



INDIA JURIS
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LAUNCHING SM REITs IN INDIA

Small & Medium Real Estate Investment Trusts

2025

INDIA JURIS

INDEX

01

SM REIT & ITS
BENEFITS

02

REGULATORY
FRAMEWORK

03

KEY PROVISIONS

04

STRUCTURE

05

PARTIES TO SM
REIT

06

REIT VS SM REIT

07

ROLE OF
STAKEHOLDERS

08

PROCESS OF
LAUNCHING SM
REIT

09

TAXATION OF SM
REIT

10

HOW IJ CAN
ASSIST YOU



01

**SM REIT & ITS
BENEFITS**

SM REIT

A Small and Medium Real Estate Investment Trust (SM REIT) is a SEBI-regulated investment vehicle that:

- Owns and manages smaller-scale real estate assets
- Offers investment through privately placed units
- Focuses on income-generating properties such as:
 - Offices
 - Warehouses
 - Co-working spaces

Key Benefits

- Lower entry barriers for investors
- Professional asset management
- No need for full property ownership
- Regular income from real estate investments
- Ideal for small-ticket investors
- Liquidity
- Fractional Ownership





02

**REGULATORY
FRAMEWORK**



1. Principal Regulation

SEBI (Real Estate Investment Trusts) Regulations, 2014

- Governs registration, structure, and functioning of REITs, including SM REITs
- Chapter VIB specifically outlines the SM REIT framework
- Covers setup, operation, listing, and compliance norms



2. Key Notifications & Amendments

SEBI (REITs) (Amendment) Regulations, 2025 (especially 23rd April 2025)

- Initial Notification: LAD-NRO/GN/2014-15/11/1576, dated 26th September 2014
- Inserted important definitions and clauses applicable to SM REITs (e.g., common infrastructure, valuation norms, eligibility, sponsor requirements)



3. Circulars & Guidelines

SEBI Circulars Specific to REITs (2014 onwards)

- Covers operational guidance, compliance formats, and stewardship code adoption
- Notably, the stewardship code is referenced in Schedule IX of the REIT Regulations



4. Related Acts & Supporting Regulations

- **Securities and Exchange Board of India Act, 1992**
Empowers SEBI to regulate and enforce compliance of REITs and other market intermediaries
- **Companies Act, 2013**
Defines key terms such as “associate,” “body corporate,” and “related party”; used extensively in REIT regulations
- **Securities Contracts (Regulation) Act, 1956**
Governs listing and trading of REIT units on recognized stock exchanges
- **Registration Act, 1908**
Trust deeds for REITs must be registered under this Act
- **Indian Trusts Act, 1882**
Foundational legal framework for trusts, including REITs structured as trusts
- **Foreign Exchange Management Act, 1999 (FEMA)**
Governs investment by foreign portfolio investors (FPIs) and foreign direct investment (FDI) into REITs



5. Related SEBI Regulations (Cross-Referenced by REIT Regulations)

- **SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR)**
Applicable where REITs issue units to the public or undertake rights or preferential issues
- **SEBI (Debenture Trustees) Regulations, 1993**
Relevant for trustees in REIT structures
- **SEBI (Credit Rating Agencies) Regulations, 1999**
Applies where credit ratings are required (e.g., for debt issued by REITs)
- **SEBI (Custodian of Securities) Regulations, 1996**
Covers custodians for REIT assets, if appointed
- **SEBI (Intermediaries) Regulations, 2008**
Fit and proper person criteria applicable to parties in the REIT



6. Stock Exchange & Listing Norms

Listing Obligations & Disclosure Requirements (LODR) Regulations, 2015

- Post-listing compliance for REITs, including periodic reporting, governance, and disclosures



7. Key Notifications & Amendments

Income Tax Act, 1961

- Tax pass-through status, dividend distribution tax, capital gains, and withholding rules for REITs and their investors



03

**KEY
PROVISIONS**

PARTICULARS	Key Requirements
APPOINTMENT	Merchant Banker to be appointed to carry out the obligations related to initial offering
INITIAL OFFERING	Initial offering of the scheme must be made within 3 years of registration
INITIAL OFFERING SIZE	Value of real estate assets or properties in each Scheme not to be less than INR 50 Crores.
INVESTORS	<ul style="list-style-type: none"> • SM REIT can raise funds from any investor, Indian or foreign by issuing units • At least 200 Investors • Investors to be unrelated to the investment manager and its associates
MINIMUM SUBSCRIPTION	INR 10 Lakhs
MAXIMUM SUBSCRIPTION	25% of the total unit capital of the SM REIT Scheme

MINIMUM REAL ASSET VALUE	INR 50 Crores.
DISCLOSURE IN THE OFFER	<ul style="list-style-type: none"> • Whether leverage exists or will be obtained. If without leverage, file undertaking to not to utilize debts in future document • SPV may undertake leverage if the option to undertake leverage is specified in the initial offer
ISSUE PERIOD	Not more than 30 days
MINIMUM PUBLIC UNITHOLDING	25% of the total outstanding units of such schemes
PENALTY	Failure to list or allot units within the specified timelines will attract an interest of 15% p.a.
VALUATION REPORT	<ul style="list-style-type: none"> • Include a summary report of the full valuation in the scheme offer document • Report should be not more than 6 months old from the date of offer

PARTICULARS	Key Requirements
INVESTMENT CONDITIONS	<ul style="list-style-type: none"> • At least 95% of Scheme AUM to be invested in completed and rent generating real estate properties, at all times • Balance 5% can be deployed in unencumbered liquid assets • SM REITs not allowed to invest in under-construction or non-rent generating real estate properties • Scheme of the SM REITs will be permitted to lend only to the SPV • The SPV is not permitted to lend to any other entity
DISTRIBUTION CONDITIONS	<ul style="list-style-type: none"> • At least 95% of net distributable cash flows at the SPV level to be distributed to SM REIT, subject to provisions of the Companies Act, 2013 • 100% of net distributable cash flows at the SM REIT level to be distributed to unit holders of the respective scheme • Distributions are declared at least once in every quarter and not later than 15 working days from the end of the quarter • Distributions are to be paid to the unitholders within 7 working days of such declaration, failing which will attract an interest @ 15% p.a. to be paid to investors

PARTICULARS	Key Requirements
MODES OF FUND RAISING	<ul style="list-style-type: none"> • Indian and foreign investors both can invest • Can leverage, only if, it has been specified in the initial offer document • Modes of fundraising by a scheme of SM REITs and SPVs: <ul style="list-style-type: none"> – Raise capital only by way of the issuance of units – Undertake leverage through borrowings or issuance of debt securities under SEBI Regulations • Scheme opting to utilise leverage: <ul style="list-style-type: none"> – Total borrowings + deferred payments – Cash and Cash considerations ≤ 49% value of scheme of assets • Approval from the unit holders and credit rating from a credit rating agency registered with the Board shall be obtained if: <ul style="list-style-type: none"> – Total borrowings + deferred payments – Cash and Cash considerations > 25% value of scheme of assets

VALUATION OF ASSETS

- Valuation of assets held by SM REIT schemes to be undertaken by a registered valuer who has experience of not less than **5 years** in the valuation of real estate
- Valuation to be undertaken on an annual basis as **on 31st March**. The NAV of each scheme shall be declared and disclosed to the recognized stock **exchange within 1 working day** from the receipt of such valuation reports
- Sale of property **at less than 95% of the fair value** of assets and purchase of property at **more than 105% of the fair value** of the assets will require unitholder approval – votes in favor to be at least 3 times the number of votes cast, if any, against the resolution
- The same valuer should not value the properties of the scheme for more than **4 consecutive years**

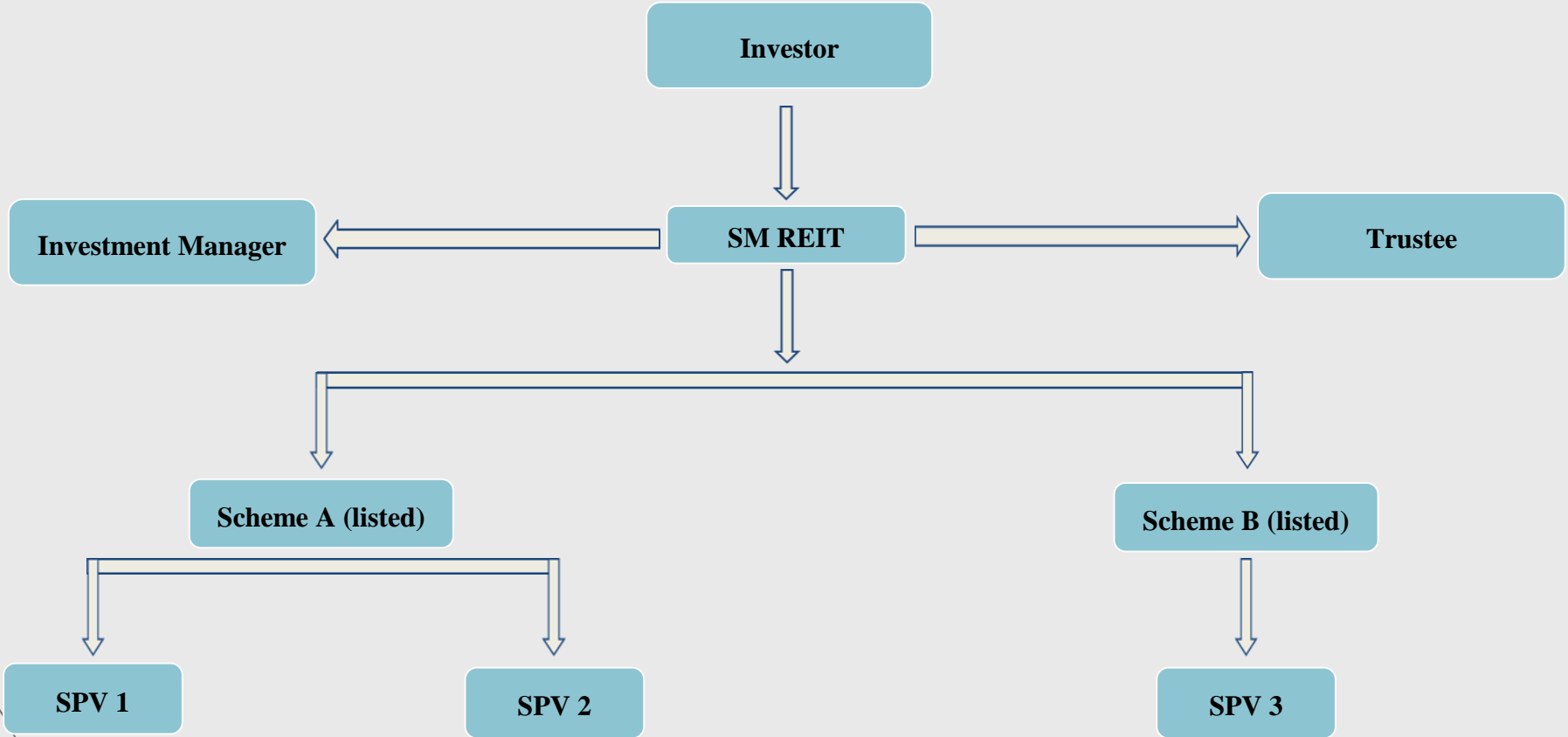
PARTICULARS	Key Requirements
INVESTOR PROTECTION AND MINIMUM SAFEGUARDS	<p>Investor Rights</p> <ul style="list-style-type: none"> • Removal of Investment Manager, auditor, principal valuer, seek winding up of the scheme, etc. • Mandatory annual meeting of investors to be conducted – to cover matters such as annual accounts, valuation reports, performance of SM REIT, approval of auditors & their fees, appointment of valuer/relevant intermediary • Investor approval mandatory for change in Investment Manager, change in investment strategy • Interested party (including where the transaction is with an associate) to not participate in voting on specific issues <p>Other Safeguards-</p> <ul style="list-style-type: none"> • SEBI to specify a cap on total expense ratio for SM REITs • SEBI to prescribe minimum disclosure requirements for (a) offer Document, annual/quarterly reports to investors, (b) Periodical disclosures under listing agreements, and (c) property-wise disclosure of lease rentals along with comparable lease rentals of similar properties by an independent registered valuer/ intermediary

WEBSITE FOR SM REIT	<ul style="list-style-type: none">• Investment Manager to maintain website, disclose details of scheme, proposed real estate assets to be acquired• Trademark, brand name, website or other medium of communication to be exclusively of SM REIT• No information of other entity, structure or person shall be provided on the website
RELATED PARTY TRANSACTIONS	<ul style="list-style-type: none">• No transactions with related parties including for facility management and property management• Investment Manager to manage assets and investments of SM REIT, undertake operational activities of SM REIT



04

STRUCTURE





05

PARTIES



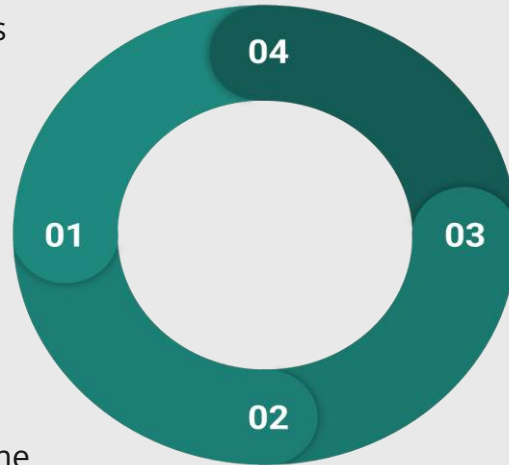
INVESTMENT MANAGER

Sets up SM REIT, manages assets and investments, and undertakes operational activities of SM REIT



SPV

- Should be a company
- Owned 100% by SM REIT/ Scheme
- Can raise debt, if disclosed in the Scheme
- Be a fit and proper person
- Acquires, owns and operates real estate assets



TRUSTEE



- Registered with SEBI
- Should not be an associate of Investment Manager
- Be a fit and proper person
- Holds assets of SM REIT/ Schemes in trust and for the benefit of unit holders

UNIT HOLDERS



- Indian or foreign investors
- At least 200 unitholders
- Hold not more than 25% of outstanding units of Scheme
- Be fit and proper person
- Invests in units of SM REIT/ Scheme; has pro rata and pari passu rights

ENTITY

- Should be a company
- Should be a fit and proper person
- Should not be a trustee or associate of a trustee

EXPERIENCE

- Minimum 2 years' of RE Experience; or
- Employs not less than 2 key managerial personnel, each with at least 5 years RE experience

NETWORTH

- Minimum net worth of INR 20 crores;
- Net worth of INR 10 crores to be in the form of positive liquid net worth

GOVERNANCE

Minimum 50% of directors/ members of governing board to be independent and not be directors of investment Manager or Manager of another SM REIT/ REIT

MANDATORY LOCK-IN

- Up to 3 years- 5% or 15 % if undertakes leverage
- Years 4 and 5 – 5%
- Years 6 to 10 – 3%
- Years 11 to 20 – 2%
- Year 21 onwards – 1%



06

REIT vs SM REIT

	REIT	SM REIT
Legal Entity Form	Company or LLP	Company
Sponsor	Mandatory to have a separate sponsor	No sponsor required
Net Worth	INR 50 Crores	INR 20 Crores (INR 10 crores as liquid net worth)
Experience For IM	5 years of RE experience	2 years of RE experience
Key Managerial Personnel Experience	2 KMPs with at least 5 years of RE experience	2 KMPs with at least 5 years of RE experience (if IM does not have RE experience)
Lock-in for IM	No lock-in unless self-sponsored IM	Applicable

	REIT	SM REIT
Parties to REIT	Sponsor, Investment, Manager, Trustee, REIT	Investment Manager, Trustee, SM REIT
Asset Size	INR 500 crores or more	INR 50 crores to less than INR 500 crores
Minimum Offer Size	INR 250 crores or more	INR 50 crores
Minimum Offer Size	25% of Outstanding units	25% of outstanding units
Minimum Subscription	INR 10,000-INR 15,000	INR 10 lakh or as specified by SEBI
Borrowing	Through listed debt –need not disclose in initial offering document	Borrowing or listed debt-if disclosed in offer document
Failure to List	Surrender of registration	Interest @15% to investors

	REIT	SM REIT
Holding Structure	Can hold assets directly; SPV-company or LLP, Holding company permitted;	SPV to be company – holding company not permitted; cannot hold assets directly
Ownership	51% controlling stake either directly or indirectly	To be held by 100% by SM REIT Scheme
Investment Condition	80% assets in completed and revenue generating; under construction permitted upto 20%	95% in completed and revenue generating assets only
Co-Investment	Permitted	Not permitted
Lock-in for Property	Lock-in for property – 3 years from date of purchase	Not prescribed
Schemes	Not permitted	Permitted to list through separate schemes
Lending	Can lend to SPV/Hold Co	Can lend to SPV

	REIT	SM REIT
Minimum Income	Minimum 51% of consolidated revenue from rents/ lease or ancillary activities	No threshold prescribed
Distribution by SPV	90% of net distributable cash flow to be distributed	95% of net distributable cash flow to be distributed
Distributions by REIT/SM REIT	90% of net distributable cash flow to be distributed	100% of the net distributable cash flows on quarterly basis
Related Party Transactions	Permitted subject to arm's length compliance and other conditions	Not permitted, except with Investment Manager
Unitholder approvals	Sale of property if less than 90% of the assessed value purchase of property if more than 110% of the assessed value	Sale of property if less than 95% of the assessed value purchase of property if more than 105% of the assessed value
Website	Nothing prescribed	Mandatory to maintain website with prescribed disclosures



07

ROLE OF STAKEHOLDERS

STAKEHOLDER

ROLE AND INVESTMENT

LEAD MANAGERS
(MERCHANT BANKERS)

- Manage the IPO/listing process
- Coordinate due diligence, disclosures, and regulatory filings
- Ensure compliance with SEBI and stock exchange requirements

CREDIT RATING AGENCY

- Assess and assign credit ratings to debt instruments (if any) issued by the SM REIT or its SPVs
- Enhance investor confidence (if applicable)

AUDITOR

- Audit the financial statements of the SM REIT
- Certify disclosures in offer documents
- Ensure financial transparency and regulatory compliance

REGISTRAR AND TRANSFER
AGENT (RTA)

- Maintain records of unit holders
- Handle allotment, transfer, and redemption of units
- Manage investor communications and compliance with transfer regulations

CUSTODIAN

- Hold and safeguard the SM REIT's securities and other assets
- Ensure assets are protected and properly accounted for

STOCK EXCHANGE

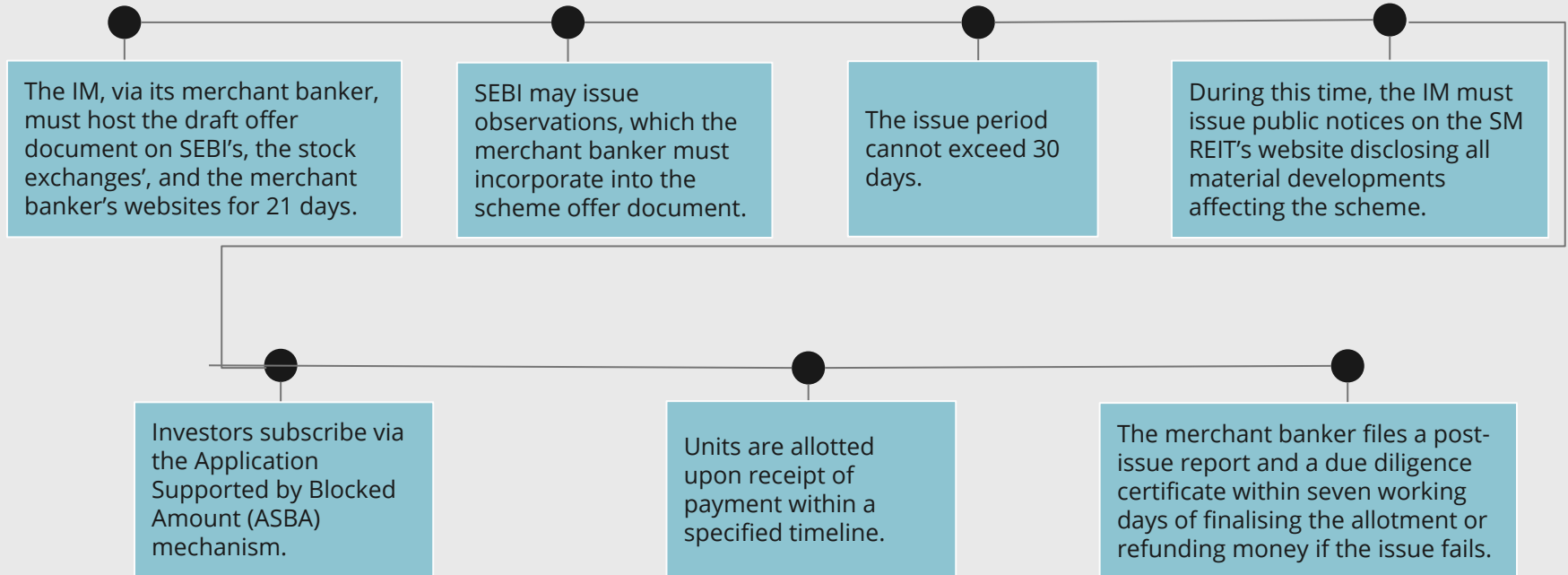
- Lists the units of the SM REIT scheme
- Ensures compliance with listing norms
- Facilitates trading of units post-listing



08

**PROCESS OF
LAUNCHING SM
REITs**

An SM REIT is required to launch its first scheme within three years of obtaining registration; if it fails to do so, it must surrender its registration certificate and windup operations. SEBI, at its discretion, may grant a one-year extension for the initial offer period





09

**TAXATION ON
REITs AND SM
REITs**



TAX

Taxation on REITs and SM REITs

REITs (Real Estate Investment Trusts) and SM REITs (Small and Medium REITs) are special types of trusts that **invest in real estate properties**. The income they earn (mainly from rent and capital gains) is **passed on to investors** as distributions. Let's break down how that income **is taxed**.

What's Different for SM REITs?

The taxation framework is broadly the same as normal REITs because:

- SM REITs are regulated under the same SEBI REIT Regulations, 2014 (with specific rules under Chapter VI-A).

Tax Deduction at Source (TDS)

- TDS applies to interest income paid to resident investors.
- TDS does not apply on dividend income if it is exempt.
- REIT/SM REIT files **TDS certificates**, and investors must declare these incomes in their own ITR.

Taxation for Resident Investors

Income Distribution: Income distribution from SM REITs is divided into **interest income, dividend income, and other distributions**

- **Interest Income:** Taxed at applicable income tax slab rates
- **Qualified Dividend Income:** Tax-exempt
- **Disqualified Dividend Income:** Taxed at individual rates with TDS applied
- **Any other income** taxable in the hands of the Scheme: Tax exempt
- **Other Distributions:** Amounts exceeding the issue price are taxable

Capital Gains on Sale of Units: Taxation on the sale of SM REIT units depends on the holding period:

- **Long-Term Capital Gains (LTCG):** More than 12 months - Taxed at **12.5% on gains above ₹1.25 lakhs**
- **Short-Term Capital Gains (STCG):** 12 months or less - **Taxed at 20%**

Taxation for Non Resident Investors

• **Income Distribution:** Similar to resident investors, Income distribution from SM REITs is divided into interest income, dividend income, and other distributions

- **Interest Income:** Taxed at 5% with TDS applied
- **Qualified Dividend Income:** Tax-exempt
- **Disqualified Dividend Income:** Taxed at individual rates with TDS applied
- **Any other income** taxable in the hands of the Scheme: Tax exempt
- **Other Distributions:** Amounts exceeding the issue price are taxable

Capital Gains on Sale of Units: Similar to resident investors, non-resident investors are taxed on capital gains based on the holding period:

- **Long-Term Capital Gains (LTCG):** More than 12 months - **Taxed at 12.5% on gains above ₹1.25 lakhs**
- **Short-Term Capital Gains (STCG):** 12 months or less - **Taxed at 20%**



10

**HOW IJ CAN
ASSIST YOU**

HOW IJ CAN ASSIST

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graph TD; A((HOW IJ CAN ASSIST)) --> B[Evaluate eligibility and suitability for SM REIT registration under SEBI regulations.]; A --> C[Assist in identifying the sponsor and trustee, drafting the trust deed, and completing trust registration and PAN application.]; A --> D[Draft and finalise key documents, including the Placement Memorandum, Investment Management Agreement, and Contribution Agreement.]; A --> E[Prepare and file SEBI registration application, including all required annexures and follow-up for approval.]; A --> F[Support in coordinating with SEBI, making fee payments, and obtaining the certificate of registration.]; A --> G[Facilitate listing on recognized stock exchanges by coordinating with Merchant Banker, Trustee, and other stakeholders.];
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Assist in identifying the sponsor and trustee, drafting the trust deed, and completing trust registration and PAN application.

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Prepare and file SEBI registration application, including all required annexures and follow-up for approval.

Support in coordinating with SEBI, making fee payments, and obtaining the certificate of registration.

Facilitate listing on recognized stock exchanges by coordinating with Merchant Banker, Trustee, and other stakeholders.

BE PART OF INDIAN VIBRANT REAL ESTATE SECTOR SET UP SM REIT



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