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Mutual funds seek SEBI support for dedicated REITs/InvITs schemes

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Fund houses vie for large pie of these instruments

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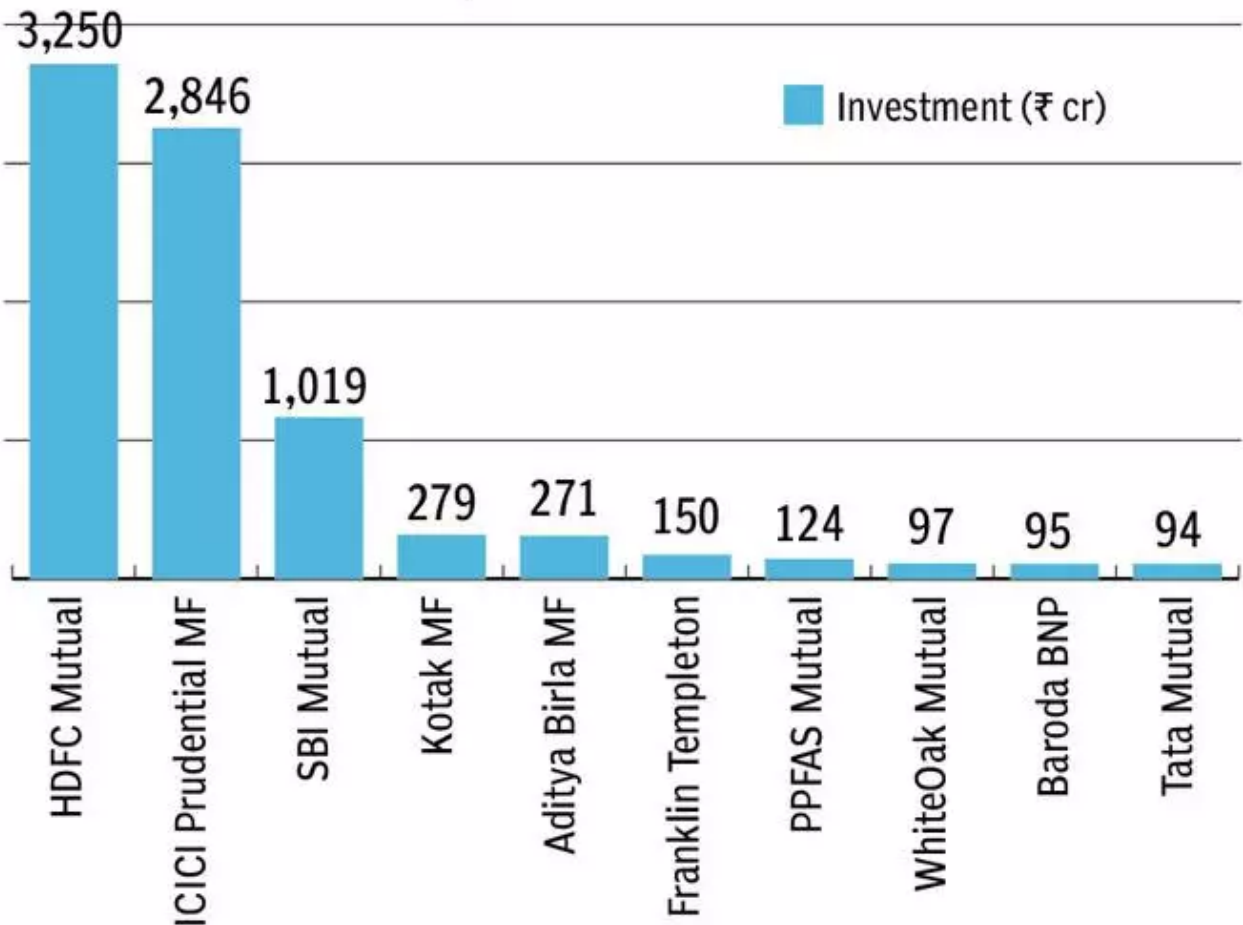


Mutual funds have held talks with the **Securities and Exchange Board of India (SEBI)** to introduce a dedicated category for **real estate investment trusts (REITs)** and Infrastructure Investment Trusts (InvITs), said two people in the know.

As per current norms, all schemes of an MF cannot own more than 10 per cent of units issued by a single REIT and InvIT issuer. Further, an MF scheme cannot invest more than 10 per cent of its Net Asset Value (NAV) in units of REITs and InvITs and more than 5 per cent of its NAV in units issued by a single issuer.

REIT/InvIT exposure

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Source: primemfdatabase.com As on 30-Sep-2023

“Currently, there is some allocation to REITs and InvITs through hybrid and multi-asset kind of products. But REITs and InvITs are standalone asset classes in their own right. Over time we have seen several REITs and InvITs tap the market and hopefully the numbers will rise with time. Globally, too, these have dedicated investment products launched to invest in them,” said Ashwin Patni, Head - Products & Alternatives, Axis AMC.

As debt funds?

REITs and InvITs may be categorised as debt funds, owing to the tax treatment if and when a regulatory nod comes through. It is not clear whether these will be structured as open or closed-ended; passive or active funds.

Talks with the regulator are at a nascent stage. An email sent to SEBI did not get a response.

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REITs and InvITs as an asset class have grown in popularity. The value of MF exposure to REITs and InvITs stood at ₹8,416 crore as on September 30, 2023, up 10 times from ₹808 crore three years ago.

NSE recently launched the Nifty REITs & InvITs index, to track the performance of REITs and InvITs that are publicly listed and traded, or not listed but permitted to trade on the bourse.

Limited options

Experts, however, believe that it may be too early to launch a dedicated offering, considering the paucity of listed options available. There are five REITs and 22 InvITs registered with SEBI; three of the REITs and seven of the InvITs are listed.



“REITs and InvITs as investment vehicles have gained popularity but the number of such offerings remains relatively low. While the supply will increase in the future, the appetite of non-institutional investors at this point remains uncertain,” said Ratnadeep Roychowdhury, Co-head, private equity and sovereign wealth funds, Nishith Desai Associates.

According to Feroze Azeez, Deputy CEO at Anand Rathi Wealth, for a fund manager to manage such schemes there has to be at least 50 options to choose from. “The investible universe is not big enough. I do not want a situation where there are only 10 options to choose from and all the fund does is decide on the quantum of allocation to this limited set,” he said.

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Patni compares this to a chicken and egg situation but is confident that as the universe expands, having a dedicated product category and higher institutional participation will help all stakeholders.

REITs typically invest in properties that generate stable income streams such as rental income. InvITs invest in assets that generate cash flows from usage fees, tolls, or tariffs. The aim of investing in these asset classes is to earn regular income.

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