

REITs as Equity – Ready for Corporate Action and M&A

The rise of Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) in India is a remarkable testament to financial market innovation. In less than a decade, there are already 27 InvITs and 5 REITs registered with SEBI, spanning sectors such as energy, transport and logistics, communications, social and commercial infrastructure, and real estate. Since their modest beginning in 2015, the combined assets under management have crossed USD 103.5 billion and are projected to triple by 2030. This product has created liquidity and financing opportunities for asset classes that banks traditionally do not actively fund.

Despite being relatively new compared to global peers, Indian REITs have performed strongly, with distribution yields averaging 6-7 percent, significantly higher than those in mature markets such as the United States at 2.5-3.5 percent and Singapore at 5-6 percent. This performance is expected to attract more REITs to tap the markets.

In a move to further accelerate growth, SEBI has decided to reclassify REITs as equity. This decision is aimed at boosting liquidity and simplifying fund allocation for alternative investment funds (AIFs) and mutual funds, and it marks a significant step in the maturation of this market. SEBI has consistently played the role of catalyst in shaping India's REIT market, from creating the initial framework to refining it with foresight and adaptability. By classifying REITs as equity, India is aligning with global standards, thereby instilling greater confidence among institutional and retail investors. This is not just a regulatory update; it is a strategic enabler that will deepen markets, strengthen governance, and broaden participation.

This regulatory clarity is expected to channel substantial domestic institutional capital into REITs. Fund managers can now allocate investments with confidence, without breaching equity or hybrid portfolio mandates. The result will be a broader and more diversified investor base, reduced volatility, and stable long-term sectoral growth. Globally, listed REITs in the United States are treated as equities, included in indices such as the S&P 500, and widely held by equity funds. Singapore and Hong Kong also include REITs in their equity benchmarks, with significant participation from equity mutual funds. India's move therefore harmonises its framework with these international norms.

However, this progress highlights another area that requires attention. While REITs are now classified as equity from an investment perspective, the regulatory framework governing mergers and acquisitions of the underlying entities requires suitable changes. Compared to the well-developed M&A and corporate action framework for listed equities, the regime for REITs and InvITs remains nascent. Closing this gap will be crucial to provide clarity, facilitate smoother transactions, and support the next phase of growth, especially as scale and consolidation become increasingly relevant.

Listed companies operate under the comprehensive M&A framework of the Companies Act, 2013, supplemented by SEBI's Takeover Code. In contrast, REITs and InvITs are governed by SEBI's 2014 regulations. While innovative when introduced, these rules have not kept pace with market complexity. They contain basic M&A provisions but lack the depth of a full-fledged code. Transactions such as the IndiGrid-Virescent merger had to navigate this ambiguity without a clear framework.

SEBI's current regulations lay only a foundational structure, requiring 75 percent unit holder approval for mergers, mandating independent valuations for related-party transactions, and referencing takeover rules for large acquisitions. These provisions were designed largely for straightforward sponsor-to-trust asset transfers, but they do not adequately address modern, complex trust-level mergers. As deal-making becomes more sophisticated, there is an urgent need for a codified M&A framework that provides clarity, certainty, and broader avenues for transactions. Such a framework would enhance investor confidence, increase market activity, and make REITs and InvITs even more attractive.

Our Views

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Now that REITs are formally classified as equity, SEBI has a strong rationale to adapt key features of the Companies Act framework. A dedicated takeover code for REITs and InvITs would be the logical next step. It should clearly define triggers for mandatory open offers, establish how control is defined in the context of a trust, and formalise processes for sponsor transitions. The concept of promoter and de-promoter should also be introduced to provide a smoother, more transparent process for sponsor exits, thereby ensuring stability.

Equally important would be a streamlined scheme of arrangement process, modelled on Sections 230–232 of the Companies Act, to govern mergers and amalgamations at the trust level. This should include mandatory fairness opinions from independent merchant bankers, dual valuation reports, and enhanced disclosure requirements such as pro-forma financials and synergy details, so that unit holders are fully informed before making decisions.

Another important aspect is the introduction of a buyback mechanism for REITs and InvITs, inspired by Sections 68–70 of the Companies Act. Such a clause would protect minority unit holders during M&A, enable efficient capital management, ensure parity with equity governance rules, and build long-term investor confidence.

A structured and transparent M&A framework will significantly boost market activity in REITs and InvITs by providing regulatory certainty, reducing execution risks, and encouraging strategic consolidation. ***The proactive evolution of this framework is critical; without it, REITs risk underperforming their potential, much like the differential voting rights structure that never gained traction in India.*** By adopting a comprehensive charter, REITs and InvITs will be able to attract more institutional capital through enhanced governance and clear exit options for global funds, while reducing ambiguity and strengthening investor trust. Ultimately, these measures will deepen market liquidity and transform REITs and InvITs into a more resilient and dynamic asset class.

Sunil Sanghai
Founder & CEO
NovaaOne Capital Pvt. Ltd