REPORT | Q4 2024

India GRI 2024

Real Estate Financing and Investments Outlook

Key insights from high-level, expert-led discussions at India GRI 2024

CONTENTS

INTERACTIVE TITLES

India GRI 2024 Sponsors

Welcome to GRI Club India

Introduction

Global investors keep Indian real estate in sights
- Diverse asset classes fuel sector expansion
- New investment pathways

Redefining Indian real estate investments
- SEBI strengthens regulatory framework
- Why are investors turning to SM-REITs?

India's growing commitment to sustainability
- The push for green-building
- Green funding powers the shift to sustainability
- Can't all financing be green?
- Innovations in sustainable construction

Examining the longevity and viability of the real estate hype
- Aligning financial expectations with reality

About GRI Club

Contact

Image: Freepik

INDIA GRI 2024 SPONSORS

KNOWLEDGE PARTNERS

CLUB PARTNERS

SECTORAL CLUB PARTNERS

NAMING RIGHTS SPONSORS

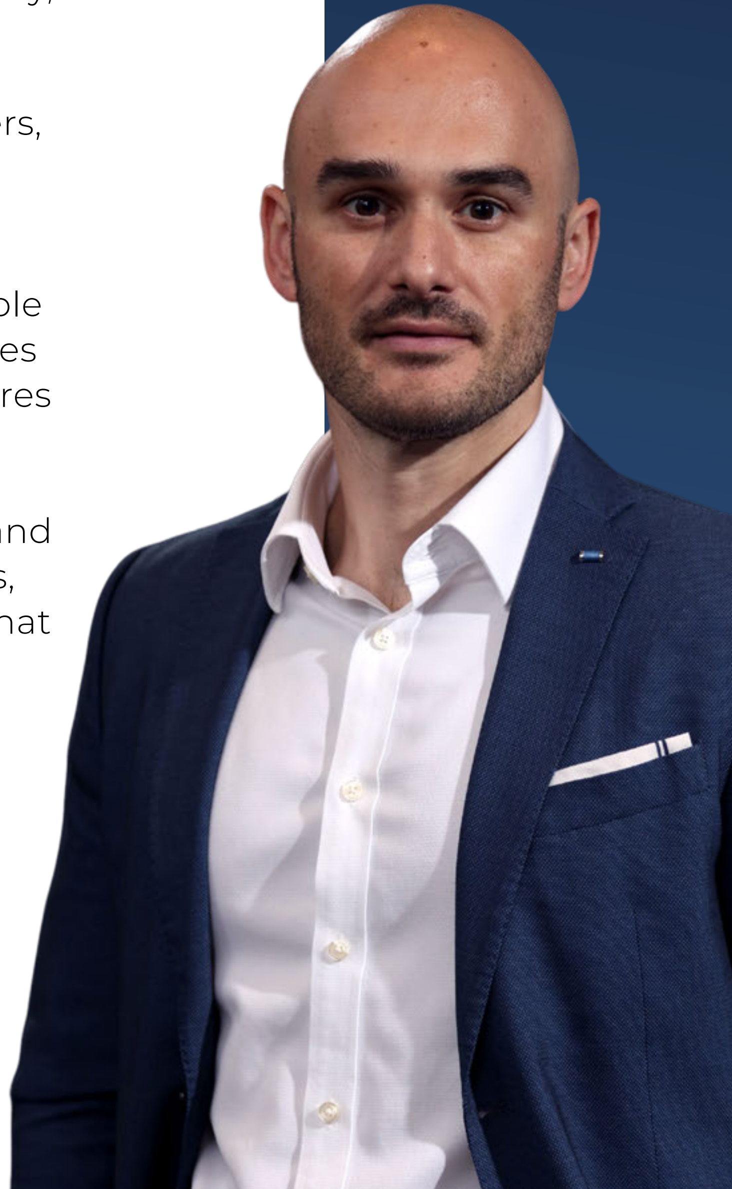
WELCOME TO GRI CLUB INDIA

"India's rise on the global stage is nothing short of remarkable, and the rapid growth of the country's real estate market is a testament to this. Driven by infrastructure expansion, government reforms, and digital initiatives, the market is on track to reach USD 1 trillion by 2030, with a highly promising outlook.

The first half of 2024 witnessed a surge in investments, with major global players such as Blackstone and Brookfield making significant commitments to the sector. However, as the market expands quickly, it is evident that sustainable growth will demand a careful strategy and close collaboration between developers, investors, and policymakers.

At India GRI 2024, industry leaders came together for insightful roundtable discussions, exploring the main themes shaping the market. This report explores the key takeaways on essential topics, including macroeconomic trends, innovative investment mechanisms, and the latest shifts in financing strategies, providing a comprehensive view of what lies ahead as we approach 2025.

Enjoy reading!"



GUSTAVO FAVARON
CEO & Managing Partner, ***GRI Club***

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 exclusive report captures key insights from the 16th edition of India GRI, the premier Indian real estate forum where industry leaders explored the emerging challenges and opportunities, evolving regulatory landscape, innovative investment strategies, green-financing, and much more.

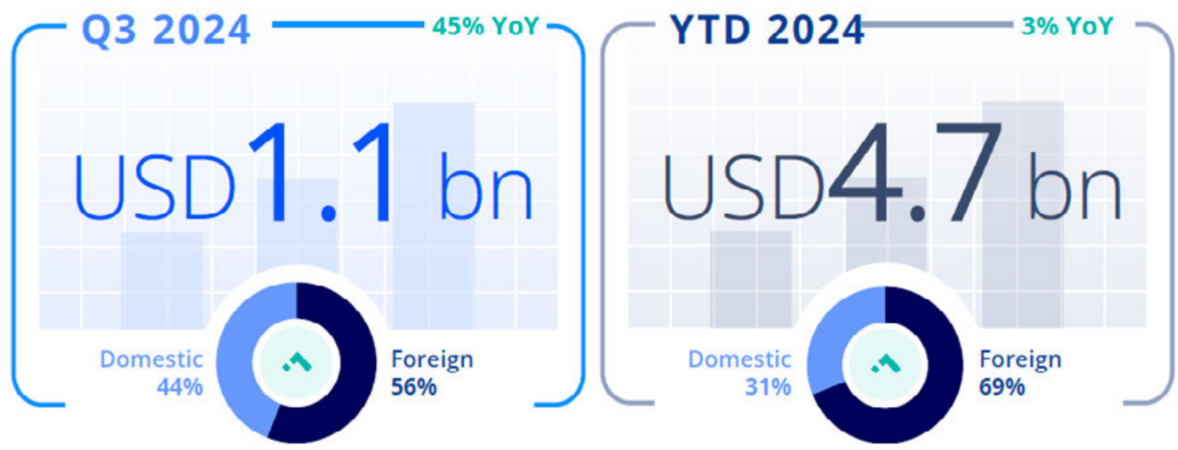
CHECK OUT ALL THE PHOTOS FROM **INDIA GRI 2024**

GLOBAL INVESTORS KEEP INDIAN REAL ESTATE IN SIGHTS

The opening session of India GRI 2024 brought industry leaders together to assess the key challenges and emerging opportunities in the Indian real estate sector, particularly from the perspective of foreign and domestic investors.

Central to the discussion was the complex regulatory framework shaping the market, as the fragmented legal environment necessitates a deep understanding of city-specific rules, increasing complexity and elevating the risks associated with project approvals and execution.

INVESTMENT VOLUME



Source: “Investment Snapshot Q3 2024”, Colliers.

A recurring issue highlighted was the difficulty in securing land rights. Despite obtaining government approvals, developers often face hurdles in achieving actual land control, leading to project delays. One striking example discussed was a Supreme Court ruling that allowed land to revert to farmers after several decades, underscoring the legal unpredictability that developers must navigate.

The burden of responsibilities in construction management was another key point of discussion. In India, developers are expected to shoulder a broader range of project obligations, including regulatory compliance and execution oversight, compared to many global markets where these responsibilities are often shared with or delegated to architects and project managers.

Despite these challenges, the panellists noted a shift towards a more structured and transparent regulatory environment, driven by recent reforms aimed at enhancing investor confidence. These changes are seen as a positive step towards increasing the market’s attractiveness, particularly as the sector moves towards greater institutionalisation.

» Diverse asset classes fuel sector expansion

Commercial real estate

The office market, in particular, continues to show strong absorption rates, positioning it as a resilient option compared to Western markets. In the US and Europe, rising vacancies and limited rental growth, influenced by the shift towards remote work, have created uncertainties. By contrast, India's managed office and co-working segments are witnessing robust investments, driven by a preference for solutions that cater to local business needs.

Despite global trends favouring remote work, the demand for physical office spaces in India has rebounded, with occupancy levels in key cities approaching pre-pandemic highs and large tenants mandating a return to the office due to space constraints, signalling strong and sustained demand.

Recent regulatory reforms, particularly updates to Special Economic Zone (SEZ) policies, have further boosted occupancy rates, leading to record-low vacancy levels in major metros. This trend has proven beneficial for Real Estate Investment Trusts (REITs), as investors increasingly turn towards these stable, regulated products in search of reliable alternatives to volatile equity markets.

Warehousing

The warehousing sector has emerged as a major growth area, driven by India's rapidly expanding logistics network and infrastructure upgrades. Organised warehousing, despite its current underdevelopment, shows immense potential, driven by GDP growth, dedicated freight corridors, and enhanced transportation links. While challenges such as high land acquisition costs and modest rental yields remain, the sector's future outlook is positive, with stakeholders viewing it as a key component of India's economic modernisation.

Image: Freepik

Data centres

Data centres represent another high-growth opportunity, with the sector expected to expand in the coming years, driven by rising demand for local data storage, digital adoption and regulatory requirements. Collaborations between real estate developers and specialised data centre operators are becoming more prevalent, allowing the industry to meet stringent technical demands while leveraging the digital economy's rapid expansion.

The scale of investment, particularly in metro areas, is substantial, with projections suggesting a need for approximately INR 350 billion in mechanical, electrical, and plumbing (MEP) infrastructure development. Despite regulatory delays affecting project timelines, existing operators are stepping in to provide interim solutions, maintaining a dynamic and responsive market.

Hospitality

In the hospitality sector, there is a renewed sense of optimism, especially in high-growth urban markets. Although previous challenges such as high land costs and lengthy construction timelines have slowed progress, rising demand is expected to drive a new phase of steady expansion.

While the growth trajectory is likely to be gradual, driven by the sector's inherent long lead times, both new and established players are exploring innovative concepts to meet evolving consumer expectations. Several projects are already set to enter the market within the next year, signalling a positive outlook for the sector.

Image: Freepik

» New investment pathways

Innovative investment vehicles such as Real Estate Investment Trusts (REITs) are steadily gaining traction in India's real estate landscape. REITs have become attractive to institutional investors seeking risk-adjusted returns and reliable income streams, but achieving high occupancy rates and meeting yield expectations continues to be a challenge, particularly in the commercial segment.

In addition to REITs, emerging investment models like fractional ownership and Small Medium Real Estate Investment Trusts (SM-REITs) are opening new pathways for a wider range of investors. Fractional ownership, in particular, is gaining popularity as it provides broader access to high-value commercial properties, allowing smaller investors to participate in sectors that were traditionally dominated by large capital.

Attracting foreign capital remains a key priority, and experts suggest that platform-level investments may offer a more appealing route for international funds compared to individual project-level investments. By opting for platform-level exposure, foreign investors gain access to a broader and more diversified asset base, which aligns well with the anticipated long-term growth in high-demand sectors and provides a manageable entry point into India's complex real estate market, helping mitigate the risks associated with individual project investments.

There is also growing recognition of the need to develop a dedicated bond market for real estate in India, which could significantly enhance access to capital. The absence of a strong bond infrastructure currently limits the mobilisation of domestic capital, hindering broader market growth.

With the majority of India's real estate activity concentrated in residential development, much of this segment relies on joint-venture (JV) models where land ownership typically rests with local partners. This structure reduces the need for large equity capital but poses challenges for foreign investors who prefer more straightforward ownership arrangements. A robust bond market could address this gap, offering a clearer and more accessible financing route.

As the market evolves, sustainable practices, diversified financing mechanisms, and strategic partnerships are becoming critical elements for driving growth and ensuring long-term resilience. The focus is now on building a more mature ecosystem that can support innovative investment models and cater to both domestic and international investor expectations.

REDEFINING INDIAN REAL ESTATE INVESTMENTS

Alternative Investment Funds (AIFs) have emerged as a key topic of discussion when examining the investment structures and regulatory frameworks shaping India's real estate market. Offering unique benefits and greater flexibility, AIFs are becoming the preferred route for foreign investors, particularly in the private credit space.

Unlike more traditional options like Foreign Direct Investment (FDI), AIFs operate within a "light touch" regulatory environment, less stringent from many of the constraints typically imposed on other investment vehicles. This reduced regulatory burden, which includes the absence of lock-in periods and fewer restrictions on capital cost, makes it a compelling choice for investors seeking adaptable and efficient structures.

A key distinction between AIFs and FDI lies in the level of regulatory oversight. FDI investments are often subject to strict guidelines, especially around land and property acquisitions, which can limit investor participation in development projects.

In contrast, AIFs provide investors with greater freedom to engage in projects that align with local market dynamics, enabling them to optimise returns based on adjusted local risk factors. This flexibility has been especially beneficial for private credit investors, who are better equipped to take on risks that regulated domestic institutions typically avoid.

TYPES OF AIFs

Category 1	Category 2	Category 3
• Venture Capital Funds (VCFs) • Infrastructure funds • Angel funds • Social venture funds	• Debt funds • Private equity funds • Funds of funds	• Hedge funds • Private Investment in Public Equity (PIPE)

Source: Tata Capital.

Another main advantage of AIFs is their ability to facilitate foreign investment while allowing investors to tailor capital allocations according to their specific risk-return profiles. The structure's flexibility extends to quasi-equity instruments, such as optionally convertible debentures, which offer tax benefits and regulatory leeway that are not easily accessible through traditional FDI channels.

Furthermore, the regulatory framework surrounding AIFs is largely managed by local entities, which adds a layer of confidence for both investors and Indian authorities. AIFs also enhance efficiency across the investment chain by enabling more precise risk pricing, covering aspects from land acquisition to construction and asset valuation.

Traditional funding sources often come with restrictive guidelines, which can inflate land costs or lead to inefficient project financing. These alternative funds, however, allow investors to respond to real-time market conditions, adjusting investment allocations, pricing models accordingly and contributing to a more sustainable investment environment, particularly across diverse asset classes within the real estate market.

Image: GRI Club

» SEBI strengthens regulatory framework

India's evolving regulatory landscape has prompted a closer look at the use of AIFs as a preferred route for foreign investment, particularly in cases where traditional FDI regulations might impose certain constraints. While the use of AIFs remains within legal bounds, there have been discussions about the need to strike a balance, as regulators become more attentive to practices that may effectively bypass standard requirements.

At the same time, the flexibility offered by AIFs is recognised as a significant factor in attracting much-needed capital, contributing to the overall growth of the sector. The Securities and Exchange Board of India (SEBI) has thus far maintained a pragmatic approach, acknowledging the benefits while monitoring potential areas of concern.

There is ongoing consideration of regulatory adjustments to address any gaps that might allow AIFs to circumvent existing exchange control laws. However, the approach remains open to accommodating structured investments that operate transparently and within the spirit of the regulations. In situations where foreign capital is channelled through less conventional mechanisms that could obscure the actual nature of the investment, SEBI has signalled a willingness to intervene.

The introduction of instruments like Non-Convertible Debentures (NCDs) and Compulsorily Convertible Debentures (CCDs) has been a significant step in refining regulatory oversight. By setting specific guidelines, such as restrictions on the issuance of multiple instruments and limitations on the use of funds for land acquisition, SEBI aims to ensure a level playing field while reducing the potential for regulatory circumvention, maintaining market integrity, and supporting sustainable investment practices.

Foreign Portfolio Investors (FPIs) have also benefited from these innovations, as they provide a way to diversify investments and overcome the limitations of single-investor frameworks. The inclusion of these options within the regulatory framework has enhanced fund diversity, aligning with broader efforts by regulatory bodies to increase transparency and integrate more investment channels under unified oversight.

Image: REUTERS/Francis Mascarenhas

A core aspect of SEBI's regulatory strategy involves verifying the legitimacy of investments through a "trust but verify" approach. While fully standardising objective criteria remains challenging, SEBI's rigorous due diligence requirements offer an additional layer of assurance for investors.

These measures have been shaped through extensive stakeholder consultations, aiming to refine the framework without inadvertently restricting legitimate investment opportunities. Recent updates reflect this balanced approach, though further refinements may be considered as the market continues to evolve.

The development of the Small and Medium REITs (SM-REITs) model marks a notable progression in the regulation of fractional ownership of commercial assets. SEBI's framework prioritises a professional management structure, ensuring that investment managers handle only third-party assets, without direct ownership interests. This arrangement aims to prevent conflicts of interest and provide greater investor protection, fostering confidence in a growing segment of the real estate market.

To accommodate investor needs, SEBI has also introduced flexibility in the asset listing process, typically allowing a 60 to 90-day window for capital mobilisation post-deal structuring. This adjustment has been well-received, helping align domestic and international investment timelines and enabling smoother capital flows for significant acquisitions.

» Why are investors turning to SM-REITs?

SM-REITs are gaining significant traction as a new asset class in India, offering investors a unique avenue for fractional ownership of Grade A commercial properties. Unlike traditional REITs, where investments are pooled across multiple assets, SM-REITs allow investors to handpick specific properties, aligning their choices with personal market knowledge and preferences.

Recognising the potential of this emerging segment, SEBI introduced a structured regulatory framework for SM-REITs after comprehensive industry consultations, formalising their entry into the broader investment landscape.

This regulatory initiative signals SEBI's response to the increasing demand for direct, fractional ownership in real estate. The recent updates, including a substantial increase in the minimum investment threshold to INR 1 million (compared to INR 10,000-15,000 for conventional REITs), reflect efforts to enhance stability and attract more serious, long-term investors.

Early interest has been strong, with six platforms applying under the new regulations and two already receiving SEBI's approval, indicating a promising start for this nascent market segment.

DIFFERENCES BETWEEN REITs AND SM-REITs

Parameters	REIT	SM-REIT
REIT stakeholders	Sponsor, Investment Manager, Trustee	Investment Manager, Trustee
Asset size	At least INR 5 billion	INR 500 million - INR 5 billion
Minimum offer size	INR 5 billion	INR 500 million
Minimum subscription	INR 10,000 - INR 15,000	INR 1 million
Public holding	Minimum 25% of outstanding units	Minimum 25% of outstanding units
Borrowing	Through listed debt (need not disclose in initial offer document)	Borrowing or listed debt (if disclosed in offer document)
Asset class under offer	Office, retail (few REITs do include hospitality assets as well)	Any asset class[1]
Stage of accountable assets	80% of the assets must be fully developed and generating revenue	95% of the assets must be fully developed and generating revenue
Currently listed	6	3
Foreign Investment	Permitted	Permitted
Failure to list	Surrender of registration	15% interest to investors

1. As defined by Regulation 2(1)(zi) of the Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 20146.
Source: CBRE RESEARCH and Securities & Exchange Board Of India (SEBI).

According to market estimates by CBRE Research, the organised SM-REIT sector in India has the potential to grow significantly, with a projected market size of over USD 60 billion by 2026. The availability of over 300 million square feet of completed commercial office space, coupled with an expected addition of 50 million square feet by 2026, creates ample opportunities for SM-REITs to provide valuable exit options for smaller developers, while also opening the door for domestic investors seeking alternatives to traditional financial products.

While the prospects for SM-REITs are promising, they do face certain limitations, especially around liquidity. The smaller scale and more targeted asset selection can restrict investor flexibility compared to larger, traditional REITs. However, the industry has begun to address these concerns, with SM-REIT platforms now offering investor exits within a 30-day window, reflecting a commitment to enhancing liquidity and management quality.

INDIA'S GROWING COMMITMENT TO SUSTAINABILITY

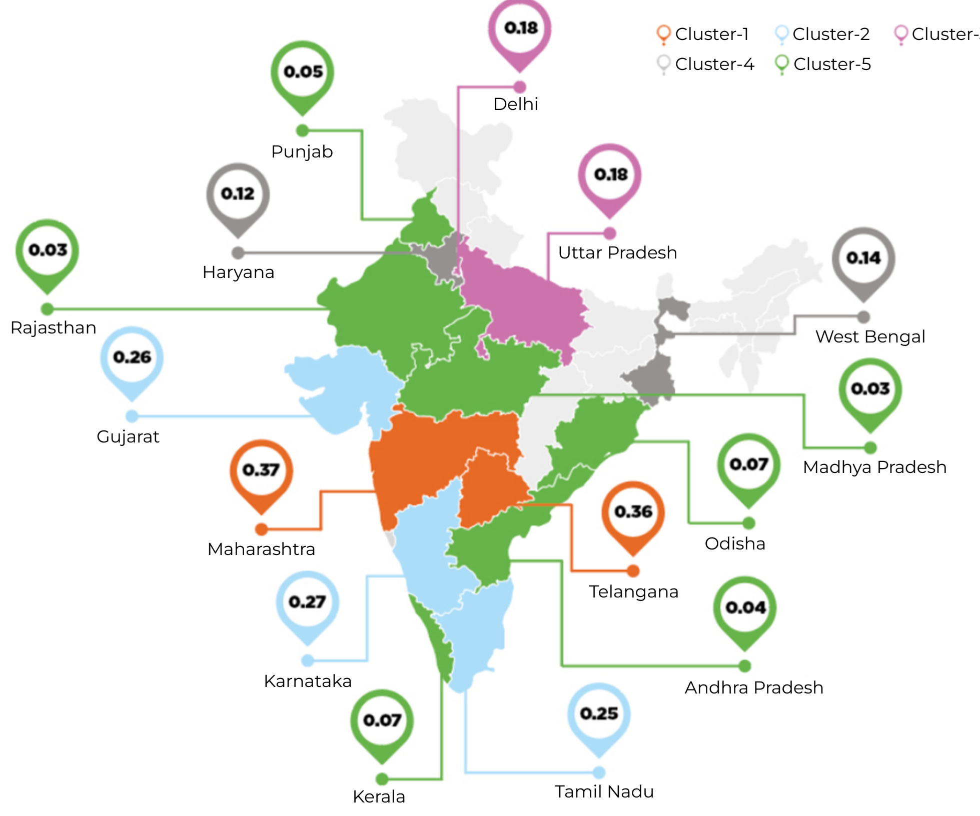
Sustainability has moved to the forefront of real estate, evolving from an optional consideration into a core expectation for developers and investors alike, but defining what truly constitutes a "green" project remains a dynamic and ongoing process.

Europe and China are setting the benchmarks for sustainability regulation through well-established taxonomy frameworks, providing clear criteria that projects must meet to qualify as sustainable, including reducing greenhouse gas emissions, adapting to climate change, managing waste, controlling pollution, and conserving biodiversity.

In India, the journey towards green finance began around 2008, initially linked to corporate social responsibility initiatives. Over time, it expanded to encompass the Sustainable Development Goals (SDGs), which have now become guiding principles for developers aiming to integrate sustainability into their projects.

Technological advancements have further highlighted the gap between existing regulatory standards and the possibilities offered by sustainable innovations. Breakthroughs in battery storage, district cooling, and modular construction have widened the scope of green finance, allowing it to support a more diverse range of projects and embed sustainability deeper into real estate operations.

AVERAGE SIZE OF GREEN-CERTIFIED ASSET IN MN. SQ. FT.



Source: Indian Green Building Council, Savills India Research.

To address this evolving landscape, India is currently drafting its own "green taxonomy," as announced in the recent budget. This initiative aims to provide greater clarity and consistency for sustainable projects, setting new standards to ensure genuine environmental benefits across the sector, even as it continues to take shape.

Regulatory bodies such as SEBI, the Reserve Bank of India (RBI), and the Central Consumer Protection Authority (CCPA) are actively implementing measures to guide this transition, including SEBI's introduction of 13 specific indicators for qualifying green finance projects, covering areas such as solar power, water purification, and broader environmental impacts.

In addition, India is considering the introduction of an emissions trading system to cap industry emissions and encourage carbon reduction. Under this system, companies exceeding their emission limits would need to purchase carbon credits, essentially paying for their environmental impact, which could boost initiatives such as reforestation and wetland restoration, generating tradable carbon credits and supporting broader climate action.

The credibility of carbon credits, however, has faced scrutiny. Studies indicate that many carbon offset projects do not deliver the intended environmental outcomes. The voluntary carbon credit market in India and elsewhere remains largely unregulated, leading to inconsistencies.

Without strong regulatory oversight, some companies use questionable carbon credits to claim "net zero" status, even if these offsets do not reflect actual emission reductions. This lack of accountability has raised concerns about exaggerated claims that may not correspond with real gains in environmental protection.

This issue, called greenwashing, happens when companies falsely claim environmental benefits. To counter this, new measures from the CCPA define greenwashing explicitly and require verifiable proof, such as QR codes linked to certified documentation.

While the certification process lacks standardisation from a central authority, the government aims to create uniform criteria for green bonds and related securities to bolster accountability and credibility in sustainable finance.

Shifting from initial certifications to long-term performance, the industry is moving towards "sustainability-linked finance," tying funding to actual asset performance. This approach incentivises compliance with environmental targets, offering rewards for surpassing benchmarks and penalties for underperformance. Recent initiatives set a decarbonisation pathway to 2030, integrating technologies like AI for ongoing monitoring, ensuring buildings maintain high sustainability standards over time.

Environmental, Social, and Governance (ESG) rating agencies, now regulated by SEBI, are also expected to play a key role in setting consistent guidelines for sustainability practices. These ratings provide a framework for evaluating compliance across industries, standardising approaches in complex sectors like real estate and highlighting India's proactive stance in integrating ESG principles into mainstream finance.

The push for standardisation in sustainable finance reflects the growing importance of clear criteria and reliable metrics. Green finance and carbon credits offer pathways to meet climate targets, but their effectiveness depends on robust regulations and consistent monitoring. By setting clear standards, the industry can ensure that sustainable investments lead to real-world environmental improvements, rather than just symbolic gestures.

Image: GRI Club

» The push for green-building

The focus on green building practices is a key part of this shift towards sustainability. Developers are increasingly adopting sustainable practices, responding to rising demand from end users who expect environmentally responsible spaces across residential, commercial, and mixed-use projects.

This growing emphasis on sustainability is driven not only by consumer expectations but also by financial institutions. Banks and institutional investors, both domestic and international, are increasingly directing their funds towards sustainable projects, aligned with global climate commitments.

To access this capital, projects must demonstrate measurable, third-party-verified improvements, such as lower greenhouse gas emissions or higher energy efficiency. This focus on quantifiable results provides assurance to investors and customers alike, reinforcing trust in the project's environmental credentials.

GREEN BUILDING CERTIFICATION SYSTEMS IN INDIA

	Energy Conservation Building Code (ECBC)	Indian Green Building Council (IGBC)	Green Rating for Integrated Habitat Assessment (GRIHA)
Rating Parameters	• Building envelope • Heating ventilation and air conditioning • Lighting system • Service water heating • Electric power distribution	• Sustainable architecture and design • Water conservation • Energy efficiency • Building materials and resources • Indoor environmental quality • Innovation and development • Site selection and planning	• Sustainable site plan • Water management • Energy optimisation • Sustainable building materials • Construction management • Innovation • Socio-economic strategies • Occupant's comfort • Solid waste management • Performance metering and monitoring • Life cycle costing

Source: Savills India Research.

Despite progress in the commercial sector, the residential real estate market, comprising about 70% of the industry, lags behind in adopting green finance policies. While corporate tenants demand sustainable features to meet ESG commitments, residential buyers lack similar incentives. Policymakers are considering measures to drive greener choices, such as subsidies for energy-efficient features, but achieving broad adoption will require strong regulatory support and clear consumer benefits.

Data gaps also present a significant barrier to advancing sustainability in the residential sector. There is limited information on carbon emissions across various stages of development, from materials sourcing to consumer impacts. This absence of robust data complicates the establishment of regulations and benchmarks for reducing emissions.

To address this, some organisations have initiated data collection efforts, setting up prototype labs to measure emissions across different building scenarios. However, without comprehensive data, progress towards reducing the carbon footprint in residential real estate remains slow.

Managing sustainable practices in residential buildings also poses long-term challenges. Even if developers build green-certified properties, maintaining these standards often falls to resident associations, which may lack the expertise or resources for effective green management. This highlights the need for regulatory frameworks that incentivise not only the initial construction of green buildings but also their ongoing maintenance.

Proposals for solutions include property tax rebates and municipal incentives for sustainable features like rainwater harvesting and solar installations. International examples, such as interest rate reductions for green projects in the US, provide insights that could inform similar policies in India.

The adoption of green finance and sustainable practices is still at an early stage globally, but progress is accelerating. India's evolving regulatory environment, combined with innovations in technology and financing, is laying the groundwork for broader integration of sustainability across the real estate sector.

Establishing comprehensive data collection, clear benchmarks, and strong regulatory support will be essential in driving meaningful environmental improvements, especially as the industry moves towards a more unified approach in financing and sustainability.

Image: Freepik

» Green funding powers the shift to sustainability

With organisations setting ambitious targets, such as reaching net-zero emissions by 2045, there is a clear demand for capital tailored specifically to support these objectives. Unlike conventional financing, sustainable finance offers terms designed to meet the unique needs of green projects, acknowledging the complexities involved in their development and execution.

The benefits of climate finance extend far beyond immediate cost considerations, positioning it as a crucial tool for future-proofing assets. By aligning properties with evolving investor expectations, customer preferences, and increasingly stringent regulatory standards, climate finance ensures that assets remain relevant and competitive in a changing market.

One of the key advantages of the "green capital" is its flexibility. Typically, it features longer repayment periods, adaptable return expectations, and versatile applications. This adaptability supports a wide array of sustainability initiatives, from energy-efficient building upgrades to the integration of renewable energy systems.

By accommodating the extended timelines often required by eco-friendly projects, sustainable finance allows developers to focus on using environmentally responsible materials and prioritising resource-efficient designs, aligning closely with broader sustainability commitments.

Furthermore, sustainable finance plays a pivotal role in the redevelopment of older buildings, many of which are now approaching the end of their original life cycles. Properties constructed decades ago often need significant upgrades to meet current sustainability standards.

Access to dedicated green funding enables developers and building owners to carry out these essential refurbishments, including installing energy-efficient facades and enhancing water management systems. These upgrades help elevate older properties to meet modern, grade A green-certified standards, ultimately extending their operational lifespans.

In addition, mid-life financing options tailored for extensive green renovations provide crucial support for large-scale upgrades to existing properties. This targeted funding allows owners to replace outdated infrastructure with eco-friendly systems, ensuring that the existing building stock can meet today's rigorous environmental benchmarks.

Collectively, these green finance mechanisms are enabling the real estate sector to embrace sustainable practices more comprehensively. They foster collaboration among developers, investors, capital markets, and regulatory bodies, creating a cohesive approach to meeting long-term climate objectives and driving the industry towards impactful environmental progress.

However, it is important to recognise that climate finance does not always offer lower interest rates. Only about 10% of these financing options include subsidies, making their cost similar to standard loans but providing greater flexibility in terms. Subsidies are typically reserved for specific areas, such as affordable housing, with the broader aim being to support self-sustaining green investments rather than relying on continuous financial assistance.

Beyond pricing advantages, the adaptability of climate finance lies in its end-use flexibility, which is particularly valuable for developers. Modern financing solutions allow for efficient resource allocation in ways that align with sustainable objectives, providing developers with the tools needed to address the dual challenge of creating economically viable and environmentally responsible communities.

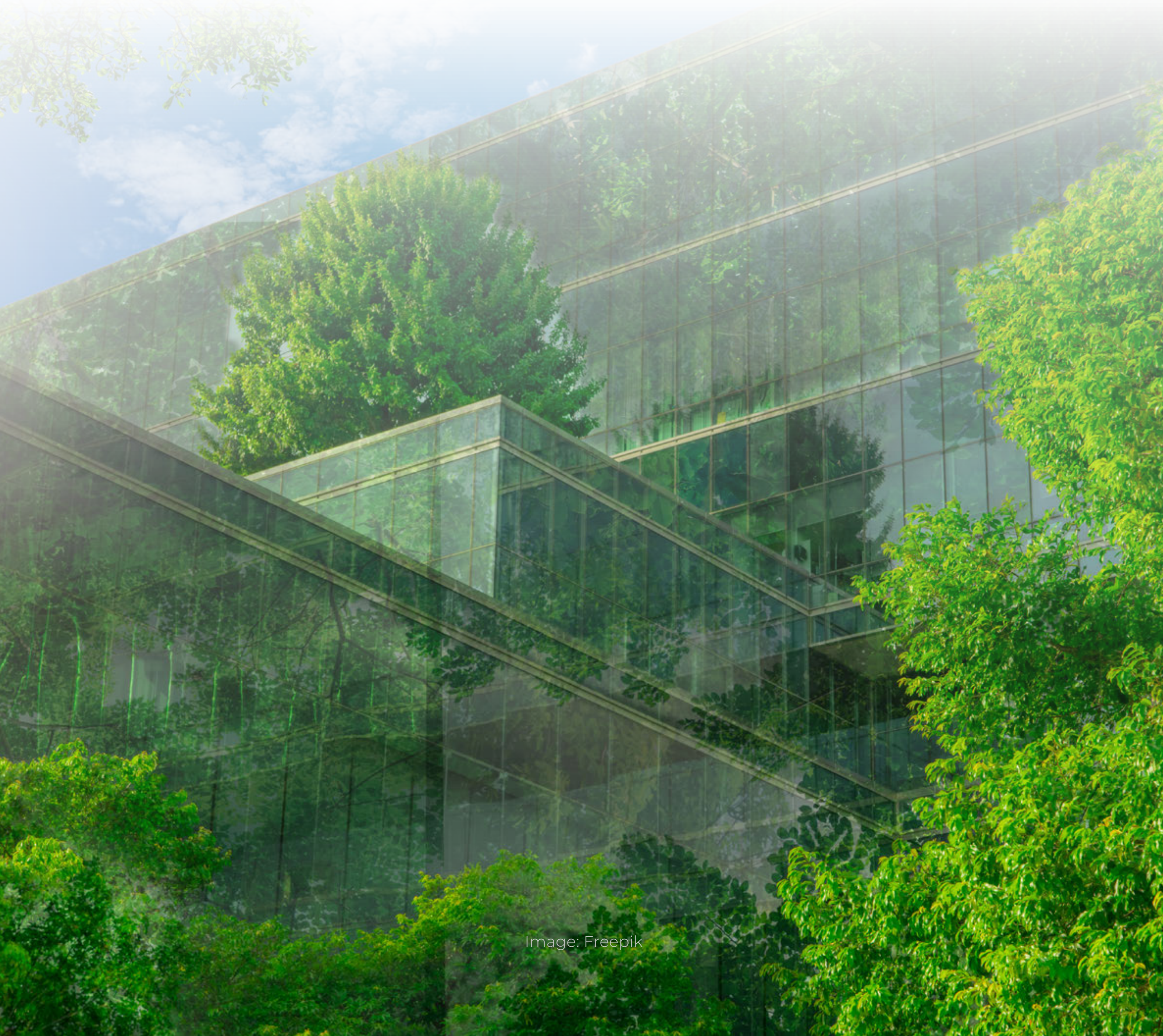


Image: Freepik

» Can't all financing be green?

The increasing emphasis on sustainability in finance has sparked debate about whether all financing could eventually become "green," with uniform adherence to environmental standards across the board.

Some industry experts suggest that mandatory green criteria for all financing could streamline processes, create standardised practices, and align every project with broader climate objectives. However, the current financial landscape still distinguishes between traditional and green finance, offering a variety of options, subsidies, and unique terms based on the specific environmental credentials of a project.

While India is poised for a significant evolution towards eco-friendly practices, there is currently no nationwide mandate enforcing uniform standards, leaving developers to select their own criteria within the broader sustainability frameworks. As a result, the goals addressed often vary, focusing on aspects like quality, efficiency, and impact on local ecosystems.

There is ongoing discussion about the potential benefits of implementing a universal green standard, similar to an ISO certification, which could make sustainable finance the default choice. If the government were to establish fixed green metrics, such as a minimum percentage of sustainability targets to be achieved, financial terms could adjust accordingly.

This might include lower interest rates or other incentives for projects that meet comprehensive environmental benchmarks. While many financial institutions, including private equity firms and commercial lenders, already prioritise projects with strong sustainability metrics due to increasing demand from investors and stakeholders, these criteria often remain flexible and are decided on a case-by-case basis.

Image: GRI Club

» Innovations in sustainable construction

When it comes to construction, the sector faces challenges with traditional materials like concrete and steel, which are resource-intensive and hard to recycle. In response, developers are exploring new methods and materials that align with a circular economy, focusing on sustainable sourcing and reusability. Advances such as 3D-printed concrete and modular construction reflect a shift towards buildings designed for full dismantling and recycling.

New cooling solutions like district cooling systems and the integration of rooftop solar panels offer scalable ways to reduce emissions in real estate projects. These technologies highlight the role of innovation in exceeding current regulatory requirements and making sustainable practices more financially viable.

The renewable energy sector serves as a prime example, with significant declines in the cost of solar panels and battery storage over the past decade making green energy options more accessible and affordable. This trend suggests that technological advancements will continue to drive the integration of sustainable practices in real estate, potentially paving the way for a broader shift towards green finance.

Image: GRI Club

EXAMINING THE LONGEVITY AND VIABILITY OF THE REAL ESTATE HYPE

India's real estate market is experiencing a notable shift in global investor sentiment, moving from questions of "Why India?" to a focus on "How do we exit?" This change is supported by increased domestic liquidity across public and private markets, coupled with growing participation from international investors, including those from the Middle East, Singapore, Japan, and emerging interest from China and Korea.

In recent years, India has witnessed stabilisation across various real estate investment categories, reducing risks and enabling better capital structuring. The commercial real estate sector, in particular, has benefited from this trend, with clearer funding routes and well-defined investor expectations.

The rise of domestic investors, including family offices, high-net-worth individuals (HNWIs), and mutual funds, has been pivotal in reducing dependency on foreign funds. As domestic capital has taken a stronger role, particularly in REITs and large-scale projects, the market has seen a shift from reliance on foreign institutional investors (FIIs) towards more localised sources of funding, enhancing market stability and signalling a maturing financial ecosystem, while offering alternative exit options that are helping alleviate foreign investor concerns about liquidity and risk.

This transition also reflects a market-wide preference for sustainable cash flows rather than aggressive, debt-fuelled growth models. Developers who have reduced their debt loads have been rewarded with higher market valuations, demonstrating the market's favour towards prudent capital management and consistent free cash flow generation.

Image: Freepik

In addition, the professionalisation of management within development firms has bolstered investor confidence. By implementing advanced customer relationship management (CRM) and enterprise resource planning (ERP) systems, hiring experienced CFOs, and leveraging technology for operational efficiency, developers are creating a more transparent and predictable business environment.

Enhanced access to project data and performance metrics also allows investors to make better-informed decisions, bridging longstanding trust gaps and fostering a healthier investment climate.

Another key trend is the strategic diversification of asset classes by developers. Moving beyond traditional residential projects, many firms are expanding into commercial real estate, logistics, warehousing, and data centres. This approach not only spreads risk but also attracts a broader investor base, offering a balanced portfolio with diversified revenue streams. New technologies and sustainable practices are further supporting this diversification, driving operational improvements and cost efficiencies across various asset types.

This shift contrasts sharply with the pre-2007 era, where high-risk residential investments often led to liquidity challenges and unsustainable debt levels. Today, many investors prefer exposure through platforms managing multiple projects rather than individual developments.

The popularity of REITs reflects this change, offering investors steady income distributions without the volatility associated with single-project investments. Platforms that aggregate income-generating assets across diverse sectors are now seen as more reliable for achieving liquidity and stability.

Alternative financing platforms such as AIFs have also emerged as effective financial instruments, offering a flexible structure to absorb real estate's longer investment horizons. Backed largely by domestic HNWIs, these funds offer improved asset-liability matching, supporting the sector's growth and reducing reliance on conventional financing avenues.

Image: GRI Club

The expansion of India's AIF sector highlights the trend towards financialisation of savings among local investors. As sophisticated, well-capitalised individuals allocate a growing portion of their portfolios to real estate AIFs, the industry benefits from a steady inflow of patient capital. This deeper financial ecosystem not only enhances market stability but also strengthens the broader financial sector, creating an environment where both domestic and foreign investors can engage with greater confidence.

Mutual funds and insurance companies are also showing renewed interest in real estate, albeit cautiously due to past experiences with real estate-linked NCDs. The return of mutual funds to real estate financing hinges on the establishment of confidence-building measures, such as consistent quarterly servicing records, which could reassure institutional investors wary of sector volatility and help establish a more stable fixed-income market.

With shifting global investment flows and a maturing domestic market, India is well-positioned for sustained real estate growth, particularly as capital reorients from traditionally attractive markets like China. The ongoing diversification of capital sources, along with the deepening of domestic financial markets, is enhancing investor confidence across asset classes. As deal activity and capital inflows into commercial and residential projects increase steadily, the sector appears poised for an accelerated phase of growth.

Looking ahead, the real estate sector's potential to significantly increase its GDP contribution is anchored in the expansion of public markets, which are attracting international capital and facilitating scale for local businesses. The combination of diverse exit options and evolving capital sources supports the industry's ambitious growth targets, positioning real estate as a central pillar of India's economic framework.

Image: GRI Club

» Aligning financial expectations with reality

While the real estate sector has shown clear signs of growth, it continues to face operational challenges, particularly in aligning development timelines with financial projections. Often, delays in project execution disrupt expected cash flows, especially in highly leveraged projects. This challenge is especially pronounced in the residential segment, which relies on finite, project-specific cash flows.

Unlike commercial assets that are suited for platform-level equity investments, residential projects don't typically offer the same level of security, requiring a more cautious approach. Thus, capital for residential projects must be structured to anticipate potential delays and funding gaps, ensuring that financial expectations remain aligned with actual project performance.

Adding to the complexity is the lingering impact of past real estate cycles, notably the 2007-2012 period, when investors faced substantial losses. These historical setbacks continue to shape risk perceptions, particularly among foreign investors, many of whom are hesitant to re-enter the market until there is a generational shift in investment decision-making.

On the other hand, domestic capital has gradually adapted to regulatory improvements like the Real Estate Regulation Act (RERA), which has enhanced market transparency and investor confidence. To bridge the gap with foreign capital, the industry needs to effectively communicate these structural shifts, showcasing how regulatory advancements are transforming India's real estate landscape.

Another persistent challenge for the sector is the high cost of capital. Despite a decline in India's government securities (G-Sec) rates, real estate borrowing costs remain elevated. This discrepancy reflects an ongoing perception of risk, shaped by a combination of country-specific, sectoral, and equity-related concerns.

As a result, even stabilised, mature assets face high interest rates, leading established players to focus primarily on low-risk, fully developed projects. Emerging sectors like data centres and warehousing, although promising, encounter similar financing challenges, highlighting the need for long-term capital that can absorb these high costs and support sustainable growth.

Investor concerns also extend to governance issues, particularly regarding high promoter holdings in listed real estate companies. When promoter stakes exceed 50%, questions arise about potential conflicts of interest, especially if decision-making lacks transparency or ventures stray beyond core real estate activities.

Looking ahead, India's real estate sector has significant potential to boost its GDP contribution, but achieving this will require a strategic focus on attracting patient capital, managing execution risks effectively, and aligning governance practices with investor expectations.

By highlighting regulatory progress, fostering transparency, and adapting capital structures to accommodate longer development timelines, the industry can create a more stable and appealing investment environment.

Image: GRI Club

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.

CONTACT

Anureet Kochhar
Head of India, Real Estate
anureet.kochhar@griclub.org

Rodrigo Branchini
Managing Director - APAC
rodrigo.branchini@griclub.org

Editor: Isabella Toledo • Designer: Gabriela Carvalho • Image: Dipesh Devdas/Shutterstock