

REITs and InvITs: Positioning for India's Next Decade of Real Assets



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India's REIT and InvIT market has scaled to roughly INR 5 Tn of market capitalisation and close to INR 10 Tn of AUM across 6 REITs and 26 InvITs, all built in just nine years. That is still only 1.5% of India's GDP, against 5% to 12% in mature markets such as the US, Australia, Singapore and Japan. The gap between where the asset class stands and where it is headed is the story that matters now, and the case for closing it has gotten stronger for reasons that have little to do with real estate or infrastructure at all.

The Global Interest Rate Regime is Changing

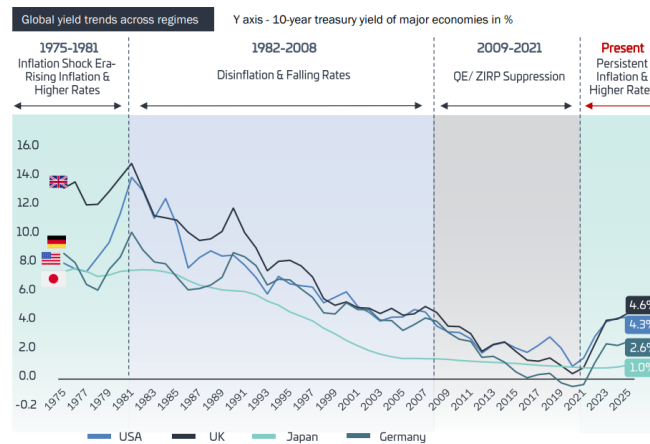


Figure 1: Falling Interest Rates

The four-decade run of falling interest rates that shaped portfolio construction from 1982 to 2021 is over. Rate cycles across the US, UK, Japan and Germany have moved from an inflation-shock era (1975-81) through disinflation and falling rates (1982-2008) and quantitative easing (2009-2021) into a present regime of persistent inflation and structurally higher rates. The forces behind this, sovereign debt, fiscal deficits, de-globalisation and tighter labour markets, are structural rather than cyclical, which makes a return to ultra-low rates unlikely.

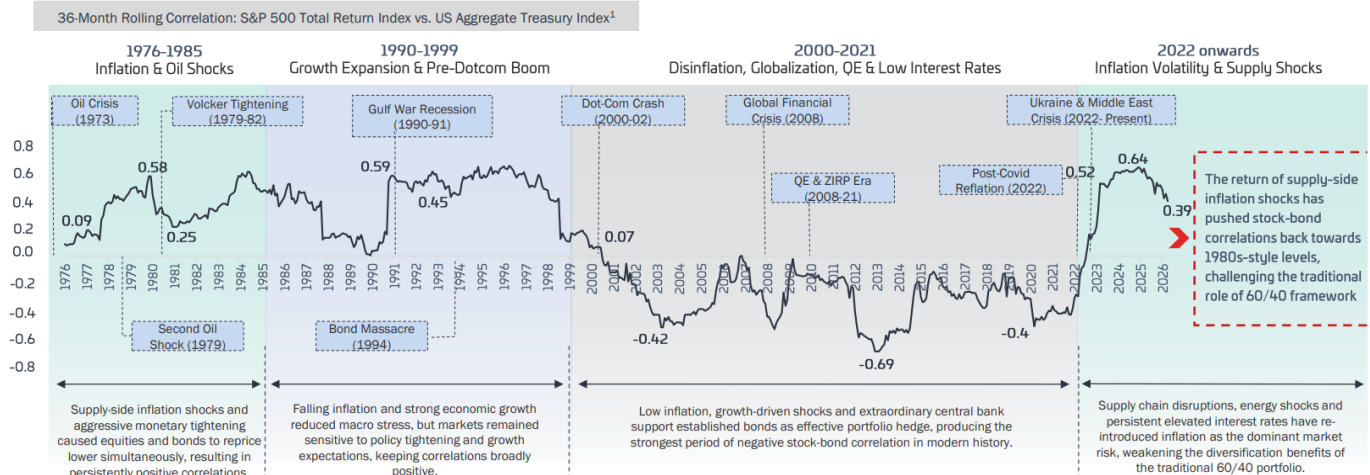


Figure 2: Debt and Equity Correlation

The portfolio consequence has been sharper than most investors expected. 2022 was the first year in 50 years that global equities and bonds fell together, breaking the negative correlation that made the traditional 60/40 portfolio work. That correlation has since flipped from deeply negative through 2000-2022 to strongly positive in the post-COVID period. Bonds are no longer as reliable a hedge, and the traditional playbook, bonds for income, commodities for inflation protection, equities for growth, is having to be rethought.

Real assets are positioned to plug that gap. Contracted, inflation-linked cash flows from REITs and InvITs pick up several roles at once: the income role of bonds, the inflation hedge of commodities, part of the growth role of equities,

and long -duration liability matching for pension and insurance books. That is a wider mandate than the asset class has historically been asked to fill.

What the Global Playbook Shows

India's REIT and InvIT journey is following a path that other markets have already walked.

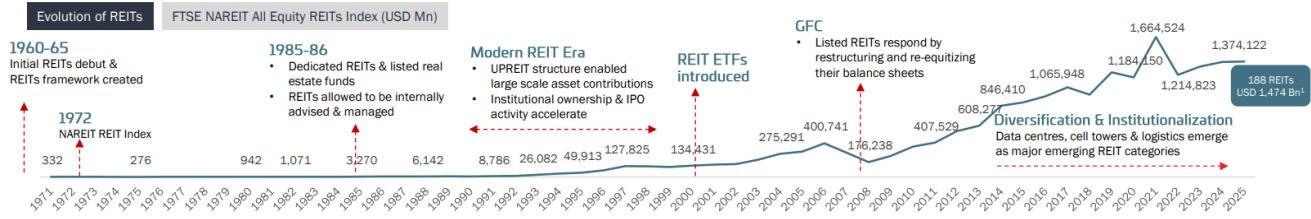


Figure 3: Evolution of REITs in USA

The US REIT market, dating back to the 1960s, is the world's largest and most mature, with its FTSE NAREIT All Equity REITs index growing from USD 9 Bn to USD 1.47 Tn since 1990, a 16% CAGR, across 188 REITs today. Much of that scale came from continuously expanding into new categories, moving well beyond traditional offices and malls into data centres, cell towers and logistics, which kept broadening the investable universe decade after decade.

The one learning worth carrying over is that sustainable growth requires capital discipline and long-term distribution growth depends on sponsor quality, funding flexibility and prudent leverage, particularly during periods of capital market stress.

Australia's A-REIT market, dating to 1971, now stands at roughly USD 102 Bn, equivalent to 5.6% of GDP. Its defining feature is that superannuation funds allocated around 12% of a A\$650 Bn pool to securitised property in the 1990s, a natural fit given the long-duration, income-generating nature of the assets. That is the closest parallel to what EPFO and NPS could eventually do for Indian REITs and InvITs.

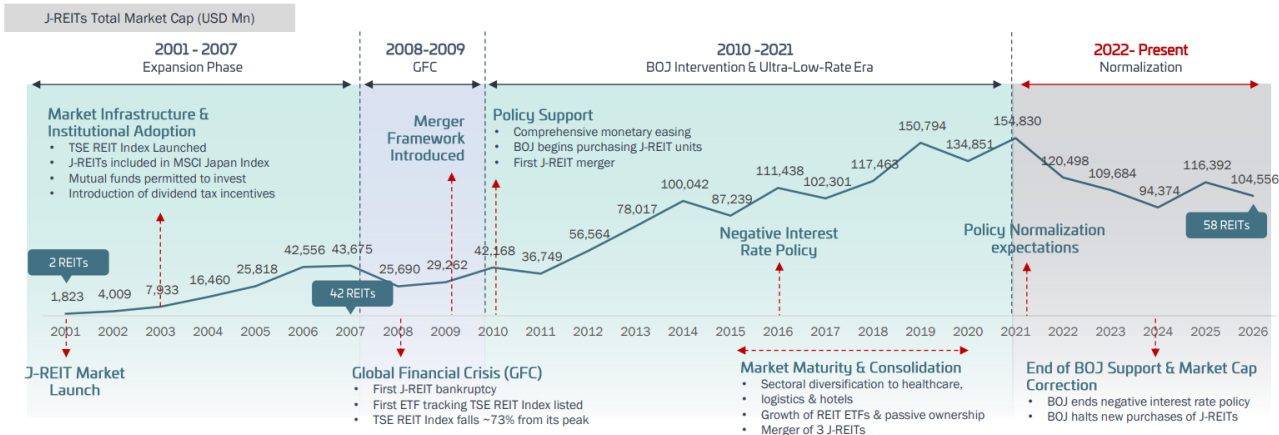


Figure 4: Evolution of REITs in Japan

Japan's J-REIT market, launched in 2001, is now the world's second-largest at roughly USD 105 Bn, but its growth leaned heavily on Bank of Japan intervention and negative rate policy for over a decade; valuations have since corrected as that support has been withdrawn, a reminder that policy-driven liquidity is not the same as structural demand.

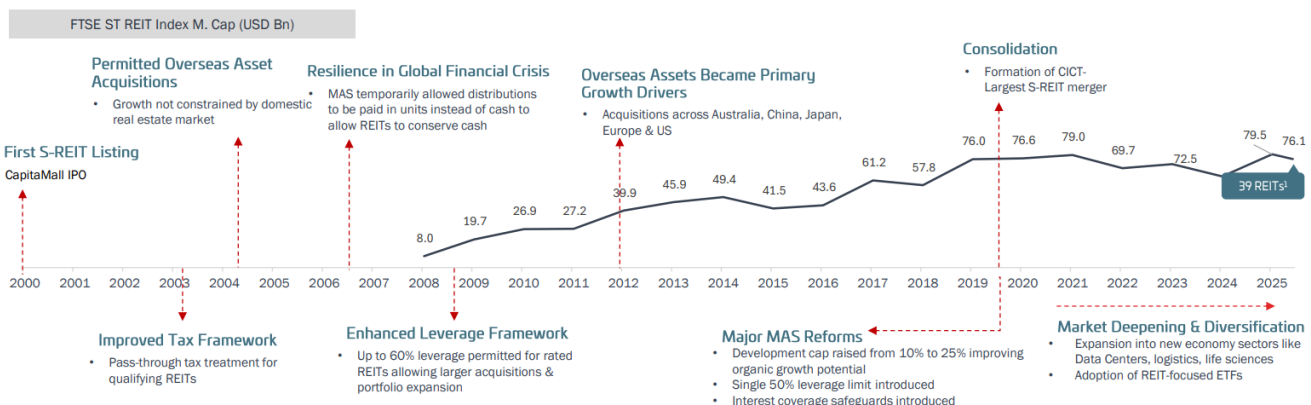


Figure 5: Evolution of REITs in Singapore

Singapore's S-REIT market has gone from a single listing in 2002 to roughly USD 75 Bn in 20 years and carries the highest REIT market cap to GDP ratio globally at 12.2%. Continuous regulatory evolution, higher leverage limits, permission to acquire overseas assets, pass-through tax treatment, did much of the work, alongside diversification beyond retail and office into logistics, healthcare and data centres.

India, having listed its first REIT in 2017, sits earliest in this cycle. Pension integration, retail participation and passive ETF adoption, all of which took these other markets one to three decades to build out, are only now beginning to take shape domestically.

Why Sponsors Keep Building

Supply depends on why sponsors choose to inject assets into these structures in the first place, and two distinct models are doing the work.

Developer sponsors build, stabilise, inject and recycle. Equity locked up in a stabilised asset on a developer's own balance sheet typically carries an 8-9% borrowing cost; the same asset inside a REIT or InvIT is valued at a lower yield, creating an immediate valuation premium. Once listed, the developer becomes a de facto permanent counterparty through a right of first offer over the next generation of assets, while retaining upside through unitholding that often runs to 30 -40%.

Financial sponsors accumulate, govern and list. Because a REIT or InvIT has no fixed termination unlike a 10 -year closed-end fund, mature assets can move from fund to trust while the sponsor keeps the management relationship indefinitely. The value creation here comes from multiples arbitrage: assets aggregated privately at a 12% cost of capital can list as a governed, liquid platform at a 10% implied IRR, with the governance and liquidity premium captured immediately at listing.

Both models feed into the same asset creation flywheel: a developer builds a greenfield asset, it stabilises over two to four years as occupancy or traffic ramps up, it gets injected into a REIT or InvIT at an independently appraised NAV, the developer redeployes the proceeds into the next project, and the trust often has first right to acquire that next asset too. It is this recycling mechanism, more than any single listing, that has kept new supply coming even through periods of weak investor sentiment.

The Capital Still on the Sidelines

The most concrete part of India's opportunity is not new listings; it is capital that already exists but is not yet deployed. EPFO (AUM INR 31.2 Tn), NPS (INR 16.0 Tn), life insurers (INR 67.8 Tn) and mutual funds (roughly INR 22.1 Tn of relevant AUM) each operate under regulatory caps ranging from 3% to 10% of AUM for REIT and InvIT exposure, and collectively they are using only about 7.5% of that available headroom. Full utilisation could redirect close to INR 7 Tn into the asset class, 2.6 times the current free float market capitalisation of all REITs and InvITs combined.

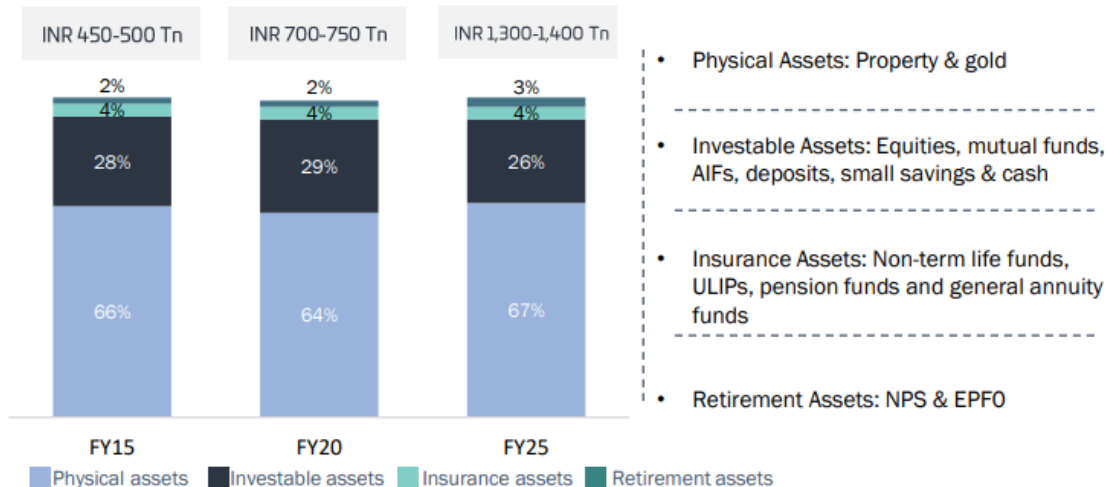


Figure 6: Household Savings Locked In Physical Assets

Household savings tell a similar story from a much larger base. India's household savings pool, now roughly INR 1,300 -1,400Tn, remains two-thirds locked in physical assets such as real estate and gold, with growth financial products such as equities and mutual funds still accounting for only around 6% of the total. But annual mutual fund flows have grown at a 50% five -year CAGR, evidence that the financialization of savings is underway even if REITs and InvITs have not yet captured much of it.

Taken together, an additional investible pool of roughly INR 11.6 Tn could be unlocked for REITs and InvITs by 2030: mutual funds (INR 4.5 Tn), insurers (INR 3.2 Tn), pension funds (INR 2.2 Tn), retail and HNI investors (INR 1.2 Tn), foreign investors (INR 0.3 Tn) and corporate treasuries (INR 0.2 Tn).

Yield Is Not the Answer

Distribution yield is the number most investors look at first, but it is also the most misleading one on its own. Two InvITs can carry near-identical yields and very different economics: a road InvIT yielding 11% with 8 years of concession life remaining could carry an equity IRR of under 6%, while a power transmission InvIT yielding 8% with 28 years remaining and a credible renewal path could carry an IRR of 8-9%. Yield analysis has no mechanism to force that adjustment; IRR analysis does.

The full IRR calculation rests on four inputs: entry price, the distribution trajectory (annual NDCF per unit, including contracted escalation), NAV evolution, and terminal value, the one variable yield analysis ignores entirely. Terminal value itself splits into three categories. Concession Cliff assets, such as toll and annuity roads and select transmission lines, see terminal value decline toward zero as the concession nears expiry. Regulated Renewal assets, including transmission, renewables and gas pipelines, carry terminal value that depends on tariff reset or PPA renewal outcomes. Perpetual Real Estate assets, such as office, retail and warehousing, have no concession expiry at all and are valued instead on stabilised NOI against an exit cap rate, making them more sensitive to long-term rate moves than to near-term operating performance.

Base case equity IRRs vary accordingly by sector: commercial office and retail REITs at 12-14%, gas pipelines at 12-14%, warehousing at 11-13%, toll roads at 11-12%, telecom towers at 10-12%, renewables at 10-11%, and annuity roads and power transmission at 9-10%. Spreads over the 10-year G-Sec range from around 200-300 bps for annuity roads and transmission, the most bond-like categories, to 500-700 bps for office, retail and gas pipelines, where inflation linkage and growth optionality are stronger.

Picking the Right Trust

No two REITs or InvITs carry the same terminal value profile, making a holistic assessment across multiple dimensions more meaningful than relying on a single scorecard. Key areas include distribution quality, leverage architecture, asset quality, sponsor alignment, NAV integrity, growth visibility and regulatory resilience. Indicative benchmarks include a payout ratio of 90–100% of NDCF, loan-to-value below 30% for REITs and 60% for InvITs, interest coverage above 3.5x, sponsor unitholding exceeding 30%, and related-party transactions limited to less than 3% of revenue. No trust is expected to outperform across every metric; the objective is to identify where the key vulnerabilities and trade-offs lie.

Equally important is monitoring specific behaviours that have historically eroded unitholder value, including above-NAV asset injections, distributions exceeding NDCF, aggressive DCF or occupancy assumptions, refinancing cliffs, concentrated floating-rate exposure, sponsor sell-downs, and concession expiries that are inadequately reflected in NAV. The greatest risks typically arise when potential issues combine high severity with low detectability—for example, aggressive valuation assumptions embedded within an independent valuer's report—underscoring the importance of diligence that extends beyond public disclosures.

The Catalysts That Could Unlock the Next Leg

Five specific catalysts could move the needle over the next few years. EPFO opening to non-PSU trusts could channel over INR 600 Bn with just a 2% allocation. A 1% incremental rise in IRDAI's proposed combined insurance cap could unlock a similar amount. Dedicated passive ETF products could channel over INR 240 Bn from current passive AU M at a 2% allocation, while inclusion in global indices at a 2% weightage could pull in over INR 1 Tn of foreign capital. New sector listings, such as data centres, airports and urban infrastructure, would diversify a market that is currently concentrated in office and roads.

The primary market opportunity that follows is not trivial either: 2-3 IPOs alongside 15-25 follow-on issuances, together adding up to a potential annual opportunity of close to USD 10 Bn.

The Outlook

None of this requires a reset of what already exists, only an extension of drivers already in motion: a strong and growing base of monetizable assets, household savings that are slowly financialising, a regulatory framework that keeps maturing, and global capital that has already shown it is willing to underwrite Indian real assets. The regime shift toward structurally higher rates looks durable rather than temporary, and it has made durable, contracted, inflation-linked cash flows more valuable than they were during the previous decade of near-zero rates.

India's REIT and InvIT market is still a fraction of the size it will likely become. The comparison that matters is not what the market looked like a year ago, but how much of the institutional capital, household savings and infrastructure pipeline already sitting in India has yet to find its way into a structure built to hold exactly this kind of asset.

Source: Avendus Report, Trust the structure: REITs, InvITs and the real return imperative