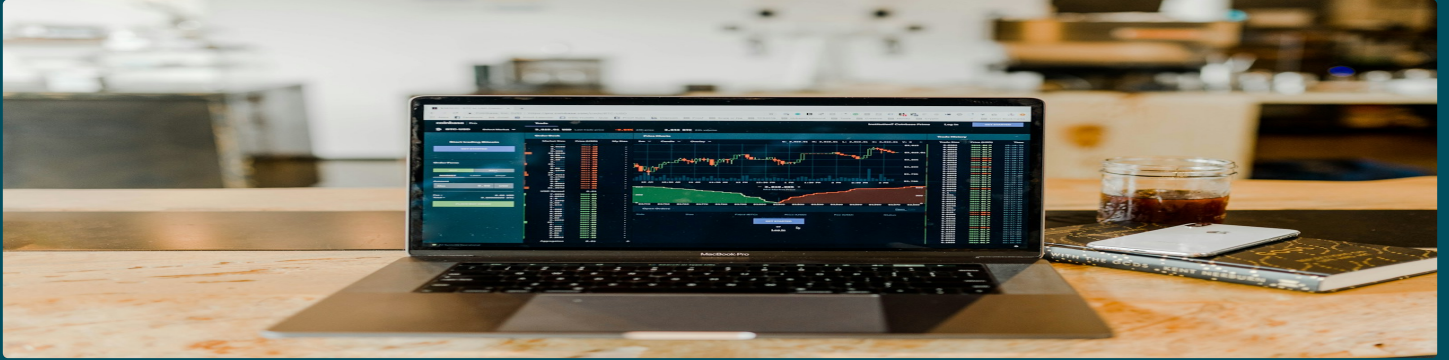




SECURITIES LAW

SEBI Eyes Bigger Players: Strategic Investor Rules for REITs & InvITs Set for a Major Revamp

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In a significant regulatory development aimed at strengthening the capital market framework for infrastructure and real estate sectors, the Securities and Exchange Board of India (SEBI) has released a consultation paper dated August 1, 2025, proposing key amendments to the definition of “Strategic Investor” under the SEBI (Infrastructure Investment Trusts) Regulations, 2014 and the SEBI (Real Estate Investment Trusts) Regulations, 2014. This proposal forms part of SEBI's ongoing efforts to enhance the depth, stability, and investor diversity of the REIT and InvIT markets in India.

Table of contents

- [Current Regulatory Framework](#)
- [Proposed Amendments by SEBI](#)
- [Rationale Behind the Move](#)
- [Public Opinion](#)
- [After Effects of Change](#)
- [Conclusion](#)
- [Authors Opinion](#)

Current Regulatory Framework

As per existing provisions, strategic investors are permitted to subscribe to units of a REIT or InvIT prior to the opening of the public issue, provided they commit to investing not less than 5% and not more than 25% of the total offer size. Eligible entities under this category currently include:

1. Scheduled Commercial Banks
2. Multilateral and Development Finance Institutions
3. State Industrial Development Corporations
4. Insurance companies
5. Systemically important Non-Banking Financial Companies (NBFCs)
6. Mutual Funds
7. Foreign Portfolio Investors (FPIs)

These investors must enter into a binding unit subscription agreement and are subject to a 180-day lock-in period post-listing.

Despite their prominent role in long-term asset financing, other key institutional investors such as pension funds, provident funds, alternative investment funds (AIFs), and venture capital funds (VCFs) are currently excluded from the definition of strategic investors under the REIT and InvIT Regulations. This exclusion limits their ability to participate as early anchor investors during the pre-issue subscription stage.

Proposed Amendments by SEBI

SEBI's proposal seeks to broaden the pool of eligible strategic investors by allowing a wider category of institutions to participate in REIT and InvIT issuances during the pre-issue stage. The key proposed changes include:

1. **Inclusion of Qualified Institutional Buyers (QIBs):** Entities such as mutual funds, alternative investment funds (AIFs), venture capital funds, and foreign portfolio investors (FPIs) registered as QIBs will be considered eligible strategic investors.
2. **Foreign Investors:** Only FPIs who are QIBs, i.e., excluding individuals, corporates, and family offices, will be eligible as strategic investor.
3. **Exclusion Clause:** The amendment would continue to exclude retail individuals, corporates, and family offices from being classified as strategic investors, in line with SEBI's intent to preserve the institutional nature of this investment class.

These changes are expected to allow large and long-term investors to participate early in REIT and InvIT issuances, potentially serving as anchor investors that can boost investor confidence and improve the subscription performance of public issues.

Rationale Behind the Move

SEBI's rationale for this amendment is based on several key considerations:

1. **Enhancing Market Liquidity:** Broader institutional participation can improve liquidity and secondary market depth in REITs and InvITs.
2. **Capital Formation:** Attracting large institutional investors early in the fundraising process can improve the success of public issues and encourage long-term capital formation in critical sectors.
3. **Diversification of Investor Base:** With the inclusion of QIBs and FPIs, the investor pool becomes more diversified, which can lead to more stable price discovery and reduced market volatility.
4. **Alignment with Global Best Practices:** In mature markets, strategic or anchor investors often include pension funds, insurance funds, and sovereign wealth funds. SEBI's proposed alignment could help attract global capital to Indian infrastructure and real estate assets.

Public Opinion

SEBI has invited public comments on the proposed amendments up to August 22, 2025. Market participants, industry bodies, investors, and other stakeholders are encouraged to submit their views, suggestions, and concerns through the official SEBI portal or via email, in the prescribed format.

Following the receipt and review of public comments, SEBI is expected to finalize and notify the amended regulations through an official circular, which will then become binding on all REIT and InvIT issuers and investors.

After Effects of Change

If implemented, these changes could lead to:

- Greater institutional interest in REIT and InvIT issuances
- Higher pre-issue subscription levels, improving the attractiveness of offerings
- More predictable and stable fundraising for infrastructure and real estate investment vehicles
- A positive signal to foreign investors, especially sovereign and pension funds seeking long-term yield-generating assets

These measures are particularly timely as India continues to expand its infrastructure pipeline under programs such as the National Infrastructure Pipeline (NIP) and Gati Shakti, which rely heavily on private sector participation and market-based funding.

Conclusion

SEBI's proposal to expand the definition of strategic investors under REIT and InvIT regulations marks a progressive step toward deepening the institutional ecosystem for capital markets in India. By enabling a wider range of qualified institutional investors to play a strategic role in early-stage capital formation, the amendments could unlock greater participation, bolster investor confidence, and support the sustainable growth of India's real estate and infrastructure sectors.

Authors Opinion

SEBI's move to expand the definition of strategic investors is a progressive and timely step that aligns with the growing interest of institutional capital in India's infrastructure and real estate sectors. By including Qualified Institutional Buyers (QIBs) and select foreign investors, the proposal opens the door to deeper, long-term investment while maintaining the institutional nature of pre-issue participation by excluding retail individuals and corporates. This change is likely to boost anchor investor confidence, improve subscription quality, and enhance the overall credibility and liquidity of REIT and InvIT offerings. If implemented well, it could significantly strengthen India's market framework and support the country's broader infrastructure growth objectives.

For more details, write to us at: contact@indialaw.in

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