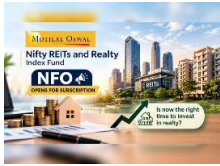


NFO Insight: Motilal Oswal Nifty REITs & Realty Index Fund opens for subscription. Is now the right time to invest in realty?

By Surbhi Khanna, Published on: 25th September 2026



Motilal Oswal Mutual Fund has launched Motilal Oswal Nifty REITs & Realty Index Fund, which is open for subscription and will close on October 9. It is an open-ended scheme replicating/tracking the Nifty REITs & Realty Total Return Index (TRI), subject to tracking error, providing exposure to India's listed REITs and real estate companies.

The Motilal Oswal Nifty REITs & Realty Index Fund provides exposure to listed REITs and Realty companies through a transparent, index-based approach.

What does the fund house say on fund launch?

Pratik Oswal, Chief of Business – Passive Funds: Real estate has always been part of the Indian investor's portfolio, but almost entirely through direct property — illiquid, capital-intensive, and hard to diversify. The Motilal Oswal Nifty REITs & Realty Index Fund brings together India's listed REITs and real estate companies in one rules-based basket, giving investors a transparent and liquid way to participate in this theme, without needing to pick individual stocks or time the cycle.

What experts say about the fund

Experts typically ask investors to avoid investing in NFOs unless they offer something unique. The uniqueness could be that the scheme is offering an investment option that is not available in the market or offering something extra to an existing option. Otherwise, the experts believe investors are better off with an existing scheme with a long performance record. This is because you have some historical data to base your investment decision. You don't have any data when it comes to new offerings.

Vishal Dhawan, Founder & CEO, Plan Ahead Wealth Advisors shared with ETMutualFunds that the fund combines REITs delivering more predictable rental cash flows and realty stocks capturing developer growth in a single rule-based index and it caps single-stock exposure at 15% and sponsor groups at 32% across 5 listed REITs (41.1%) and 10 realty stocks (58.6%).

“Unlike direct real estate requiring Rs 20–30 Lakhs+ upfront and legal upkeep, this fund offers liquid, exchange-traded access starting at ₹500. Additionally, Systematic Withdrawal Plan (SWP) units held over a year incur a flat 12.5% LTCG tax rate compared to 21% effective tax on rental income.”

Dhawan further said the investment case rests on India's real estate market expanding significantly backed by Global Capability Center office leasing. It provides a low-cost, transparent vehicle to participate in both steady rental yield generation and residential construction momentum.

Rajan Sarkar, Director & Unit Head, Anand Rathi Wealth Limited told ETMutualFunds that the fund provides exposure to both listed REITs and real estate companies through a single passive portfolio and the underlying benchmark Nifty REITs & Realty Index consists of 15 securities, with 60% of the index allocated to REITs and the balance to listed realty companies which makes the fund different from a conventional realty fund such as the Nifty Realty-based passive funds, which primarily provide exposure to listed real estate developers.

“Whereas this fund provides exposure in combination of REITs and realty companies which allows investors to have an exposure to two different parts of the real estate ecosystem.”

However, investors should also consider that sectorial/thematic based funds tend to undergo cyclical performance and this index is recently launched in March 2026 and it doesn't have enough track record to evaluate its performance across market phases and moreover, passive funds limits fund manager

flexibility to replicate the benchmark rather than make active sector or stock-selection calls to generate alpha against benchmark, Rajan further said.

How sensitive to interest rate, property price and broader real estate cycle?

According to the scheme information document of the fund, the scheme's concentration in real estate and REITs exposes it to property market cycles, where downturns in or rental yields can directly erode valuations. REITs prices are also sensitive to interest rate movements, since rising rates increase discount rates applied to rental income and raise debt servicing costs, valuations and distributable yields. Additionally, regulatory changes affecting mandated REIT distribution levels, leverage limits, or taxation of distributions can alter realized returns.

Rajan said that REITs are more sensitive to interest rates because their valuations are influenced by borrowing costs, cost of capital and the relative attractiveness of rental yields against fixed-income instruments and currently most of the central banks turned into hawkish mode and increasing interest rates, so it will pressure REIT valuations by increasing financing costs and decrease its relative attractiveness of their distributions.

He also said that real estate developers can also be affected through the cost of borrowing and housing demand. When it comes to higher property prices it will benefit developers through improved realisation values and margins. For REITs, however, the relationship is somewhat different. Their earnings are driven more by occupancy, rentals, leasing spreads and the quality of their assets than simply by changes in property prices.

Moreover, given the fund's concentrated exposure to a single sector, we suggest investors to avoid investing in sectorial/thematic funds as they tend to undergo cyclical performance, increase concentration risk and overall portfolio volatility, he further said.

Dhawan said that the fund is sensitive to interest rates, as higher rates raise developer borrowing costs and increase discount rates on REIT cash flows and this dual pressure can compress asset valuations, raise debt-servicing expenses, and reduce overall distributable yields.

"Its 58.6% realty equity weight reflects property price trends, where rising home prices (+9% YoY across top 7 cities) expand developer pre-sales margins. Conversely, softening property prices or execution delays affect & impact profit realization and drawdowns in developer stocks."

Dhawan further said that economic downturns impact commercial office leasing and retail sales, but the REIT component (41.1%) cushions portfolio cash flows and high occupancy (90–99%) and long lease commitments averaging 7.4 years WALE help stabilize distributions during slowdowns in developer sales.

Portfolio composition

The fund provides exposure to listed REITs and Realty companies through a rules-based index approach. "Five landlords. Ten Builders. One basket" represents the current index composition of 5 REITs and 10 Realty-sector stocks as of August 31, 2026.

The five landlords include Brookfield India Real Estate Trust (15.80%), Embassy Office Parks REIT (14.48%), Nexus Select Trust (13.65%), Mindspace Business Parks REIT (7.42%) and Knowledge Realty Trust (7.26%).

The 10 builders include DLF (8.20%), Phoenix Mills (6.56%), Lodha Developers (6.15%), Godrej Properties (5.04%), Prestige Estates Projects (5.09%), Oberoi Realty (4.07%), Brigade Enterprises (2.25%), Anant Raj (1.70%), Aditya Birla Real Estate (1.31%) and Sobha (1.03%).

REITs and realty: Key opportunities, risks and valuations

Dhawan said the key opportunities include strong commercial leasing and significant headroom, as only 32% of 520 msf Grade-A office stock is currently listed while the key risks involve sector concentration, tracking error, and a risky/adverse risk rating.

“As a passive index fund, broader property downturns, raw material inflation, or regulatory changes affecting mandatory distribution levels ($\geq 90\%$ NDCF) can lead to direct NAV volatility. Without cash buffers, thematic risks remain unhedged during industry slowdowns.”

The Nifty REITs & Realty TRI benchmark delivered 17–20% 3-to-5-year CAGRs, outperforming Nifty 50. However, after multi-year price rallies, current valuations may leave limited margin of safety, making disciplined entry essential, Dhawan further said.

Rajan said the primary opportunity is to get exposure to both REITs and real estate companies through a single fund. However, at the same time it is also associated with multiple challenges like cyclical performance, concentration risk as the portfolio is restricted to 15 numbers of securities within a single sector, and limited track record to assess how the index behaves across different market cycles.

He further said that when it comes to valuation, currently this segment is trailing at 52x PE, which indicates valuations were significantly elevated which limits the margin of safety. Therefore, we suggest investors to avoid investing in this segment and instead consider to build a strategy based portfolio by diversifying across equity & debt with 80:20 and for equity portion diversifying across active diversified equity funds which helps to get exposure across the segments, sectors, themes and categories including realty & reduces the concentration risk associated with performance of any single segment and helps to ride across market cycles.

Other REITs oriented funds and what returns to expect

At present there are six funds based on REITs themes. Only two have completed three years, of which Kotak International REIT Overseas Equity Active FoF have 8.99% and Mahindra Manulife Asia Pacific REITs FoF which gave 8.97%.

This product is suitable for investors seeking long-term capital growth and returns that correspond to the performance of the Nifty REITs & Realty Total Return Index, subject to tracking error.

Rajan suggested that investors avoid investing in sectorial/thematic based funds as they tend to undergo cyclical performance which requires tactic entry & exit to ride the performance which is not suitable for regular investors and additionally it also increases the overall portfolio volatility. Additionally investing in passive funds associated with multiple challenges like no alpha generation and active rebalancing in the underlying portfolio with changing market conditions.

Historically study on major listed REITs shows that they delivered an 9 to 9.5% returns annually with 5 to 6% average yields, which indicates that their yields are currently less than 10Y risk free rate and additionally in rising interest rate scenarios it can be impacted further. Therefore, it is ideal for investors to invest in active diversified categories such as market cap based funds, flexi, multi cap and strategy based like value, focused, and dividend yield. Which helps to generate 12 to 13% returns in the long-term with 2 to 3% alpha against the underlying benchmark, he further said.

Dhawan said that due to thematic concentration, investors should limit exposure to 5% to 10% of their overall portfolio which keeps total risk contained while allowing capital to participate in long-term real estate returns and over a 5 to 7-year horizon, investors can expect moderate, equity-like, inflation-beating returns rather than repeating recent gains.

To manage entry risk following recent price surges, fresh capital is best deployed through staggered Systematic Investment Plans (SIPs) and holding units for the long term allows sufficient time for project delivery cycles and REIT lease escalations to compound effectively, Dhawan further said.

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