

A magnifying glass with a green rim is positioned over a computer keyboard. The lens is focused on a light-colored wooden cutout of a house with a chimney, a window, and a door. The keyboard keys are visible around the house, including '8', '9', '10', 'MR', 'L', 'VI', and 'M'. The background is a wooden desk surface.

Understanding Real Estate Market in India

May 2023

Real Estate: The Meaning

Real estate is defined as the land and any permanent structures, like a home, or improvements attached to the land, whether natural or man-made.

It is a form of real property and differs from personal property, which is not permanently attached to the land.

The terms land, real estate, and real property are often used interchangeably, but there are distinctions.

Land refers to the solid part of earth's surface. The physical characteristics of land include its immobility, indestructibility, and uniqueness.

Real estate encompasses the land, plus any permanent man-made additions, such as houses and other buildings.

Any additions or changes to the land that affects the property's value are called an improvement.



Types of Real Estate



Residential Real Estate

Any property used for residential purposes. Examples include single-family homes, duplexes, townhouses, and multifamily residences etc.



Commercial Real Estate

Any property used exclusively for business purposes, such as apartment complexes, gas stations, grocery stores, hospitals, hotels etc.



Industrial Real Estate

Any property used for manufacturing, production, distribution, storage, and research and development.



Land

Includes undeveloped property, vacant land, and agricultural lands such as farms, orchards, ranches, and timberland.



Special purpose

Property used by the public, such as cemeteries, government buildings, libraries, parks, places of worship, and schools.

In India, the real estate sector is estimated as the **2nd – highest employment generator**, after the agriculture sector.

Real estate sector in India is expected to reach US\$ 1.0 trillion in market size by 2030, up from US\$ 200.0 billion in 2021. By 2025, it will contribute **13% to the whole country's GDP**.

Emergence of nuclear families, rapid urbanization and rising household income are likely to remain the key drivers for growth in all spheres of real estate.

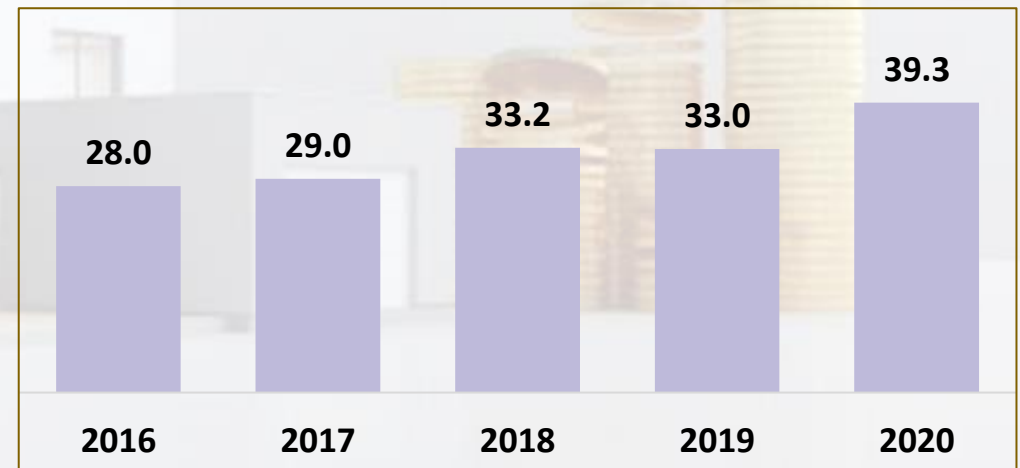
The official market in top 8 cities are recorded transactions of 22.2 msf from July 2020 – December 2020, whereas new completions were recorded at 17.2 msf in the same period.

In terms of share of the sectoral occupiers, Information Technology (IT/ITeS) sector dominated with a 41% share in 2nd half of 2020, followed by BSFI and Manufacturing sectors with 16% each.

Market Size of Real Estate in India (in US\$ bn)



Demand for Commercial Space In Top 8 Cities (in mn. Sq. ft.)



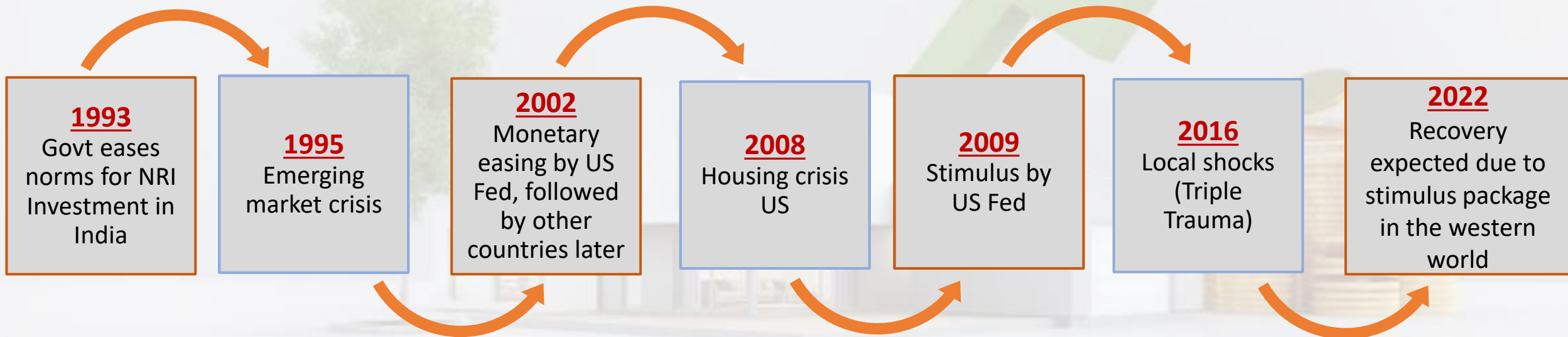
Slowdowns and Boomtimes in Indian Real Estate Industry

India, a developing economy, witnessed massive growth in real estate in the 1990s and the beginning of the 2000s.

The growth was primarily driven by all service exports to countries such as the US and changed entirely due to globalization.

Home sales rose **71%** year – on – year, with 237,000 units sold in 2021, thus reaching **90% of pre – Covid 2019** levels.

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* Blue boxes depict slowdowns and Red boxes depict boomtime.

Where do Indian Households Invest their Savings?



According to a report, the total household assets in India in March 2022 were \$10.7 trillion.



Almost 50% of the total amount invested by Indians are invested in Real Estate properties.

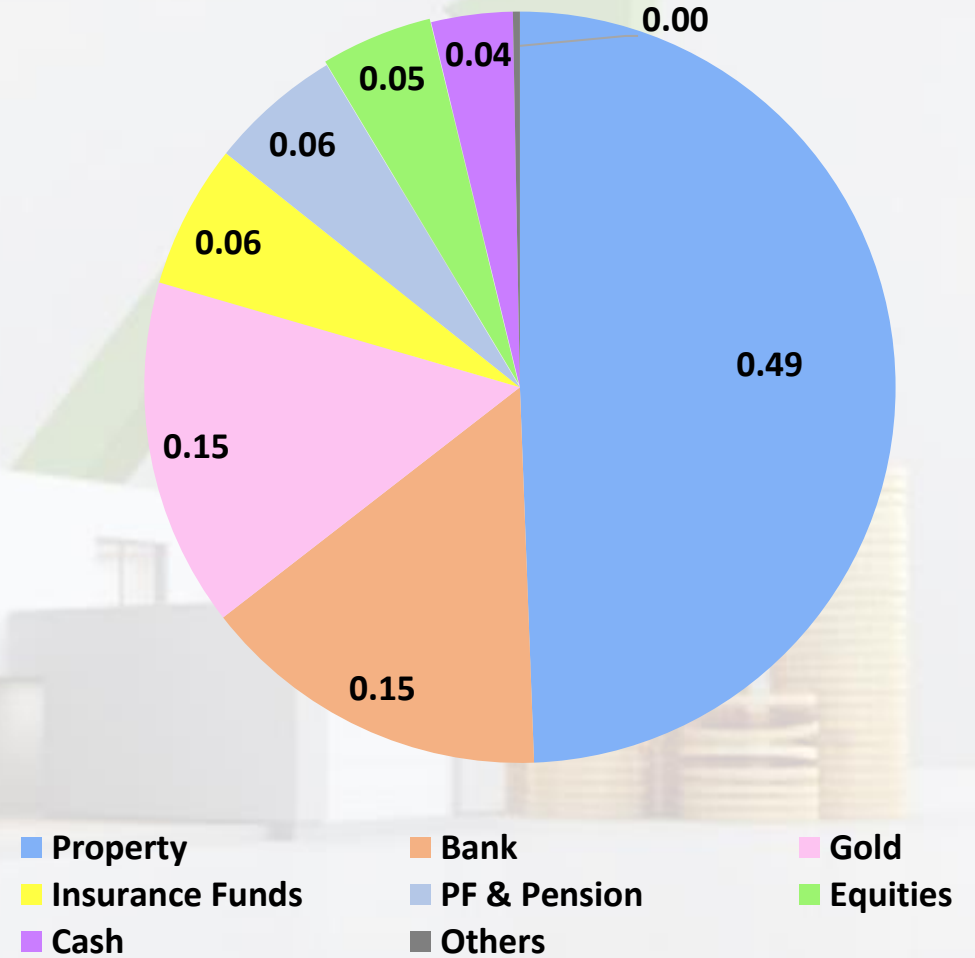


Covid – 19 Pandemic have caused Insurance to be the 4th most preferred investment option.

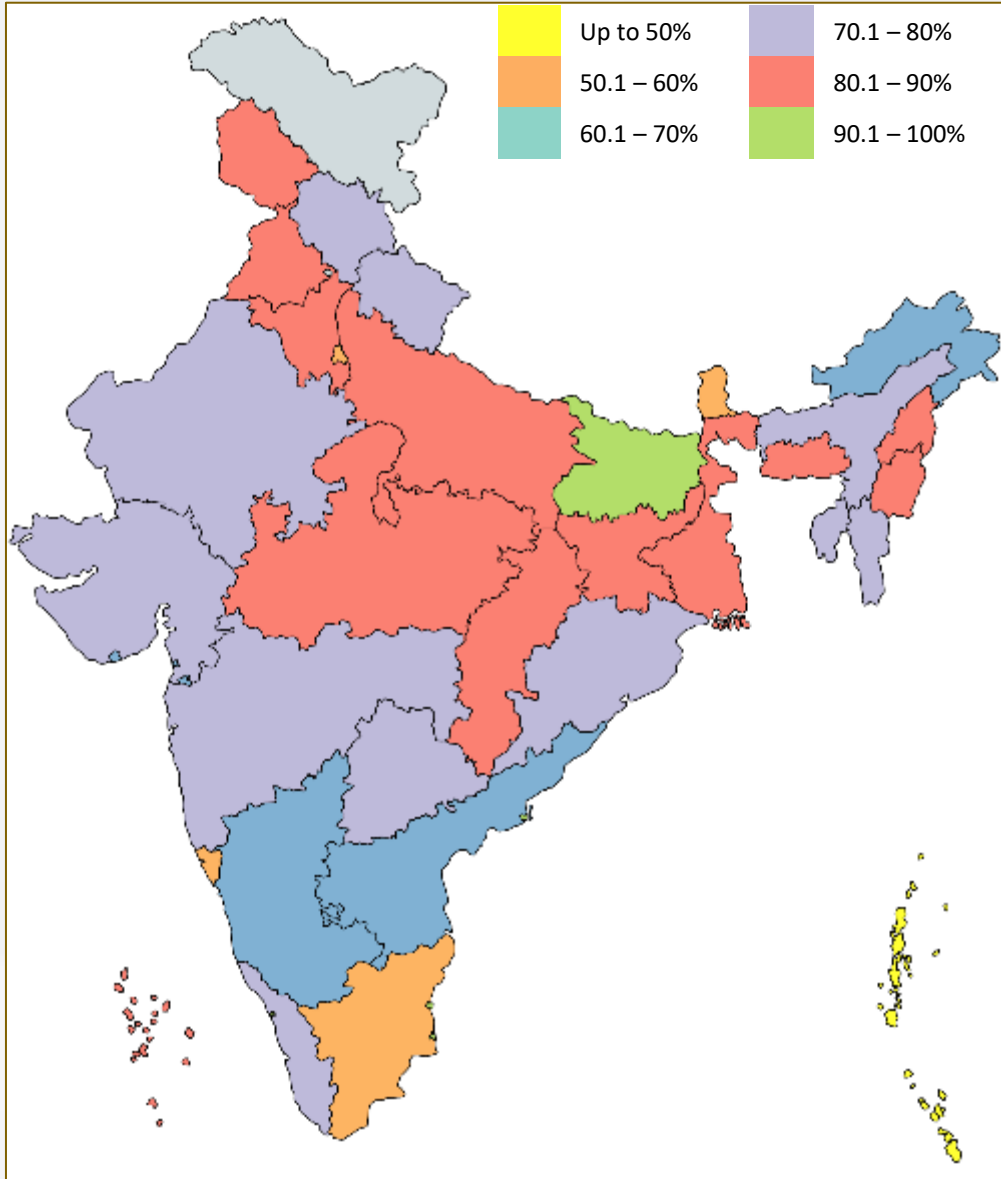


3.5% of the net Indian household's savings has gone to cash or liquid segment and it is an obvious least preferred option among the Indian households.

Asset Investment Portfolio of Indian Households



State wise Asset Investment in Real Estate in 2017



In **A&N Islands**, households invested **42.5%** of their assets in real estate which was least in the country.

In **Bihar**, households invested maximum percent of their assets in real estate, and it is estimated almost about **90.5%**.

In 2017, 12 states with more than 80% investment in real estate were – J&K, Punjab, UP, Haryana, Bihar, MP, Chhattisgarh, Jharkhand, Bengal, Meghalaya, Manipur and Nagaland.

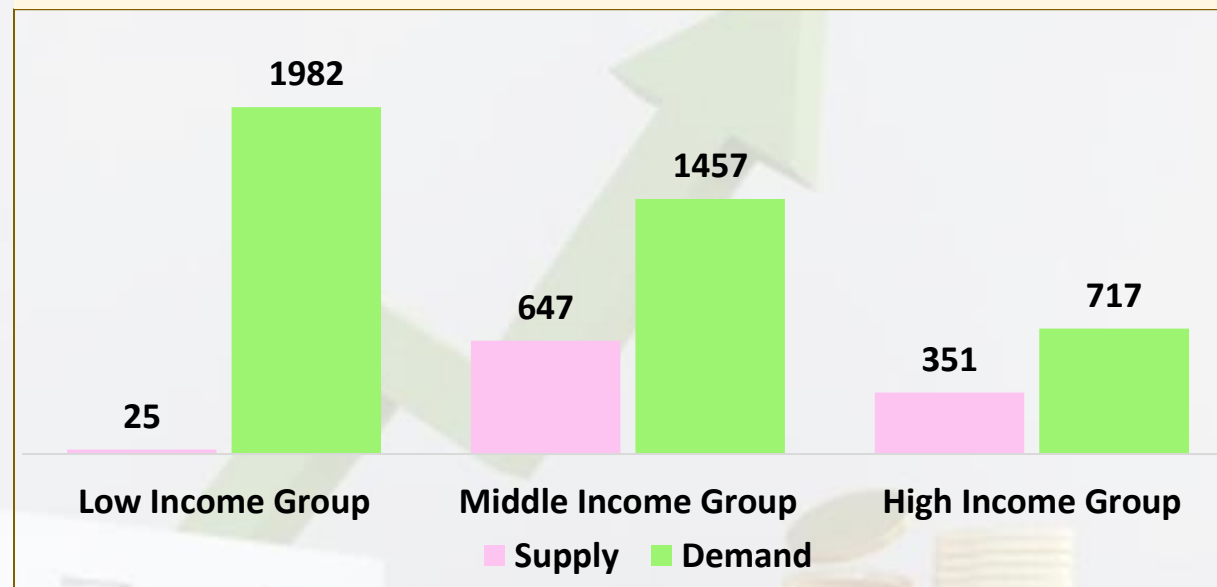




Housing Demand Supply in Top 8 Cities in 2016-20 (in '000)

City	Cumulative Demand (2016 – 20)	Cumulative Supply (2016 – 20)
• Ahmedabad	245	53
• Bangalore	686	220
• Chennai	444	97
• Delhi NCR	1000	253
• Hyderabad	518	75
• Kolkata	361	91
• Mumbai	711	128
• Pune	190	108

Segment wise Cumulative Housing Demand Supply of Top 8 Cities



The income groups are classified as: Low Income Group (annual household income below Rs 15.0 lakhs), Middle Income Group (annual household income Rs 15.0 – 70.0 lakhs) and High Income Group (annual household income Rs 70.0 lakhs or above).

Highest demand was derived from people belonging to low income group whereas the supply side was driven by middle income group.

The urban housing demand in the capital – Delhi NCR was highest across all 3 segments amongst the top 8 cities. **Pune** was able to meet **56.8%** of its housing demand while **Hyderabad** was able to meet least percentage of **14.5%** of housing demand amongst all.



Impact of Covid on Property Prices in Top 7 Cities

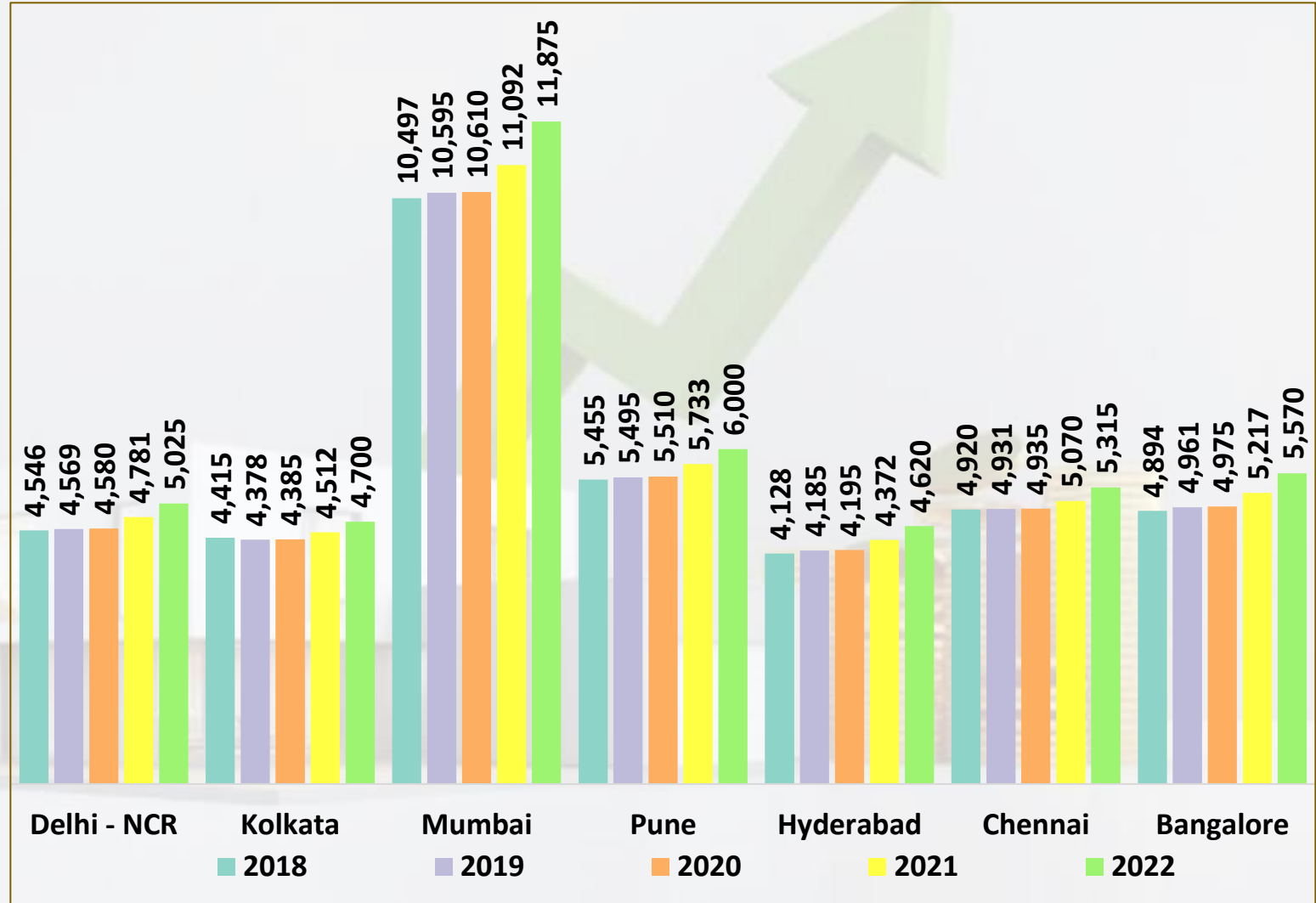
City wise Average Property Prices in 5 years (INR/sq ft)

The collective average property price across the 7 cities in 2022 was Rs. 6,150 per sq ft.

Previously in 4 years, the average price rise was in the range of 3.0 – 4.0% y-o-y however, the maximum average property price rise of 6.0% in the last 5 years was seen in 2022.

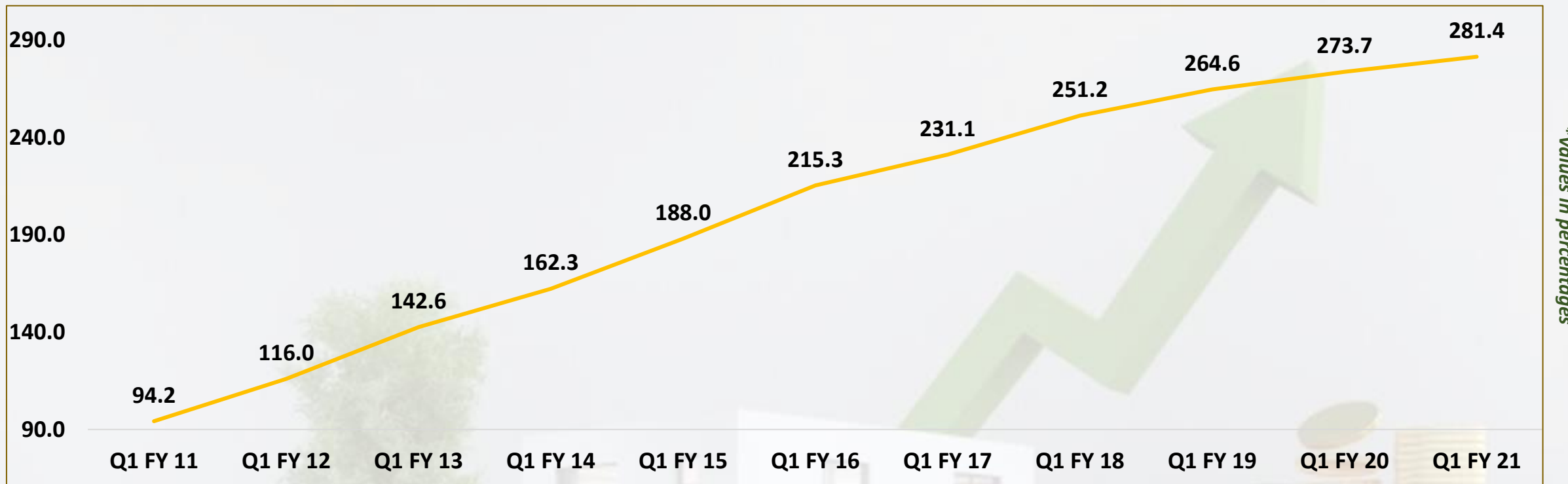
Bengaluru and Hyderabad have seen a maximum increase of 10.0% in average property prices in the last 5 years.

In pre – Covid era, property prices across cities remained range – bound due to a prolonged demand slowdown but post the pandemic, demand soared across all these cities.





Decadal Returns from Residential Real Estate



The Reserve Bank of India (RBI) issues the House Price Index (HPI) every quarter for 10 major cities, namely, Mumbai, Delhi, Bangalore, Ahmedabad, Lucknow, Kolkata, Chennai, Jaipur, Kanpur and Kochi.

The House Price Index (HPI) shows that the average home prices in India have risen by **10.0%** yearly between FY 2010 – 2011 and FY 2020 -2021

The HPI only captures prices of residential properties sold during a period and not all the residential properties present in a city at a point in time.



House Price Index (HPI) for Top 10 Cities

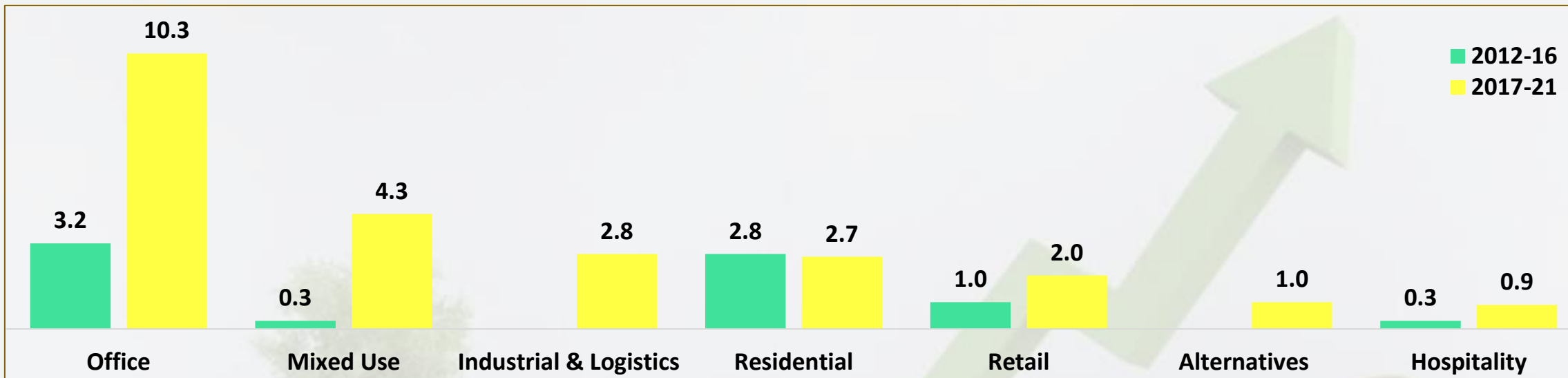
Base Year 2010 – 2011

Quarter	Mumbai	Delhi	Bangalore	Ahmedabad	Lucknow	Kolkata	Chennai *	Jaipur	Kanpur	Kochi	All India
Q1. 2021-22	265.9	315.0	333.7	302.8	394.9	284.0	261.2	167.1	169.2	287.3	287.0
Q2. 2021-22	279.8	299.3	313.2	302.6	395.5	278.7	268.7	181.2	171.0	297.2	285.1
Q3. 2021-22	286.0	327.7	315.9	302.8	397.2	288.5	267.5	188.5	170.2	310.1	293.8
Q4. 2021-22	281.3	326.2	281.0	295.7	396.8	329.9	277.0	187.0	172.0	307.4	290.6
Q1. 2022-23	284.9	312.0	320.4	317.7	398.0	329.3	280.2	175.6	173.3	326.3	296.9
Q2. 2022-23	288.1	324.2	324.5	315.2	411.4	302.1	273.4	173.8	174.9	330.3	298.0
Q3. 2022-23(P)**	292.9	336.8	331.1	318.7	400.9	296.4	275.3	171.6	176.1	332.3	302.0

* Chennai index is based on both residential and commercial properties.
 All India index is a weighted average of city indices, weights based upon population proportion.
 **(P) Provisional indexes which will be finalized in next quarter.



Foreign Capital Investment in Real Estate Sectors (in USD bn)



As shown in the graph, foreign capital flow into real estate increased threefold from 2017 to 2021, reaching USD 24 billion which was USD 7.60 billion during 2012 to 2016.

The share of foreign investments in Indian real estate has jumped to **82% during 2017-2021**, as against 37% in the preceding five-year period.

During this period, the **office sector accounted for 43%** of the total foreign investment owing to regulatory reforms in 2016, like enhanced transparency, robust demand for Grade A office space and exit avenues.

Demand for alternative assets including life science labs, data centres, flex spaces has grown during the pandemic as investors seek new avenues for growth and returns.

Future Outlook

It is likely that Indians will continue to invest in real estate in 2023, as it has traditionally been a popular asset class for investment in India. Real estate is seen as a relatively safe investment option, with the potential for high returns over the long term.

Moreover, the Indian Government has implemented various initiatives and policies to boost the real estate sector, such as the ***Real Estate (Regulation and Development) Act (RERA)*** and the ***Affordable Housing Scheme***. These initiatives have increased transparency and accountability in the sector, making it more attractive for investors.

However, the COVID – 19 pandemic and its economic impact have led to some uncertainty in the market, which could affect investment decisions in the short term due to changes in consumer preferences, with a shift towards larger homes and a focus on health and wellness. It is possible that this trend could impact demand for certain types of properties, and in turn, affect investment decisions.

Overall, while there may be some short-term fluctuations due to the pandemic, it is likely that Indians will continue to invest in real estate in 2023, given the sector's historical performance and Government support.



Researcher's Point of View

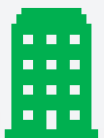
- Overall, the Indian real estate industry is expected to continue its growth trajectory in 2023, driven by factors such as urbanization, population growth, increasing demand for affordable housing, and government initiatives to boost the sector. Here are some key trends and predictions:



Affordable Housing: With the Indian Government's focus on affordable housing, the demand for mid and low – income housing is expected to increase in the coming years. Developers are expected to launch more affordable projects, especially in Tier – II and Tier – III cities, where land prices are lower.



Technology Adoption: Technology will play a significant role in the real estate industry in India in 2023. The use of virtual reality and augmented reality will become more prevalent, allowing buyers to view properties remotely. Blockchain technology may also be used to streamline property transactions.



Co – Working Spaces: The demand for co – working spaces is expected to grow and move beyond metro cities. The pandemic has accelerated the trend of remote working, and businesses are likely to adopt a hybrid model, where employees work from home and office.



Warehousing: E – commerce and logistics sectors will continue to drive demand for warehousing and industrial real estate. With the increasing adoption of online shopping and last – mile delivery, the demand for such spaces is likely to increase in 2023. Investment on expressways and highways will also have a positive impact on logistics and hence warehousing needs.



Sustainability: Green buildings and sustainable construction practices are expected to gain more prominence in the Indian real estate industry. Developers will focus on energy – efficient buildings and use of eco – friendly materials to reduce carbon footprint and operating costs.



Seminal Research Services Pvt. Ltd.,

JMD Megapolis, 4th Floor (#458 - #460),

Sector 48, Sohna Road, Gurugram, Delhi NCR

Web | www.seminalresearch.com Tel | +91 124 284 8100

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