

Slowly but surely, MFs warm up to investment in REITs, InvITs

Exposure up sevenfold in three years to ₹5,200 cr

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Mutual fund (MF) investments in real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) have gone up significantly after the pandemic breakout, with many newer schemes maintaining some allocation to these new asset classes.

Data compiled by PRIME Mutual Funds Database shows MF exposure to REITs and InvITs having surged many times over in the aftermath of the Covid-19 pandemic taking hold.

The value of holdings, which was at ₹734 crore at the end of March 2020, rose to ₹5,200 crore by the end of March 2023.

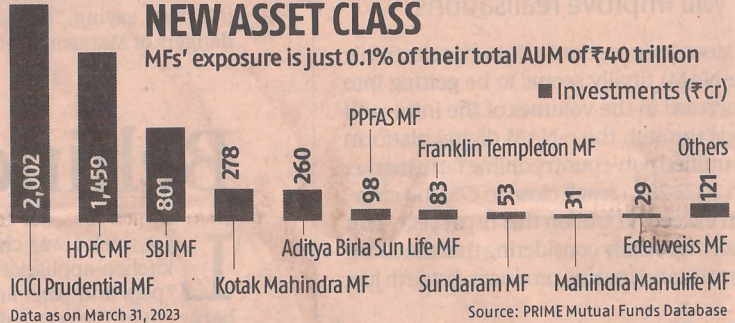
MF exposure to listed REITs and InvITs is set to rise to seven (from the present-day six), with the ₹3,200-crore Nexus Select Trust REIT initial public offering scheduled to open this week for subscription.

The number of fund houses investing in REITs and InvITs has risen to 18, up from seven in 2020.

ICICI Prudential MF and HDFC MF had the highest exposure at the end of March 2023, with investments worth ₹2,002 crore and ₹1,459 crore, respectively.

NEW ASSET CLASS

MFs' exposure is just 0.1% of their total AUM of ₹40 trillion



Notwithstanding a sevenfold surge, MF exposure to the two asset classes is just 0.13 per cent of the total assets under management of ₹40 trillion. REITs and InvITs are gaining traction in India, similar to other developed countries.

According to analysts, the surge in MF investments coincides with improving financial metrics of commercial real estate and the government's thrust on infrastructure.

"In the case of REITs, the underlying asset is mostly commercial real estate. If you see the past few years,

the yields of such properties have improved significantly, with businesses slowly limping back to the work-from-office mode and a surge in mall foot traffic," says Nirav Karkera, head-research, Fisdcom.

MF regulations allow schemes (including equity, debt, and hybrid funds) to invest up to 10 per cent of their portfolios in REITs and InvITs.

Recently, NSE Indices launched India's first REITs & InvITs Index, widening the scope of MFs to come out with passive REIT and InvIT funds. However, the index now faces concentration risks due to the presence of just six listed REITs and InvITs.

REITs are structured like MFs and entail a firm owning a land parcel and setting up a trust structure. It can operate and lease multiple properties. REITs have emerged as a convenient way of holding real estate in portfolios, without physically owning a property.