



India's Expanding Horizon

WHERE ARE THE BEST OPPORTUNITIES IN APAC'S BRIGHTEST REAL ESTATE MARKET?

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INTRODUCTION

For more than 25 years, GRI Club's exclusive networking events have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potentialising the real estate market.

GRI Club reports provide the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

This report presents key insights from the **"India's Expanding Horizon"** session at **Europe GRI 2024**, the premier gathering for the European real estate sector that brought together nearly 800 senior executives and C-level professionals.

In line with **GRI Club's** commitment to **fostering global investment in India**, the session explored opportunities in the country's **real estate** market, focusing on the effects of **market consolidation, government reforms**, and the emergence of **new asset classes**.

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REITS FUEL GLOBAL INTEREST IN INDIA'S REAL ESTATE

India's real estate market is quickly establishing itself as a premier destination for foreign investors, offering a unique combination of high growth potential as well as solid returns. With a rapidly expanding economy, accelerated urbanisation, and a growing middle class, the country presents a standout opportunity for global players seeking long-term investments.

This appeal is evident, with India attracting nearly USD 3.5 billion in foreign capital in the first half of 2024, making it the third most favoured global market for land and development investments, according to international property consultancy Colliers.

Over the past two decades, the market has undergone distinct phases of transformation. From 2004 to 2012, many global players entered at the market's peak, only to encounter challenges during the global financial crisis and rising interest rates, which prompted premature exits.

However, those who maintained their positions from 2014 onwards have enjoyed substantial rewards as the market shifted toward embracing global standards and improving the quality of developments. This transformation has resulted in the country's market becoming increasingly attractive to international investors.

A clear example of this evolution is seen in the office sector, where local developers now deliver projects that meet or exceed global expectations. Multinational companies are driving demand for higher-quality spaces, elevating competitiveness and development standards across India's real estate landscape.

Today, the market is characterised by improved governance, adherence to global standards, and a more transparent regulatory framework, making it easier for foreign investors to navigate entry and exit strategies.

India's REIT (Real Estate Investment Trust) market reflects this growing transparency. Since its inception five years ago, the REIT ecosystem has raised over USD 2 billion. With only 15% of grade-A office space held by REITs, there remains ample room for growth. REITs provide foreign investors a flexible, lower-capital entry point into the market, further solidifying India's appeal to global players.

Major international firms like Blackstone and Brookfield have found considerable success in India through both direct investments and REIT structures. Blackstone's exit from Embassy REIT generated returns of 3x to 3.5x for investors.

After launching the REIT with Indian real estate developer Embassy in 2019, Blackstone sold its remaining 23.6% stake through an USD 850 million block trade at the end of December 2023. In August 2024, Blackstone further monetised its portfolio, selling 330 million units of Nexus Select Trust for approximately USD 542 million, reducing its stake from 43% to 21%.

Smaller foreign investors are also finding opportunities in the Indian market, particularly through high-yield lending to Tier 2 and Tier 3 residential developers. These developers, often facing challenges in securing traditional financing, borrow at interest rates ranging from 15% to 25%. This provides a middle ground for investors seeking higher returns than AAA-rated bonds without taking on the higher risks associated with equity investments.

India's stock market, which surpassed a valuation of USD 4 trillion by the end of 2023, stands among the largest globally and has been a key driver of the ongoing real estate boom. Additionally, local investors are playing an increasingly influential role, with domestic investments in the real estate sector reaching USD 637.9 million in Q2 2024, according to real estate consultant Vestian.

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GOVERNMENT INITIATIVES AND REGULATORY EVOLUTION

At the forefront of this market transformation are two major government initiatives: the establishment of single-window clearance agencies and the digitisation of land records. Although not yet nationwide, single-window clearance agencies have been highly effective in regions where they operate, streamlining the approval process for large companies entering India. By eliminating many bureaucratic obstacles, these agencies make it easier for foreign investors to navigate India's complex regulatory landscape.

Equally impactful is the ongoing digitisation of land records, which is poised to be a game changer for the industry. Over the next five years, title guarantees are expected to become available in many cities, significantly reducing concerns around land ownership disputes. This will further enhance the market's transparency, attractiveness, and security for both foreign and domestic investors.

In parallel, India's real estate sector has undergone substantial legislative improvements aimed at fostering a more reliable and trustworthy investment environment. New regulations, such as the requirement to place funds in escrow, have eliminated unreliable developers and ensured that capital is strictly allocated for construction. This has fostered a professional, secure environment where only well-managed players thrive, thus reducing risk for investors.

The aforementioned introduction of REITs has been another key legislative milestone, dramatically improving market liquidity and transparency. The REIT framework allows public access to land ownership records, leases, and sales data online, simplifying due diligence for investors. Consequently, India's Tier 1 markets achieved their highest ranking ever, moving to 31st in the transparent tier of JLL's Global Real Estate Transparency Index 2024.

Beyond real estate, India's advancements in its "tech stack" have been transformative. The government's initiative to provide every citizen with a unique digital identity linked to bank accounts has enabled widespread financial inclusion. This system facilitated direct fund transfers during the COVID-19 crisis, reduced leakage in government aid, and streamlined vaccine distribution. These technologies are now being adopted globally, with India forming partnerships with countries including Singapore and the UAE to share these innovations.

Two decades ago, India's economic expansion was largely driven by the private sector. Today, the government actively supports and facilitates this growth, which is a key reason why so many investors are committing substantial capital to the country.

Some state governments have also become increasingly proactive in fostering business-friendly environments, resulting in a notable lead in investment and infrastructure development. These forward-thinking states recognise the importance of attracting businesses and talent, setting benchmarks that others are beginning to follow.

Corruption, which was once a key concern for foreign investors, has seen notable improvement, particularly at the central government level. Enhanced compliance with anti-corruption regulations, such as the Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act (UKBA), has helped create a more transparent environment.

Additionally, the introduction of the Right to Information (RTI) Act has brought greater clarity to approval processes, ensuring that decision-making is more transparent and reducing the potential for undue influence.

Risks remain, but they are now more identifiable and manageable. Many of the uncertainties that plagued the market in the early 2000s have been eliminated, contributing to newfound stability. The consolidation of the industry, ongoing professionalisation, and adherence to best practices in the real estate sector, particularly in Tier 1 and Tier 2 cities, has fostered an environment of “aggressive optimism.”



LEADING ASSET CLASSES

◆ Commercial Real Estate

India's commercial real estate market is undergoing a significant transformation in the post-COVID era, driven by consolidation, regulatory advancements, and the increasing appeal of its business ecosystem.

Demand for Grade A office spaces has surged, with developments now meeting or exceeding global standards. Developers are building large-scale campuses equipped with modern amenities like food courts, gyms, co-working spaces, and seminar rooms to meet the evolving needs of multinational corporations.

These campus-style developments, focused on flexibility, employee well-being, and sustainability, are reshaping the office space landscape and have cemented India's position as a prime investment destination for foreign investors and global tenants seeking growth and expansion opportunities.

Co-working environments are also rapidly gaining traction, especially in tech hubs like Pune and Bangalore. These spaces, which now account for 5-7% of developers' portfolios, cater to students and professionals seeking flexible, affordable workspaces, reflecting the rising demand for adaptable, modern office environments.

Another notable trend is the consolidation within the office space sector. In cities that once had numerous developers competing, the market has streamlined to just a handful of dominant players.

This consolidation reflects the capital-intensive nature of office development and the rising demand from multinational corporations, as India strengthens its role as a global hub for Business Process Outsourcing (BPO) and Centres of Excellence. Only the largest, most credible developers can meet these growing demands, resulting in a more competitive and efficient market.

A key outcome of this consolidation is an increased focus on sustainability among top developers. Leading players are incorporating global sustainability standards into their projects, with features like renewable energy, water recycling, and energy-efficient systems. This shift appeals to institutional investors who prioritise environmental, social, and governance (ESG) criteria, making sustainability a central theme in the future of India's commercial real estate sector.

The rise of Global Capability Centers (GCCs) is another critical post-COVID development. India now hosts approximately 1,700 GCCs, generating USD 64.6 billion in export revenue and employing over 1.9 million people, according to the latest Nasscom-Zinnov report.

This marks a significant increase from the previous fiscal year, where 1,580 GCCs generated USD 46 billion in revenue. By 2030, the GCC market in India is expected to grow to USD 99-105 billion, with up to 2,200 GCCs employing as many as 2.8 million people.

This influx of GCCs is largely driven by India's unmatched talent pool. With 65% of the population under the age of 35, India offers a young, highly skilled, English-speaking workforce that is difficult to find elsewhere. As a result, India continues to be a prime destination for companies seeking to establish and expand their global operations.

◆ Residential Market

India's middle-income housing market is the largest segment of the real estate landscape, yet much of the focus from major developers has been on luxury and high-end developments. Affordable housing, particularly social housing, is primarily driven by government initiatives and subsidies.

In cities like Mumbai, affordable housing is often intertwined with slum redevelopment projects, where developers partner with the government to rehouse residents as part of broader urban renewal efforts. These projects frequently include a mix of social and private housing, optimising land use in densely populated and land-scarce areas.

While there is growing interest in creating new categories between affordable and luxury housing, the middle-income segment already dominates the market. However, it remains highly fragmented, with numerous small and mid-sized developers vying for dominance.

There are significant opportunities within this sector, particularly in catering to varying affordability levels, such as lower-middle or upper-middle income brackets, which differ based on city and region. Given India's vast diversity, with each region having its own legal, cultural, and economic nuances, it is crucial to approach the market as a collection of distinct entities rather than a homogenous whole.

Alternative asset classes are also slowly emerging in India, mostly senior and co-living. Co-living, similar to student housing, is becoming popular among young professionals who seek flexible living arrangements without long-term rental commitments. In tech hubs like Pune, large co-living projects are being developed to cater to early-stage employees who prefer community living with services, rather than purchasing homes outright.

In terms of investment, institutional participation in the residential sector remains limited. Large-scale investors primarily focus on commercial and office spaces, as residential projects tend to have smaller ticket sizes. However, this opens the door for mid-sized investors, particularly those with investment ranges of USD 10-100 million, to gain exposure to the residential market.

◆ Retail Sector

India's retail sector offers substantial opportunities, although they operate on much slimmer margins compared to European markets. Despite this, India's lower operating costs enable retailers to maintain profitability in a competitive landscape, presenting unique advantages for businesses willing to adapt to local conditions.

For foreign investors entering the market, a strong emphasis on cost control and operational efficiency is crucial. Managing rental costs, which are a significant portion of operational expenses, is key to long-term success, and forming strategic partnerships with reliable landlords can offer much-needed stability.

The rapid digitisation of the industry, particularly in e-commerce and last-mile delivery, is reshaping the sector as major players like Amazon and local competitors introduce shorter delivery times to meet growing demand for speed and convenience. This transformation is shifting consumer behaviour and making it easier for customers to shop from home, accelerating the industry's evolution.

This trend mirrors the retail market evolution seen in China, particularly in the growing focus on food and grocery delivery. Although offline purchases still dominate India's retail landscape, these segments are experiencing significant growth, pointing towards a future where digital channels play an increasingly important role.

While online sales currently make up only a small percentage of the overall retail market, the impressive valuations of platforms specialising in delivery services underscore the potential investors see in this space. In contrast, traditional brick-and-mortar stores operate at much lower multiples, signalling a decisive shift towards the digital and delivery-driven sectors, which are poised to lead the next phase of growth in India's retail industry.



REGIONAL VARIATIONS

India's real estate market is a highly diverse and complex landscape, with significant regional variations. The southern, western, and parts of the northern regions are witnessing rapid growth, while the eastern regions lag behind. This disparity in development is further influenced by the country's wide range of wealth distribution, necessitating a segmented approach to both residential and retail projects.

While top-tier cities have seen some consolidation, there are still substantial opportunities in smaller, fast-urbanising cities. With around 150 cities at various stages of development, these emerging urban centres offer a compelling avenue for foreign investors to collaborate with local developers.

Although domestic players in these smaller markets may not yet possess the sophistication of their counterparts in larger metropolitan areas, they represent untapped potential for mid-sized private equity funds and foreign investors seeking growth beyond the major cities.

Despite these potentially lucrative prospects, most investors continue to focus on the six major metropolitan areas due to their perceived safety and predictable returns. Yet, the growing opportunities in secondary cities highlight the need for foreign investors to explore partnerships in these regions.



FINANCING CHALLENGES AND OPPORTUNITIES

Navigating India's vast and diverse market can be challenging for foreign investors, especially in identifying the right partners and opportunities. While equity investments have traditionally been the primary avenue for foreign capital, India's debt market also holds significant potential.

Indian developers, often risk-takers, typically seek capital in any form - whether equity or debt - to finance their projects. Although equity can offer higher returns, debt financing presents more controlled risks, making both options attractive depending on an investor's risk appetite.

The structure of India's legal framework also influences the real estate financing landscape. Bank lending is limited to construction financing and excludes land acquisition, which can account for 60-70% of project costs in major cities. This gap in funding is often filled by foreign investors, high-net-worth individuals, and specialised funds seeking higher yields through debt instruments.

In addition, Alternative Investment Funds (AIFs) provide institutional investors with a structured pathway into India's real estate market. Managed by sector experts, these funds allow foreign investors to diversify across asset classes such as residential, hospitality, and commercial sectors, offering a more private and participatory role in the investment process and enabling investors to gain exposure to various sectors in a manageable way.

Looking beyond real estate, the economic relationship between India and Europe holds considerable potential for growth. India's rapidly expanding economy, large consumer base, and increasing demand for infrastructure and technology present lucrative opportunities for European companies. In return, India can benefit from European expertise, technology, and investment, fostering a mutually beneficial partnership that could significantly strengthen both economies.

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Founded in 1998 in London, GRI Club currently brings together more than 18,000 senior executives spread across 100+ countries, operating in both real estate and infrastructure markets.

GRI Club's innovative discussion model allows free participation of all executives, encouraging the exchange of experiences and knowledge, networking, and business generation.

GRI Club Members also have access to our exclusive online platform to learn more about other members and their companies, correspond, schedule meetings, and receive unrestricted access to all GRI Club content.

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