Indian Real Estate and Sustainability

October 2024

Indian Perspective

India’s GDP growth of 8.2 per cent in FY24, inflation numbers coming down to 3.65 per cent in August 2024, the Reserve Bank of India’s (RBI) upward revision of the FY25 GDP growth forecast at 7.2 per cent, and its effective monetary policy has balanced growth with price stability solidifying India’s status as one of the fastest-growing economies globally. The domestic consumption is strong, driven by consumer loans, and is tending toward stability. The country is well-positioned to manage any volatility arising from the U.S. elections, supported by its large foreign exchange reserves, stable growth with moderate inflation, high real interest rates, fiscal discipline, and ongoing reform efforts.

India's real estate sector presents a positive outlook, despite growing awareness of global economic uncertainties, inflationary pressures, and potential policy shifts. Stakeholders, including developers, financial institutions, and investors, are cautiously optimistic, anticipating sustained growth in both residential and office markets. The sector's ability to adapt to external economic factors and navigate potential market fluctuations will be crucial in maintaining stability and driving growth in the coming months.

Green Watch

Since it first appeared in the 1970s, when the economic growth–conservation of resources equilibrium became part of the international discourse, the concept of sustainability has significantly evolved. India is a key stakeholder in the current wave of the global shift towards sustainability. The growing awareness among industry players is propelling the nation towards a net-zero future. The net-zero targets by 2070 presents itself as India's biggest infrastructure and employment generation opportunity for the next 50 years. As per some estimates, solar and wind installations will need to grow 70 times from current levels to reach 7,700 GWs to achieve net zero by 2070[1].

Set forth in the Paris agreement[I], India made commitments, which are crucial to the global objective of limiting global warming to below 2°C, reduce its greenhouse gas (GHG) emission intensity by 45 per cent by 2030, reach net zero by 2070, achieve about 50 per cent of its installed electricity capacity from non-fossil fuel sources (solar, wind, hydro, and biomass) by 2030, install 500 GW of non-fossil fuel capacity by 2030, etc.

Some of the most prominent Indian green building rating systems and agencies include Indian Green Building Council (IGBC), Energy Conservation Building Code (ECBC), and Green Rating for Integrated Habitat Assessment (GRIHA). They are assessing the steps taken toward achieving the net-zero target in India. The most prominent global green building rating systems and agencies include Leadership in Energy and Environmental Design (LEED), Building Research Establishment Environmental Assessment Method (BREEM), and Green Business Certification Inc. (GBCI). Stakeholders should adopt sustainability not merely as a compliance requirement, but as a core value that strengthens the social responsibility of their projects. To certify or rate any assets, these institutions apply parameters like, heating, sustainable architecture & design, water conservation, innovation, site selection & planning, life cycle costing, etc.

The real estate sector, one of the major contributors to GHG emissions, is undergoing a conscious and profound transformation to attain carbon neutrality. A notable surge in green building certifications, renewable energy integration, and the use of sustainable materials has been reshaping the sector.[2] Adoption of sustainability at the asset level includes integrating sustainable design and construction practices, reducing wastage, enhancing energy and water efficiency, ensuring ethical supply chain management, and improving indoor environmental quality.

Current levels of certification happening in India are as follows:

- Certified green buildings enjoy an average of 10-15 per cent premium over non-certified ones. The country has over 7,000 IGBC green-certified projects, accounting for an estimated total built-up area of 1,370 million sq. ft., across various states[3].
- The demand for WELL[II] certification is rising too, pushing the sustainability agenda further. Currently, WELL certification is around 70 million sq. ft. at the end of 2023.

This has moved from just under 50 million sq. ft. at the end of 2021 by a factor of 40 percent and penetration has risen from 7.3 per cent to 8.6 per cent.[4]

- The ECBC has been adopted by almost every state and will be made mandatory soon.
- The penetration of green-certified office stock has increased from ~39 per cent in December 2020 to ~56 per cent in 2024.
- On 28 February 2024, the RBI issued draft guidelines on 'Disclosure framework on climate-related financial risks, 2024.[5] The framework mandates disclosure by Regulated Entities (REs) on four key areas of governance, strategy, risk management metrics and targets.
- SEBI introduced the Business Responsibility and Sustainability Reporting (BRSR) framework in May 2021, mandating the top 1,000 listed companies in India to disclose non-financial data, including their efforts towards environmental stewardship, for the FY22 and FY23.[6] Its purpose is to increase the level of reporting on Environmental, Social, and Governance (ESG) performance.

The main segments of the real estate sector are residential, commercial, and industrial real estate. The residential sector focuses on the buying and selling of properties used as homes or for non-professional purposes. The commercial sector consists of real estate used for business purposes; common types include shopping malls, retail, office spaces, hotels, or other spaces used for business purposes. The industrial real estate segment comprises properties used for manufacturing and production, such as factories, plants, and warehouses.[7]

Stylized Facts

- The country aims for net-zero emissions by 2070, with over 7000 IGBC green-certified projects covering around 1370 million sq. ft.
- Continued government support for affordable housing through initiatives like PMAY-U 2.0 will be crucial for market growth.
- India's office market grew strongly in 2024, led by Bengaluru's 8.4 million sq. ft. in H1 and GCC driving 37 per cent of Q3 demand. Flex spaces also expanded, with co-working leading the segment.
- The retail market saw a 7 per cent YoY increase in space absorption in H1 2024, with luxury retail expanding significantly.
- The residential market is expected to reach US$ 237 billion by 2030, driven by rising disposable incomes and an increase in high-value property sales.
- Green-certified office stock increased from ~39 per cent in December 2020 to ~56 per cent in 2024.
- Private equity investments in real estate reached US$ 3.0 billion in H1 2024, highlighting the sector's growth potential despite challenges such as rising interest rates and regulatory changes.
- Key industry risks include rising interest rates, regulatory changes, geopolitical uncertainties, and construction cost pressures.

While the growing number of certified green buildings highlights the shift towards sustainability, the impact of this transformation is particularly evident in the commercial office segment, where demand for energy-efficient, environmentally conscious spaces continues to shape market trends and leasing activity.

Commercial Office segment

The country's organic growth in electronics consumption, coupled with the government's ambitious target of achieving US$ 300 billion worth of domestic electronics manufacturing by 2025-2030, present a unique opportunity for firms. Overall, the manufacturing sector is set to create about 11 million jobs by 2030, and some portion of that to be created for office-based jobs revolving around automation and R&D.[8]

As per Knight Frank's research, Bengaluru led with 8.4 million sq. ft. in terms of total volume transacted among all markets. The transaction volumes in Mumbai, Pune, and the Delhi-National Capital Territory (NCR) also scaled all-time highs. Ahmedabad exceeded the previous record by a substantial 219 per cent growth in YoY terms. All metropolitan states grew in YoY terms (see table 1) with the exception of Chennai whose 3.0 million sq. ft. tally in H1 2024 constitutes a 33 per cent drop compared to the previous year.[9]

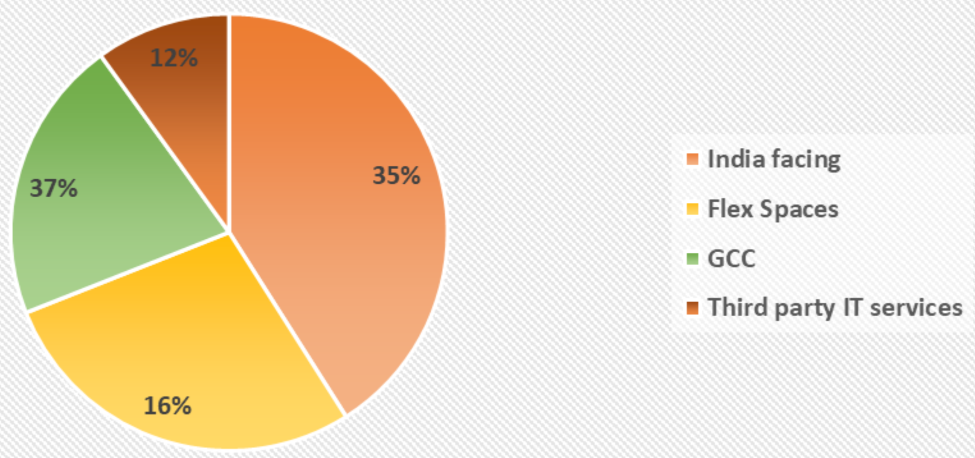
TABLE 1: OFFICE TRANSACTIONS VOLUME IN MN SQ FT (YOY%) in H1 2024 and Q3 2024.

States	H1 2024	Q3 2024
Bangaluru	8.4 (21%)	0.5 (52%)
Mumbai	5.8 (79%)	0.25 (31%)
NCR	5.7 (12%)	0.3 (16%)
Hyderabad	5 (71%)	0.2 (23%)
Pune	4.4 (88%)	0.24 (30%)
Chennai	3 (-33%)	0.24 (-13%)
Ahmedabad	1.7 (219%)	0.03 (178%)
Kolkata	0.7 (23%)	0.02 (2%)

Source: Knight Frank's research.

India facing businesses saw the share of transactions increase steadily from 35 per cent in H1 2023 to a new high of 41 per cent in H1 2024 racking up the highest ever transaction volumes in a half yearly period at 34.7 million sq. ft., highlighting the growing strength of the Indian office market. As of Q3 2024, this share again reduced to 35 per cent.

Figure 1: % Share split in Office market of India in Q3 2024



Source: Knight Frank's Report, July - September 2024.

The West is establishing global capability centers (GCCs) in India to leverage talent and cost benefits, increasingly offshoring critical business function, resulting in 48 per cent more space taken up during the current period. They were the highest consumers of office space in Q3 2024, accounting for 37 per cent of the transacted volumes. And the rest was occupied by the third-party IT services (12 per cent).

Flex spaces increased to 28 per cent in H1 2024 (YoY), in which co-working spaces constituted a massive 72 per cent of all flex space transacted during H1 2024 compared to 58 per cent in H1 2023. As of Q3 2024, this segment accounted for 16 per cent of the total transacted volumes.[10] The flexible workspace (flex) leased during the H1 of 2024 has already touched 106,554 seats compared to 155,000 in the year 2023. In terms of area, the flex-space sector added around five million sq. ft. in the H1 of 2024. With this, the flexible workspace footprint across the top eight cities reached 58 million sq. ft. as of the H1 of 2024, constituting over 7-8 per cent of India's total Grade-A office supply.[11]

The year 2023 saw the office to the work from home (WFH) phase as most corporates called their employees back to office. This resulted in a record office space leasing in India. Gross office absorption across India's top six Indian cities reached an all-time high of 62.3 million sq. ft., registering 12 per cent growth over 2022, as per a report by real estate advisory firm Savills India.[12]

Transforming Leasing Market and the Green Certification

The leasing market is witnessing a shift with domestic companies increasing their share in the overall leasing. The domestic firms have increased their office space by 60 per cent over the last two years. This was primarily driven by growth in e-commerce, life sciences, BFSI (Banking, Financial Services, and Insurance), strong business sentiments, high quality spaces, flexibility & faster closures of large deals (<100,000 sq. ft.) by global MNCs, and higher reservations in cities like Bengaluru and Pune. This positive economic environment encouraged businesses to commit to long-term leases and expansions.[13] This trend is expected to persist as these sectors continue to drive significant demand for office space.

Table 2: City-wise leasing in green buildings (Q1 2023 – Q2 2024)

Cities	Leasing in green-certified buildings (million sq. ft.)	Total gross leasing (million sq. ft.)	Share of leasing in green-certified buildings* (% share)
Bengaluru	16.5	24.4	68%
Chennai	11.2	14.1	79%
Delhi NCR	11.8	16	74%
Hyderabad	10.2	13.4	76%
Mumbai	8.9	12.4	72%
Pune	5.2	7.3	71%
Total	**63.8**	**87.6**	**73%**

Source: Colliers

***On basis of % of leasing in green-certified buildings for the specific city in a particular sector in Q1 2023-Q2 2024. Notes: Data pertains to Grade A stock; Gross leasing does not include lease renewals, pre-commitments and deals where only a letter of Intent has been signed**

In table 2, we can see that for the period of Q1 2023 to Q2 2024, Bengaluru leads green-certified office leasing with 16.5 million sq. ft., followed by Delhi NCR (11.8 million sq. ft.)

and Chennai (11.2 million sq. ft.). Colliers' data shows a rise in green-certified office buildings, with 67 per cent of India's Grade A spaces now certified. Over 150 million sq. ft. of new developments are set to achieve green certification in the next two to three years, pushing the total to over 600 million sq. ft.

Project completion

The project completions have been comparatively subdued from 42.9 million sq. ft. to 25.2 million sq. ft., as development interest continues to be largely focused on residential projects due to the relatively steep increase in sales and prices in the residential market. The vacancy levels trended down from 17.2 per cent in H2 2021 to a healthy 15.4 per cent in H1 2024. The state-wise completions are provided in table 3 for the same period.

Table 3: Office space completions for H1 2024

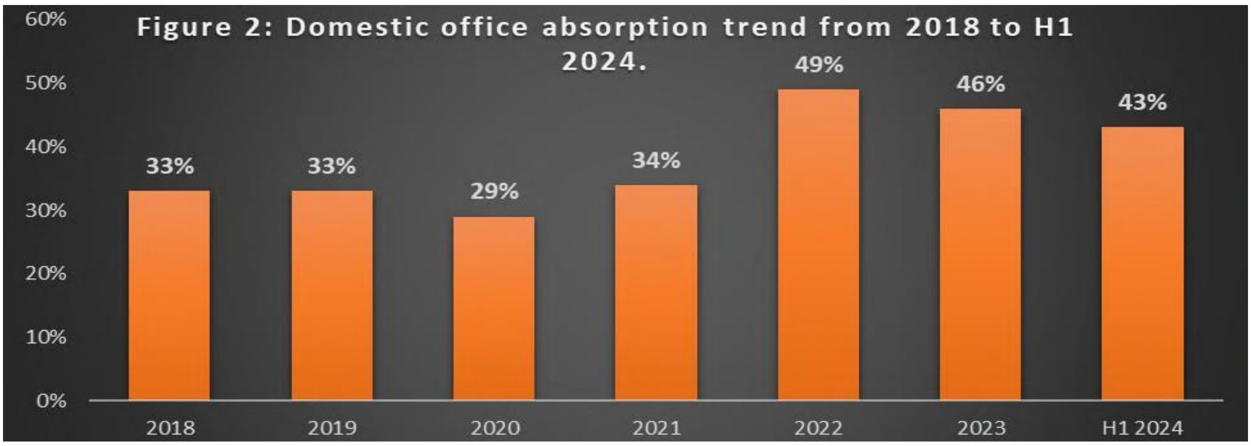
Cities	OFFICE COMPLETIONS IN MN SQ FT (YOY % CHANGE)
Bengaluru	7.7 (21%)
Mumbai	4.3 (205%)
Delhi NCR	2.9 (-26%)
Hyderabad	5 (300%)
Pune	2.4 (-5%)
Chennai	0.8 (-65%)
Ahmedabad	1.7 (578%)
Kolkata	0.3 (-)
Total	**25.1 (39%)**

Source: Knight Frank Research, July – September 2024.

A total of 11.5 million sq. ft. of office space attained completion during Q3 2024.[14]

Domestic office absorption

According to the CBRE report on "India Inc's Ascension - The Rise of Domestic Firms as an Office Demand Driver," between 2022 to H1 2024, domestic companies accounted for nearly 47 per cent of overall office space (150 million sq. ft..) in the country.[15] The report highlights that domestic firms are expected to lease 60-65 million sq. ft. office space between 2024-2025. Before 2022, domestic companies consistently accounted for a 3rd share of the overall leasing. The homegrown retail and FMCG companies, currently accounting for 1-2 per cent and Indian engineering and manufacturing firms represent 7-8 per cent of overall domestic office leasing.



Source: CBRE report 2024.

Around 86 per cent of domestic occupiers plan to prioritize 'flight-to-quality' leasing over the next two years, driving demand for premium spaces. Additionally, ~78 per cent of domestic occupiers aim to expand their portfolios by 10 per cent or more within the same period. The demand for office space is expected to remain strong, driven by sectors like RCA (Research, Consulting, and Analytics) and engineering & manufacturing. Indian firms in these sectors are expanding, with engineering and manufacturing companies increasing their footprint, particularly in emerging Tier-II and Tier-III cities.[16]

Retail Sector

India's retail market is experiencing robust growth, with a 7 per cent YoY increase in space absorption during the first half of 2024. This growth is largely driven by the continuous introduction of high-quality retail spaces, which is expected to persist and stimulate further expansion in space take-up in the upcoming quarters. Retailers are capitalizing on favorable market conditions, securing prime locations while maintaining a balanced mix of primary and secondary leasing strategies to optimize their reach and visibility.

The luxury retail is seeing unprecedented growth, driven by the entry of global brands and a rapidly expanding consumer base that seeks premium experiences. Tier-II and III cities are also playing a critical role in this boom, as these regions, along with e-commerce platforms, have significantly enhanced nationwide accessibility to luxury products and services. This broadening of the market is further supported by evolving consumer preferences that are no longer confined to major metropolitan areas.

Moreover, the rise of direct-to-consumer (D2C) brands is reshaping the retail landscape. Many of these brands, traditionally strong in online sales, are now establishing physical stores to complement their digital presence. This move not only enhances customer engagement but also broadens their market reach. As a result, developers are increasingly focusing on creating retail spaces that cater to these D2C brands, recognizing the growing importance of omnichannel retail strategies.

The demand for larger retail spaces is being driven by growing segments such as jewelry, mid-range fashion, and gaming centers, with millennials fueling the expansion. Bengaluru, Chennai, and Delhi-NCR captured 59 per cent of retail space absorption in H1 2024, while Hyderabad, Chennai, and Delhi-NCR contributed 54 per cent of Q2 leasing activity. Hyderabad led supply additions in Q2 with 0.5 million sq. ft. of new space. Key sectors, including fashion, consumer electronics, entertainment, and homeware, have been pivotal in driving overall leasing growth[17].

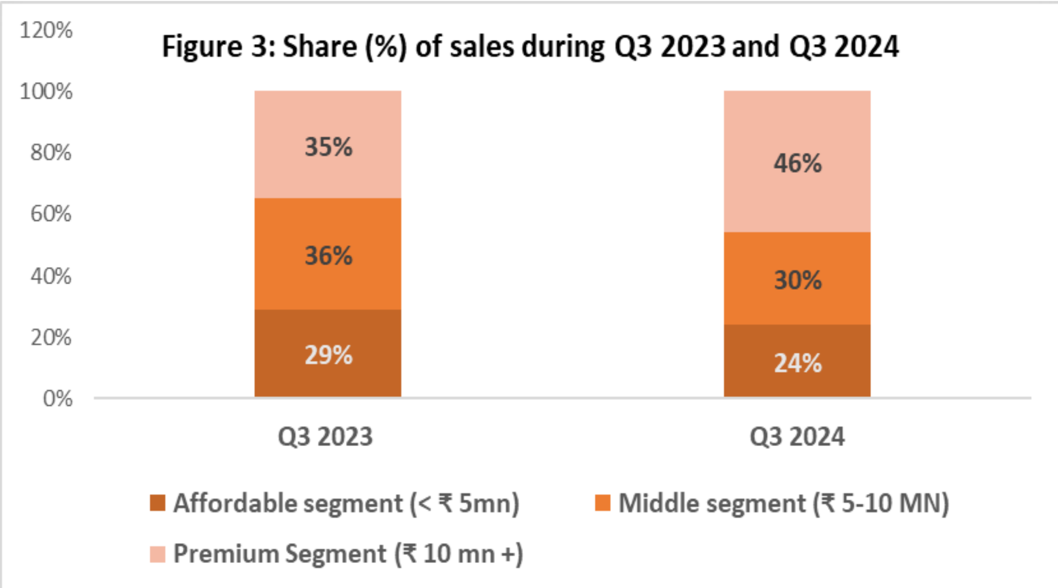
Residential Segment

The report ‘Powering Consumption Growth-India's Home and House Market’, launched at the two-day event MAPIC India 2024 brought out that, India's home and household market is expected to reach US$ 237 billion by 2030 at a CAGR of over 10 per cent, fueled by increasing disposable income, shifting consumer preferences and a growing focus on comfort and convenience across product categories.[18] The factors that are responsible for the steady growth of residential sectors are:

- More affordability due to the low interest rates.
- A boosted consumer confidence.
- The pandemic has accelerated the trend towards larger living spaces. Hence, developers are focusing on high-end properties.

Sales

As per a report by property consulting group Knight Frank India, there is an upward trend observed over the past 13 quarters and the share of sales in the ₹ 10 million and above price segment rose significantly to 46 per cent in Q3 2024, up from 35 per cent in the same period last year. As per figure 3, sales in this segment grew by 41 per cent YoY and it has been the primary driver for overall sales growth during the quarter, accounting for 46 per cent of total residential sales across India. However, the share of sales in the mid-size segment has moderated, while the affordable segment continues to witness a downtrend.



In Q3 2024, the units priced between ₹ 5-10 million category accounted for 30 per cent share of total sales with 26,011 units sold, followed by units under ₹ 5 million with 24 per cent market share and sales of 20,769 units (see table 4). The residential prices appreciated in all eight leading markets, with Bengaluru witnessing the sharpest rise.

Table 4: Average price change across markets during Q3 2024		
Cities	**YoY change**	**QoQ change**
Mumbai	6%	2%
Bengaluru	10%	3%
Pune	5%	2%
Delhi NCR	3%	-1%
Hyderabad	6%	3%
Ahmedabad	1%	0%
Kolkata	2%	0%
Chennai	5%	2%
Source: Knight Frank's research		

Among the larger markets, sales grew the most in Bengaluru at 11 per cent YoY with 14,604 units whereas NCR is the only residential market to record a de-growth of 7 per cent in sales and 5 per cent in YTD terms. Mumbai, NCR, and Bengaluru together account for 80 per cent of total sales in Q3 2024. Mumbai recorded the highest sales volume, followed by Bengaluru and Pune (see table 5).

Table 5: sales in Residential segment in Q3 2024

Cities	Sales in Q3 2024	Q3 2024 YoY Growth %	Q3 2024 YTD Change %
Mumbai	24,222	9%	13%
Bengaluru	14,604	11%	7%
Pune	13,200	1%	9%
Delhi NCR	12,976	-7%	-5%
Hyderabad	9,114	9%	17%
Ahmedabad	4,578	11%	15%
Kolkata	4,309	14%	21%
Chennai	4,105	6%	10%
Total	87,108	5%	9%

Source: Knight Frank Research,

The Micro Markets

The ongoing debate between buying and renting homes has resurfaced, with both options offering distinct advantages. However, recent data from property consulting firm Anarock[19] highlights a notable trend: rental value appreciation is surpassing capital value growth in several key markets. There is a growing need for rental properties in these areas making the rent of these properties skyrocket up to 72 per cent between late 2021 and H1 2024[20].

Table 6: Rental (average rent) growth of the major micro markets in India

Cities	Micro Markets	2021 end	Q2 2024	% Change
Bengaluru	Sarjapur Rd	₹ 21,000	₹ 35,000	67%
	Thannisandra Main Rd	₹ 20,500	₹ 32,000	56%
Hyderabad	HITECH City	₹ 23,000	₹ 33,500	46%
	Gachibowti	₹ 22,000	₹ 33,000	50%
Pune	Hinjewadi	₹ 17,800	₹ 27,000	52%
	Wagholi	₹ 14,200	₹ 22,700	60%
NCR	Sohna Road	₹ 25,000	₹ 35,000	40%
	Sector-150 (Noida)	₹ 16,000	₹ 25,000	56%
MMR (Mumbai Metropolitan region)	Chembur	₹ 46,000	₹ 63,500	38%
	Mulund	₹ 39,500	₹ 49,700	26%
Kolkata	EM Bypass	₹ 19,000	₹ 27,800	46%
	Rajarhat	₹ 15,000	₹ 19,500	30%
Chennai	Perambur	₹ 16,200	₹ 21,600	33%
	Pallavaram	₹ 14,900	₹ 20,800	40%

Source: Anarock 2024

The housing rent has moderated because of improvement in housing supply. The data is based on average rent for a 2-BHK flat of 1,000 square feet. These markets saw a 2 – 4 per cent quarterly rise in Q2 2024 (QoQ). The Q1 2024 saw a 4 – 9 per cent (QoQ).[21]

Green Houses

In India, the IGBC green homes rating system (see table 7) has become the benchmark for sustainable, resilient design & construction, evaluating buildings on a spectrum of environmental criteria—from energy efficiency and water conservation to indoor air quality and the use of sustainable materials. The IGBC introduced the green homes rating in 2008, the first program in India for the residential sector. Based on established energy and environmental principles, it balances traditional practices with emerging concepts. Projects rated under this program have reported tangible benefits, including energy savings of up to 30 per cent and water savings of up to 50 per cent, along with improved occupant health and air quality.[22]

In the past five years, demand for green homes in major Indian cities has grown by 30 per cent. Middle-income residents in Tier I cities are willing to pay 5-10 per cent more, while companies are investing up to 15 per cent extra in green-certified buildings.[23] The green building sector is poised for exponential growth, with a projected compound annual growth rate (CAGR) of 20 per cent over the next half-decade.[24] However, less than 10 per cent of buildings in India are certified green, indicating a significant gap that needs immediate attention.

Among all states, Hyderabad is emerging as a key player in the green real estate market, currently with 246 residential green building projects. In line with growing demand for sustainable living, the city is planning to develop an additional 75,000 green buildings over the next two years. These developments are aimed at attracting environmentally conscious buyers who prioritize energy efficiency, reduced carbon footprints, and healthier living environments. Despite this growth, the availability of ready-to-move-in green homes remains limited, with many buyers having to wait. Most under-construction green housing projects are scheduled for completion by 2026, reflecting the city's long-term commitment to sustainable development.[25]

Table 7: The threshold criteria for certification/pre-certification levels

Certification Level	Multi-dwelling Residential Unit	Recognition
Certified	50 - 59	Best Practices
Silver	60 - 69	Outstanding Performance
Gold	70 - 79	National Excellence

Green homes benefit the environment and enhance homebuyers' lifestyles. With excellent natural ventilation and abundant light, they reduce reliance on artificial lighting and temperature control, offering health advantages. The use of non-toxic materials improves air quality and lowers the risk of allergies and respiratory issues. As modern homebuyers prioritize sustainability over aesthetics, real estate experts predict a significant increase in demand for green homes in India in 2024.

Co-living Spaces

The co-living spaces, which offer shared living accommodations for young professionals and students, have become increasingly popular in major Indian cities such as Bengaluru, Delhi-NCR, Mumbai, Pune, Hyderabad, and Chennai. These urban centers, known for their high rental costs and limited availability of affordable housing, have embraced the co-living model as a flexible and cost-effective solution.

According to a report by Cushman and Wakefield India, the co-living market is poised for significant growth, with an estimated compound annual growth rate of 17 per cent from 2020 to 2025. By 2025, this burgeoning sector is expected to reach a market value of US$ 40 billion. The growing demand is driven by shifting lifestyle preferences, increasing urban migration, and a desire for community living combined with convenience and affordability, particularly among millennials and young professionals.[26]

Home loans

Table 8: Home Loan Interest Rates of Public Sector Banks			
Name of Lender	**up to ₹ 30 Lakh**	**Above ₹ 30 Lakh & up to ₹75 Lakh**	**Above ₹75 Lakh**
Bank of Baroda	8.40% – 10.65%	8.40% – 10.65%	8.40% – 10.90%
Punjab National Bank	8.45% – 10.25%	8.40% – 10.15%	8.40% – 10.15%
Punjab & Sind Bank	8.50% – 10.00%	8.50% – 10.00%	8.50% – 10.00%
SBI	8.50% – 9.85%	8.50% – 9.85%	8.50% – 9.85%
Union Bank of India	8.35% – 10.75%	8.35% – 10.90%	8.35% – 10.90%
Bank of India	8.40% – 10.85%	8.40% – 10.85%	8.40% – 10.85%
UCO Bank	8.45% – 10.30%	8.45% – 10.30%	8.45% – 10.30%
Bank of Maharashtra	8.35% – 11.15%	8.35% – 11.15%	8.35% – 11.15%
Canara Bank	8.50% – 11.25%	8.45% – 11.25%	8.40% – 11.15%
Indian Overseas Bank	8.40% – 10.60%	8.40% – 10.60%	8.40% – 10.60%
Private Sector Banks			
HDFC Bank Ltd.	8.70% onwards	8.70% onwards	8.70% onwards
Kotak Mahindra Bank	8.75% onwards	8.75% onwards	8.75% onwards
ICICI Bank	8,75% onwards	8.75% onwards	8.75% onwards
Axis Bank	8.75% – 13.30%	8.75% – 13.30%	8.75% – 9.65%
Karur Vysya Bank	9.00% – 11.05%	9.00% – 11.05%	9.00% – 11.05%
South Indian Bank	8.70% – 11.70%	8.70% – 11.70%	8.70% – 11.70%
Karnataka Bank	8.50% – 10.62%	8.50% –10.62%	8.50% –10.62%
Federal Bank	8.80% onwards	8.80% onwards	8.80% onwards
Dhan Laxmi Bank	9.35% –10.50%	9.35% – 10.50%	9.35% – 10.50%
Tamilnad Mercantile Bank	8.60% – 9.95%	8.60% – 9.95%	8.60% – 9.95%
Bandhan Bank	9.16% –15.00%	9.16% – 13.33%	9.16% – 13.33%
RBL Bank	8.90% onwards	8.90% onwards	8.90% onwards
Foreign Banks			
HSBC	8.50% onwards	8.50% onwards	8.50% onwards
Standard Chartered Bank	8.95% onwards	8.95% onwards	8.95% onwards
HFCs			
LIC Housing Finance	8.50% – 10.35%	8.50% –10.55%	8.5% – 10.75%
Tata Capital	8.75% onwards	8.75% onwards	8.75% onwards
PNB Housing Finance	8.50% – 14.50%	8.50% – 14.50%	8.50 % – 11.45%
Repco Home Finance	9.50% onwards	9.50% onwards	9.50% onwards
GIC Housing Finance	8.80% onwards	8.80% onwards	8.80% onwards
Sammaan Capital Limited (Formerly known as India bulls Housing Finance)	8.75% onwards	8.75% onwards	8.75% onwards
Aditya Birla Capital	8.60% onwards	8.60% onwards	8.60% onwards
ICICI Home Finance	9.30% onwards	9.30% onwards	9.30% onwards
Godrej Housing Finance	8.55% onwards	8.55% onwards	8.55% onwards
L&T Finance Limited	8.65% onwards	8.65% onwards	8.65% onwards
Source: Paisabazaar.com			

Investments

Private Equity

The Indian real estate sector is entering a new phase characterized by a higher dynamism and a greener future. Despite global challenges like high interest rates and inflation, private equity (PE) investments in Indian real estate reached US$ 3.0 billion in H1 2024, a 15 per cent YoY increase. These investments were spread across various sectors, including office, warehousing, and residential segments. The foreign investors continue to play a dominant role in the Indian real estate PE landscape, accounting for 76 per cent of the total investments in H1 2024. However, the share of Indian PE investments has doubled from 10 per cent in the pre-pandemic decade to 20 per cent in recent years signaling a maturing Indian financial landscape.[27]

The proposed development of investment-ready industrial parks in or near 100 cities, along with the sanctioning of 12 industrial parks under the National Industrial Corridor Development Programme (NICDP), is expected to boost industrial growth, create jobs, and attract investments.

Foreign Direct Investment (FDI)

According to the 'Global Capital Flows Report' 2024 by colliers, foreign investment drove 73 per cent of the total investments in India's real estate market, with cross-border investments reaching over US$ 1.5 billion. As per a report by colliers, India's real estate sector attracted US$ 3.5 billion from foreign institutional investors during the H1 2024. Nearly 70 per cent of investments during the first half of the year were focused on ready assets. The APAC region saw over US$ 1.2 billion in inflows, but transaction volumes fell in 2024. The Q2 saw a 29 per cent drop, largely due to a 30 per cent decline in land and development deals, with China's sales down 40 per cent YoY.[28]

Institutional Initiatives

Capital Gains Tax

The capital gain taxes on selling investments have been revised upwards to 20 per cent and 12.5 per cent for short term and long-term capital gains (LTCG) respectively, but dropped a benefit that allowed individuals to adjust prices for inflation before the capital gain - and so tax payable - was calculated.[III] Now the government is offering taxpayers the option of using either the new rate or the previous 20 per cent rate with the inflation adjustment.[29] This applies to properties acquired before 23 July 2024.

The tax hike seems to be a minor deterrent as decreasing the holding period from 36 months to 12 months to qualify for LTCG will free up funds for investors and increase their liquidity, but the removal of indexation benefits, i.e., by selling a property owned for over 24 months, the adjusted cost of acquisition using the cost inflation index (CII) to lower taxable long-term capital gains has been withdrawn, which will make buying of certain property less attractive.[30]

[III] The Lok Sabha Finance Bill (No.2), 2024.

Higher transparency

India's robust financial regulator, streamlined building standards, digitalized land records, and new criteria for disclosing climate risk are all attributed for making India enter the transparent tier in JLL's Global Real Estate Transparency Index (GRETI) for the first time. Over 80 per cent of real estate investment globally is allocated to highly transparent markets, and is supposed to attract more global investments, particularly in commercial spaces like shopping centers, malls, and offices. The market is now seen as more reliable and conducive to long-term growth. These advancements are notable in metropolitan cities like Delhi-NCR, Mumbai, and Bengaluru, where commercial real estate has been expanding rapidly. The correlation between increased transparency and capital inflows is evident, positioning India's commercial real estate sector for growth and establishing a more secure and efficient investment landscape.

Real Estate Regulation and Development Act (RERA)

During the national conference of the confederation of real estate developers' associations of India (CREDAI NATCON) 2024, a concern was expressed by its President Shri. Boman Irani that real estate is not getting finance like other industries. The Union Commerce and Industry Minister Shri. Piyush Goyal said he would take up the issue with the RBI and the finance ministry. He highlighted that the new realty law RERA has brought about transparency and certainty to the real estate sector. The introduction of unique identification numbers for land parcels in rural areas and digitization of urban land records using GIS mapping is expected to bring transparency and streamline land transactions, reducing disputes and fraud. Before this law investors used to face a longer gestation period[31].

He urged domestic manufacturing and emphasized transparency and social security for workers and suggested faster construction methods to cut costs and pollution, highlighting the sector's role in India's urbanization.[32]

Pradhan Mantri Awas Yojana - Urban 2.0 (PMAY-U 2.0)

Under PMAY-U 2.0, in the next five years, a total of 3 crore additional homes are to be made. Out of these, two crore houses are to be built in rural areas while one crore will be constructed in urban areas. The potential reinstatement of interest subsidies of 4 per cent will be provided for home loans up to ₹ 25 lakhs for individuals falling under the categories of economically weaker section (EWS), low-income group (LIG), and middle-income group (MIG). The additional government assistance of ₹ 2.30 lakh crore with total investment of ₹ 10 lakh crores will be provided under the Scheme.

In addition, the corpus fund of credit risk guarantee fund trust (CRGFT) has been increased from ₹1,000 crore to ₹3,000 crore to provide benefit of credit risk guarantee on affordable housing loans from Banks/Housing Finance Companies (HFCs)/Primary Lending Institutions (PLIs) for construction of their first home. Further Management of Credit Risk Guarantee Fund will be transferred to National Credit Guarantee Company (NCGTC) from National Housing Bank (NHB).

Retail Inflation Rate and Housing Index

At the interaction organized by the Ministry of Statistics and Programme Implementation (MoSPI) on Gross Domestic Product (GDP) and Consumer Price Index (CPI), some suggestions were given by some Economists. The suggestions include:

- The housing index needs revision[IV] and exclude employer-provided accommodations, like government housing, for a more accurate measure of India's retail inflation. More focus on privately rented dwellings would better reflect changes in rentals and housing prices.[33] The housing segment accounts for 10.07 per cent of the CPI, with the entire weight applied to urban areas since rural inflation does not include housing.
- There is a need to conduct frequent Household Consumption Expenditure Surveys to ensure frequent base revision of CPI and other macroeconomic indicators.
- There is a need for emphasis on the spatial dimension of GDP by disaggregating it in terms like urban /rural, district domestic product etc.
- There is a need to reduce discrepancy in estimation of GDP from two approaches along with noting the need for better coverage of services in the revised series of CPI.

Foreign Direct Investment (FDI) in Real Estate

To encourage FDI in the country's property market, government of India offers permanent residency status for foreign investors for a period of 10 years. To be eligible, investors should fulfil certain conditions. This major move is attracting foreign investors on a large scale to the country, strengthening the booming property market further.

For long, real estate has been one of the most protected industries in India. But the decision of the government to allow FDI in the sector under the automatic route is bringing a massive change to the country's property market. FDI is also expected to pave way for certain international trade practices into India's real estate sector.

According to JLL India, foreign investors injected US$ 3.1 billion into Indian real estate between January and June 2024, making up 65 per cent of the total institutional investment. The report also indicated that total institutional investment in real estate surged by 62 per cent, reaching USD 4.76 billion in January – June 2024, compared to US$ 2.939 billion during the same period last year.

Government initiatives such as Free Trade and Warehousing Zones, Warehousing Act, and National Logistics Policy have further boosted the sector. Economic reforms such as GST have accelerated formalization, making warehousing increasingly attractive to institutional investors.

[IV] At present, a total of 13,368 dwelling units of different types, covering 310 towns, are in the sample for collection of rent data for inflation. House rent index is compiled for two categories of dwellings: rented dwellings (includes employer provided dwellings) and owner occupied/self-owned dwellings.

Industry Risks

The Indian real estate sector in 2024 faces several key risks, including rising interest rates, which could dampen demand for both housing and commercial properties, as well as potential regulatory changes that might alter market dynamics. Geopolitical uncertainties and inflationary pressures are also significant concerns, with the latter driving up construction costs and squeezing developer margins. Additionally, an economic slowdown could weaken consumer confidence and investment, further affecting demand. The increasing focus on sustainability and stricter environmental regulations may lead to time and cost overruns for developers, while certain markets face the risk of oversupply, particularly in commercial and luxury segments. Delays in project approvals and construction bottlenecks remain ongoing challenges, potentially affecting timely project completions and buyer confidence.

The issue of oversupply in certain segments, particularly in the commercial and luxury residential markets, further adds to the risk profile. Increased vacancy rates and pricing pressures may arise as a result, creating additional challenges for developers. Moreover, the push toward sustainability, while crucial for the sector's future, also introduces its own set of challenges. Stricter environmental regulations, such as green building certifications and energy efficiency requirements, may raise upfront costs for developers, even though these investments can yield long-term benefits.

Delays in project approvals due to bureaucratic inefficiencies also present an ongoing challenge. These delays not only erode buyer confidence but also lead to increased costs for developers, further straining an already competitive market. This necessitates slashing bureaucratic red tape for greater efficiency.

Despite these risks, the Indian real estate sector continues to offer significant opportunities for growth, particularly through policy innovation, enhanced sustainability practices, strategic collaborations among stakeholders and greater recourse to innovative financing measures such as PE and FDI. Addressing these risks proactively by public private partnerships (PPP) in development will be a key to maintaining the sector's momentum and achieving long-term resilience.

Way Forward

The Indian real estate sector must focus on sustainability, affordable housing, technological integration, and transparency to ensure continued growth and resilience. Developers should prioritize green building certifications, energy-efficient practices, and renewable energy integration.

The commercial real estate sector should capitalize on the demand for sustainable office spaces and the rise of global capability centers (GCCs), particularly in Tier-II and Tier-III cities. Developers must cater to shifting consumer preferences by offering energy-efficient homes and incorporating smart technologies. By addressing industry risks such as rising interest rates, geopolitical uncertainties, and fostering collaboration with regulatory bodies, the sector can achieve long-term growth and play a key role in India's economic and environmental goals.

India’s real estate sector is at an inflection point in its pursuit of sustainability. To achieve a greener future, industry must prioritize the adoption of energy-efficient building practices, renewable energy integration, and sustainable materials. Accelerating green certifications, such as IGBC and GRIHA, across residential, commercial, and industrial projects is essential for meeting net-zero goals by 2070. The regulatory support, through frameworks such as SEBI’s BRSR and the RBI's climate-related disclosures, can guide developers in aligning with global sustainability goals. Additionally, scaling renewable energy installations and optimizing resource management in construction will be crucial in attaining sustained growth of the sector.

In conclusion, India’s real estate sector stands at the cusp of a transformative journey toward sustainability, driven by government policies, green certifications, and a growing demand for eco-friendly developments. By fostering collaboration between developers, policymakers, and financial institutions, India can create a resilient real estate ecosystem that not only mitigates environmental impact but also enhances economic growth and social well-being with a significant multiplier effect all along the line.

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