

Analyzing Growth, Emerging Trends, and Opportunities in the Indian Real-Estate Sector

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Abstract

The real estate sector in India is a vital component of the economy, second only to agriculture in employment generation. This study examines the multifaceted growth of this sector, focusing on its evolving role in housing, retail, hospitality, and commercial domains. It delves into the macroeconomic and demographic drivers propelling the industry, explores investment trends, and highlights government initiatives shaping its trajectory. By analyzing data from urban centers like Pune, Bengaluru, and Delhi-NCR, the study identifies patterns in residential and commercial real estate, including significant contributions from foreign direct investments (FDI) and private equity. The findings provide actionable insights into the sector's future, projecting its expansion to a \$1 trillion market by 2030 and a \$5.8 trillion market by 2047.

Keywords: real estate, India, FDI, housing, commercial real estate, urbanization, private equity, GDP, Smart Cities, affordable housing.

1. Introduction

The real estate sector is one of the most vital in the world economy, comprising several sub-sectors such as housing, retail, hospitality, and commercial. Its importance cannot be overemphasized in view of its contribution to employment and Gross Domestic Product. In India, the sector holds the second position after agriculture in terms of providing employment and it is one of the top recipients of foreign direct investment. The Indian real estate sector has grown significantly with the rise of urbanization, corporate expansion, and increasing demand for housing. This paper discusses the market size, major trends, government initiatives, and outlook for the Indian real estate sector, thereby providing a comprehensive overview of its evolution and potential.

2. Market Overview: Size and Sector

Expanding Market Scale

The real estate sector has gained much momentum in recent years in India. This market was estimated to surge from Rs. 12,000 crores (US\$ 1.72 billion) in 2019 to Rs. 65,000 crores

(US\$ 9.3 billion) by 2040 (IBEF, 2024). It is likely to reach a market size of US\$ 1 trillion and contribute 13% to the country's GDP by 2030.

Further, the estimates for 2047 are that the market will reach US\$ 5.8 trillion, accounting for 15.5% of GDP (CREDAI-JLL, 2024). However, the residential segment proved to be really resilient. Home sales for the financial year 2023-24 are expected to reach Rs. 3.47 lakh crore (US\$ 42 billion), a surprise increase of 48% over YoY. Similarly, commercial real estate gross leasing in India surged past 60 million sq. ft. during 2023 with increasing demand evident in office and retail spaces as well.



Fig 1. Market Size of Real Estate in India (US\$ Billion)

3. Key Trends Shaping the Sector

3.1. Rising Demand for Residential and Commercial Spaces

Demand for residential properties in major cities such as Mumbai, Delhi-NCR, and Bengaluru has continued to grow, particularly in mid-income and luxury segments. In FY23, luxury home sales priced above Rs. 4 crore surged by 75%, doubling their share of total housing sales (CBRE, 2023). Commercial real estate has also witnessed record-breaking leasing activity, with gross leasing volumes exceeding 62.98 million sq. ft. in 2023, marking a 26.4% increase compared to the previous year (Knight Frank, 2024).



Fig 2 Graph Cumulative Housing Sales and Launches in Top 3 Cities (No. of Units in 2022-23)



Fig 3. Graph for Demand for Commercial Space in Top 8 Cities (Mn Sq. Ft)(2017-2023)

3.2. Flexible and Technology-driven Spaces

Technology firms have emerged as the primary contributors to office leasing activity, accounting for 22% of gross leasing in Q1 2024. Engineering and manufacturing contributed 13%, while BFSI followed closely with 12% (CBRE, 2024). The demand for flexible office spaces also increased by 48% in 2023, reflecting a growing preference for hybrid work models and shared office environments (Savills India, 2024).

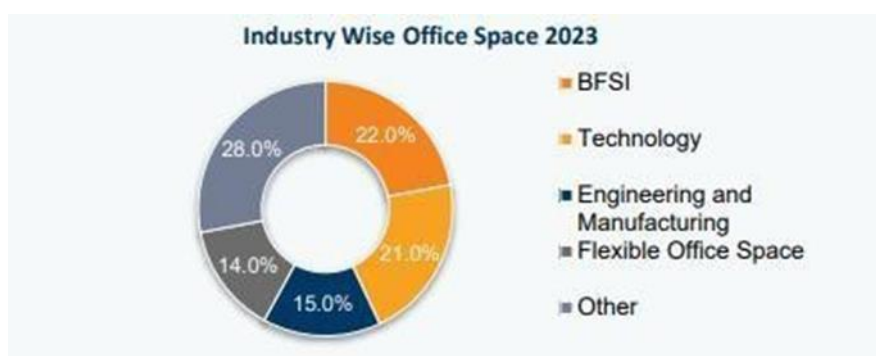


Fig 4. Pie chart for Industry-Wise Office Space Composition (2023)

3.3. Affordable Housing and Urbanization

India has a severe shortage of housing, with an estimated requirement of 10 million units in urban areas. The government's initiatives for affordable housing, such as the Pradhan Mantri Awas Yojana, aim at constructing 20 million affordable homes to address the shortfall in housing supply for low-income families (Knight Frank, 2023). The scheme

has already sanctioned 122.69 lakh homes as of mid-2023, out of which 74.75 lakh have been completed and delivered to urban poor (IBEF, 2024).

3.4. Foreign Investments and PE/VC Inflows

The Indian real estate sector has emerged as a hot destination for foreign institutional investors. Foreign inflows stood at US\$ 26.6 billion between 2017-2022, reflecting strong investor confidence. Private equity investments have reached US\$ 4.2 billion in 2023, further cementing India's position as an attractive investment destination (CREDAI-JLL, 2023).

3.5 Focus on Data Centres

The impact of India's digital revolution is bound to increase demand for data centers, which is likely to witness an additional 15-18 million sq. feet of real estate requirements by 2025, according to Savills India (2024). With the country recording increasing internet penetration, fast-tracked cloud technology adoption, and the expansion of IT infrastructure, demand has surged.

4. Government Initiatives Driving Real Estate Growth in India

The Indian government has been the main propellant for growth in the real estate sector through various policies and initiatives. These have facilitated transparency, improved investment, and addressed the urban housing shortfall.

4.1. PM AwasYojana (Urban)

Launched in 2015, the Pradhan Mantri Awas Yojana (Urban) [PMAY(U)] is a flagship initiative for providing affordable housing for the urban poor by 2022. As of 2024, the scheme has been extended to continue addressing India's significant housing shortage. Under PMAY(U):

- **Budgetary Support:** Rs. 79,000 crore (US\$ 9.64 billion) was allocated in the Union Budget 2023-24, up 66% over the previous year, underlining its critical importance (IBEF, 2024).
- **Progress:** By mid-2023, 119.7 lakh houses were sanctioned, and 74.75 lakh houses completed and delivered to beneficiaries (Knight Frank, 2023).
- **Future Scope:** The government plans to invest Rs. 10 lakh crore (US\$ 120.16 billion) over the next five years under PMAY-U 2.0, addressing housing needs for 1 crore urban poor and middle-class families (Union Budget, 2024).

This scheme aims to resolve the affordable housing shortage, estimated at 10 million units in urban areas (Economic Times Housing Finance Summit, 2023).

4.2. Real Estate Regulatory Act (RERA)

The Real Estate Regulation and Development Act (RERA) of 2016 was a landmark reform. RERA promotes transparency, accountability, and efficiency in real estate transactions by:

- Mandating registration of real estate projects and agents.
- Requiring developers to disclose project details and adhere to deadlines.
- Protecting homebuyers' interests by penalizing defaulters and ensuring timely project delivery (CREDAI-JLL, 2023).

RERA has significantly boosted buyer confidence and investor sentiment, fostering a more transparent and regulated real estate market.

4.3. Goods and Services Tax (GST)

The introduction of the Goods and Services Tax (GST) in 2017 streamlined tax structures in real estate. Its impacts include:

- **Simplification of Taxation:** GST merged multiple indirect taxes, like VAT and service tax, into a unified system, reducing the tax burden on developers and buyers.
- **Affordable Housing Benefits:** GST rates for affordable housing were reduced to 1%, while other residential properties were taxed at 5%, enhancing housing accessibility (IBEF, 2024).

The GST regime encouraged compliance and brought uniformity, benefiting both developers and buyers.

4.4. Smart Cities Mission

Launched in 2015, the Smart Cities Mission aims to transform 100 Indian cities into modern, sustainable urban centers, significantly influencing the real estate sector:

- **Infrastructure Development:** Investments in transportation, water supply, and sanitation infrastructure boosted demand for residential and commercial real estate (Knight Frank, 2023).
- **Economic Opportunities:** The initiative created opportunities for developers to build integrated townships, commercial hubs, and housing projects.
- **Progress:** By 2024, over 7,800 projects worth Rs. 1.8 lakh crore (US\$ 21.96 billion) were completed, driving real estate activity (CBRE, 2024).

This mission accelerated urbanization and improved living standards, making Indian cities more attractive for investments.

4.5. SEZ Policies and 100% FDI in Real Estate

The Special Economic Zone (SEZ) policy and relaxed FDI norms have driven commercial real estate growth. Key highlights include:

- **100% FDI in Real Estate Projects:** Permitting 100% FDI in construction development, including townships and commercial complexes, attracted US\$ 60.53 billion in FDI from April 2000 to March 2024 (CREDAI-JLL, 2023).
- **Exports and Employment Growth:** SEZs contributed significantly to exports, reaching US\$ 163.69 billion in FY24, a 28% increase from FY23 (IBEF, 2024).
- **Commercial Real Estate Growth:** SEZs drove demand for office spaces, with high occupancy rates reported by developers, fueled by IT/ITeS and manufacturing companies (Knight Frank, 2024).

These policies positioned India as a global hub for commercial real estate investments, driving economic growth and job creation.

5. Investments and Developments in Indian Real Estate

The Indian real estate sector has been among the fastest-growing sectors of late, with the rising demand for both office and residential spaces. Investment on various fronts has been quite instrumental in shaping the growth trajectory of the sector. Here are some key recent developments and trends in investment shaping the landscape:

5.1. Foreign Direct Investment (FDI)

India has emerged as one of the preferred destinations for foreign direct investment in real estate. Strong capital inflows have been induced by a set of reforms that also include the easing of FDI norms:

- **FDI Cumulative Inflow:** FDI in construction and real estate development was valued at a staggering US\$ 60.53 billion during the period April 2000 to March 2024, making the real estate sector the third-largest in receiving FDI inflows (IBEF, 2024).
- **Global Participation:** Key global investors, such as Blackstone, GIC, and Brookfield, have been aggressively investing in Indian real estate. Blackstone alone has invested Rs. 3.8 lakh crore (US\$ 50 billion) in the sector so far and intends to invest another Rs. 1.7 lakh crore (US\$ 22 billion) by 2030.

The FDI-friendly policies and government initiatives, such as 100% FDI in townships, housing, and construction development projects, have further boosted investor confidence.

5.2. Boom of Luxury Housing

The Indian luxury real estate market has scaled greater heights, fueled by an increase in disposable incomes and a growing fondness for premium properties:

- **Sales Growth:** Luxury homes priced above Rs. 4 crore (US\$ 481,927) saw a 75% increase in sales in 2023, doubling their share in total housing sales compared to previous years (CREDAI-JLL, 2024).
- **Leading Cities:** Mumbai, Delhi-NCR, and Bengaluru dominated the luxury housing market, accounting for 77% of investments in Q2 2023 (CBRE, 2023).
- **Emerging Trends:** The return of high-net-worth individuals (HNIs) to luxury housing and increasing foreign interest in Indian premium real estate markets have positively impacted this segment (Savills India, 2023).

The resilience of the Indian economy, stable borrowing rates, and renewed interest in real estate as a safe investment avenue have driven this remarkable growth.

5.3. Institutional Investments

The Indian realty sector has seen a boom in institutional investments in commercial spaces and alternative asset classes:

- **Office Sector Investments:** Investments in the office sector increased 2.5 times, reaching US\$ 2.7 billion in Q2 2023 compared to the previous year (Knight Frank, 2023).
- **Private Equity Investments:** In the first half of 2024, private equity (PE) investments in Indian real estate reached US\$ 3 billion, reflecting continued confidence in the sector's growth potential (CBRE, 2024).
- **Flexible Workspaces and Data Centers:** Flexible office spaces and data centers, driven by hybrid work models and digital transformation, attracted significant investments, growing 48% in 2023 (CREDAI-JLL, 2023).

5.4 Additional Highlights

1. **Residential Market Growth:** The residential real estate market achieved an all-time high in home sales valued at Rs. 3.47 lakh crore (US\$ 42 billion) in FY23, a robust 48% YoY increase (IBEF, 2024).
2. **Commercial Real Estate Demand:** Gross leasing volumes surpassed 60 million sq. ft. in 2023, led by technology firms, engineering, and BFSI sectors (CBRE, 2023).
3. **Global Rankings:** Bengaluru and Delhi-NCR ranked as Asia-Pacific leaders in flexible office space stock in 2024, highlighting India's growing prominence in the commercial real estate sector (Savills India, 2024).

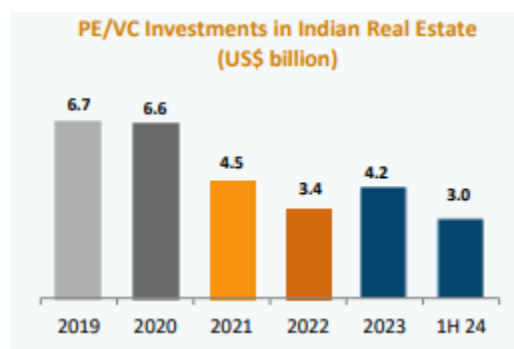


Fig 5 Graph for Private Equity/Venture Capital Investments in Indian Real Estate (US\$ Billion)

6. Advantage India: Sustained Growth in Real Estate

India's real estate market is poised for significant and sustained growth, driven by demographic changes, government policies, and technological advancements. Below is an in-depth analysis of the factors positioning India as a global leader in real estate development.

6.1. Urbanization: A Key Growth Driver

India's rapid urbanization is fueling demand for housing, infrastructure, and commercial spaces:

- **Population Migration to Urban Areas:** By 2030, India's urban population is expected to exceed 600 million, creating an immense need for urban housing and infrastructure (Knight Frank, 2024).

- **Emergence of Nuclear Families:** The rise of nuclear families and dual-income households is driving demand for mid-income and luxury housing in urban areas (CREDAI-JLL, 2023).
- **Infrastructure Development:** The government's initiatives like the Smart Cities Mission are driving urbanization by modernizing infrastructure in over 100 cities, stimulating real estate growth in their vicinity (IBEF, 2024).

Urbanization not only boosts housing demand but also fosters commercial and retail real estate development, making it a key pillar of India's real estate market expansion.

6.2. Policy Support: Boosting Investor Confidence

The Indian government has introduced regulatory reforms and incentives that enhance transparency and attract investments:

- **Real Estate Regulatory Authority (RERA):** RERA has brought transparency, accountability, and protection for homebuyers, fostering confidence among domestic and foreign investors (CREDAI-JLL, 2023).
- **Affordable Housing Initiatives:** The PM AwasYojana (Urban) [PMAY-U] has accelerated the construction of affordable housing, with 119.7 lakh houses sanctioned as of 2023, addressing the demand-supply gap in urban housing (Union Budget, 2024).
- **Relaxation of FDI Norms:** The 100% FDI allowance in townships, housing, and commercial projects has attracted over US\$ 60.53 billion in FDI between April 2000 and March 2024 (IBEF, 2024).
- **Real Estate Investment Trusts (REITs):** The introduction of REITs allows small and retail investors to participate in the real estate market, with investments projected to reach Rs. 1.25 trillion (US\$ 19.65 billion) in the coming years (CBRE, 2024).

Policy measures have significantly enhanced the ease of doing business and attracted long-term capital to India's real estate market.

6.3. Digital Revolution: The Rise of Data Centers and Technology-driven Workspaces

India's digital transformation is reshaping real estate by creating demand for tech-enabled and modern office spaces:

- **Data Center Growth:** The demand for data centers is projected to grow by 15-18 million sq. ft. by 2025, driven by increasing internet penetration, e-commerce, and cloud adoption (Savills India, 2024).
- **Technology-led Office Spaces:** Technology companies accounted for 22% of office leasing activity in Q1 2024, reflecting a growing preference for tech-enabled, flexible workspaces (CBRE, 2024).
- **E-commerce Warehousing:** The expansion of e-commerce giants is driving demand for logistics parks and warehousing, contributing to the rise of industrial real estate in India (Knight Frank, 2024).

The digital revolution is positioning India as a hub for IT infrastructure and tech-driven commercial real estate.

7. Challenges and Road Ahead

Despite its promising growth trajectory, the Indian real estate sector faces several challenges:

7.1. Challenges

- **High Mortgage Rates and Property Prices:** Rising interest rates and property costs are putting pressure on affordability, particularly for middle-income groups (CREDAI-JLL, 2023).
- **Mismatch in Affordable Housing Supply:** While affordable housing demand remains high, supply constraints and bureaucratic delays hinder the fulfillment of this demand (Economic Times Housing Finance Summit, 2023).
- **Sustainability Concerns:** Rapid urbanization has raised concerns about sustainable construction and environmental impact, necessitating a shift to green building practices (Savills India, 2024).

7.2. Road Ahead

To sustain growth, the sector needs to focus on:

- **Technological Integration:** Real estate developers must adopt PropTech solutions for efficient construction, property management, and customer engagement.
- **Green and Sustainable Construction:** Emphasis on green building certifications and sustainable urban planning will be critical to meet environmental standards and attract eco-conscious buyers (IBEF, 2024).
- **Infrastructure Expansion:** Continued government investments in infrastructure, such as metro connectivity and smart cities, will further boost demand for real estate in emerging markets.

8. Future Outlook

India's real estate sector is on the brink of a transformative journey. With expected REIT investments of Rs. 1.25 trillion (US\$ 19.65 billion) and private equity inflows exceeding US\$

4.2 billion in 2023, the sector will contribute significantly to GDP and employment. Real estate is projected to reach US\$ 1 trillion by 2030 and US\$ 5.8 trillion by 2047, underscoring its pivotal role in India's economic landscape (IBEF, 2024).

9. Conclusion

The Indian real estate sector stands firm as a bedrock driver of the country's economic growth—a dynamic amalgamation of opportunities, resilience, and transformative potential. Over the last ten years, the sector has shown remarkable adaptability, buoyed by rapid urbanization, technological advancement, and progressive policy reforms.

While urban migration continues, housing and infrastructure demand remain key propellers for growth in the sector. Initiatives like the Smart Cities Mission and Pradhan Mantri Awas Yojana have spurred affordable housing and infrastructure development, addressing the critical gap in urban housing supply. The Real Estate Regulatory Act (RERA) and Goods and Services Tax (GST) have introduced transparency, accountability, and improved compliance, fostering greater confidence among buyers and investors.

The global appeal of the sector is underscored by FDI flows exceeding US\$ 60.53 billion and the emergence of India as a favored destination for Private Equity and institutional investments. The growing prominence of flexible offices, data centers, and e-commerce warehousing highlights the sector's responsiveness to technological trends and the digital economy.

Although challenges like high mortgage rates, property prices, and environmental sustainability persist, the sector is well-prepared to tackle them. Emphasizing green construction, integrating PropTech, and ensuring streamlined project execution will shape the sustainable future of the sector.