

From Niche to Next Wave

SM REITs Forging Real Estate

Investment Frontiers



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Redefining Real Estate Investment: Rise of SM REITs

The Indian real estate sector is navigating a paradigm shift, powered by progressive regulatory reforms and a dynamic investment landscape. This revitalisation has given rise to Small and Medium Real Estate Investment Trusts (SM REITs), a novel investment product category aiming to bridge the historical gap between direct property ownership and large-scale, institutionally focused REITs. **Building on our benchmark 2024 report, this 2025 update strategically re-examines the product's evolution and its potential to substantially bolster the Indian real estate sector.**

CRUCIAL MILESTONES SHAPING SM REITs' LANDSCAPE*

March 2023

SEBI circulates consultation paper on Micro, Small, and Medium REITs (MSM REITs) for public comments



November 2023

SEBI approves regulatory framework for facilitation of SM REITs by way of amendments to REIT Regulations 2014



March 2024

SEBI (Real Estate Investment Trusts) (Amendment) Regulations gets notified to introduce SM REITs



December 2024

Property Share Investment Trust launches the INR 353-crore IPO for PropShare Platina, the first SM REIT in India, to acquire a Bengaluru commercial building



September 2024

Rudrabhishek Enterprises Ltd (REPL) gets SEBI approval for SM REITs
CBRE India releases report on SM REIT's market potential



August 2024

Property Share Investment Trust becomes the first entity to receive an SM REIT license from SEBI

April 2025

hBits Investment Trust receives its SM REIT license from SEBI



July 2025

Property Share launches and lists its second SM REIT scheme (INR 472-crore), PropShare Titania, located in Thane, Maharashtra

Aurum PropTech receives a registration certificate from SEBI as an SM REIT under the name AMSA SM REIT Investment Trust (AMSA)

How SEBI defines an SM REIT?

An SM REIT is a SEBI-regulated investment vehicle that pools capital from at least 200 investors to acquire income-generating real estate assets valued between INR 50 crore and INR 500 crore.

Structured as schemes, SM REITs offer investors professional management and fractional ownership, providing a more accessible and liquid entry into the real estate market. This structure also enables investors to generate stable rental income and benefit from potential capital appreciation on high-quality assets.

*Source: Publicly available information through reputed media reports and stakeholder websites, CBRE Research Q4 2025

A Closer Look: What Are Their Core Characteristics?

How does an SM REIT operate?

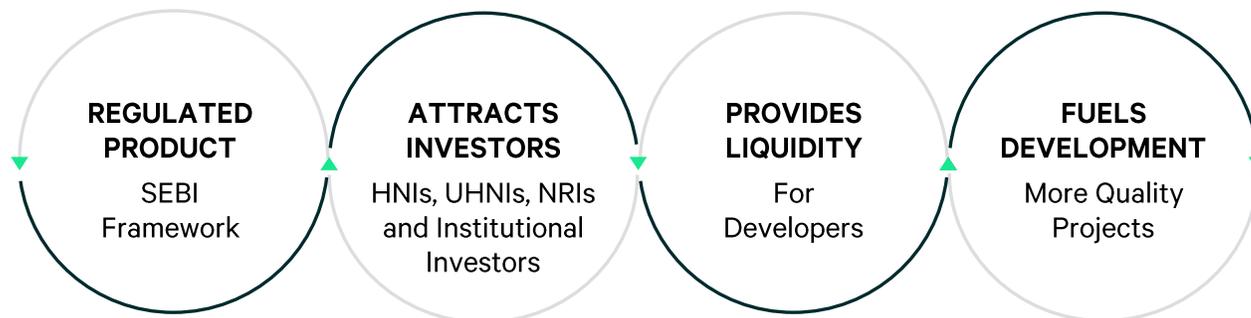
SM REIT operates on a transparent, three-tiered structure that ensures the efficient flow of income from properties to unitholders



Registration	An SM REIT needs to be registered with SEBI
Asset size and focus	SM REITs target a smaller asset pool than traditional REITs by acquiring and managing properties valued between INR 50 crore and INR 500 crore, enabling them to invest in a broader range of properties
Asset class	Any completed and income-generating real estate asset class permissible under REIT Regulations (such as office, residential, retail, logistics, etc.)
Minimum investment	At INR 10 lakh, SM REITs' entry threshold is higher than traditional REITs but lower than direct property ownership, positioning them as an accessible option for discerning investors (primarily HNIs, UHNIs, and NRIs)
Pooling resources	Investors invest in an SM REIT, receiving units in return. A maximum of 49% of the scheme's value can be borrowed (debt) by an SM REIT
SPV transfer	The pooled funds are transferred to a special purpose vehicle (SPV), a separate entity holding the actual properties, by the SM REIT
Purchasing assets	The SPV is mandated to invest at least 95% of its assets in completed and revenue-generating real estate projects. They are not allowed to invest in under-construction properties. Up to 5% of the value of the schemes' assets may be invested in liquid assets, which shall be unencumbered
Income	The SPV collects money from rent or property sales
Distribution of income	The SPV distributes at least 95% of the cash flows back to the SM REIT
Pay-out	The SM REIT must distribute 100% of the remaining net cash flow to the unitholders every quarter
Timelines for migration of existing persons, entities, or structures (fractional ownership platforms)	Application for registration (for migration) – six months from the REIT amendment notification starting March 8, 2024, or such period as may be granted by SEBI Migration of existing persons, entities, or structures (FOPs) to be completed within six months from SEBI's grant of certificate of registration as SM REIT
Focus on investor participation	Requires a minimum of 200 investors
Experienced management and independent oversight	An SM REIT must have an Investment Manager (IM) with a solid track record (a minimum of two years' experience) and financial stability (a net worth of at least INR 20 crore, provided that not less than INR 10 crore is in the form of positive liquid net worth). In addition, the Investment Manager's directors are mandated to be independent (not involved with other REITs), ensuring further transparency

Source: Framework for Small and Medium REITs (SM REITs), SEBI, June 2024, CBRE Research, Q4 2025

A Self-Sustaining Cycle: The Four Phases of SM REIT Market Growth



A four-phase, self-sustaining cycle, fuelled by regulatory trust, investor participation, and developer value, underpins the potential growth of the SM REIT market.

Phase 1 Establishing Regulatory Trust

SEBI's regulations for SM REITs create a foundation of trust by mandating registration and transparent disclosures. This potentially transforms a previously opaque fractional ownership platform (FOP) market into a more credible one, providing legal certainty and investor protection that catalyse the entire market cycle.

Phase 2 Capital Inflows – Broader Investor Opportunities

The SM REIT framework fosters trust and lowers entry barriers, making real estate investments accessible to a broader range of investors, including the affluent middle class, with a minimum unit price of INR 10 lakh. Requiring at least 200 investors per scheme is expected to encourage wider investor participation and attract additional capital.

Phase 3 Unlocking Developer Value

Pooled capital from diverse investors can be used to acquire mid-sized, revenue-generating properties, turning illiquid assets into liquid financial instruments. This process could provide developers with crucial liquidity to pay down debt and fund future projects.

Phase 4 Creating a Sustainable Pipeline

The liquidity provided to developers potentially fuels growth by allowing them to reinvest in high-quality, revenue-generating real estate projects. These projects can then become available for future SM REIT schemes, drawing in more investors and creating a sustainable cycle that prevents market stagnation and supports long-term stability and growth in the real estate ecosystem.

Navigating the Tax Implications: What Do Investors Need to Know?

SM REITs are incorporated within the current REIT tax framework¹, which enables a 'pass-through' taxation model, where income is taxed only at the unitholder level and not at the trust level, thereby eliminating double taxation.

A summary of tax treatment for resident unitholders on distributed income

Type of Income	Tax Treatment
Interest Income	Taxable at the unitholder's applicable income tax slab rate.
Dividend Income	<p>The tax treatment depends on the SPV's corporate tax regime.</p> <ul style="list-style-type: none"> If the SPV does not opt for the lower tax rate of 22%, under Section 115BAA of the Income Tax Act, 1961, the dividend income is tax-exempt for the unitholder. If the SPV opts for the lower tax rate of 22%, the dividend income is taxable at the unitholder's slab rate.
Debt Repayment / Amortisation of Debt	Taxable under Section 56(2)(xii) only when the aggregate amount received exceeds the original cost of acquisition. For example, if a unit was acquired for INR 100, and the investor receives INR 80 in debt repayment, it is tax-free. If they receive INR 120, only INR 20 is taxed.

Capital gains tax rates on the sale of SM REIT units for resident unitholders

Holding Period	Type of Gain	Applicable Capital Gains Tax Rate
12 months or less	Short-Term Capital Gains (STCG)	20%
More than 12 months	Long-Term Capital Gains (LTCG)	12.5% on gains exceeding INR 1.25 lakh in a financial year

Summary of tax treatment for non-resident unitholders¹

Particulars / Provision	Tax Treatment and Requirements for NRIs
Prerequisites for Investment	Must have a Permanent Account Number (PAN) and an NRE or NRO bank account.
Interest Income	Taxed at a flat rate of 5% with Tax Deducted at Source (TDS).
Dividend Income	Same as residents: tax-exempt if the Special Purpose Vehicle (SPV) has not opted for a lower tax regime; otherwise, it's taxable at the NRI's applicable slab rates.
Capital Gains	Same as residents: STCG taxed at 20%, and LTCG taxed at 12.5% on gains exceeding INR 1.25 lakh.
DTAA Benefits	To avail potentially more favourable tax rates under a Double Taxation Avoidance Agreement (DTAA), an NRI must provide a Tax Residency Certificate (TRC).

1. As per the Income Tax Act, 1961, specifically Chapter XII-FA for business trusts; additional source: IRA Primer REIT Primer Sept 2025 and publicly available information in Property Share Investment Trust website based on two listed SM REITs, as of 26 September 2025.

Evaluating Real Estate Investments: How Do SM REITs, REITs, and Direct Property Ownership Compare?

The introduction of SM REITs creates a distinct investment category that blends the granular control of direct property ownership with the transparency and professional management of a listed trust. Positioned with a minimum investment threshold of INR 10 lakh, SM REITs are specifically crafted to appeal to a specific demographic—affluent investor categories such as HNIs, UHNIs and NRIs—who may seek access to a curated, professionally managed asset but might find direct ownership too complex and traditional REITs too broad¹.

The adjacent table aims to provide a comprehensive comparison of SM REITs against traditional REITs and direct real estate ownership, underscoring its unique strategic placement within the investment landscape.

Aspect	SM REITs	REITs	Direct Real Estate Ownership*
Investment Size	Minimum application size for IPO: INR 10 lakh ² Post-listing investment: INR 10 lakh (+/- market-linked capital gain/loss) per unit ²	Minimum application size for IPO: INR 10,000-15,000 per lot ² Post-listing investment: INR 100-500 per unit ²	Typically requires a significant capital outlay, with entry costs commonly extending into crores
Asset Size	INR 50-500 crore per scheme	Exceeding INR 500 crore	No set limit
Investment Strategy	Scheme-based focused single-asset approach	Portfolio of multiple assets	Single asset or co-ownership of a single asset
Choice of Assets	Yes, investors can choose specific schemes	No, operates as a pool of assets as defined by the manager	Yes, investors directly select the property
Under-Construction Assets	Not permitted ³	Up to 20% of the value of the assets may be invested in under-construction properties and other permitted investments	Permitted
Liquidity	Listed on stock exchanges; liquidity may be lower due to a higher ticket size compared to REITs	High liquidity due to low trading lot	Highly illiquid; exits typically require a long process

1. Note: The SM REIT framework should be perceived as a targeted market innovation and not a substitute for traditional real estate investment vehicles; 2. NSE India, December 2025; 3. The SM REITs regulation states that at least 95% of the assets must be completed and revenue-generating. The remaining 5% can be in unencumbered liquid assets. *Note: These calculations and inputs are limited to the direct ownership of office and residential real estate assets and exclude all other real estate asset categories.

Evaluating Real Estate Investments: How Do SM REITs, REITs, and Direct Property Ownership Compare?



Aspect	SM REITs	REITs	Direct Real Estate Ownership*
Professional Management	Yes, mandated. Investment manager must have INR 20 crore net worth and co-invest at least 5%	Yes, mandated	Not mandated but often requires an external manager
Return on Investments	Rental yield: ~9% p.a. (pre-tax) ¹ Capital appreciation: Market-linked	Distribution yield: ~6.2% p.a. (pre-tax) ² Capital appreciation: Market-linked	Rental yield: Variable Capital appreciation: Cyclical
Taxation on Returns	Rental income: Taxable at the unitholder's applicable income tax slab rate Capital gains: STCG (less than 12 months) 20%; LTCG (more than 12 months) 12.5% on gains over INR 1.25 lakh in a financial year		Rental income: Taxed as 'Income from House Property' at the investor's slab rate; deductions available for municipal taxes paid and a standard 30% of the Net Annual Value ³ Capital gains: For STCG (held for less than 24 months), gains are added to total income and taxed at the investor's marginal tax slab rate. For LTCG (held for more than 24 months), gains are taxed at 12.5% without indexation benefits ⁴
Risks	Nascent market, interest rate risk**	Interest rate risk**	High capital requirement, potential operational challenges and illiquidity

1. Publicly available information in Property Share Investment Trust website based on two listed SM REITs (projected yield for FY26 on IPO) as of 5 December 2025; 2. Distribution yields computed basis respective prices of five listed REITs, REIT Primer, Indian REITs Association, November 2025; additionally, these values are for illustrative purposes and may vary from actual returns; 3. Offers a standard 30% deduction on Net Annual Value, plus deductions for property taxes paid; 4. The above applies for properties acquired on or after 23 July 2024; for properties acquired before 23 July 2024, the tax is the lower of 20% with indexation benefits or 12.5% without indexation
*Note: These calculations and inputs are limited to the direct ownership of office and residential real estate assets and exclude all other real estate asset categories. **Interest Rate Risk represents the potential for an adverse impact on SM REIT/REIT unit values and net distributable cash flow (NDCF) due to increases in interest rates. This risk could be realised through higher borrowing costs, where elevated rates increase the expense of debt servicing and refinancing, thus diminishing the NDCF available for distribution. Second, yield competition, where consequent superior returns on alternative, lower-risk fixed-income instruments (e.g., government securities, FDs) may make SM REIT/REIT yields less attractive.

CBRE 2025 View: A Market Estimation for SM REITs' Potential in India

According to CBRE Research's 2025 update, India's SM REIT market potential is expected to exceed **USD 75 billion**, drawing from a pool of more than **500 million sq. ft.** of eligible office, logistics, and retail assets. This projection underscores their significant growth potential within the country's real estate sector*.

* Note: This analysis serves as an illustrative, scenario-based estimate and is not a definitive valuation, covering only India's top seven cities as of Q3 2025.

1. For office sector: This projection is built upon assumptions aligned with the characteristics of the two current SM REIT listings and our updated 2024 view on evolving market dynamics. The estimate focuses only on investment-grade, mid-sized (0.1-1 million sq. ft.) existing office developments and excludes REIT assets. In addition, the estimate includes eligible upcoming office assets of approx. 60 million sq. ft. till 2027.
2. For logistics sector: This analysis is limited to completed logistics assets by developers with portfolio sizes exceeding 0.4 million sq. ft. The assessment further excludes existing InvIT and institutional logistics assets.
3. For retail sector: The estimate focuses only on completed investment-grade, mid-sized malls (0.1-0.5 million sq. ft.) and excludes existing REIT assets.

Source: CBRE Research, Q4 2025

Asset Class Evaluation: What Could be the Primary Benefits of SM REITs?

FOR INVESTORS / UNITHOLDERS

Democratised Access to Premium Real Estate

By lowering the investment barrier, these trusts potentially allow a broader range of investors to participate in high-value, income-generating real estate assets usually accessible to large institutions and UHNIs.

Stable Passive Income & Capital Appreciation¹

SM REITs could offer the dual benefit of stable passive income and capital appreciation. The trusts are also legally required to distribute 100% of their net distributable cash flow to investors every six months, which potentially ensures that rental income is efficiently passed through.

Robust Regulatory Oversight & Transparency

Regulated by SEBI, SM REITs follow a rigorous framework that ensures timely disclosures, independent valuations, and robust grievance redressal—instilling investor trust and operational accountability.

Liquidity Through Exchange Listing

Units of SM REITs are listed on stock exchanges, providing investors with the flexibility to easily buy or sell units, unlike direct real estate ownership, which tend to have limited liquidity.

FOR DEVELOPERS / ASSET OWNERS

Strategic Capital Management

SM REITs could offer developers a structured and regulated exit mechanism, enabling them to unlock capital from completed, income-generating assets. This potentially allows efficient capital recycling, converting illiquid real estate holdings into financial flexibility without compromising asset quality.

Direct Liquidity Channel

Developers and asset owners can monetise their properties through public listing, bypassing traditional sale processes and accessing a broader investor base. This could enhance their financial agility and reduce dependency on debt or private equity.

Liquidity and Flexibility

SM REITs potentially offer developers a crucial mechanism for monetising small-to-mid-sized real estate assets, including office space and other eligible real estate sectors, that typically fall short of REIT eligibility criteria. This monetisation is pivotal as it could provide developers with crucial liquidity, enabling them to both reduce existing debt and fund future development pipeline growth.

FOR LENDERS

Relatively Low Lending Risk

SM REITs are mandated to invest at least 95% of their assets in completed, income-generating properties, potentially offering lenders stable collateral that is likely to be more secure than loans for under-construction or speculative projects.

Improved Borrower Creditworthiness

SM REITs provide developers with a strategic tool to monetise mature assets. The capital raised could directly strengthen their balance sheets, enabling them to pay down debt and fund new projects. This improved financial position, therefore, could potentially enhance their creditworthiness and make them more attractive to lenders for future financing.

Stimulation of a Healthy Lending Market

As developers use released capital for new projects, they create ongoing demand for construction financing and working capital loans. This could foster a dynamic lending ecosystem, offering continuous opportunities for financial institutions.

¹ Note: Investing in SM REITs, like all investment vehicles, carries inherent risks. Prospective investors should assess their financial objectives and risk tolerance before making an investment decision and are encouraged to consult with a registered investment advisor.

Asset Class Evaluation: What Are the Critical Considerations?

NASCENT MARKET

The SM REIT market is a developing asset class with substantial potential, operating under SEBI's regulatory oversight. Introduced in March 2024, the market currently has a limited performance history, with one trust and two schemes listed. While a few other trusts have received SEBI licenses and could be listing their schemes in the near future, the market is still in its early stages.

LOWER LIQUIDITY COMPARED TO REITs

Although SM REIT units are listed on stock exchanges, they may experience lower liquidity than traditional REITs. This is primarily attributed to their higher minimum investment size (of INR 10 lakh), which can limit the pool of potential investors and trading activity.

MARKET DYNAMICS AND ADAPTABILITY

Similar to other real estate investment instruments, SM REITs are subject to market dynamics, including economic cycles and interest rate fluctuations. These external factors can influence their performance and valuation.



Way Forward

Building on the success of established REIT and InVIT frameworks, the Indian SM REIT market is poised to transform an erstwhile fragmented real estate fractional ownership segment. By bringing small-to-mid-sized assets under a regulated umbrella, SM REITs also have the potential to drive higher standards of property management, promote ESG compliance, and ultimately contribute to a more organised and efficient real estate ecosystem.

However, the market's long-term maturation depends on its ability to demonstrate consistent performance and maintain unwavering transparency. For investors, success hinges on rigorous due diligence, critically evaluating both the Investment Manager's track record and the quality of the underlying assets. Navigating the complexities of this nascent industry, while adapting to any future regulatory shifts, will be crucial to cementing SM REITs as a core component of India's evolving real estate investment landscape.



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