

Want to invest ₹10 lakh in real estate without the hassle of managing tenants? An SM REIT could be an option

Unlike direct property ownership, where investors must handle tenants, REIT investors receive regular income without the hassles of managing a physical asset

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SM REITs are suitable for mature retail investors seeking a diversified portfolio with exposure to both commercial and residential real estate without directly buying property. (Photo for representational purposes only) (Pixabay)

Rohan Mehta, 35, an IT professional from Bengaluru, invested ₹15 lakh in a real estate investment trust (REIT) to earn rental income without buying property. Over time, he received steady payouts and modest gains, enjoying the ease, transparency, and liquidity of the investment.

Small and medium REITs work on the same principle as traditional REITs, pooling investors' money to acquire and manage income generating real estate. The key difference lies in their size and reach.

How SM REITs work

Think of an SM REIT as a pool of money collected from many investors, like you, to buy and manage income-generating real estate such as offices, warehouses, or shopping centres.

Instead of you buying a property yourself, the SM REIT owns and manages the properties, and you just invest a small amount to get a share of the rental income and property value growth.

Traditional REITs handle very large properties worth over ₹500 crore. SM REITs on the other hand deal with smaller portfolios between ₹50 to ₹500 crore. This makes them more affordable for regular investors.

"Regulated by SEBI, they follow the same compliance and disclosure norms and are required to distribute most of their earnings, ensuring a transparent and regular income stream for investors," says Pranay Kumar, Executive Director, [REPL](#), an urban development and infrastructure consultancy. The minimum investments for SM REITs is ₹10 lakh.

Some common formats that are part of their portfolio include office buildings, stores, warehouses, logistical centers, and hospitals.

Income from SM REITs

"For investors, these assets offer a variety of rental income and the opportunity to benefit from capital appreciation. SM REITs invest in small to mid-sized buildings suitable for small and medium-sized businesses," says Shobhit Agarwal, MD and CEO, ANAROCK Capital, a real estate consultancy.

"In return terms, SM REITs offer stability and moderate yields, typically in the 9–12% range, suitable for those seeking income and protection rather than high-growth returns from development-led appreciation," says Manoj Dhanotiya, founder and CEO, Micro Mitti, a real estate co-investment company.

Understanding the risks

While SM REITs offer potential benefits, they also come with certain risks. Fluctuations in property values can impact the REIT's share price. Additionally, SM REITs are a relatively new asset class, and their long-term performance remains to be seen.

"Risk-averse investors or those requiring a high degree of certainty in their investments may prefer other asset classes," says Agarwal.

Before investing, retail investors should conduct thorough due diligence. This includes analysing financial statements, understanding the investment strategy, assessing the quality of the property portfolio, and evaluating the overall health of the commercial and residential real estate market.

Additionally, investors should carefully analyse offer documents, including details of properties, projected yields, and Net Asset Value (NAV) disclosures.

Real estate exposure made easy: The case for REITs

Let's say you have ₹10 lakh to invest, the minimum amount required for REITs. Should you invest?

Not necessarily. REITs are designed for investors who want real estate exposure in their portfolio without owning physical property. They are not an alternative to mutual funds and may not be the right starting point for new investors. For risk-averse investors, real estate should ideally make up only 5–10% of the overall portfolio, and [REITs can be a suitable way to achieve](#) that exposure without directly purchasing property.

Investing in a REIT is just a way of investing in property. If you were investing in a property, you would own one physical asset. Your up front investment would be at least ₹25 lakh even if you were buying a property in a small city. You would have to worry about tenants, maintenance and paperwork. In case of a REIT, you do not have to worry about anything, but get a regular income.

You can start with the minimum amount and sell your units when you need. Investing in property requires large up-front payment, involves ongoing costs and may require months to sell.

The downside

It is important to understand the difference between [REITs](#) and mutual funds. "Mutual funds provide T+1 or T+2 redemption with minimal impact cost, ensuring quick access to money. [SM REITs](#), have limited liquidity where finding a buyer can take weeks or months, and urgent sales often come at a discount, reducing realised returns," says Prashant Mishra founder and CEO, Agnam Advisors, a wealth management firm.

What this essentially means is that you can redeem your mutual funds in one or two days unlike REITs which will take a longer time to redeem.

REIT income is taxed by component interest at slab rate, dividends often exempt, and amortisation adjusted against capital gains. "Equity mutual funds now attract 12.5 percent long-term and 20 percent short-term capital-gains tax, while new debt funds are taxed at slab rates. In my view, mutual funds usually offer higher post-tax efficiency unless an investor prioritises steady rental income," said Paramdeep Singh, founder, Long Tail Ventures, an investment firm.

[SM REITs](#) are thus suitable for mature retail investors seeking a diversified portfolio with exposure to both commercial and residential real estate without directly buying property.