholding, subject to compliance with the provisions of the Companies Act, 2013¹⁹ & Limited Liability Partnership Act, 2008²⁰, as applicable.
- **Holding company level:** A holding company shall distribute to the REIT:
 - Holding company intends or is able to receive 100% of its cash flows in SPVs; and
 - the holding company is earning or is likely to earn, 90% of its cash flows either on its own or through its SPVs, subject to the provisions of the Companies Act, 2013, or the act of LLP of year 2008, as the case may be.
- **REIT level:** Minimum of 90% of the net distributable cash flow of the REIT itself must be paid out to unitholders.
- **Sale proceeds:** If the REIT realizes gains from the sale of property, shares or interests in a holding company or SPV, at least 90% of such proceeds of the sale are to be distributed to unitholders unless the REIT reinvests the proceeds within one year.
- **Frequency of distribution:** The payment of dividends to unitholders shall not be less than twice a year.
- **Delay in distribution:** If declared distribution is not made within 15 days, the manager is obliged to pay interest at 15% per annum to the unitholder till completion of the payment. Importantly, this interest is not recoverable by the manager by way of fees or other charges payable by the REIT.

PUBLIC REITS:

The SEBI (Real Estate Investment Trusts) Regulations, 2014, govern Public Real Estate Investment Trusts in India and offer systematic guidelines on forming, conducting, and listing

¹⁸ Id. reg. 18(16)–(17).

¹⁹ The Companies Act, 2013.

²⁰ The Limited Liability Partnership Act, 2008.

the funds. These REITs are required to trade their units in established stock markets, providing liquidity and transparency to the investors.

The regulatory regime applicable to Real Estate Investment trusts (REITs) that are traded in the public market in India lays down certain conditions for distinction between REITs and Private REITs / Public Non-REIT companies. Chapter IV of the SEBI (Real Estate Investment Trusts) Regulations, 2014²¹ provides the requirements for the issue and listing units through an initial public offer.

1. Initial Offer and Listing Requirements –

To raise capital from the public, a REIT must meet the following:

- Get registered with SEBI and meet the prescribed eligibility criteria.
- Maintain a minimum value of assets of INR 5 billion.
- Have at least 200 unitholders after issue.
- Offer units of not less than INR 2.5 billion in value at the time of the first public offer with a minimum public float of 25%.

The degree of public float is also linked to the size of the post-issue capital:

- If the post-issue capital is less than INR 16 billion, at least 25% of the total outstanding units must be offered to the public.
- If the post-issue capital is between INR 16 billion and INR 40 billion, the offer size has to be a minimum of INR 4 billion.
- If the post-issue capital exceeds INR 40 billion, then a minimum of 10% of the total outstanding units must be offered to the public.

The merchant banker must file the draft offer document with the SEBI and the concerned stock exchange 30 days before submitting the final offer document, and it must be made available to the Public for review and comments. The pricing of units is determined through a book-

²¹ Id. ch. IV (regs. 14–16).

building process / as specified by SEBI. In case of failure to allot/list/refund within the prescribed time, the manager is liable to pay interest @15% per annum to the applicants.

2. Ongoing Disclosure and Compliance Requirements-

Once listed, public REITs must adhere to the norms of general obligations, disclosure, and reporting requirements in case of non-compliance, as set out under Regulations 23 to 26 of the REIT Regulations²²s and the SEBI Guidelines²³. These include:

- Holding an annual meeting of unitholders at least once every year, during which key information, including audited accounts, valuation reports and performance information, must be presented;
- Furnishing annual reports within three months from the end of the financial year, and half-yearly reports within 45 days of the end of September;
- It is also required to promptly disclose all material or price-sensitive information to the relevant stock exchanges.
- Confirmation that all the disclosures made in the offer document are in accordance with Schedule III of the REIT Regulations²⁴;
- Maintenance of records for at least seven years, including financial reports, insurance policies, investment management agreements, title deeds of underlying properties, and minutes of unitholder meetings;
- Filing periodic reports with SEBI and complying with the continuous disclosure standards prescribed by SEBI from time to time through circulars.

Through these requirements, the regulatory framework provides transparency, investor protection, and accountability in the functioning of publicly traded REITs, bringing the asset class closer to global best practices.

²² Id. regs. 23-26.

²³ SEBI Notification No. LAD-NRO/GN/2014-15/11/1576 (Sept. 26, 2014).

²⁴ Schedule III of the SEBI (Real Estate Investment Trusts) Regulations, 2014.

REGULATORY AMENDMENTS

AMENDMENTS PRIOR TO 2025:

2016 - SEBI revised REIT Regulations to enhance REIT's investment viability by amending the minimum public float requirement from 25% to 10% for the large REITs (post-issue capital above INR 16 billion). It also provided more rules governing holding companies and SPVs to simplify the indirect ownership structures²⁵.

2017 - SEBI introduced Amendments to bring disclosure norms on par with listed entities under SEBI (LODR) Regulations, 2015²⁶. The changes mandated quarterly financial reporting and improved requirements for valuation disclosures.

2019 - SEBI introduced key relaxations such as²⁷:

- Allowing REITs to raise finances through preferential issue and institutional placement.
- Enabling strategic investors like Mutual funds and insurance companies to invest in REITs
- Reducing the minimum subscription amount for the investors from INR 2 Lakh to INR 50,000 and thus expanding the investor base.

2020 - Further measures were implemented to enhance investor participation²⁸:

- Reducing the trading lot size for publicly listed REITs from 200 units to 1 unit, thereby increasing retail investor participation.
- Rationalizing the disclosure requirements and permitting faster modes of fundraising, such as rights issues.

²⁵ Securities & Exch. Bd. of India, Notif. No. LAD-NRO/GN/2016-17/009, Gazette of India, July 29, 2016 (amending SEBI (REIT) Regs., 2014).

²⁶ Securities & Exch. Bd. of India, Notif. No. SEBI/LAD-NRO/GN/2017-18/003, Gazette of India, May 15, 2017; SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, Gazette of India, Sept. 2, 2015.

²⁷ Securities & Exch. Bd. of India, Notif. No. SEBI/LAD-NRO/GN/2018-19/40, Gazette of India, Sept. 27, 2019

²⁸ Securities & Exch. Bd. of India, Notif. No. SEBI/LAD-NRO/GN/2020/14, Gazette of India, June 16, 2020.

2021 - SEBI granted special rights to unitholders, including nomination of directors and the authority to approve certain reserved matters, thereby aligning REIT governance more closely with that of listed companies²⁹.

2022-2023 - Minor amendments were introduced to clarify related-party transactions, valuation methodologies, and treatment of debt instruments under the 20% investment cap. These changes were intended to enhance transparency and governance while ensuring flexibility in financing³⁰.

AMENDMENTS IN 2025

In 2025, SEBI provided a comprehensive set of reforms through the SEBI (Real Estate Investment Trusts) (Amendment) Regulations, 2025, notifiable on April 22, 2025³¹. These amendments mark a significant development in the regulatory arena, and can be categorized into several key areas:

1. **Transfer of Locked-in Units** - Sponsors and their group entities are now permitted to transfer locked-in units among themselves, provided that the lock-in persists with the transferee. In the case of multiple sponsors, transfers are only allowed within each sponsor's group. In addition, in the event of a change of sponsor or conversion to a self-sponsored manager model, the locked-in units may be transferred to the incoming sponsor, self-sponsored manager, or their shareholders, subject to minimum requirements for unitholding.
2. **Expansion of Eligible Asset Base** - REITs can now invest, either directly or through their HoldCos or SPVs, in certain infrastructure assets, which are listed under the Harmonized List of the Ministry of Finance, to the extent that such assets are generating fixed rental income through leasing without operational risks being assumed by the REIT. This effectively creates opportunities in asset classes such as warehouses, data centres and hotels that lie at the intersection of real estate and infrastructure.

²⁹ Securities & Exch. Bd. of India, Notif. No. SEBI/LAD-NRO/GN/2021/23, Gazette of India, Aug. 3, 2021.

³⁰ Securities & Exch. Bd. of India, Notif. Nos. SEBI/LAD-NRO/GN/2022/87 (Nov. 2022) & SEBI/LAD-NRO/GN/2023/117 (Aug. 2023), Gazette of India.

³¹ Securities & Exch. Bd. of India (Real Estate Investment Trusts) (Amendment) Regulations, 2025, Gazette of India, Apr. 22, 2025.

3. **Definition of Common Infrastructure** - For the first time, "common infrastructure" has been defined to include things like power plants, as well as water and waste treatment facilities, and heating or cooling systems, even if they are located outside a REIT project. Surplus power from such power generation facilities may be sold to government electricity transmission grids or utilities in accordance with relevant law.
4. **Investment Flexibility and 20% Limit** - The permissible 20% investment bucket has been expanded to include liquid mutual fund units (satisfying SEBI's risk parameters), interest rate derivatives (for hedging existing borrowings) and equity of entities wholly-owned by the REIT and undertaking property management or standard infrastructure services. These additions provide increased flexibility to managers to manage capital and risk.
5. **Governance and Trustee Responsibilities** - Trustees' roles have been expanded to ensure adherence to core principles of transparency, accountability, and unitholder protection. They are now explicitly tasked with overseeing managers, conducting asset inspections, and ensuring active and timely flow of information. These provisions will come into force 180 days after notification, providing sufficient time to ensure compliance.
6. **Board Composition and Vacancy Timelines** - Vacancies in the board of the REIT manager must now be filled in time, either by the date of expiry in the case of term completion, or within 3 months for any other cause. Further, the Nomination and Remuneration Committee (NRC) can now include non-executive directors, provided that two-thirds are independent directors.
7. **Small and Medium REITs (SM REITs)** - A detailed framework has been introduced for SM REITs, which covers offer document formats, threshold for subscription, utilization of proceeds, periodic updating of disclosures and monitoring of compliance. Failure to comply could lead to restrictions on new schemes being launched or current ones being delisted.
8. **Credit Rating Requirements** - It has been clarified that in cases of borrowings exceeding specified limits, REITs will be required to avail an issuer credit rating, thus ensuring some semblance of consistency in the investor's assessment.

Taken together, the 2025 amendments represent one of the most significant revisions of REIT regulations since their inception. By broadening the scope of permissible investments, tightening the governance framework, and clarifying emerging investment structures like SM REITs, SEBI has made it clear that it intends to deepen the REIT market in India while ensuring strong levels of investor protection.

REAL ESTATE INVESTMENT TRUSTS IN INDIA IN FOREIGN INVESTMENTS AND UNDER FEMA

Real estate investment trusts in India derive their legal foundation from the SEBI (Real Estate Investment Trusts) Regulations, 2014³². However, the Foreign Exchange Management Act, 1999³³ read with the Consolidated FDI Policy, continues to categorize "trusts" as a restricted investment vehicle³⁴. Specifically, Regulation 5.1.3 of Policy on FDI 2020³⁵ expressly bars foreign direct investment in trusts other than venture capital funds and those expressly notified by the central government. While REITs are recognised as notified and listed collective investment vehicle, they remain absent from the list of permitted categories. The legal consequence is that an offshore entity cannot subscribe to REIT units directly under the FDI route. This prohibition is not a drafting oversight, as the Reserve Bank of India has reiterated in its Master Direction No.12/2015-16³⁶ that "any form of investment in a trust, other than those which are specifically permitted, shall require prior approval of the Government." Consequently, the foreign capital must seek alternative entry channels into the Indian REIT framework.

THE FPI WINDOW:

The Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 serve as the primary channel for foreign participation. Under this regime, Category I and Category II FPIs are permitted to freely acquire and hold listed REIT units up to the sectoral limit for "real estate activities" under Schedule 2 of the FEMA (Non-Debt Instruments) Rules,

³² *Supra* note 7.

³³ Foreign Exchange Management Act, 1999, No. 42 of 1999, INDIA CODE (1999).

³⁴ Foreign Exchange Management Act, 1999, No. 42 of 1999, INDIA CODE (1999).

³⁵ Department for Promotion of Industry and Internal Trade (DPIIT), Consolidated FDI Policy 2020, Reg. 5.1.3, https://dipp.gov.in/sites/default/files/FDI_Circular_2020.pdf (last visited Sept. 19, 2025).

³⁶ Reserve Bank of India, Master Direction – Investment in a Trust, Master Direction No. 12/2015-16 (Sept. 2015), <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Mode=0&Id=9871>.

2019³⁷. At present, the cap stands at one hundred percent for non-restricted real estate, which, by virtue of the Negative List, is confined only to completed and revenue-generating assets. The Sectoral Cap reduces to zero when the underlying SPV of the REIT holds agricultural land or undertakes construction of residential apartments. The FPI thus has to carry out granular due diligence on the asset portfolio of the REIT prior to investment. Any violation of the cap results in automatic divestment within five trading days under Regulation 22 of the FPI Regulations³⁸ and attracts punishable consequences under Section 15H of the SEBI Act³⁹.

INVESTMENT THROUGH SPVS:

As FEMA prohibits direct foreign investment in REITs, foreign investors have conventionally pursued an alternative indirect process of obtaining an equity interest in the underlying special purpose vehicles (SPVs) and then permitting the sponsor to roll the assets into a REIT at some later date. Shareholding in an SPV that subsequently contributes assets to a REIT does not qualify as an investment in a "trust" for FEMA purposes. The SPV route, therefore, remains unaffected by such restrictions. Nonetheless, the Foreign Investment Facilitation Portal now requires an undertaking from the SPV that it will not be transferred to a trust structure within three years of infusion (unless the investor undertakes to convert its holding into REIT units under the FPI channel). Compliance with this requirement is monitored by filing quarterly returns to the regional office of the RBI.

The amendments to the Indian REIT that occurred in April 2025 have led to the consolidation of a decade's worth of regulatory evolution into a single comprehensive revision. With the new rules enabling infra-assets, SM-REITs, greater ease of transfer, enhanced governance and greater clarity in the role of the trustee, SEBI effectively elevated REITs from being niche products to mainstream investment tools. Now, legal and financial documents must address several types of assets, time frames, and regulations. The coming year will be pivotal in determining whether this restructured system will accommodate India's 2 trillion REIT market or if further adjustments are necessary. Foreign investment is still a complex issue as there are overlaps of FEMA, SEBI and tax laws. While direct FDI is still not permissible, the FPI route is open within limits. Although a future policy framework may simplify foreign investment,

³⁷ FEMA (Non-Debt Instruments) Rules, 2019, Schedule 2.

³⁸ Foreign Portfolio Investors Regulations, 2019, Reg. 22.

³⁹ Securities & Exchange Board of India Act, 1992, § 15H.

investors must, for the present, adopt a cautious and well-informed approach.

CONCLUSION

The rapid growth of India's real estate sector has positioned Real Estate Investment Trusts (REITs) as a significant component of the country's investment landscape. Since their delayed introduction from 2014 to the comprehensive 2025 amendments, REITs have evolved as credible, transparent and attractive investment vehicles. The expansion in the permitted asset classes, governance reforms, and the introduction of Small and Medium REITs (SM REITs) are significant steps to deepen the market and align with global best practices. While SEBI has liberalized policies related to REITs, challenges such as taxation, investment limitations, and regulatory overlaps continue to influence the pace and nature of both domestic and foreign participation. Foreign capital, in particular, flows primarily through FPIs, SPVs, and other indirect channels due to FEMA restrictions, highlighting the need for greater policy harmonization.

To unlock the full potential of REITs in India, it is imperative for the Government and regulators to adopt fast-track taxation and other regulatory amendments and reforms to promote REITs in India, streamline investment pathways, and further harmonize regulations between SEBI, RBI, and tax authorities. Resolving these challenges will not only enhance the contribution of the real estate sector to the GDP but will also position REITs as stable and long-term instruments of wealth creation and economic growth in India. By modernizing and democratizing real estate investment while maintaining robust investor protection, REITs have the capacity to bridge the funding gap in infrastructure and housing, ultimately catalyzing a more vibrant and sustainable real estate market in India.