

Why SM REITs are India’s next big real estate opportunity in 2026

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Representational Image

India’s real estate investment ecosystem is entering a decisive phase as regulatory momentum, evolving investor preferences and capital market reforms converge. Over the past few months, REITs and regulated fractional ownership structures have gained renewed attention as instruments that can democratize access to commercial real estate. Against this backdrop, Small and Medium Real Estate Investment Trusts (SM REITs) are increasingly being seen as a natural next step in broadening participation and strengthening market transparency. With the Union Budget 2026 approaching, expectations are building around policy measures that could accelerate the adoption of SM REITs.

Expanding access to commercial real estate

Commercial real estate in India has traditionally remained out of reach for most investors due to high ticket sizes, low liquidity and operational complexity. Recent regulatory initiatives are beginning to address these constraints by enabling smaller, income-generating assets to be accessed through regulated, exchange-listed structures. The SME REIT framework introduced by SEBI allows commercial properties of a smaller scale to be pooled and offered to investors through listed units, bringing transparency, standardized disclosures and improved price discovery.

The framework allows asset pooling between ₹50 crore to ₹500 crore per scheme with a minimum investment of ₹10 lakh, positioning SM REITs in the semi-institutional investor segment. As per CBRE report the SM REIT segment has a potential of ~ INR 5 Lakh Crore by 2026, with over 30 crore sq ft of eligible commercial stock available for such structures.

This development aligns with a broader market narrative that views REITs and regulated fractional ownership as tools capable of lowering entry barriers while preserving investor protection. As more investors seek exposure to stable, income-backed assets, SM REITs provide a structure that combines real estate fundamentals with capital market discipline.

Regulated fractional ownership: formalizing participation

In recent months, fractional ownership has moved closer to the mainstream as regulators focus on bringing structure and oversight to this growing segment. The SME REIT framework provides a regulated pathway for fractional participation in commercial real estate, replacing informal arrangements with a governance-driven model that emphasizes transparency and accountability.

This formalization is critical for long-term investor confidence. Clear rules around asset selection, cash flow distribution and ongoing disclosures allow investors to evaluate real estate exposure in a manner similar to other financial instruments. Market observers believe this shift could significantly expand participation in real estate investing by 2026, particularly among investors who were previously constrained by capital or liquidity limitations.

Policy and regulatory momentum for REITs

Recent policy developments have strengthened the overall REIT ecosystem and reinforced its position within India’s capital markets. One of the most significant moves has been SEBI’s decision to reclassify REITs as equity-related instruments with effect from January 1, 2026. This reclassification, notified through a SEBI circular in November 2025, is expected to enable wider participation by mutual funds and specialized investment funds, thereby deepening liquidity and enhancing market depth.

Such regulatory clarity sends a strong signal about the intent to integrate real estate more closely with mainstream capital markets. SM REITs stand to benefit from this momentum, as improved institutional participation and broader investor acceptance can support the growth of smaller, asset-backed structures within the REIT framework.

Alternative capital pathway for MSMEs

Access to long-term and cost-efficient capital continues to be a key challenge for India’s MSME sector. Heavy dependency on traditional lending channels often limits financial flexibility and growth potential. SM REITs offer an alternative pathway by enabling MSMEs to monetize their commercial real estate assets such as offices, warehouses and industrial facilities, while retaining operational control.

By unlocking capital embedded in real estate, MSMEs can strengthen balance sheets, reinvest in core operations and reduce leverage. For investors, these assets offer exposure to stable, income-generating properties supported by a regulated framework. This alignment of interests positions SM REITs as a practical solution at the intersection of real estate investment and MSME financing.

Market dynamics and investment considerations

As a nascent segment, SM REITs are building secondary market depth, with broader institutional participation expected following the full implementation of regulatory changes through 2026. The regulatory framework, including the 90% income distribution mandate, ensures steady cash flows for investors while maintaining asset quality standards. The ₹10 lakh minimum investment threshold complements the larger REIT structures, creating a tiered ecosystem that serves different investor categories.

Anticipated Impact of Union Budget 2026

The Union Budget 2026, scheduled for February 1, is expected to be a defining moment for SM REITs. Industry stakeholders anticipate greater clarity on taxation, particularly around pass-through treatment, which could materially improve investor participation. Rationalization of minimum asset and investment thresholds may further encourage adoption by a wider set of asset owners and investors. Simplification of compliance and listing processes could also accelerate growth.

Investor preferences have evolved significantly in recent years. Beyond capital appreciation, there is a growing emphasis on transparency, predictable income and portfolio diversification. SM REITs respond to these expectations by offering asset-backed investments with regular distributions, exchange-based liquidity, and regulatory oversight.

SM REITs as a transformative investment vehicle



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SM REITs represent a meaningful evolution in India’s real estate investment landscape. Recent regulatory actions, including the formalization of fractional ownership and the reclassification of REITs as equity-related instruments effective January 1, 2026, indicate strong policy intent to deepen market participation. As Budget 2026 approaches, targeted measures around taxation, compliance, and MSME integration could unlock the full potential of SM REITs.

If supported by a balanced and forward-looking policy framework, SM REITs can deliver long-term value for investors, provide alternative capital pathways for MSMEs, and strengthen the linkage between real estate and capital markets. In doing so, they have the potential to play a transformative role in India’s evolving investment ecosystem.