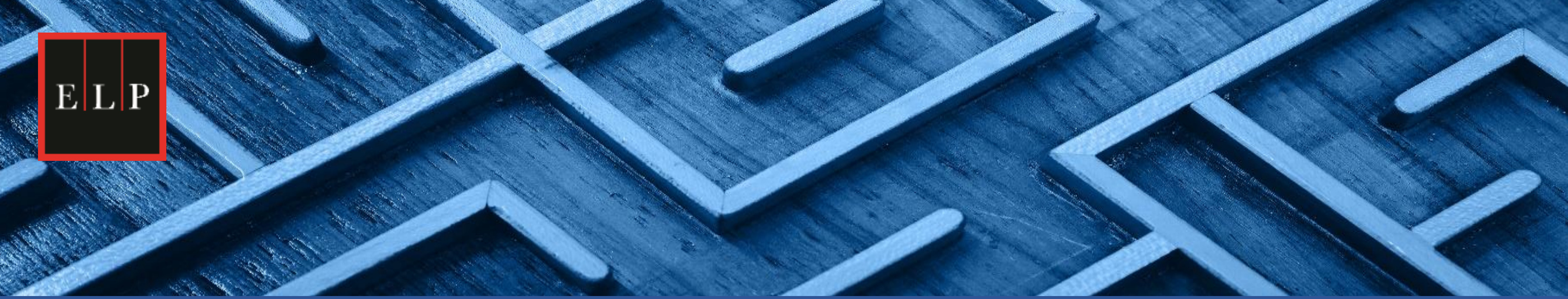

# SEBI tells Mutual Funds, henceforth REITs are “Equity”

## Amendments to the regulatory regime for Mutual Funds

The Securities and Exchange Board of India **(SEBI)**, in its board meeting on September 12, 2025, approved amendments to the SEBI (Mutual Funds) Regulations, 1996 (**SEBI MF Regulations**) to inter-alia re-classify REITs as “equity” for the purpose of investments by Mutual Funds (**MF**) and Specialized Investment Funds (**SIF**). SEBI’s Board retained the “hybrid” classification for InvITs though. Pursuant to such re-classification of REITs, investment allocation limits for funds investing in REITs shall be the same as investment allocation limit for equity instruments and the investment limit applicable for both REITs and InvITs until now will now be exclusively available for InvITs. This amendment has also made REITS eligible for inclusion in equity indices.

The aforementioned amendments to the SEBI MF Regulations were preceded by a public consultation launched by SEBI in April 2025, vide a consultation paper dated April 17, 2025, and detailed deliberations with MF industry associations and stakeholders.

Pursuant to the decision taken at the aforementioned board meeting, the SEBI (Mutual Funds) (Second Amendment) Regulations, 2025 amended the SEBI MF Regulations with effect from November 1, 2025 (the “***MF Amendment***”).

Prior to the MF Amendment, as per Regulation 44(1), clause 13 of Schedule VII and Regulation 49AA(4)(b) of the SEBI MF Regulations, the following investment limits applied to MFs and SIFs with respect to their investments in REITs and InvITs.

| ***Fund type*** | ***Scheme/investment strategy type*** | ***Combined Investment Limits for both REIT & InvITs*** |
|---|---|---|
| **MF** | Single scheme | ▪ Upto 5% of NAV in units issued by a single issuer<br>▪ Overall limit across issuers - 10% |
| | Across all schemes | Upto 10% of its NAV in units issued by a single issuer |
| **SIF** | Single investment strategy | ▪ Upto10% of its NAV in units issued by a single issuer<br>▪ Overall limit across issuers - 20% of its NAV |
| | Across all investment strategies | Not more than 20% of its NAV in units issued by a single issuer |

Subsequent to the MF Amendment, as per Regulation 44(1), clauses 2 and [13] of Schedule VII and Regulation 49AA(4)(b) of the SEBI MF Regulations, the following investment limits applies to MFs and SIFs with respect to their investments in REITs and InvITs.

| ***Fund type*** | ***Scheme/investment strategy type*** | ***REITs*** | ***InvITs*** |
|---|---|---|---|
| **MF** | Single scheme | *No limits prescribed by the* SEBI MF Regulations. *So the MF may invest in REITS to the extent permitted by the MF’s offer document.* | ▪ *Upto* 5% of its NAV in units issued by a single issuer<br>▪ Overall limit across issuers - 10% |
| | Across all schemes | 10% single issuer limit | 10% single issuer limit |

| | | | |
|---|---|---|---|
| **SIF** | Single investment strategy | *No limits prescribed by the* SEBI MF Regulations. *So the MF may invest in REITS to the extent permitted by the MF's offer document.* | ▪ 10% of its NAV in units issued by a single issuer<br>▪ Overall limit across issuers - 20% of its NAV |
| | Across all investment strategies | 15% (fifteen percent) | |

On November 28, 2025, SEBI released a circular (the "***MF Circular***") stating that with effect from January 1, 2026, any investment made by MFs and SIFs in units of REITs shall be considered as investment in equity related instruments and that InvITs shall continue to be classified as hybrid instruments for the purpose of investments by MFs and SIFs.

**Impact of MF Amendment and MF Circular:**

- As per paragraph 1(b) of the MF Circular, with REITs in the equity category, debt funds will no longer be able to invest in REITs, but investments in REITs made on or before December 31, 2025, will be grandfathered to facilitate a smooth transition. However, SEBI has encouraged asset managers to gradually divest such holdings, in line with liquidity, market conditions, and investor interest.
- As per paragraph 1(d) of the MF Circular, Mutual Fund houses (**AMCs**) will also need to update their scheme documents to reflect the change, usually via addenda, which SEBI clarified will *not* be treated as a "fundamental change."
- As per paragraph 1(e) of the MF Circular, on the index front, REITs may be included in equity indices only after July 1, 2026, giving six months for the market ecosystem to adjust.

**ELP COMMENT**

- SEBI's decision reflects its view that REITs are structurally closer to equity than debt/hybrid instruments, i.e., they represent ownership over real estate assets, enjoy tradability on stock exchanges, and yield returns akin to dividends or capital gains. This aligns the regulatory treatment with international norms and other regulatory approaches for REITs in India including their tax treatment more in line with equity, separate limits and asset class for these instruments even by pension and insurance authorities of India, etc. thereby acknowledging the maturity that the REIT asset class has achieved in India. The reclassification is expected to lead to increased investments by MFs (including SIFs) in REITs and in InvITs, leading to improved liquidity for both REITs and InvITs.
- The MF Circular will take effect only on January 1, 2026, though the MF Amendment took effect on November 1, 2025. Between November 1, 2025 and December 31, 2025, a MF or SIF can invest in a REIT only if its offer document specifically states that it may invest in a REIT. However, from January 1, 2026, MFs and SIFs can invest in REITs even if their offer documents do not specifically permit investments in REITs, as long as the offer document permits the MF/SIF to invest in equity related instruments.
- SEBI's decision to grandfather existing REIT holdings for debt funds is investor-friendly, market-friendly and practical. An immediate reclassification could have forced debt portfolios into fire-sale mode. Instead, SEBI's gradual exit mechanism avoids liquidity shocks while still nudging the ecosystem toward the new regime.
- SEBI's intent of increasing growth and investments into REITs and InvITs is further evidenced by the recent amendments to the SEBI (Infrastructure Investment Trusts) Regulations, 2014 (***SEBI InvIT Regulations***) and the SEBI (Real Estate Investment Trusts) (***SEBI REIT Regulations***), which widen the concept of "Strategic Investor" in these regulations. The aforementioned amendments to the SEBI InvIT Regulations and SEBI REIT Regulations were approved at SEBI's board meeting on September 12, 2025. The aforementioned decision taken at SEBI's board meeting was preceded by a public consultation undertaken vide a consultation paper issued on August 01, 2025. Prior to these amendments, many regulated institutional investors like public financial institutions, insurance

funds, provident funds, pension funds, etc. who make investments in units of InvITs and REITs were unable to participate as Strategic Investor. Post the aforementioned amendments, Strategic Investor includes the following entities:

- All Qualified Institutional Buyers which, inter-alia, include public financial institutions; provident funds and PFRDA registered pension funds with minimum corpus of Rs. 25 crores, alternative investment fund, state industrial development corporation, etc;
- Family trust and intermediaries registered with board with a net worth of more than Rs. 500 crores; and
- Middle layer, Upper layer & Top layer Non-Banking Finance Companies registered with the Reserve Bank of India.

- Under the Foreign Direct Investment (**FDI**) Policy, REITs and InvITs registered with and governed by SEBI regulations are treated as 'Investment Vehicles' and excluded it from the ambit of the "real estate business" sector in which foreign investments are prohibited. Any non-resident (other than an individual who is citizen of or any other entity which is registered / incorporated in Pakistan or Bangladesh) is permitted to invest in such Investment Vehicles in accordance with Foreign Exchange Management (Non-debt Instruments) Rules, 2019 (**FEMA NDI Rules**). The FEMA NDI Rules also allow the Investment Vehicle to issue its units to non-residents against a swap of equity instruments of a Special Purpose Vehicle (**SPV**) proposed to be acquired by such Investment Vehicle. It is interesting to note that the FDI policy has permitted FDI into REITs and InvITs since long, as though they are equity investments, whilst it is only now that SEII has reclassified investments in REITs as equity investments.

The MF Circular dated November 28, 2025 on *'Reclassification of Real Estate Investment Trusts (**REITs**) as equity related instruments for facilitating enhanced participation by Mutual Funds and Specialized Investment Funds (**SIFs**)'* can be found here

The SEBI (Mutual Funds) (Second Amendment) Regulations, 2025 dated November 1, 2025 can be found here

The minutes of the meeting of SEBI's board of director held on September 12, 2025 can be found here

The minutes of the meeting of SEBI's board of director held on January 14, 2017, can be found here

The consultation paper issued on August 01, 2025 by SEBI can be found here

The consultation paper issued on April 17, 2025 by SEBI can be found here

We hope you have found this information useful. For any queries/clarifications please write to us at insights@elp-in.com or write to our authors:

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