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## INDUSTRY OUTLOOK

### THE INDIAN REALTY MATRIX: DRIVERS, DYNAMICS, AND DISRUPTIONS

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## Global Outlook

*“Housing policy fails under all types of governments and economic systems, in general, for the same reason: a tendency to treat the housing sector as a social welfare issue rather than a viable economic sector... The important role public investment in residential infrastructure plays in stimulating private investment has been largely ignored, and property rights have remained fuzzy in a financial climate that does little to foster the much-needed long-term housing investment”.*

*Stephen K Mayo*

India has consolidated its position as the world’s 4<sup>th</sup> largest economy and is expected to emerge as the 3<sup>rd</sup> largest by 2030. The global economic environment remains challenging, marked by elevated uncertainty stemming from intensifying trade frictions, geopolitical conflicts, and climate-related shocks. Despite these headwinds, the International Monetary Fund (IMF) projects global growth at 3.3 per cent in 2026 and at 3.2 per cent in 2027. Global headline inflation is expected to decline from an estimated 4.1 per cent in 2025 to 3.8 per cent in 2026 and further to 3.4 per cent in 2027.<sup>1</sup>



Against this backdrop, India's macroeconomic fundamentals remain relatively resilient, supported by strong domestic demand, sustained public capital expenditure, improving real estate activity, and accelerated digitalisation. These structural and cyclical drivers continue to underpin growth momentum, positioning India as the fastest-growing major economy globally, with real Gross Domestic Product (GDP) growth projected at approximately 7.4 per cent for FY26.<sup>2</sup> With entry yields for better quality stock today around 100 basis points higher than the lows of 2021, and rents projected to grow by around 3 per cent per annum, these two factors are expected to be the main drivers of this projected return.<sup>3</sup> Global real estate markets returned to growth in 2025, signalling the end of the correction and the start of a growth phase.

## Perspective

Property is generally considered to be a safe asset. It has, however, been increasingly demonstrated all over the world that there are inherent fallacies in this line of thought. Andrew Lawrence of Barclays Capital cogently argued that it is arguably the most dangerous of all asset classes.

He averred that great height has customarily coincided with big trouble and the construction of exceptionally tall buildings (e.g., Burj Khalifa, Dubai-2010; the Equitable Life Building, New York-1870; the Empire State Building, New York-1931; the World Trade Centre, New York-1972; and the Petronas Towers, Kuala Lumpur-1998) is a manifestation of imminent economic crises. This school of thought defies conventional wisdom, but it has a strong underpinning both in economic theory and empirical evidence. For the peaks and troughs of the economic cycle, the boom and bust of the cyclical movements apply with greater force to the real estate sector. It does not seem illogical that the greater the scale of construction in a bullish period, the steeper the drop in a bearish period. This thesis of the disproportionately greater impact of the bursting of the housing bubble on the banking sector can be substantiated by the fact that five big banking meltdowns in the developed world (Spain in the 1970s, Norway in the 1980s and Sweden, Finland and Japan in the 1990s) had their origins in property. A steadily burgeoning body of literature both in developed and emerging markets demonstrates a consistent link between house-price cycles and banking busts.<sup>4</sup>

In Europe's frothier markets, unpaid debt overhangs make life difficult for borrowers, giving them a bigger incentive to tough it out in their homes. While there are various reasons for the collapse in the housing sector, some important factors could be identified and isolated, including an infusion of global liquidity, the elusive search for beta and high returns, the rise of securitisation, fragile markets, and the inherent volatility in the property market.

The treacherousness of property emerges from the sheer size of the asset class; the amount of debt required and gearing in property, i.e., loan-to-value (LTV) ratios; and the double whammy of leveraged banks and leveraged property. Even though house prices are at fair value (i.e., the ratio of house prices to rents is back to its long-run average), this pipeline of distressed properties continues to drive prices downwards.

Since the real estate sector (RES) is a capital-intensive industry, it faces a liquidity crunch largely due to banks' cautious approach to financing real estate companies. This approach has

been reflected in lower LTV ratios, construction-linked payment and financing only for projects nearing completion. Further, real estate developers also had to cope with other sources of funding, such as private equity and stock markets, drying up considerably, receivables from residential projects under construction getting blocked, falling demand and buyers deferring payments until they took possession of the property. Towards this end, support on land acquisition for beneficial social projects like green housing, affordable housing and introduction of attractive financing schemes could be helpful in transforming the real estate industry from an ‘unorganised’ sector into an ‘organised’ one.

The rising inventory of houses is a function of not just the unemployment rate, but also depends on the speed and outcome of the foreclosure process and on the efficacy of official interventions. Banking crises in the developing world have also often coincided with housing booms or succeeded in the collapse in housing prices<sup>5 6 7 8 9</sup>. Empirical cross-country evidence clearly brings out that the extraordinary laxity of mortgage-underwriting standards in the boom period led to a subsequent collapse of the housing market, which is sometimes colourfully described as “*the walls of worry*”<sup>10 11 12 13</sup>.

In the wake of increased restrictions and modest economic traction, the significance of mortgage-based assets arises from the fact that it attracts lower capital charges than most other assets, together with the apparent stability of a real asset producing predictable cash flows. While this makes sense because the loan is secured by a tangible asset, it could lead to over-lending. Collateralised lending offers a modicum of security to the individual lender. But it has systemic implications. In a boom, rising property prices increases the collateral value of the security, leading to higher credit and further rise in property prices. In a bust, falling property prices stiffen the banking norms and rigours, leading to lower credit and further fall in property prices. What makes it worse is that since such lending occurs in a broadly similar manner across the banking system, losses from real-estate busts are likely to be synchronised across banks. Residential borrowers also contribute to the inefficiency of property markets. Housing differs from other assets because it is seen both as an investment and consumption. This attribute of housing can, and in fact does have, devastating consequences for the housing sector. The economic law of supply and demand postulates that rising prices reduce demand and vice versa. However, given the universal acceptance of housing as a financial asset, higher values induce buying. Housing transcends a mere financial investment.

Residential investment, which is driven by greenfield housing projects, accounts for significant volatility in the macro-economy, i.e., changes in residential investment disproportionately impact rates of GDP growth.

While housing problems aggravate the issue of unemployment, changes in hiring rates are a harbinger of rising defaults and delinquencies in the case of housing loan beneficiaries. Demand-side factors stem from increased concerns about sovereign debt crises, the effects of austerity programmes and job security, which induce persons to place the decision regarding buying a new house on hold. Supply-side factors are much more important in the decision-making matrix. This thesis can be substantiated by an important study on the relationship between housing supply and bubbles by Edward Glaeser of Harvard University and Joseph

Gyourko and Alberto Saiz of the Wharton School. This study demonstrates that places with relatively elastic supply have fewer bubbles, of shorter duration, than those where the supply is more restricted.

A speculative rise in house prices can set in motion a vicious upward spiral. There is also the conspicuous absence of short sellers in the property market. Accordingly, some attempts have been made to buy credit-default swaps at the time of sourcing mortgage-backed securities, hedging or shorting instruments of property and commercial-property derivatives. Such products are, however, fraught with difficulties, viz., inadequate liquidity to persuade buyers, differences in individual properties and neighbourhoods, and Government interventions and lead to a process called “*the falling in of the roof*”.

## Indian Perspective

Currently, 37 per cent of India’s population resides in urban areas, and this is expected to increase to 40 per cent by 2030<sup>1</sup> led by migration and expansion of existing cities, accentuated by economic growth. In its December 2025 Monetary Policy Committee (MPC) meeting, the Reserve Bank of India (RBI) revised its GDP growth estimate for FY26 upward to 7.3 per cent from an earlier 6.8 per cent. The revision follows a stellar 8.2 per cent expansion in Q2 FY26, driven by resilient domestic demand and government capital expenditure. Alongside the growth upgrade, the RBI delivered a 25-bps repo rate cut, bringing it to 5.25 per cent, a move that lowered borrowing costs for corporates, further fueling the country’s economic growth engine<sup>14</sup>. And the RBI is maintaining the *status quo* in the coming quarters and liquidity will remain the key focus area.<sup>15</sup> This macroeconomic backdrop provides the necessary margin of safety for businesses to commit to long-term investments, keeping the office market active even as the rest of the world remains cautious.

Over the years, the share of real estate in India’s GDP has steadily increased from less than 5 per cent before 2010 to around 6 to 8 per cent in recent years.<sup>16</sup> The sector contributed close to USD 0.3 trillion in terms of value addition to the Indian economy in 2025. India’s real estate sector in 2025 is witnessing a significant shift toward more institutionalised capital deployment, driven by increased participation from domestic investors amid cautious sentiment among foreign players.

Institutional investments in India’s real estate sector surged to an all-time high of USD 8.5 billion in 2025, reflecting a 29 per cent year-on-year increase, supported by improved global economic resilience and signs of trade normalisation despite ongoing tariff negotiations. Domestic institutional capital emerged as the key growth driver, more than doubling to USD 4.8 billion and contributing 57 per cent of total inflows. Although foreign investments moderated 16 per cent to USD 3.7 billion, cross-border activity rebounded in Q4, signalling a gradual recovery in global investor sentiment. The fourth quarter alone recorded a record USD 4.2 billion in inflows. Office assets accounted for 54 per cent of total investments, followed by residential and industrial & warehousing segments.

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<sup>1</sup> United Nations

The Indian office real estate market witnessed record investment activity in 2025, with USD 4.5 billion in investment, nearly twice the level recorded in 2024, supported by growing participation from both domestic and foreign investors. The residential segment followed the office sector, drawing USD 1.6 billion in inflows during 2025, registering a 36 per cent year on year increase and accounting for an 18 per cent share of total investments. At the same time, mixed-use developments, retail assets, and alternative asset classes also experienced notable traction, collectively amounting to approximately USD 1.5 billion and representing nearly 17 per cent of overall investments during the year.<sup>17</sup>

<b>Asset Class<sup>II</sup></b>	<b>2024</b>	<b>2025</b>	<b>2025 vs 2024 (% YoY change)</b>
<b>Office</b>	2,338.90	4,534.60	94%
<b>Residential</b>	1,149.10	1,566.90	36%
<b>Alternate assets</b>	39.5	272.5	590%
<b>Industrial &amp; Warehousing</b>	2,541.60	734.2	-71%
<b>Mixed use</b>	390	819.3	110%
<b>Retail</b>	104.4	380	264%
<b>Hospitality</b>	-	167.3	*NA
<b>Total</b>	<b>6,563.50</b>	<b>8,474.80</b>	<b>29%</b>

**Source:** Colliers

These evolving dynamic signals create a maturing real estate investment landscape, where domestic capital increasingly anchors deal flow even as cross-border investors tread more cautiously.

India’s overall sales trajectory over the past decade reflects a cyclical but strengthening growth pattern, marked by periods of expansion, disruption, and recovery. Sales growth accelerated sharply in FY19, followed by a phase of near stagnation and contraction between FY20 and FY21, reflecting broader economic slowdown and pandemic-related disruptions. This was succeeded by a robust rebound in FY22 and FY23, with double-digit growth underscoring pent-up demand and improving economic activity. While growth moderated in FY24, the momentum regained strength in FY25, with sales expanding by over 15 per cent, indicating a renewed uptrend. Overall, the data suggests improving sales resilience and a return to a higher growth trajectory, supported by macroeconomic stability and sustained demand across market segments.

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<sup>II</sup> The Indian real estate market is fundamentally classified based on asset function, i.e., the primary economic use of the property. This approach provides a clear, non-overlapping structure for market sizing, demand assessment, valuation benchmarking, and policy analysis.

<b>Table 2: Overall Sales Growth</b>	
<b>Year</b>	<b>% change</b>
<b>2017-18</b>	9.42
<b>2018-19</b>	24.34
<b>2019-20</b>	-0.16
<b>2020-21</b>	-4.97
<b>2021-22</b>	19
<b>2022-23</b>	15.98
<b>2023-24</b>	5.99
<b>2024-25</b>	15.52
<b>Source: CMIE</b>	

## Residential Segment

According to ANAROCK Research, the total value of homes sold in 2025 rose 6 per cent year-on-year to nearly ₹6 lakh crore.<sup>18</sup> Multiple market indicators reveal that housing sales across major cities registered a moderation, with some data suggesting a decline of approximately 12-14 per cent<sup>iii</sup> in unit volumes in 2025 compared with the prior year, despite resilient total transaction values, pointing to a structural shift from volume-led to value-led growth dynamics.

The share of sub-₹1 crore (affordable) residential housing declined sharply to around 17 per cent of total residential sales in 2025, compared with approximately 47-52 per cent during 2018, reflecting sustained weakness in entry-level demand. Growth in this segment remained constrained due to limited new launches, as developers increasingly prioritised premium and higher-margin housing categories.<sup>19</sup> Profitability in the affordable segment has come under pressure, with operating margins compressing to around 10 to 12 per cent, and in certain cases lower, as elevated land, construction, and compliance costs have not been fully pass-throughable to end-buyers. Cost escalations have therefore disproportionately impacted on this segment relative to mid-income and premium housing. While a modest improvement in demand is expected over the medium term, growth is likely to remain below that of the mid-market segment, with incremental traction largely concentrated in Tier-II and Tier-III cities where affordability dynamics are relatively more favourable.

Mid-income to premium housing emerged as the principal growth engine of the Indian residential market in 2025 and is expected to retain momentum through 2026. Homes priced between ₹50 lakh and ₹3 crore accounted for a rising share of residential sales, with units above ₹1 crore comprising around 62-63 per cent of total transactions, underscoring a structural shift toward higher-value demand. This segment benefited from steady end-user absorption, income growth, and consolidation toward organised developers.<sup>20</sup> Relative to affordable housing, mid-income and premium projects demonstrated superior pricing flexibility and inventory absorption, allowing partial mitigation of input cost pressures.

<sup>iii</sup> Anarock Research reported a ~14% year-on-year decline in housing sales across the top seven Indian cities in 2025, while PropTiger estimated a ~12% decline across major cities during the same period, indicating a 12–14% contraction range in residential unit volumes.

Operating margins in this segment generally remained in the 18-25 per cent range, supporting stronger cash flow and balance-sheet stability. From a credit perspective, this category offers greater earnings predictability and lower demand volatility, providing the primary support to residential developer credit profiles over the 2025-26 period.

National house price indices recorded low-to-mid single-digit year-on-year growth in 2025, with forward expectations for ~6-7 per cent annual price appreciation in 2026, supported by stable demand, controlled supply additions, and urban income growth. From a credit perspective, this segmental divergence supports cash flows and margins for larger, well-capitalised developers, while smaller and affordable-focused players remain more exposed to volume and liquidity risks.

## Sales: Residential segment, 2025

In CY25, India’s residential real estate market demonstrated underlying resilience, with total housing sales across the top eight tracked markets reaching 348,207 units, reflecting a marginal 1 per cent year-on-year decline. Despite the slight moderation in annual volumes, H2 2025 (July-December) sustained stable momentum, supported by easing financial conditions, improving macroeconomic sentiment, and sustained end-user demand.

<b>City / Region</b>	<b>2025 Sales (Units)</b>	<b>YoY % Change</b>
<b>Mumbai</b>	97,188	1%
<b>Bengaluru</b>	55,373	0%
<b>Pune</b>	50,881	-3%
<b>NCR (Overall)</b>	52,452	-9%
<b>Hyderabad</b>	38,403	4%
<b>Ahmedabad</b>	18,752	2%
<b>Chennai</b>	18,262	12%
<b>Kolkata</b>	16,896	-3%
<b>Total (Top 8 Cities)</b>	<b>348,207</b>	<b>-1%</b>

Source: Knight Frank research

Sales performance across cities remained uneven. Four of the eight major markets registered positive year-on-year growth, led by Chennai, followed by Hyderabad and Ahmedabad, while Bengaluru recorded broadly stable sales levels. In contrast, NCR and Pune witnessed notable moderation, which weighed on overall national volumes.

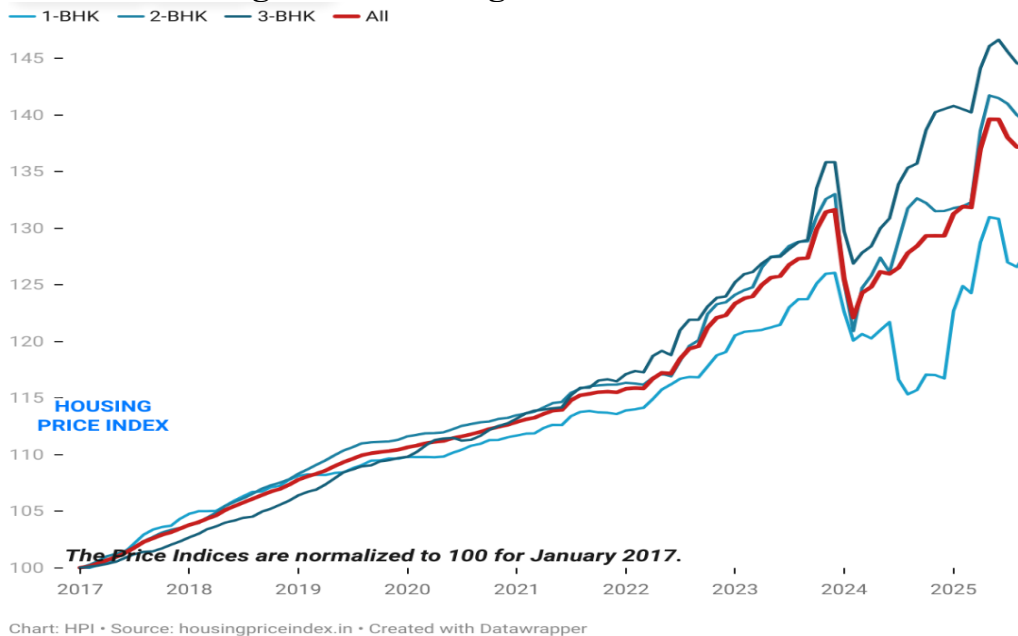
A key structural trend during the year was the outperformance of premium and higher-ticket housing segments, particularly in established urban centers. Demand increasingly shifted towards larger homes and branded developments, offsetting relative softness in affordable categories. Importantly, H2 2025 recorded the highest half-yearly sales volumes since 2013, underscoring sustained market depth and buyer confidence despite near-flat annual growth.

Overall, 2025 marked a phase of consolidation for India’s residential market, characterised by steady absorption, selective new supply, and a growing preference for quality assets in key metropolitan regions.

## Rising Prices

The All-India House Price Index (HPI) indicates continued residential price appreciation across major urban centers, although price momentum moderated during 2025-26. As per the RBI, the HPI recorded a year-on-year increase of 2.2 per cent in Q2:2025-26, reflecting a deceleration from earlier quarters amid calibrated supply additions and stable end-user demand.<sup>21</sup>

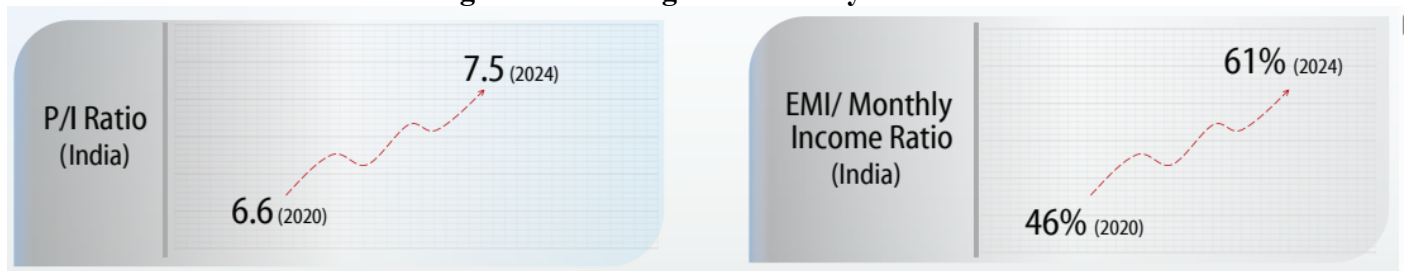
**Figure 1: Housing Price Index 2017-25**



Source: housingpriceindex.in

Housing prices across India have nevertheless risen consistently from 2020-21 through 2024-25, with further increases observed during the June 2025 quarter, even as household income growth across major cities failed to keep pace. This divergence is reflected in affordability metrics, with the average price-to-income (P/I) ratio rising to about 7.5x in 2024 from 6.6x in 2020, while major markets such as Mumbai (14.3x) and Delhi (10.1x) remained among the least affordable, according to the *Housing Affordability in Major Indian Cities* report released by Magicbricks<sup>22</sup> in August 2024.

**Figure 2: Housing Affordability in India**

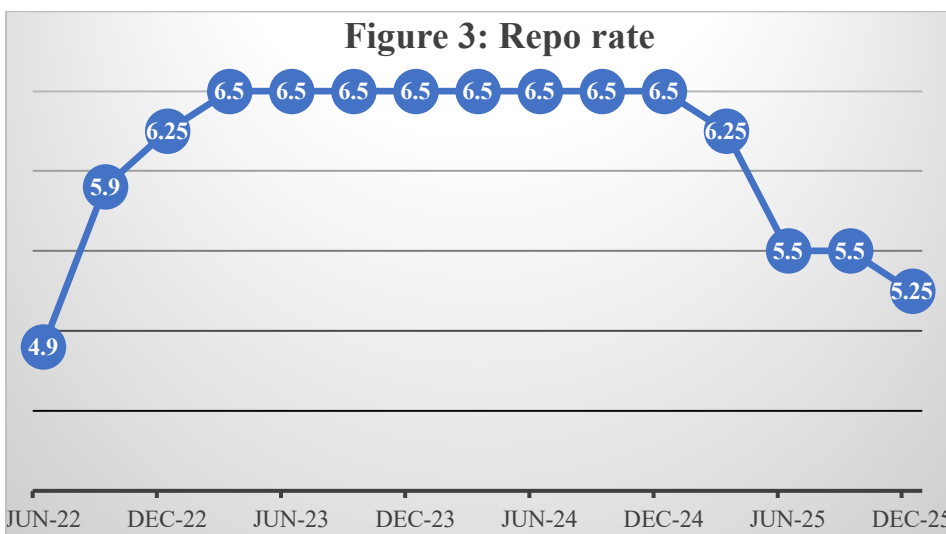


Source: Magicbricks report August 2024.

During the same period, household incomes across the top ten cities grew at a CAGR of about 5.4 per cent, compared with a 9.3 per cent CAGR in residential property prices, leading to a structural weakening in affordability that is likely to constrain housing demand in 2025-26.

The average EWS household dedicates 60 per cent of its income to home loan EMIs, which is a remarkable increase from 43 per cent in 2020. In comparison, the EMI/Income ratio<sup>IV</sup> of MIG households has increased from 28 per cent in 2020 to 40 per cent so far in 2025. While the EWS households may benefit from the interest rate subsidies, it is still subject to their access to formal financing and annual incomes.

Although residential demand remained resilient during the earlier monetary tightening cycle, that’s when the RBI raised the repo rate from 4 per cent in May 2022 to 6.5 per cent by February 2023, the combination of elevated home prices, lagging income growth, and still-high effective borrowing costs is expected to weigh on demand going forward. The RBI’s cumulative 125 bps reduction in the repo rate since February 2025 has supported housing affordability and eased financing conditions. In parallel, the RBI’s upward revision of FY26 GDP growth to 7.3 per cent, along with its inflation projection of 2 per cent, reflects a robust macroeconomic environment and stable consumer sentiment.



Source: RBI

In addition, external risks such as the imposition of a 50 per cent tariff by the US on select Indian exports, affecting employment-intensive sectors including textiles, gems and jewellery, and auto components, along with an ongoing slowdown in the IT sector, are expected to weigh on household income visibility and buyer sentiment in 2025. A moderation in housing demand is also likely to impact supply dynamics, with developers adopting a cautious stance on new project launches; this trend was already visible in the June 2025 quarter, when new housing supply declined by about 17 per cent, and launch activity is expected to remain subdued over the remainder of calendar year 2025.

## Commercial Sector (Office and Retail)

### Office Segment

India’s office real estate sector delivered an exceptionally strong performance in 2025, closing the year with net absorption of approximately 61.4 million square feet (MSF) across the top eight cities, a 25 per cent year-on-year increase that marked the highest annual absorption on

<sup>IV</sup> Higher the EMI/Income ratio lower is the affordability and vice versa

record. Bengaluru and Delhi NCR continued to lead demand, contributing roughly 23 per cent and 18 per cent of total net absorption, respectively, followed by Mumbai, Hyderabad, Pune, Chennai, Kolkata and Ahmedabad, which collectively demonstrated broad-based market participation. Gross Leasing Volume (GLV), capturing total leasing activity including renewals and pre-leases, remained healthy at approximately 88.7 MSF, reflecting sustained occupier confidence and long-term commitments to quality office assets.<sup>23</sup> Fresh leasing accounted for nearly 80 per cent of activity, underscoring strong commitment from occupiers to expand physical footprints. Sectoral demand remained diverse, with the Global Capability Centers (GCCs) emerging as the dominant driver of demand with a historic 31.4 MSF of leasing in 2025, marking a 13 per cent YoY increase and accounting for 37.7 per cent of total activity. Vacancy levels dropped to 15.2 per cent, the lowest in five years, with core locations in major metros now registering tight, single-digit availability. Bengaluru saw vacancies fall to a four-year low, while Mumbai and Delhi NCR reported the lowest vacancy levels in over fifteen years. Rental growth was observed across most major markets, led by Hyderabad and Mumbai.<sup>24</sup> This performance underscores India’s evolving position as a preferred global office destination and provides a data-backed foundation for a stable commercial real estate outlook in 2025-26.

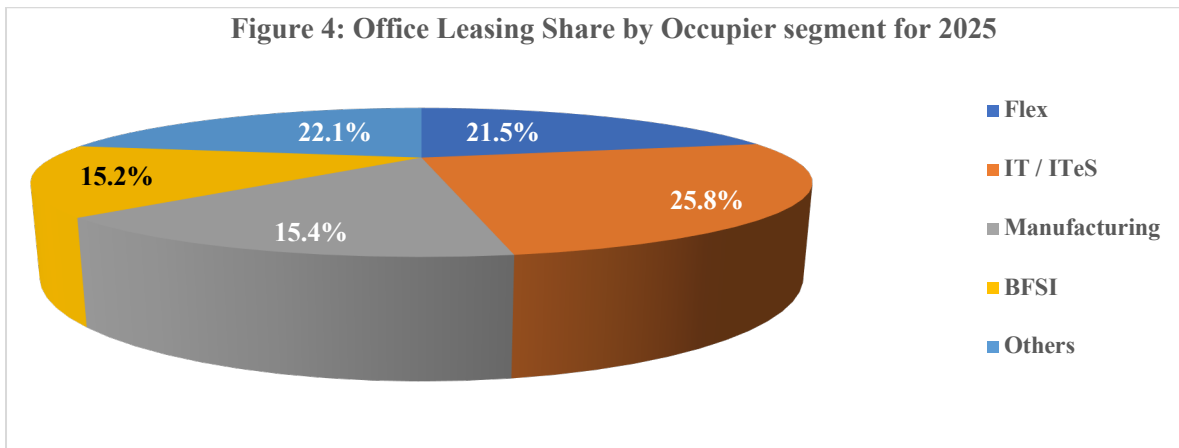
**Table 4: Office Market Momentum Across Major Indian Cities (2024–2025)**

City	Net Absorption (MSF) 2024	Net Absorption (MSF) 2025	YoY Change (%)	GLV (MSF) 2024	GLV (MSF) 2025	YoY Change (%)
<b>Bengaluru</b>	14.2	14.4	1%	22	24.1	9.8%
<b>Delhi NCR</b>	6	10.9	82%	17.7	17.4	-1.6%
<b>Mumbai</b>	10.9	9.6	-12%	10.3	11.6	13.0%
<b>Hyderabad</b>	7.9	9.1	15%	10.7	11.7	8.9%
<b>Pune</b>	5	8.2	65%	6.9	8.1	18.2%
<b>Chennai</b>	2.4	7	187%	8	8.7	9.7%
<b>Kolkata</b>	1.5	1.4	-5%	1.7	1.6	-9.2%
<b>Ahmedabad</b>	1.2	0.8	-28%	1.8	0.9	-48%
<b>Pan-India Total</b>	<b>49.1</b>	<b>61.4</b>	<b>25%</b>	<b>88</b>	<b>88.7</b>	<b>1%</b>

Source: Real Estate Intelligence Service (REIS), Infomerics research

The addition of new stock was largely aligned with strong absorption, particularly in established markets such as Bengaluru, Delhi NCR, Hyderabad and Pune, leading to an overall decline in vacancy on a year-on-year basis. This balance between supply and demand supported rental stability and selective rental growth, with Hyderabad and Mumbai recording the strongest rental appreciation (around low-to-mid double-digit growth), while other major markets such as Delhi NCR, Chennai and Ahmedabad saw moderate increases. Importantly, nearly 80 per cent of leasing activity comprised fresh take-up, indicating occupier expansion rather than churn. From a credit perspective, the ability of the market to absorb record supply without vacancy stress underscores the structural strength of office demand, while also highlighting increasing differentiation between high-quality Grade A assets and older, less competitive office stock.

Figure 4: Office Leasing Share by Occupier segment for 2025



Source: Real Estate Intelligence Service (REIS), Infomerics research

The Q4 2025 occupier mix underscores the growing importance of flexible workspaces, with flex operators leading leasing activity at 26.6 per cent for the second consecutive quarter. IT/ITeS remained a key demand driver with a 21.2 per cent share, while manufacturing (16.1 per cent) and BFSI (13.7 per cent) reflected steady, diversified expansion. Overall, the trend points to a structurally stronger and more flexible office market.<sup>25</sup> As seen in the figure above, however, on a full-year basis, tech retained its position as the primary demand driver with a 25.8 per cent share, followed by flex of 21.5 per cent. Manufacturing, industrial and BFSI segments contributed almost equally with 15.4 per cent and 15.2 per cent shares, respectively. Co-working spaces dominated flex space demand, accounting for 72 per cent of the total absorption, significantly higher than the 63 per cent average recorded since early 2023.

Overall, the office segment continues to benefit from long lease tenures (6-9 years), contractual rental escalations (12-15 per cent every three years), and high collection efficiency, which together provide superior cash-flow visibility relative to other real estate asset classes. Credit risks remain asset-specific rather than systemic, with older, non-compliant office stock and peripheral micro-markets facing higher vacancy and refinancing risks. In contrast, Grade A, well-located, and REIT-held office assets continue to anchor commercial real estate credit profiles in the 2025-26 period. Grade A office assets continued to dominate leasing activity, accounting for 89 per cent of the total transactions in H2 2025 and an even higher 91 per cent for the full year.

Also, the focus has shifted from broad city-level decisions to specific micro-markets that balance cost efficiency, access to skilled talent, and connectivity across key metros. Leading the list are Outer Ring Road and Whitefield in Bangalore, which continue to draw large tech firms, GCCs, and midsize IT companies for their deep talent pools and improving transport links; the Golf Course Road and Extension in Gurugram alongside the Noida Expressway in the NCR, which blend strong connectivity and competitive rents; and Hinjewadi and the Baner - Bale wadi corridor in Pune, offering affordable access to IT and startup talent with growing residential and social infrastructure. In the south, HITEC City, Financial District, and Gachibowli in Hyderabad stand out for scalable office supply and supportive business ecosystems, while Old Mahabalipuram Road (OMR) in Chennai remains central to the city's IT services demand; Bandra Kurla Complex (BKC) and Lower Parel in Mumbai continue to host premium leadership, financial services, and media offices despite high rents.

This micro-market approach reflects how companies are increasingly adopting multi-location hub-and-spoke strategies to optimise real estate spend while aligning with talent and connectivity needs across India's major economic corridors.

## Retail Segment

India's organised retail real estate landscape is at an inflexion point, with strong consumption growth and expanding organised formats across both Tier 1 and Tier 2 cities. The *Think India Think Retail 2025 Study* maps retail stock across 32 cities and 365 shopping centres, capturing over 22,400 retail stores and a diverse set of formats, including shopping centres, high streets, airport retail, and hotel arcades. While modern retail hubs remain central to aspirational consumption, the report highlights a widening performance divergence within the sector, driven by structural shifts in consumer expectations, brand strategies, and quality of assets.

A significant outcome of the analysis is the identification of “ghost” shopping centers, which are underutilised retail assets with high vacancy and obsolescence. The study finds that 74 out of 365 surveyed shopping centers (about one-fifth) qualify as ghost malls, representing approximately 15.5 million square feet of dormant retail space. Within this category, 15 centers (totalling 4.8 million square feet) have been flagged as high-potential assets, capable of generating up to an estimated ₹357 crore in annual rental income if strategically revitalized with Tier 1 cities accounting for ₹236 crore and Tier 2 cities contributing ₹121 crore of this potential. The report emphasises that instead of treating these assets as liabilities, strategic reinvigoration, adaptive reuse, and repositioning (such as mixed-use transformation, experiential concepts, or integration with community functions) can unlock significant value, bridging structural demand with latent supply.<sup>26</sup>

## Catalytic Role of Government Policy on RES

The Government has an active and essential role to play in the socio-economic setting of the nation. And, as forcefully demonstrated by us in our comprehensive two-volume study <sup>27</sup> of the global financial crisis of 2008, there is no way the government could or indeed should abdicate this role and rely solely, or even principally, on market forces for solutions to the nation's problems and challenges in creating 25 million housing units in the urban areas. There is a manifest need to examine the impact of policy initiatives and changes in the process and pattern of development in real estate, encompassing the impact of financial deregulation, privatisation, functions and working of banks and financial institutions, balanced regional development, standards of living and promotion of radical and incremental innovation. Supply of urban land is largely controlled by State-owned development bodies, e.g., the Delhi Development Authority (DDA), the Bangalore Development Authority (BDA), and Housing Boards. The resultant extremely limited free developed space is controlled by oligarchic players in each city.

Real estate growth occurred largely due to the rise in demand for organised realty and the availability of land at affordable prices. The trend has been that several expenditures/investments can generate a five-fold increase in income/returns. The construction industry ranks third among the 14 major sectors in terms of direct, indirect, and induced effects

in all sectors of the Indian economy. A unit increase in expenditure in the real estate sector has the potential to generate a five-fold increase in income. The growth drivers for this market are decreasing household size, increasing working age population, increasing income levels, easier access to mortgage and long-tenure loans and tax incentives, growth in the IT sector, tremendous potential for FDI and flexibility in operations - from sale model to lease model and maintenance model.

The market structure of this industry is highly fragmented and unorganised. It is necessary to see that the industry is, by and large, organised, especially when there are trends like many corporate houses entering the organised retail sector and international retail brands tying up with Indian partners. This speculation makes the real estate market susceptible to black money and poor governance. Hence, all grey transactions must be carefully monitored.

### **Streamlining of Real Estate Laws in India**

Considered in a proper historical and comparative perspective, the RES in India was unorganized. Multiple factors, such as the absence of a centralised title registry providing title guarantee, lack of uniformity in local laws and their application, the lack of bank financing, high interest rates and transfer taxes, and the lack of transparency in transaction value, hampered organised dealing. Transforming the socio-economic environment led to concomitant changes in the identity, strategy and institutional structures within the RES and a progressively enabling environment for the growth of the sector.

Investing in real estate in India requires compliance with various laws, both Central and State. The Central laws governing real estate include the Indian Contract Act, 1872; the Transfer of Property Act; 1882, the Registration Act, 1908; the Special Relief Act, 1963; the Urban Land (Ceiling And Regulation) Act (ULCRA), 1976; the Land Acquisition Act, 1894; and the Indian Evidence Act, 1872. While each State has its own set of laws governing planned development, stamp duty, Rent Control Acts, and Property Tax are some of the important state laws.

The development of the RES is constrained by the complicated nature of the Urban Land Ceiling and Regulation Act and Rent Control Act; the cumbersome land transactions and the lengthy and arduous procedure to procure land for real estate projects; absence of well-developed land markets, defective land titles and high cost of land. These and other real and worrisome faultlines necessitate quick reforms in formulating strategic responses to ubiquitous change. Such reforms include the repeal of highly restrictive laws, checking the growth of slums in urban areas and developing them into hygienic colonies and suitably amending the Agriculture Land Ceiling Act and the Land Acquisition Act of 1894 to enable the RES to realize its immense latent potential.

Of late, there has been a welcome move towards greater organisation and transparency, and regulatory reforms, such as, Government of India's support to the repeal of the Urban Land Ceiling Act, modifications in the Rent Control Act, rationalization of property taxes in several states, computerization of land records and the launching of India's first housing price index, i.e., the NHB RESIDEX index to track fluctuations in the property market and collect data on the parallel black economy. While there is an inherent trade-off in the construction of an index

between the scope of coverage of the underlying it covers and the accuracy of what it seeks to reflect, such an index basically reflects the price movement of its component factors.

These changes of far-reaching ramifications have led to the development of reliable indicators of value and the organised investment in the RES by domestic and international financial institutions, and greater availability of financing for real estate developers. Simultaneously, there has been a paradigm shift in demand, greater customer expectations, sweeping globalisation, and the introduction of new real estate products and services. Against this backdrop, it is important for the reforms to be benchmarked to global best practices because McKinsey has demonstrated that the removal of land market barriers can contribute an additional 1 per cent to India's GDP growth rate. In view of the protracted processes in obtaining clearances and approvals for housing and real estate projects, all State Governments must adopt e-governance to enhance transparency and facilitate quick decision-making. Since India charges one of the highest levels of stamp duty in the world and these duties also vary significantly across states, reduced and uniform stamp duty rates would also boost the sector.

## **Micro Market**

India's residential real estate market is increasingly being shaped by micro-market level differentiation rather than uniform city-wide expansion. Although total housing sales across the top eight cities remained strong at approximately 3.48 lakh units in 2025, with only marginal year-on-year moderation and a continued rise in weighted average prices, aggregate stability conceals significant divergence within metropolitan regions. The growing share of homes priced above ₹1 crore signals premiumization of demand, and this shift is closely aligned with the outperformance of infrastructure-rich and employment-centric corridors within major cities.

In Mumbai, growth has concentrated in corridors such as Parel, Ulwe, Thane and Worli Lower Parel, supported by catalytic infrastructure including the Navi Mumbai International Airport and the Trans-harbour Link. In the National Capital Region, Dwarka Expressway, New Gurugram, and select Noida sectors are drawing momentum from airport development, expressway connectivity and premium residential clustering. Bengaluru's Whitefield, Sarjapur and Devanahalli illustrate how technology employment hubs and airport proximity are influencing both mid-segment and premium housing demand. Hyderabad's Kokapet, Financial District and Gachibowli demonstrate the impact of western corridor expansion, metro integration and land constraints on pricing resilience. Chennai's OMR and peripheral belts remain supported by technology parks and improved transit connectivity, while Pune's Hinjewadi-Kharadi-Wakad belt reflects the strength of integrated tech-driven residential ecosystems. In Kolkata, Rajarhat New Town and EM Bypass highlight the role of emerging commercial centres and improved urban connectivity in sustaining localised absorption.

While overall housing sales showed some moderation heading into 2026, the slowdown has not been uniform. Select micro markets continue to demonstrate stronger absorption, better price stability and sustained investor interest due to proximity to new infrastructure, established workplace clusters and constrained land supply. This pattern indicates a maturing residential cycle, in which broad city-level metrics are insufficient to explain performance.

Instead, corridor-specific fundamentals, such as connectivity, employment density, transit integration and amenity creation determine both demand resilience and capital appreciation. The Indian residential market is therefore transitioning toward a more selective and fundamentals-driven phase, where identifying the right micro location within a city is more critical than choosing the city itself.

**Table 5: Micro market trends in 2025**

City	Micro-markets	Reasons for Performance	2025 Residential Sales Context
<b>Mumbai</b>	Panvel; Vasai; Dombivli; Thane; Kalyan; Vashi; Bhiwandi; Ulwe; Worli-Lower Parel	Navi Mumbai Airport; Trans-harbor Link; Premium end-user demand	Among the highest absolute sales volumes in India's top 8 cities in 2025; strong premium segment share (homes ₹1 crore+).
<b>New Delhi</b>	Dwarka Expressway; New Gurugram; Sector 150-Noida; Sector 75-Noida; Golf Course Road; Golf Course Extension	Jewar International Airport; Premium developments	NCR recorded resilient sales volumes in 2025; premium and upper-mid segment demand up; overall growth in launches and absorption.
<b>Bengaluru</b>	South Bengaluru; Whitefield; Sarjapur; Devanahalli	IT and tech corridors; Airport-led demand	Consistent above-average sales among major cities; strong mid-to-premium housing uptake; connectivity-driven micro-market strength.
<b>Chennai</b>	Perumbakkam; Avadi; Perambur; OMR	Growth in tech corridors; Affordability; Metro connectivity; High rental yields	Steady sales performance in 2025 with balanced launches and take-up; OMR and peripheral corridors contributing to sustained activity.
<b>Hyderabad</b>	Kokapet; Neopolis; Raidurg; Financial District; Budvel; Rajendranagar; Tellapur corridor; Gachibowli; Kondapur; Miyapur; Shaikpet	Tech corridors; Metro expansion; Expat-led demand; Land scarcity	Stable sales volumes; strong growth in premium segment; tech corridor corridors outperforming city average.
<b>Pune</b>	Hinjewadi-Kharadi-Wakad belt; Wagholi; Talegaon Dabhade	Tech hubs; Expressway and highway connectivity; Affordability; High-quality amenities	Strong mid-segment sales in 2025; tech and connectivity-focused micro-markets driving absorption.
<b>Kolkata</b>	Rajarhat-New Town; Madhyamgram; EM Bypass	New/emerging urban centers; Connectivity to major hub	Moderate yet steady sales; mid and upper-mid segments dominate; infrastructure-aligned micro-markets supporting demand.

Source: Anarock & Knight frank research.

## GOVERNMENT INITIATIVES

The government's enabling measures, the RBI's accommodative monetary policy and the Union Budgets have been positive. But the status of "infrastructure" still eludes the RES. Inclusion of the housing sector in infrastructure would enable the real estate companies to access low-cost institutional funds and possibly reduce the price charged to the end-user. Further, coordinated and concerted measures with a sense of urgency are needed to provide basic amenities, such as water supply, roads, power and sanitation and develop synergistic

public-private partnerships (PPP). It is also necessary to provide single window clearance for private companies, execute projects in conformity with timelines and budget costs without compromising on quality to catalyse investment in townships, housing, built-up infrastructure and construction development projects as an instrument to generate economic activity, create new employment opportunities and add to the available housing stock and built-up infrastructure.

## Infrastructure-led Growth

The Budget positions the real estate sector as an indirect beneficiary of infrastructure-led growth. While immediate stimulus for the residential segment remains limited, the structural reforms and capital investments announced in the Budget create a solid base for sustained and geographically diversified growth in the long run.

**Table 6: Key Union Budget 2026–27 Announcements with Implications for Real Estate**

Policy Measure	Budget 2026–27 Announcement	Structural Implications for the Real Estate Sector
<b>Public Capital Expenditure</b>	Infrastructure outlay increased to ₹12.2 lakh crore, Infrastructure capex has expanded at an ~25 per cent CAGR over the past six years	Reinforces infrastructure-led growth, expanding urban connectivity and supporting long-term demand across residential, commercial and industrial segments
<b>Infrastructure Risk Guarantee Fund</b>	Introduction of a credit guarantee framework for infrastructure projects	De-risks large-scale infrastructure financing, crowding in private capital and strengthening project viability
<b>Monetization through REITs</b>	Acceleration of CPSE real estate asset monetization via dedicated REIT structures	Unlocks value of public assets, enhances market liquidity and deepens institutional participation
<b>City Economic Regions (CERs)</b>	Development of CERs in Tier-2 and Tier-3 cities with multi-year funding support	Promote decentralized urbanization and stimulate demand for housing and commercial assets in emerging markets
<b>High-Speed Rail &amp; Connectivity</b>	Announcement of new high-speed rail corridors	Enhances regional mobility, potentially unlocking peripheral and secondary real estate markets
<b>Focus on Smaller Cities</b>	Greater emphasis on infrastructure expansion beyond metros	Encourages geographically diversified growth in real estate activity
<b>Manufacturing &amp; Industrial Ecosystem</b>	Strengthening of industrial clusters and plug-and-play infrastructure	Drives structural demand for logistics, warehousing and industrial real estate
<b>Tourism &amp; Regional Infrastructure</b>	Development of tourism circuits and medical hubs	Supports hospitality-led and mixed-use real estate expansion
<b>Regulatory Streamlining</b>	Simplification of procedural and compliance aspects in property transactions	Improves ease of doing business, though without direct residential tax incentives

Source: Indian Union Budget 2026-27

## Real Estate Investment Trusts (REITs)

The Union Budget 2026-27 unveiled a strong infrastructure-led growth agenda that has important implications for real estate markets. The government significantly increased public capital expenditure to ₹12.2 lakh crore for FY27, underscoring a sustained push on urban connectivity, transport corridors and civic infrastructure, which are widely understood to

support enhanced land values and long-term demand for housing and commercial properties. The Centre plans to monetise underutilised government real estate through Real Estate Investment Trusts (REITs) to unlock value while retaining public ownership. The strategy, highlighted in the Union Budget 2026-27, targets office complexes, transport hubs, hospitals, guest houses and community facilities, with vacant land and surplus space leased for commercial use and professional maintenance. As per government officials, the initiative could initially generate ₹100-150 billion annually in upfront revenues and investments. Core public services such as rail operations, clinical care and academic functions will remain under government control, while trusts manage leasing, utilities and upkeep. Policymakers expect the model to attract pension and insurance funds, improve asset utilisation, and support investment-led growth as ministries coordinate valuations and concession structures ahead of initial projects expected by December.

Despite these broader positives, industry responses have been mixed, reflecting both optimism and concern about unmet expectations. While infrastructure spending and asset-monetisation frameworks provide indirect support to the real estate ecosystem, some stakeholders noted the absence of direct incentives for affordable and rental housing segments and tax relief measures aimed at boosting housing demand, which remain key challenges for sustained recovery. Still, analysts view the Budget’s emphasis on connectivity, urban expansion across Tier-1 and Tier-2 cities and enhanced regulatory clarity as laying the foundation for a more resilient and investment-friendly real estate landscape over the medium term.

Moreover, Finance Minister Nirmala Sitharaman, chose to keep the capital gains<sup>V</sup> tax structure unchanged. For FY26, India’s capital gains tax regime has been simplified and rationalized with new tax rates and holding-period norms applying from July 23, 2024. Long-Term Capital Gains (LTCG) on most assets, including listed shares, equity-oriented mutual funds, real estate and other capital assets are taxed at a flat 12.5 per cent without indexation, replacing the earlier varied rates.<sup>28</sup>

**Table 7: Capital Gains Tax Structure (FY 2025-26 / AY 2026-27)**

Asset Type	STCG Holding Period	LTCG Holding Period	STCG Tax Rate	LTCG Tax Rate
Listed Equity Shares / Equity Mutual Funds	Up to 12 months	More than 12 months	20% (Sec 111A)	12.5% above ₹1.25 lakh exemption
Unlisted Shares	Up to 24 months	More than 24 months	Slab rate	12.5% (no indexation)
Real Estate / Property	Up to 24 months	More than 24 months	Slab rate	12.5% (no indexation)
Gold / Jewellery	Up to 24 months	More than 24 months	Slab rate	12.5% (no indexation)
Debt Mutual Funds	Any period	No LTCG benefit	Slab rate	Slab rate
Crypto / Virtual Digital Asset	No	No	30% flat	30% flat

**Note:** For property bought before 23 July 2024, indexation still applies even if it is sold later, and taxpayers or HUFs can choose between 20% tax with indexation or 12.5% without it, whichever results in lower tax.  
**Source:** Taxpanner.com

<sup>V</sup> Capital gains are classified as short-term or long-term, depending on the period the asset is held before sale. Gain from the sale of an asset is considered Short-term if it is owned for up to 24 months before sale. If an asset is sold after 24 months of ownership, then it is considered long-term.

## Pradhan Mantri Awaas Yojana (PMAY - 2.0)

The Government of India has moved into a new phase of the scheme with PMAY-U 2.0, which was announced in August 2024 and launched from 1 September 2024 for five years to build 1 crore affordable houses for low-to-middle-income groups.

The Union Budget 2024-25 allocated ₹ 54,500 crore for PMAY (Urban) or PMAY-U. This amount is 36.5 per cent of the total amount allocated to the Ministry of Housing and Urban Affairs (MoHUA) for the year. In 2025-26, the Ministry is estimated to spend only 31 per cent of its allocated budget at the revised estimate stage. The fund utilisation for the Ministry has declined due to high underspending on the scheme.

The MoHUA is an apex authority formulating policies and programmes related to housing and urban affairs. In 2026-27, the Ministry has been allocated ₹ 85,522 crore, higher than the revised estimate of 2025-26 by 50 per cent. A total of 26 per cent (₹ 22,025 crore) of the total Ministry budget has been allocated for the PMAY-Urban scheme.

<b>Scheme</b>	<b>2024-25 Actuals (₹ crore)</b>	<b>2025-26 RE (₹ crore)</b>	<b>2026-27 BE (₹ crore)</b>	<b>% Change (RE 2025-26 to BE 2026-27)</b>
<b>MRTS and Metro Projects</b>	28,611	29,550	30,996	5%
<b>PMAY-Urban and PMAY 2.0</b>	5,865	7,900	22,025	179%
<b>AMRUT</b>	5,647	7,500	8,000	7%
<b>Urban Challenge Fund</b>	—	1,000	10,000	900%
<b>Smart Cities Mission</b>	2,126	—	—	—
<b>Swachh Bharat Mission – Urban</b>	1,893	2,000	2,500	25%
<b>PM e-bus Sewa</b>	477	300	500	67%
<b>PM-SVANIDHI</b>	443	572	900	57%

Sources: Expenditure Budget, MoHUA, Union Budget 2026-27

At the 6th meeting of the Central Sanctioning and Monitoring Committee held on 23 February 2026 in New Delhi under the chairmanship of Shri Srinivas Katikithala, Secretary, Ministry of Housing and Urban Affairs, 2,87,618 houses, around 2.88 lakh, were sanctioned under Pradhan Mantri Awas Yojana Urban 2.0. With this, total sanctioned houses under PMAY U 2.0 have crossed 13.61 lakh, reinforcing the Government's commitment to providing dignified and affordable housing to EWS, LIG and MIG urban families. The houses were approved across 16 States and Union Territories, namely Andhra Pradesh, Arunachal Pradesh, Chhattisgarh, Gujarat, Jammu and Kashmir, Punjab, Puducherry, Rajasthan, Tamil Nadu, Telangana, Maharashtra, Madhya Pradesh, Nagaland, Odisha, Uttar Pradesh and West Bengal, under various verticals of the scheme.<sup>29</sup>

<b>Table 9: PMAY-U 2.0: Newly Sanctioned Houses by Vertical</b>		
<b>Sr. No.</b>	<b>Vertical</b>	<b>No. of Houses Sanctioned</b>
1	Beneficiary Led Construction (BLC)	1,66,000
2	Affordable Housing in Partnership (AHP)	1,09,000
3	Affordable Rental Housing (ARH) <sup>VI</sup>	12,846
	<b>Total</b>	<b>2,87,846</b>
Source: PIB, Infomerics research.		

Under PMAY-U 2.0, 2.88 lakh houses have been sanctioned, of which over 1.60 lakh are allotted to women (including widows, separated and unmarried women), eight to transgender beneficiaries, and 22,581 to senior citizens. Social category allocations include 35,525 houses for SCs, 9,773 for STs, and 82,190 for OBCs. Overall, of the 13.61 lakh houses sanctioned under PMAY-U 2.0, 96 per cent are in the name of female heads or joint ownership, highlighting women's empowerment. Category-wise, 22 per cent are for SCs, 5 per cent for STs, and 73 per cent for others. Since its launch in 2015, PMAY-U has sanctioned 122.50 lakh houses, with over 97 lakhs completed and delivered.

### **GST rationalization**

The implementation of GST has significantly reshaped the taxation framework of India's real estate sector by replacing multiple indirect taxes such as VAT and service tax with a unified system, thereby improving transparency and reducing tax cascading. Under GST, tax is applicable only on under-construction properties, which are treated as a supply of services, while completed or ready-to-move-in properties with a completion certificate remain exempt. The revised GST regime has generally lowered the effective tax burden on residential real estate, particularly for affordable housing, although the benefit of input tax credit is no longer available to buyers. For developers, GST has streamlined input taxation on construction materials and services, potentially reducing project costs, albeit with higher compliance requirements. GST has brought greater clarity and uniformity to real estate taxation, benefiting buyers through transparency and developers through reduced tax inefficiencies, while stamp duty and registration charges continue to remain outside its ambit.

Recent GST rationalization has recalibrated tax rates across key construction inputs and works contracts, with a mixed but largely cost-neutral to efficiency-oriented impact. The GST rate on cement has been reduced from 28 per cent to 18 per cent, offering direct relief to construction costs given cement's high input share in real estate and infrastructure projects.<sup>30</sup> Here, cement is crucial because, for every ₹1 invested in real estate, the economy realises a multiplier effect of nearly 2x due to its linkages with 250+ ancillary industries (Cement, Steel, Paints, Electronics).

At the same time, several works contract services, including offshore works contracts for oil and gas exploration and production, government works contracts involving more than 75 per cent earthwork, and sub-contracted works for government earthwork projects have seen their

<sup>VI</sup> MoHUA has been promoting rental housing as a separate vertical through ARH to cater to the affordable rental housing needs of the urban migrants, homeless, industrial workers, working women, construction workers and other vulnerable groups. In today's meeting, about 12,846 houses have been sanctioned under ARH.

GST rates revised from 12 per cent to 18 per cent, while retaining eligibility for input tax credit, thereby maintaining tax neutrality for compliant contractors. Additionally, GST on sand lime bricks and stone inlay work has been reduced sharply from 12 per cent to 5 per cent, supporting affordability and demand in finishing and masonry-related segments.

## National Framework for GCC

It has been proposed in the Union Budget 2025-26 that a National Framework will be formulated as guidance to states for promoting GCCs in emerging tier 2 cities. Tier II cities like Coimbatore, Jaipur, and Visakhapatnam are expected to be ready for new ventures with improved infrastructure, advantageous state legislation, and lower real estate and manpower prices. This will suggest 16 measures for enhancing the availability of talent and infrastructure, building-by-law reforms, and mechanisms for collaboration with industry.<sup>31</sup> Their main areas of focus will be on skill development, infrastructure, AI focused Centers of Excellence for agriculture, health, and sustainable cities. Fostering sustainable growth is the key concept of GCC in this year's budget.

## Investments

### Private Equity

In 2025, private equity (PE) investment in Indian real estate moderated significantly, with total PE inflows declining by about 29 per cent to roughly \$3.5 billion compared with the previous year, as investors adopted a more cautious stance amid a global reassessment of risk, higher capital costs, and valuation misalignments. According to the *Knight Frank India* report *Trends in Private Equity Investments in India: H2 2025*, this slowdown reflected a broader recalibration across exit visibility, cost of capital and valuation alignment, even though domestic property fundamentals remained resilient.<sup>32</sup> Investors increasingly favoured downside-protected, income-oriented structures over large-scale equity deployments, and capital continued to flow selectively into assets with clearer execution pathways and cash-flow stability rather than speculative segments.

Office assets continued to dominate PE activity, attracting about 58 per cent of total investment (around \$2 billion) as institutional confidence in income stability and scale remained strong, while residential and warehousing accounted for about 17 per cent and 15 per cent of PE inflows, respectively. Retail real estate saw limited participation, with only a small number of large transactions. Despite the overall moderation, analysts expect a measured recovery in 2026, with *Knight Frank* projecting PE investments could rise to approximately \$4.4 billion as conditions like interest rates, inflation and underwriting confidence improve.

### Foreign Direct Investments (FDIs)

India attracted \$400 billion in FDI over the last five financial years, with H1 FY26 recording a robust ~16 per cent year-on-year growth in inflows.<sup>33</sup> Foreign investors remained dominant, accounting for about 57 per cent of total investments.<sup>34</sup> Notably, domestic capital has gained increasing prominence in the post-pandemic period, emerging as a key driver of investment across asset classes and signalling a structural shift in India's real estate investment landscape.

The construction sector contributes around 9 per cent of India's total FDI inflows, encompassing infrastructure-related activities such as townships, housing, and other built-up developments.<sup>35</sup> The SEBI-regulated real estate AIFs, typically structured under Category II, are privately pooled investment vehicles that provide high-net-worth individuals and institutional investors access to residential, commercial, and infrastructure assets, generally with a minimum investment threshold of ₹1 crore. Such funds offer diversified exposure through debt and equity strategies, often accompanied by relatively longer lock-in periods.

Foreign institutional investment (FIIs) in India's real estate sector surged 242 per cent QoQ to Rs. 10,226 crore (US\$ 1.19 billion) in Q2 2025, with the US, Japan, and Hong Kong accounting for 89 per cent of inflows, according to Vestian. Out of the total ₹10,226 crore invested, 69 per cent was directed towards commercial real estate.<sup>36</sup>

## Structural Investment Trends

The next phase of Indian real estate is not confined to traditional luxury or core metro markets. It is being reshaped by infrastructure corridors, tech manufacturing centers, digital and data ecosystems, and new industrial clusters. Strategic investment aligned with these trends rather than purely location-centric bets will be the key to real estate value creation through 2035 and beyond.

- 1. Macroeconomic and Structural Context:** India's real estate sector is entering a structurally transformative phase, supported by demographic expansion, urbanization, infrastructure capital expenditure, and institutional investor participation. Long-term projections indicate that Indian real estate could evolve into a multi-trillion-dollar sector by 2047, underpinned by integrated economic corridors and emerging growth cities. This transformation is no longer confined to Tier-I metros but increasingly extends to industrial corridors, technology clusters, and infrastructure-linked peripheral regions. Simultaneously, residential rental markets across major cities have witnessed double-digit growth amid economic recovery and office re-occupancy trends, reinforcing real estate's dual character as both an end-user and income-generating class.
- 2. Corridor-Led metropolitan expansion:**
  - a. Noida-Agra Growth Belt and NCR Extension:** The Noida-Agra corridor, anchored by the Yamuna Expressway, represents one of the most significant examples of infrastructure-induced real estate transformation. Improved connectivity between Greater Noida and Agra has reduced travel time and unlocked large tracts of developable land. The upcoming Noida International Airport (Jewar), combined with industrial city proposals for Japanese and Korean manufacturing clusters, is expected to catalyze industrial, logistics, and residential demand. Additionally, Noida is emerging as a major data center hub, with significant projected absorption of specialized commercial real estate driven by India's digital expansion.
  - b. The Gujarat Industrial Arc:** Ahmedabad has demonstrated resilience among non-metro real estate markets, supported by strong infrastructure, industrial activity, and relatively affordable land pricing. Sub-markets influenced by GIFT City, SG Highway, and Science City Road are witnessing integrated commercial-residential growth.

Furthermore, the Dholera Special Investment Region (SIR) envisioned as a greenfield industrial smart city represents a strategic node in India's semiconductor and advanced manufacturing ambitions (Dholera Special Investment Region, n.d.). Rising floor space index (FSI) utilization in Ahmedabad further indicates increased vertical development and urban densification.

- c. **Mumbai 3.0 - Infrastructure as the Core Driver:** Mumbai's next growth cycle is anchored in multi-modal infrastructure, including the Mumbai Trans Harbor Link (MTHL), Navi Mumbai International Airport, coastal road projects, and metro expansion. These developments are expanding the city's economic geography and unlocking land value in previously underutilized regions. The rental demand in Mumbai has strengthened significantly amid economic recovery and corporate expansion.
- d. **Pune: Knowledge Economic Hub:** Pune represents one of India's most structurally resilient real estate markets, driven by its diversified economic base spanning IT services, automotive manufacturing, higher education, and R&D ecosystems. Pune continues to attract both residential and commercial investment due to strong end-user demand fundamentals. Additionally, its strategic proximity to Mumbai enhances its position within the broader Mumbai–Pune economic corridor.

Also, Tier-II Cities such as Jaipur, Lucknow, Nagpur, Indore, and Bhubaneswar are emerging as commercial and industrial growth centers beyond Tier-I metros. Lower land acquisition costs, improving infrastructure, and decentralized corporate expansion strategies are broadening the real estate investment map. These cities are no longer considered alternatives. They are directly competing with metros, offering better affordability and livability, with the prospect of long-term capital appreciation.

**3. Data Centres & Digital Real Estate:** India's data-center sector has entered a capital-intensive expansion phase driven by artificial intelligence workloads, hyperscale cloud deployment, financial digitisation, and data localization mandates. Major hubs such as Mumbai, Chennai, Hyderabad, and Noida are witnessing accelerated capacity additions, with developers prioritising large, power-secure land parcels supported by high fibre density and renewable energy integration. Institutional investors increasingly treat data centres as core alternative assets due to long-term lease structures, stable cash flows, and infrastructure-backed entry barriers. The expansion of digital infrastructure is also generating secondary real estate demand across warehousing, employee housing, and service ecosystems near hyperscale campuses. Over the medium term, power availability, sustainability compliance, and grid resilience will become decisive site-selection factors, reshaping commercial real estate hierarchies toward connectivity-driven micro-markets.

**4. Semiconductors & Rare Earth-Linked Ecosystems:** India's semiconductor manufacturing ambitions are redefining industrial land demand and corridor-based urbanisation. Fabrication plants and assembly-testing units require highly specialised infrastructure, including clean-room-compatible industrial zones, uninterrupted power supply, advanced water treatment facilities, and environmental compliance systems. The localisation of semiconductor value chains, supported by fiscal incentives and supply-

chain diversification strategies, is fostering cluster-based industrial ecosystems rather than standalone manufacturing sites. Rare earth materials that are critical for electric vehicles, telecom equipment, renewable energy systems, and semiconductor fabrication add a strategic layer to this ecosystem, reinforcing the importance of integrated logistics parks and export-oriented infrastructure. The resulting real estate cycle is structural rather than speculative, driven by long-gestation capital deployment, skilled workforce migration, and the development of ancillary R&D and residential clusters.

- 5. Circular Economy Infrastructure:** India's strengthening e-waste management framework and Extended Producer Responsibility (EPR) enforcement are accelerating the formalisation of electronic goods recycling as a structured industrial segment. Organised recycling parks equipped with hazardous-material handling systems, traceability infrastructure, and environmental compliance mechanisms are emerging across peri-urban industrial belts. Unlike traditional warehousing, these facilities require specialised zoning, wastewater treatment, emissions control systems, and integrated logistics access, creating a distinct industrial real estate sub-asset class. As electronics manufacturing scales and domestic material recovery becomes strategically important, recycling clusters are likely to evolve into circular-economy ecosystems supporting metals recovery, component refurbishment, and value-added processing. This transition strengthens demand for compliance-ready industrial land and positions circular infrastructure as a long-term contributor to sustainable industrial real estate growth.

## Emerging Challenges Confronting the Sector

While India's real estate industry has demonstrated resilience through fiscal 2024-25 and is positioned for continued momentum, it still faces a set of persisting structural challenges that are likely to influence performance in 2026. Developers and investors are contending with affordability pressures arising from elevated home prices relative to incomes, compounded by tighter financing conditions that increase the cost of capital. This dynamic is especially pronounced in the mid-income and affordable housing segments, where demand elasticity is more sensitive to interest rate movements. At the same time, rising construction input costs and supply chain disruptions continue to squeeze margins and complicate project timelines for both urban residential and commercial developments.

The sector is heavily dependent on external financing yet faces limited access to institutional funding with high dependence on non-banking financial companies (NBFCs), and concomitant liquidity crises. Developers often rely on advance sales, creating a cyclical dependency—when demand slows, projects stall. Demand-supply mismatch causes a paradox in India: oversupply in luxury housing juxtaposed with a severe shortage in affordable housing. Urban housing demand is concentrated in the ₹15–80 lakh segment, yet developers have historically focused on higher-margin luxury units. This imbalance reflects a misalignment between “*income distribution curves*” and “*housing supply curves*.”

This situation is aggravated by the pressure of urbanisation and infrastructure gaps. India is urbanizing rapidly, with cities expected to house over 600 million people by 2030. Challenges include inadequate urban infrastructure, traffic congestion, and water and sanitation deficits.

Real estate development often outpaces infrastructure, leading to unplanned urban sprawl and marked transparency and trust deficit. Historically, the sector has suffered from project delays, cost, and lack of accountability. Although RERA has improved in transparency, consumer confidence is still recovering.

Environmental and sustainability concerns in construction contribute significantly to carbon emissions and resource consumption. Issues include unsustainable building practices, land degradation, and energy inefficiency, with climate change intensifying. Accordingly, sustainability is no longer optional but essential. These financial pressures test the ability of smaller and mid-tier developers to sustain operations without strategic shifts or consolidation.

In addition to cost and capital constraints, regulatory complexity, policy fragmentation and execution complexities remain notable risk factors. Despite reforms like the Real Estate (Regulation and Development) Act (RERA), the sector still suffers from fragmented governance across states. Differences in land laws, approval processes, and taxation create inefficiencies. Multiple approvals delay project timelines. Lack of uniform land titling increases legal disputes. Regulatory overlap increases compliance costs. This results in what is called “*transaction friction*,” reducing market efficiency. Land acquisition and titling issues remain the most critical and contentious factor. India lacks a conclusive land titling system, leading to common ownership disputes. High stamp duties discourage formal transactions. From a research perspective, unclear property rights increase “*risk premiums*,” making investments more expensive and uncertain.

Land acquisition delays, environmental clearances, and municipal approval processes continue to slow project rollouts, while infrastructure gaps in emerging Tier-2 and Tier-3 markets can undermine the attractiveness of planned expansions beyond major metropolitan areas. Furthermore, the sector’s accelerating adoption of digital tools and smart technologies introduces new vulnerabilities, particularly in cybersecurity and data protection, which require proactive risk management and investment in secure systems. Global macroeconomic volatility and geopolitical tensions further compound these risks by influencing investor sentiment and capital flow dynamics in cross-border transactions. As a result, real estate stakeholders must increasingly prioritise integrated risk mitigation strategies to sustain growth in 2026 and beyond.

**Table 10: Risks of buying property in India**

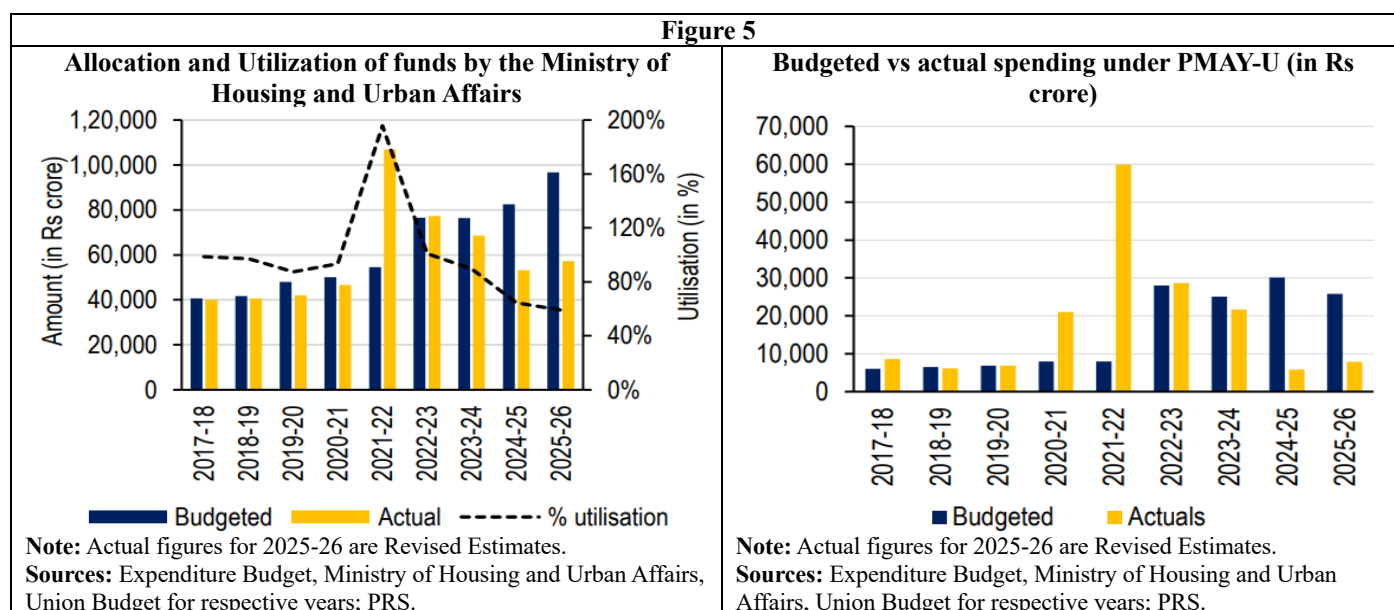
<b>Risk Dimension</b>	<b>Underlying Driver</b>	<b>Sectoral Implication</b>
<b>Interest Rate &amp; Mortgage Risk</b>	Tight monetary stance and repo rate cycle are influencing borrowing costs and mortgage pricing.	When interest rates rise, home loans become more expensive. Monthly EMIs increase, making houses less affordable for buyers. As fewer people can afford loans, property sales slow down, especially in the mid-income segment. Developers who rely on borrowed money also face higher interest costs, reducing their profits.
<b>Liquidity &amp; Funding Risk</b>	Credit risk concerns and systemic liquidity assessment affecting bank and NBFC lending appetite.	If banks and NBFCs become cautious about lending, developers may struggle to get funds to complete projects. This can slow down construction or delay delivery. Smaller developers are affected more, leading to consolidation where only financially strong builders survive.
<b>Regulatory &amp; Compliance Risk</b>	Escrow norms, compliance requirements, and indirect tax framework adjustments across states.	Strict rules mean developers must keep buyers' money in dedicated accounts and follow compliance procedures carefully. While this improves transparency, it also reduces flexibility in using funds, sometimes slowing down projects and increasing administrative costs.
<b>Land &amp; Title Risk</b>	Fragmented land ownership structures and incomplete digitisation of land records.	In many cases, land ownership records are unclear or disputed. This can lead to legal cases that delay projects for years. Buyers may hesitate to invest if there is uncertainty about land ownership, increasing transaction risk.
<b>Demand Slowdown Risk</b>	Income, employment, and consumption cycle moderation affecting homebuyer sentiment.	If job growth slows or people feel uncertain about income, they postpone buying homes. This results in unsold inventory, especially in affordable and mid-range housing. Developers may then offer discounts to attract buyers.
<b>Commercial Office Demand Risk</b>	Hybrid work evolution and sector-specific hiring moderation are impacting office space demand.	With more companies allowing work-from-home or hybrid models, the demand for large office spaces has reduced in some areas. This puts pressure on rental income, especially for older or non-prime office buildings.
<b>Construction Cost Inflation Risk</b>	Volatility in cement, steel, labour, and logistics costs.	If the prices of cement, steel, or labour rise, construction becomes more expensive. Developers may either reduce their profit margins or increase property prices. For buyers, this can mean higher home prices over time.
<b>FDI &amp; Capital Flow Volatility</b>	Global geopolitical uncertainty and fluctuating foreign capital flows.	When global investors become cautious due to economic or geopolitical tensions, foreign investment into Indian real estate may slow. This affects large commercial and premium projects that depend on institutional funding.

<b>Inventory Overhang Risk</b>	Elevated unsold stock in certain micro-markets due to supply-demand mismatch.	If too many homes are built but not enough are sold, developers hold large unsold inventories. This blocks their cash flow, leading to discounts, delayed new launches, or financial stress.
<b>Environmental &amp; Climate Risk</b>	Urban flood risks, heat stress, and increasing ESG compliance expectations.	Properties located in flood-prone or climate-vulnerable areas may face damage or higher insurance costs. Buyers and investors are increasingly preferring environmentally sustainable buildings, making green compliance more important.
<b>Policy &amp; Taxation Risk</b>	Stamp duty revisions, housing incentives, and fiscal policy adjustments.	Changes in stamp duty or tax benefits can suddenly increase or reduce demand. For example, if stamp duty is temporarily reduced, buyers rush to purchase before the benefit ends, causing short-term volatility.
<b>Infrastructure Execution Risk</b>	Delays in metro, highway, and civic infrastructure rollout in emerging corridors.	Many property investments are based on the promise of upcoming infrastructure like metro lines or highways. If these projects are delayed, property prices in those areas may not increase as expected. Investors may face slower returns.

Source: Infomerics Research

## High underspending on PM Awas Yojana - Urban

Between FY18 and FY21, the Ministry budget utilisation was 94 per cent, which later declined to 77 per cent between FY22 and FY26. The underspending during recent years has been primarily due to lower fund utilisation under PMAY-Urban. PMAY-U saw an average underspending of 34 per cent between FY18 and FY26. Revenue expenditure in FY26 was 14 per cent lower at the revised stage, largely due to (69.4 per cent) underspending on Pradhan Mantri Awas Yojana-Urban.<sup>37</sup> This reflects slower-than-expected project execution and fund disbursement under the scheme, which materially dragged down overall spending by the Ministry.



One of the clearest signs of the scheme's present difficulties is the sharp contraction in actual expenditure. Spending under PMAY-U reached a high of nearly ₹60,000 crore in FY22, when the Centre had stepped up allocations to spur construction activity and employment. However, this pace has steadily weakened thereafter. Actual expenditure dropped to around ₹28,700 crore in FY23, declined further to approximately ₹21,700 crore in FY24, and the revised estimates for FY25 indicate another substantial fall to about ₹15,200 crore. This downward trend has unfolded despite higher budgetary allocations in subsequent years, highlighting a growing disconnect between budgeted intent and execution on the ground. For FY26, allocations have been set at ₹19,794 crore, including earmarked funds for credit-linked schemes for middle- and lower-income households. Nevertheless, the consistent gap between allocations and actual spending points to deeper structural and implementation bottlenecks limiting effective fund deployment.<sup>38</sup>

There have been persistent issues, such as high land costs and restrictive land regulations that constrain affordable housing delivery in urban areas. However, urbanisation trends continue to expand rapidly, especially in peri-urban and census town areas, where many schemes lack adequate coverage or planning frameworks, limiting efficient service delivery and infrastructure provisioning.

## Way Forward

In the overarching setting of scarcity of land and the consequent very high population density (11 times that of the U.S. and 2.5 times that of China), projected population growth of 50 per cent in the next 40 years (CAGR 1 per cent) and growing urbanisation, there are some reasons for optimism. But given the heightened geopolitical tensions, the Indian real estate sector must avoid “*irrational exuberance*” and achieve global benchmarks in terms of investment, development and joint ventures to meet intensified competition, enhance productivity and efficiency and thus foster a virtuous cycle of regenerative, broad-based growth. The builders must also significantly reduce the element of “*supernormal profits*” and avoid the formation of asset bubbles because of asymmetric information and speculative or herd behaviour in the dynamic models of evolving systems. The future drivers of change must be speed, innovation, technology, professionalism, institutionalism, capitalism and ambition.

FDI in this market is a function of the returns, the perceived risk, market efficiency and transparency. The Government has a catalytic role to play in setting up seamless and uniform guidelines applicable across the country. Policy initiatives like ‘Single Window clearance for approvals throughout the country, rationalisation of tax and moderation of stamp duty, which currently vary from state to state, need urgent attention. There must be a curb on speculative purchases and an accent on ethics and ethical practices and their strict enforcement, together with greater transparency in documentation, building to a plan and legal compliance for greater customer friendliness.

A research-based assessment<sup>39 40 41 42</sup> suggests that sustained growth will require streamlined regulations, stronger financial ecosystems, inclusive housing strategies, and a commitment to sustainability. If these five foundational areas are addressed, the sector can evolve into a more

transparent, efficient, and resilient pillar of India’s economy—unlocking not only economic value but also social progress.

The Indian real estate sector is at a transformative juncture. Its trajectory will depend on how effectively it navigates structural constraints while leveraging emerging opportunities. Positive indicators are strong demographic demand, policy reforms gaining traction, and increased institutional investment. Risk factors include heightened global economic uncertainty, interest rate fluctuations, and execution inefficiencies. In probabilistic terms, the sector exhibits a “*high-risk, high-reward*” profile, with outcomes dependent on governance quality and market discipline.

The convergence of the actual housing prices and long-term equilibrium prices is important because, as stressed by Jean Nidetch, “*it's choice, not chance- that determines your destiny*”. In sum, conducive macro-economic environment, proper, proper land acquisition, infrastructural planning, creation of effective delivery mechanisms, devising of appropriate funding source in advance, synchronized action by various stake-holders, viz., private developers, government representatives (politicians and bureaucrats from local, State and Central governments) and the finance community (fund managers, banks, FIs) together with judicious micro-management abilities is the prerequisite to the successful realization of building a unified vision and implementation systems of making ‘Homes for All’ a reality. As Winston Churchill stressed decades ago, “*this is no time for ease and comfort; it is the time to dare and endure*”.

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