
REITS AS A CONSTRAINED VEHICLE: REFORMING INDIA'S REIT FRAMEWORK FOR MIXED-USE ASSETS

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ABSTRACT

India's Real Estate Investment Trust (REIT) framework, established under the Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014 (REIT Regulations), drew substantially from Singapore's REIT regime but did not adopt equivalent structural flexibility for diversified or integrated asset classes. Since its introduction, India has developed a listed REIT market that remains predominantly office-focused, with Nexus Select Trust being India's first and only publicly listed retail-focused REIT. Large-format mixed-use developments and retail-integrated commercial projects are not prohibited by the REIT structure per se, but face structural and classification constraints under the existing regime due to asset eligibility conditions under Regulation 18, a uniform leverage framework under Regulation 20, and the absence of a Singapore-style sub-trust mechanism. This paper identifies three specific regulatory gaps, traces their origin in the partial adoption of Singapore's framework, and proposes targeted amendments drawing from both Singapore's sub-trust model and the United Kingdom's 'property rental business' definition under Part 4 of the Finance Act 2006.

I. Introduction

India's listed REIT market recorded a gross Assets Under Management (AUM) of approximately INR 2.35 lakh crore as of the second quarter of FY 2025–26¹. Yet REIT penetration as a proportion of India's total institutional-grade real estate stands at approximately 20%, compared to 96% in the United States, 55% in Singapore, and 51% in Japan². The relatively low penetration rate reflects, at least in part, structural limitations in the REIT Regulations: the framework's asset composition requirements, investment conditions, and absence of a sub-trust mechanism appear less well-adapted to India's emerging asset class of large-scale mixed-use urban developments integrating retail, office, hotel, and entertainment components.

India's retail real estate sector is undergoing rapid institutionalisation, with developers such as Phoenix Mills, Prestige Estates, and Nexus Malls managing large portfolios of Grade A retail space. Yet the legal infrastructure to support REIT listings of these portfolios may not be sufficiently tailored in its present form. This paper identifies three specific regulatory gaps, traces their origin in the partial adoption of Singapore's framework, and proposes targeted amendments drawing from Singapore's evolved sub-trust model and the United Kingdom's more permissive 'property rental business' definition.

II. The Current Framework and Its Structural Gaps

A. The 80% Completed and Rent and/or Income Generating Asset Requirement: Regulation 18

Regulation 18(4) of the REIT Regulations requires that at least 80% of the value of REIT assets be invested in 'completed and rent and/or income generating properties'³. The remaining 20%

¹ Indian REITs Association (IRA), 'Five Listed Indian REITs Distribute Over Rs 2331 Crore to Unitholders in Q2 FY26' (20 November 2025), Business Standard <https://www.business-standard.com/markets/news/india-reits-q2-fy26-distributions-aum-market-cap-growth-125112000626_1.html> accessed 28 May 2026.

² CREDAI and Anarock, 'Indian REITs: A Gateway to Institutional Real Estate' (September 2025), reported in Business Standard, 'Indian Reits Deliver 6–7% Yields, Surpassing Global Benchmarks' (12 September 2025) <https://www.business-standard.com/industry/news/india-reits-offer-higher-yields-than-global-peers-anarock-credai-125091200724_1.html> accessed 28 May 2026; FICCI-ANAROCK Report, cited in FICCI Press Release, 'India's Office REIT Market and Institutionalisation' (4 February 2026) <https://www.ficci.in/press_release_details/5166> accessed 28 May 2026.

³ Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations 2014 (SEBI REIT Regulations 2014), reg 18(4), as confirmed in AZB & Partners, 'Q&A: Key Requirements for a Real Estate Investment Trust in India' (Lexology, 30 November 2021) <<https://www.azbpartners.com/bank/qa-key-requirements-for-a-real-estate-investment-trust-in-india-key-regulatory-requirements/>> accessed 28 May 2026.

may be invested in under-construction properties and other permitted instruments under Regulation 18(5)⁴.

This requirement creates a material interpretive issue for mixed-use assets. A large-format mixed-use development integrating a retail mall, a hotel, serviced residences, and an office tower generates income from diverse revenue streams that are not all straightforwardly characterised as conventional lease rental. Hospitality income, serviced residence income, and amenity-linked operating income may raise classification questions under Regulation 18(4). The REIT Regulations do not expressly clarify how such mixed revenue streams are to be treated, and the absence of definitional guidance creates a material risk of misclassification. Additionally, Regulation 18 requires that at all times at least 50% of the consolidated revenues of the REIT, its holding company, and special purpose vehicles (other than gains from disposal of properties) shall be from renting⁵. A mixed-use development that generates a significant proportion of operating income from non-rental sources, such as hospitality, food and beverage, or service charges, may struggle to satisfy this secondary revenue test even if it otherwise meets the 80% asset value threshold. The result is that developers with mixed-use portfolios may need to carve out certain components, rely on alternative structuring, or accept classification uncertainty when seeking to use a REIT structure.

B. The Absence of a Sub-Trust Mechanism

A related gap is the absence of a sub-trust mechanism in the Indian REIT framework. The REIT Regulations permit REITs to hold assets directly or through holding companies (**HoldCos**) and special purpose vehicles (**SPVs**). However, there is no provision for a REIT to constitute approved sub-trusts, separate trust entities within the REIT structure holding specific asset classes, in the manner permitted under Singapore's framework as administered by the Inland Revenue Authority of Singapore (**IRAS**)⁶.

A REIT holding a mixed portfolio of retail and office assets therefore has reduced flexibility

⁴ SEBI REIT Regulations 2014 (n 3), reg 18(5); see also Khaitan & Co, 'Key Amendments to the SEBI REIT Regulations' (Lexology, 8 May 2025) <<https://www.lexology.com/library/detail.aspx?g=f0c710f5-8b8d-4d43-96d1-d3a5e5cd8ce8>> accessed 28 May 2026.

⁵ SEBI REIT Regulations 2014 (n 3), reg 18; AZB & Partners (n 3) (noting the 50% revenue-from-renting requirement at the consolidated REIT/HoldCo/SPV level).

⁶ Inland Revenue Authority of Singapore (IRAS), 'Income Tax Treatment of REITs and Approved Sub-Trusts' (e-Tax Guide, as revised) <https://www.iras.gov.sg/media/docs/default-source/e-tax/e-taxguide_income-tax-treatment-of-reits-and-approved-sub-trusts.pdf> accessed 28 May 2026.

in segregating cash flows by asset class, structuring co-investment, or effecting asset-specific divestments. These outcomes must instead be achieved through HoldCo/SPV-level structuring, which does not afford the same tax transparency and structural clarity that a trust-within-trust mechanism provides. This structural gap is particularly consequential for India's large retail and mixed-use developers, whose asset portfolios contain a blend of stabilised and recently-opened components with materially different income profiles.

C. The Leverage Cap: A Blunt Instrument for Heterogeneous Assets

Regulation 20(1) of the REIT Regulations imposes a maximum leverage cap of 49% of aggregate consolidated borrowings and deferred payments (net of cash and cash equivalents) to the total value of REIT assets⁷. Any borrowing exceeding 25% of the value of REIT assets requires unitholders' approval and a mandatory credit rating⁸.

This is a single, undifferentiated cap applicable to all asset classes within the REIT. It does not distinguish between stabilised income-generating assets (such as fully leased office towers), retail assets with variable revenue tied to mall performance metrics, and under-construction assets with no income but with significant capital expenditure requirements. The difficulty is not the 49% ceiling itself but the application of a single rule to assets with fundamentally different risk and income profiles. A mixed-use REIT holding both stabilised office towers and a newly opened retail mall — which typically requires 18 to 36 months to reach occupancy stabilisation — must apply the same 49% cap across all assets, thereby constraining its ability to finance the retail component at levels appropriate to its stage of development without adversely affecting the leverage position of the REIT as a whole.

III. The Singapore S-REIT Model: What India Borrowed and What It Left Behind

India's REIT Regulations were modelled on Singapore's S-REIT framework, administered by the Monetary Authority of Singapore (MAS) under the Securities and Futures Act 2001 and

⁷ SEBI REIT Regulations 2014 (n 3), reg 20(1), as confirmed in SEBI, 'Proposed Amendments to SEBI (Infrastructure Investment Trusts) Regulations, 2014 and the SEBI (Real Estate Investment Trusts) Regulations, 2014' (consultation document) <<https://www.scribd.com/document/913112223/>> accessed 28 May 2026; Indian REITs Association (IRA), 'REIT Basics: What is a REIT?' (February 2024) <<https://indianreitsassociation.com/wp-content/uploads/2024/02/IRA-Website-FAQsvf.pdf>> accessed 28 May 2026.

⁸ SEBI REIT Regulations 2014 (n 3), reg 20; Khaitan & Co, 'SEBI Relaxes Norms for InvITs' <<https://www.khaitanco.com/thought-leadership/sebi-relaxes-norms-for-INVITS>> accessed 28 May 2026.

the MAS Code on Collective Investment Schemes⁹. As of May 2025, the S-REIT sector comprises approximately 40 listed REITs and property trusts with a total market capitalisation of approximately SGD 88 billion¹⁰.

A. Singapore's Mixed-Use Asset Flexibility

S-REITs are permitted to invest in diversified real estate including retail malls, office buildings, industrial properties, logistics facilities, data centres, healthcare properties, and hospitality assets, either individually or in combination within a single trust. There is no rigid income-source classification that excludes service-based revenue streams. The MAS Code on Collective Investment Schemes permits investment in 'real estate and real estate-related assets' broadly defined¹¹, allowing REIT managers to structure mixed-use portfolios so long as overall income distribution requirements (90% of distributable income) are met. REITs such as CapitaLand Integrated Commercial Trust (CICT) hold retail malls, offices, and mixed-use integrated developments as a single portfolio, demonstrating that the Singapore framework accommodates diversified real estate platforms without the asset-description rigidity found in the Indian regulations.

It should be noted that the treatment of particular service-based revenue streams remains a matter of structure and tax analysis within Singapore's framework, and is not a blanket inclusion of all operating income. However, the absence of an express income-classification test equivalent to Regulation 18(4) means that mixed-use operators face considerably fewer structural headwinds at the time of listing.

B. The Approved Sub-Trust Structure

Singapore introduced the approved sub-trust mechanism as a tax-efficient tool for segregating specific asset classes within a parent REIT. Under the IRAS income tax framework, a REIT may constitute an approved sub-trust to hold specific overseas or domestic assets, with the sub-

⁹ Monetary Authority of Singapore (MAS), 'REIT Managers' <<https://www.mas.gov.sg/regulation/capital-markets/understand-the-types-of-capital-market-entities/reit-managers>> accessed 28 May 2026; MAS, Code on Collective Investment Schemes (issued pursuant to Securities and Futures Act 2001 (Singapore), s 321) <<https://www.mas.gov.sg/regulation/codes/code-on-collective-investment-schemes>> accessed 28 May 2026.

¹⁰ DBS Bank, 'Property Income and Diversification from S-REITs' (30 May 2025) <<https://www.dbs.com.sg/personal/articles/nav/investing/getting-to-know-s-reits>> accessed 28 May 2026 (reporting 40 S-REITs and property trusts with market cap of S\$88 billion as of 30 May 2025).

¹¹ MAS Code on Collective Investment Schemes (n 9), Appendix 6 (REITs), para 2 (investment in 'real estate and real estate-related assets' as defined).

trust's income treated as tax-transparent at the parent REIT level, provided the sub-trust distributes at least 90% of its taxable income¹². This mechanism allows: (i) asset-class-specific cash flow segregation; (ii) partial divestment of specific trust assets without disrupting the parent trust; and (iii) co-investment by third-party investors at the sub-trust level.

India has no equivalent mechanism. Introducing an approved sub-trust structure into Indian REIT law would directly enable the creation of retail sub-trust structures within mixed-use REITs, allowing India's large integrated real estate platforms, such as those operated by Phoenix Mills and Prestige Estates, to list their diverse portfolios as single REITs without the structural fragmentation currently required.

IV. The UK REIT Model: A More Permissive Template

The UK REIT regime was introduced by Part 4 of the Finance Act 2006 and came into force on 1 January 2007¹³. It provides a second comparative reference point for Indian reform, structured around the concept of a 'property rental business', a broader category than mere rent-yielding assets.

A. The 75% Balance of Business Test

Under the UK regime, at least 75% of a REIT group's profits and 75% of the total value of its assets must relate to its 'property rental business', assessed on a consolidated basis across the group¹⁴. A REIT may carry on 'other activities', including ancillary services associated with the property rental business and certain development activities, provided these do not exceed 25% of total activities. This framework is materially more permissive than India's Regulation 18(4) asset-value test, because it is assessed by reference to the business as a whole rather than the

¹² IRAS, 'Income Tax Treatment of REITs and Approved Sub-Trusts' (n 6); Singapore Ministry of Finance (MOF), IRAS and MAS, 'New Measures to Help REITs Navigate Operating Challenges Posed by COVID-19' (Press Release, 16 April 2020) <<https://www.mof.gov.sg/news-publications/press-releases/new-measures-to-help-reits-navigate-operating-challenges-posed-by-covid-19>> accessed 28 May 2026.

¹³ 13 Finance Act 2006 (UK), Part 4; HM Revenue & Customs (HMRC), 'IFM22065 — Real Estate Investment Trust: Conditions and Tests: Balance of Business Conditions (CTA2010/s531)' <<https://www.gov.uk/hmrc-internal-manuals/investment-funds/ifm22065>> accessed 28 May 2026; IQ-EQ, 'Establishing a Private REIT in the UK' (August 2024) <<https://iqeq.com/insights/the-background-requirements-and-considerations-for-establishing-a-private-reit-in-the-uk/>> accessed 28 May 2026 (confirming launch date of 1 January 2007).

¹⁴ Corporation Tax Act 2010 (UK), s 531 (balance of business conditions); HMRC, 'IFM22065' (n 13); PwC UK, 'UK REITs: An Attractive Vehicle for UK Property Investment' <<https://www.pwc.co.uk/services/tax/insights/uk-reits-attractive-vehicle-uk-property-investment.html>> accessed 28 May 2026; KPMG, 'UK REITs' <<https://assets.kpmg.com/content/dam/kpmgsites/uk/pdf/2023/07/uk-reit-tax-efficient-vehicle-for-real-estate-investment-structures.pdf>> accessed 28 May 2026.

classification of individual assets.

Successive reforms have relaxed the UK REIT conditions further. Changes effective from 1 April 2022, enacted through the Finance Act 2022, disregarded certain planning-obligation-related non-rental profits from the balance of business test and enabled private (non-listed) REITs for the first time, where at least 70% of the ordinary share capital is held by institutional investors¹⁵. Changes effective from 1 April 2023, enacted through the Finance (No. 2) Act 2023, introduced the 'single property rule', permitting a REIT to hold a single commercial property worth at least £20 million in lieu of the previous three-property requirement, and modified various withholding tax conditions¹⁶. These reforms reflect a regulatory philosophy of continuous adaptation of the REIT framework to the evolving real estate market, a philosophy that has not characterised SEBI's approach to the REIT Regulations since their original notification in September 2014.

B. Property Rental Business vs Rent-Yielding Assets

The conceptual distinction between a 'property rental business' (UK) and 'completed and rent and/or income generating properties' (India) is not merely semantic. The UK definition, as set out in CTA 2010/s529 and as applied under the balance of business condition in CTA 2010/s531, encompasses a broader category of income derived from the operation of property as a business¹⁷. However, it should be noted that not all income associated with the operation of property is automatically qualifying income within the UK framework: hospitality income, trading income, and income from activities that are not properly characterised as property rental business require careful treatment. The relative advantage of the UK approach for India's purposes is structural: by directing the qualifying test to the composition and profitability of the business rather than to asset-level income classifications, the UK framework avoids the

¹⁵ Finance Act 2022 (UK); PwC UK (n 14) (describing relaxation of balance of business test and introduction of private REITs from 1 April 2022); BDO, 'REITs: A Comprehensive Guide' (January 2026) <<https://www.bdo.co.uk/en-gb/insights/industries/real-estate/reits-a-comprehensive-guide>> accessed 28 May 2026.

¹⁶ Finance (No. 2) Act 2023 (UK), sch 4, para 3 (inserting news 529(2A)–(2B) into Corporation Tax Act 2010); DWF, 'Will UK REITs Become a More Attractive Option for UK Property Holding?' (January 2024) <<https://dwfgroup.com/en/news-and-insights/insights/2024/2/will-uk-reits-become-a-more-attractive-option-for-uk-property-holding>> accessed 28 May 2026; Lexology, 'REITs Recap' (30 June 2023) <<https://www.lexology.com/library/detail.aspx?g=fcdc869d-b53b-4467-9e48-0c1c79988ce0>> accessed 28 May 2026.

¹⁷ Corporation Tax Act 2010 (UK), ss 529, 531; HMRC, 'IFM22065' (n 13); HMRC, 'IFM22070 — Balance of Business Conditions: Condition A' <<https://www.gov.uk/hmrc-internal-manuals/investment-funds/ifm22070>> accessed 28 May 2026.

interpretive difficulties that Regulation 18(4) creates for mixed-use developers.

V. Three Proposed Reforms

A. Reform 1: A Mixed-Use Asset Classification Under Regulation 18

SEBI should amend Regulation 18 of the REIT Regulations to introduce a 'mixed-use asset' classification. A mixed-use asset would be defined as a completed development in which at least 50% of the total built-up area is used for rent-generating purposes (retail, office, or industrial). Under such a framework, specified non-rental income streams arising from an otherwise qualifying mixed-use asset, including hospitality income, serviced residence income, and ancillary food and beverage income, would be aggregated with rental income for the purposes of the 80% threshold calculation under Regulation 18(4), provided the non-rental income does not exceed 30% of total asset-level income.

This reform directly addresses the interpretive uncertainty described in Part II. It follows the logic of the Singapore MAS Code, which assesses REITs by reference to overall income generation rather than rigid asset-type classification. Importantly, it also requires disclosure-based safeguards: the REIT manager would be required to disclose the proportion of non-rental income within each mixed-use asset at the time of listing and on an annual basis thereafter. SEBI's existing disclosure and valuation framework under the REIT Regulations is adequate to support this additional disclosure layer without requiring structural amendments to the trust deed or the role of the valuer.

B. Reform 2: Introduction of an Approved Sub-Trust Structure

SEBI, in consultation with the Ministry of Finance and the Central Board of Direct Taxes (CBDT), should introduce an approved sub-trust framework within the REIT Regulations, modelled on the Singapore IRAS sub-trust mechanism¹⁸. An approved sub-trust would: (i) hold a specific class of assets (for example, the retail components of a mixed-use portfolio); (ii) be constituted as a separate trust within the parent REIT structure; (iii) receive tax transparency treatment on distributions to the parent REIT, subject to distributing at least 90% of its taxable income; and (iv) permit co-investment by third-party investors at the sub-trust level, subject to

¹⁸ IRAS, 'Income Tax Treatment of REITs and Approved Sub-Trusts' (n 6).

minimum unitholding thresholds to be prescribed by SEBI.

The introduction of this mechanism requires coordinated action between SEBI and the CBDT. The tax transparency treatment at the sub-trust level would need to be given legislative effect through an amendment to Chapter XII-FA of the Income Tax Act, 1961, which currently governs the taxation of REITs in India. The precedent for such coordinated reform exists: the current REIT tax framework was itself the product of SEBI-Ministry of Finance coordination at the time the REIT Regulations were notified.

C. Reform 3: A Tiered Leverage Regime Under Regulation 20

SEBI should replace the single 49% leverage cap under Regulation 20(1) with a tiered leverage regime that distinguishes between: (a) stabilised income-generating assets (permissible leverage of up to 49%, consistent with the current cap); (b) retail and hospitality assets in the revenue ramp-up phase, defined as assets within the first three years following opening, permissible leverage of up to 55%, provided the REIT discloses a stabilisation timeline and projected net operating income in its annual report; and (c) under-construction assets (permissible leverage capped at 25%, consistent with the current treatment of such assets within the 20% basket under Regulation 18(5)).

This tiered approach reflects the distinct risk and income profiles of different asset classes within a mixed REIT, and better accommodates the economic reality of retail asset development. Post-opening occupancy stabilisation for large retail developments typically takes between 18 and 36 months, during which leverage requirements are higher relative to net operating income. The proposed 55% cap for ramp-up retail assets remains calibrated conservatively. Singapore's leverage framework, as revised by MAS with effect from 28 November 2024, applies a single aggregate leverage limit of 50% to all S-REITs, subject to a minimum interest coverage ratio of 1.5 times at all times¹⁹. The proposed tier (b) cap of 55%, time-limited to three years and subject to mandatory disclosure, is therefore a modest increment above even a mature, well-regulated REIT market's standing leverage ceiling, and is

¹⁹ Monetary Authority of Singapore (MAS), 'MAS Rationalises Leverage Requirements and Introduces Additional Disclosures for REITs' (Press Release, 28 November 2024) <<https://www.mas.gov.sg/news/media-releases/2024/mas-rationalises-leverage-requirements-and-introduces-additional-disclosures-for-reits>> accessed 28 May 2026 (a single aggregate leverage limit of 50% and a minimum ICR of 1.5 times now applies to all S-REITs, with immediate effect from 28 November 2024, replacing the previous two-tier structure)."

analytically defensible on that comparative basis.

VI. Conclusion

India's REIT market stands at an inflection point. The conditions for significant expansion are present: rising institutional capital, a growing pipeline of Grade A retail and mixed-use assets, and demonstrated investor appetite evidenced by the successful listings of Nexus Select Trust, India's only retail REIT, and the large office-focused Knowledge Realty Trust in August 2025. What is presently lacking is a regulatory framework sufficiently tailored to accommodate this expansion.

The structural gaps identified in this paper, which are the rigid income-and-asset classification test in Regulation 18(4), the absence of a sub-trust mechanism, and the undifferentiated leverage cap in Regulation 20(1), are not inevitable features of a sound REIT regime. They are artefacts of an incomplete transplantation of Singapore's framework: India drew from Singapore's model in 2014 without incorporating the structural options and flexibility that Singapore had evolved to support diversified real estate platforms. Compared to the UK's business-centric 'property rental business' model, India's asset-centric classification framework is both more rigid and more prone to interpretive uncertainty in the context of mixed-use development.

The three reforms proposed here are legally grounded in established comparative precedents, commercially feasible, and targeted in their operation. They do not require a wholesale revision of the REIT Regulations; they require specific, coordinated amendments to Regulations 18 and 20 and, in the case of the sub-trust mechanism, a corresponding amendment to the Income Tax Act. Their adoption would not only deepen India's REIT market but would signal to global institutional investors that India's regulatory framework is capable of evolving alongside its real estate market.