Once hybrid orphan, Reits now wear equity colours

Cross no man's land with fund allocation hinging on liquidity and benchmarks

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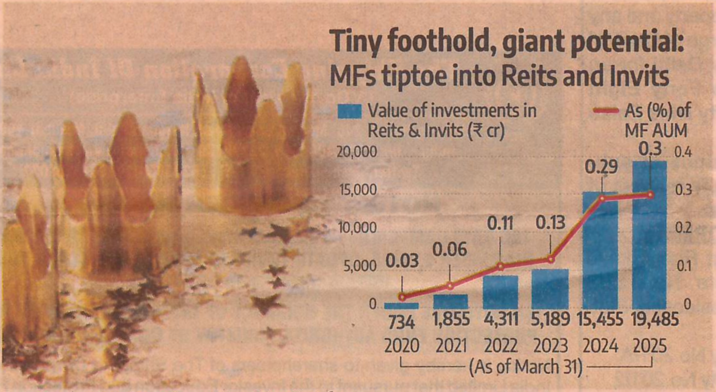
Mumbai, 14 September



Reit: Real estate investment trust; Invit: Infrastructure investment trust; AUM: Assets under management; MF: Mutual fund Source: Prime Mutual Funds Database

The equity classification of real estate investment trusts (Reits) for mutual fund (MF) investments is expected to encourage their entry into equity and hybrid schemes. But the depth of participation will hinge on whether they are added to equity and hybrid indices, as well as the supply of new units and market liquidity.

The Securities and Exchange Board of India's move to reclassify Reits will give the asset class more visibility, said Feroze Azeez, joint chief executive officer, Anand Rathi Wealth, adding that it may now find wider acceptance in select scheme categories.

"Thematic or sectoral funds with a real estate tilt may step up allocations, but diversified equity funds such as flexicap or largecap schemes are likely to remain cautious," he said.

While MFs were allowed to invest in Reits and infrastructure investment trusts (Invits) back in 2017, only a handful of fund houses have warmed to them. As of March 2025, just 12 of the 46 fund houses had some exposure through their schemes.

The slow adoption, according to experts, stemmed from Reits sitting in a "no man's land" under their hybrid classification.

"This left them as an orphaned asset class for MFs. Most equity and debt managers stayed away from Reits and Invits because of the hybrid tag and their absence from benchmarks," said a senior fund manager.

There is now an expectation that Reits will be slotted into various indices. At present, only one index tracks their performance — the Nifty REITs & InvITs.

Shariq Merchant, investment director at WhiteOak Capital Asset Management Company, said Reits' ability to deliver stronger risk-adjusted returns than equity makes them a useful diversification tool for fund managers.

"Equity fund managers will now begin to weigh the asset class more seriously. This could lead to larger capital flows in the medium term, with existing Reits tapping funds for expansion and new listings coming in," he said.

According to Niranjan Avasthi, senior vice-president and head of product, marketing, and digital at Edelweiss Asset Management, Reits may draw more attention from hybrid funds.

"However, the Reit and Invit market needs to widen, and liquidity has to improve. The regulatory change will help to some extent, since supply will follow rising demand," he said.

Performance will remain a swing factor. "After the pandemic, the sector picked up, but of the past six years, two were weak — showing Reit returns are cyclical and tied to real estate and interest rate trends. For most investors, a diversified approach still makes more sense, and that's better achieved through MFs," said Azeez.