Banking on Bricks

2024

Knight Frank's ultimate guide to analyzing real estate's impact on the BFSI sector, offering insights to enhance operations, investment strategies, and risk management

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Foreword

Shishir Baijal
Chairman and Managing Director - Knight Frank India

In an era defined by pandemic and regional conflicts, India's economy stands out as a beacon of growth and stability amidst global uncertainties. Powered by robust domestic consumption, an expanding industrial base, and a resilient services sector, India's GDP growth of 8.15% in FY 2024 underscores the nation's economic potential, inspiring confidence across various sectors. This promising trajectory positions India as a key player on the global economic stage.

A cornerstone of this growth narrative is the dynamic synergy between real estate and the Banking, Financial Services, and Insurance (BFSI) industry, which supports property development, ownership, and investment security. Financial products, spanning from mortgage solutions for homebuyers to lease rent discounting (LRD) for commercial properties, make real estate more accessible, while insurance products mitigate risks across the lifecycle. Offerings like title insurance, builder's risk insurance, and property insurance provide vital layers of security, enhancing stability for all stakeholders. Meanwhile, mutual funds, through Real Estate Mutual Funds (REMFs) and Real Estate Investment Trusts (REITs), attract retail and institutional capital, broadening access to the market and adding liquidity.

Findings from the Knight Frank homebuyer preference survey reveal that aspirational buying is a significant driver across generations, especially in luxury and high-value segments where upgrading homes is a core motivator. Homebuyers also have specific expectations from BFSI partners, with 74% identifying competitive interest rates as a priority, followed by flexible loan terms (48%) and swift loan approval processes. Additionally, policy interventions like stamp duty reductions—highlighted by historical data from Mumbai—have proven to be effective in encouraging property investment, particularly among affluent buyers, emphasizing the importance of such financial incentives in stimulating market activity.

This report further examines the evolving demands in commercial real estate, exploring how economic factors, technological advancements, and sustainability goals are reshaping workspaces. With a strategic focus on enhancing BFSI-real estate collaboration through innovative financing and risk management solutions, this analysis aims to chart pathways toward sustainable growth.

Our gratitude extends to all contributors for their invaluable insights, and with India advancing toward developed-nation status, this partnership between real estate and BFSI holds the promise of transformative opportunities for generations to come.

1

Real Estate Economics

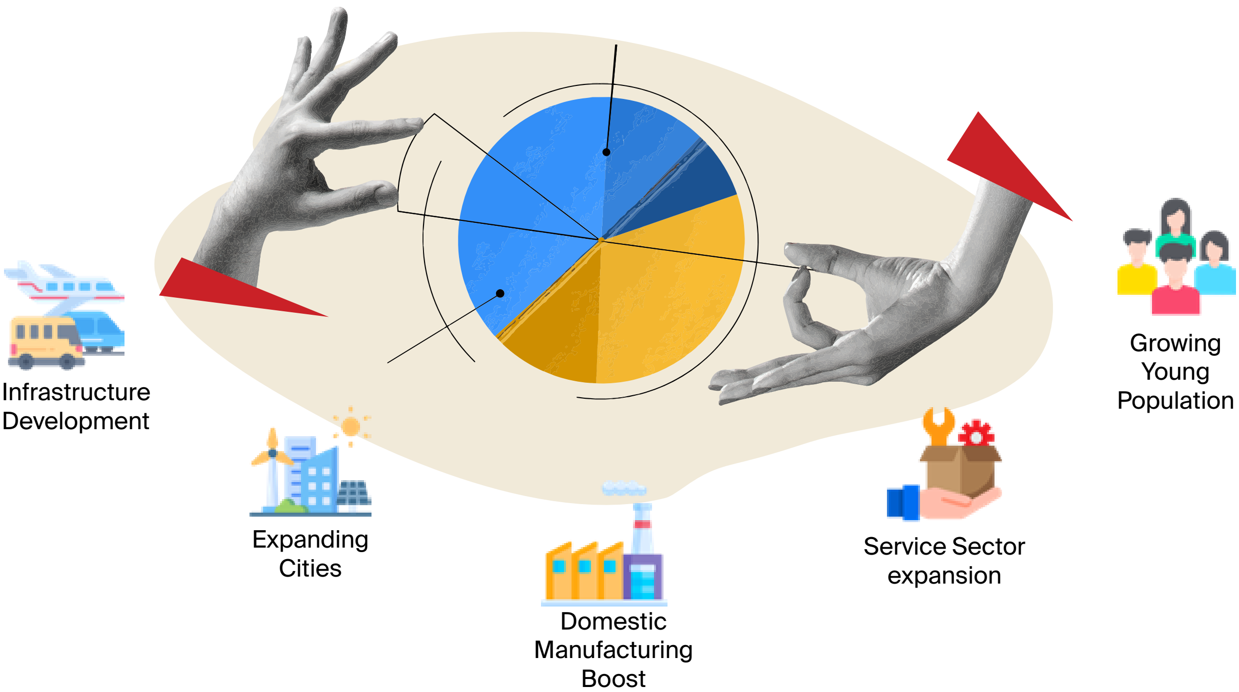
Indian Economy performance

Having been through a cycle of inflation post pandemic, economies globally are adjusting their interest rates. Due to elevated inflation, some countries, especially the developed ones, faced economic slowdowns. As inflationary pressures ease, major central banks are cutting down their key policy rates aggressively with an objective to bring it down to optimum levels and support economic growth. In the case of India, however, the inflation-growth dynamics have remained well balanced. Robustness in domestic consumption and investments have supported economic growth, reversing the COVID-19 pandemic led downturn. Inflation, as a result, has significantly eased. While there is some volatility in food prices, keeping headline inflation, the core inflation has appreciably eased. Despite massive uncertainties globally, ranging from a slowdown in key economies to geo-political concerns, the Indian economy has notably remained resilient. Additionally, Indian rupee's (INR) stability, despite external pressures from weak Asian currencies and elevated US bond yields, highlights a nuanced approach by the Reserve Bank of India (RBI) in managing the currency. The controlled management by the central bank reflects a broader strategy to maintain stability in India's financial markets. Supported by well managed financial markets, strong domestic consumption, expanding manufacturing and services sector, India's domestic economic conditions have strengthened and the trajectory continues.

In FY 2024, India's economy surged by an impressive 8.15% surpassing market expectations and setting a positive trajectory for future growth.

Key factors such as growing wealth stimulating consumer spending, focus on infrastructure development, burgeoning entrepreneurship, and initiatives like 'Make in India' boosting domestic manufacturing, rise in talent pool and capacity building etc. are playing a substantive role to catapult India's economic transformation. These growth drivers also position India as an appealing destination for foreign investors looking to expand their businesses or manufacturing operations. Driven by these factors, India's economy is anticipated to achieve developed economy status by 2047, with its size projected to range between USD 33 tn and 40 tn.

While broader domestic and external economic fundamentals can catapult ***India's economic growth*** in the next decade, the transition of the economy will largely be reliant on;

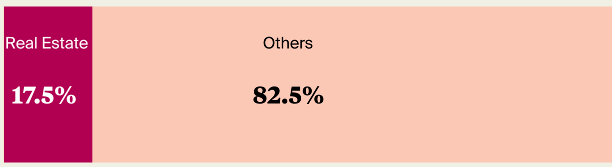


India Real Estate Contribution

Supported by a growing economy, the real estate sector in India has transitioned significantly. India's real estate sector has forward and backward linkages with approximately 250 ancillary industries, and it is one of the highest employment generators after the agriculture sector, accounting for 18% of the total employment. In terms of output, the market size of India's real estate sector is currently estimated at USD 493 bn contributing 7.3% to the total economic output[1]. As per our assessment, by 2047, India's real estate sector is expected to expand to USD 5.8 tn contributing 15.5% to the total economic output. Rising demand for residential properties arising from rapid urbanisation and growing disposable incomes of individuals are supporting the fast-paced expansion of the real estate industry in India. Apart from residential, the increasing need for contemporary office space, the need for hospitality and retail real estate development to cater to the growing consumption needs of the population are the other key growth inducing factors leading to real estate expansion in India. Furthermore, expanding e-commerce is catalysing the demand for warehousing and storage facilities in India providing a thrust to the industry. Additionally, in recent years, the growing use of telecommunication services has necessitated the need for data centres or data storage facilities in India. From a government policy perspective, various initiatives such as focus on affordable housing, smart city projects, tax deductions on housing loans etc have enabled investment opportunities in the real estate sector in India.

As per our assessment, by 2047, India's real estate sector is expected to expand to USD 5.8 tn contributing 15.5% to the total economic output.

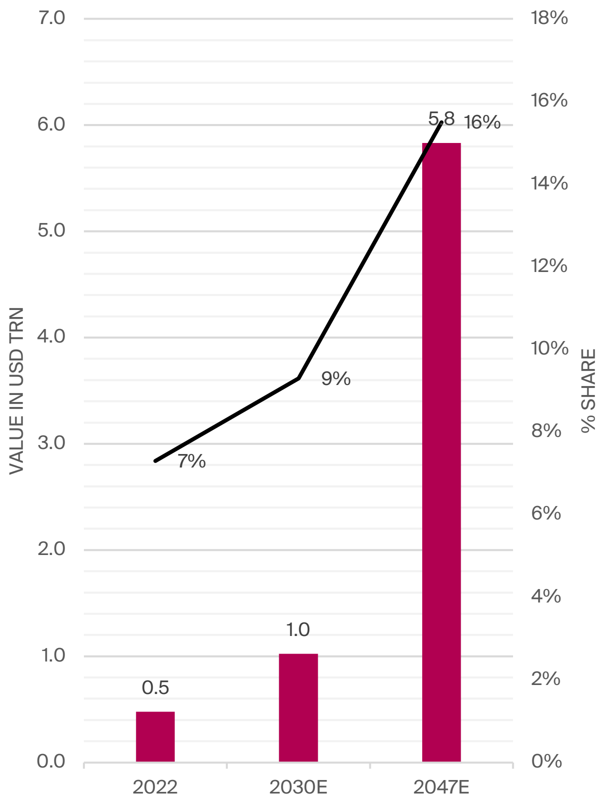
Real estate sector contributes 18% to the total employment in India



Source: GoI, Knight Frank Research

[1]Source: MOSPI, Data as of 2022

Real Estate Market Growth and its Economic Contribution in India



Real estate contribution to state revenues

Real estate sector is one of the key contributors to the revenue of state governments. In FY 2023-24, an estimated USD 32 bn was collected by the Indian states and union territories (UTs) from stamp duties, registration fees and land revenue. This is equivalent to 12.7% of the total tax revenue collected during FY 2023-24.

In addition to the state revenues, the real estate sector has also evolved as a tool for financing infrastructure development in the country. Mechanisms like value capture financing have enabled state governments and municipalities to raise financial resources by tapping into the increase in value of real estate properties and land resulting from government investments and policy initiatives. On various occasions, value capture financing tools such as land value tax, betterment levy, development charges, transfer of development rights (TDRs) etc have enabled the generation of additional revenues which has further been used for funding infrastructure development of the cities.

BFSI and Real Estate

The real estate sector is deeply reliant on the BFSI (Banking, Financial Services, and Insurance) industry to drive investments, manage risks, and enable transactions across all stages of property development and ownership. Whether through mortgage products for homebuyers, construction finance for developers, or lease rent discounting (LRD) for commercial properties, the BFSI sector acts as the financial backbone, ensuring smooth functioning and expansion of real estate markets.

The banking sector is essential to the real estate industry, offering a broad spectrum of funding solutions that meet the capital needs of various asset classes. This partnership ensures that real estate remains a dynamic and influential sector driving economic growth, while banks continue to innovate and adapt to the evolving needs of the industry.

Complementing the role of banks, the insurance sector plays a critical part in mitigating risks throughout the real estate lifecycle. By providing key products such as title insurance to protect against legal disputes, builder's risk insurance for construction phase coverage, property insurance for safeguarding completed assets, and liability insurance to protect from lawsuits, the insurance sector reduces financial risk and ensures stability for developers, property owners, and investors alike.

Additionally, mutual funds have emerged as significant players in channelling both retail and institutional capital into real estate, enhancing liquidity and broadening access to the market. Through investment vehicles like Real Estate Mutual Funds (REMFs) and Real Estate Investment Trusts (REITs), investors can participate in the growth of the real estate sector without directly owning property. Furthermore, infrastructure mutual funds support large-scale developments, particularly in logistics and industrial real estate, which are key to the sector's expansion.

Together, the banking, insurance, and mutual fund sectors create a holistic framework within the BFSI ecosystem, driving growth, reducing risks, and making real estate investments more accessible. Their combined efforts ensure the sustained resilience, liquidity, and long-term development of the real estate industry.

In the upcoming chapters, we will delve into the intricacies of both the residential and commercial real estate sectors, focusing on the latest trends and emerging dynamics that are reshaping these markets. We aim to provide insights into how these segments are evolving in response to changing consumer preferences, economic conditions, and technological advancements.

Additionally, through detailed advocacy and advisory, we will outline strategies that can strengthen the synergy between real estate and the BFSI sector. By exploring financial innovations, risk mitigation mechanisms, and investment trends, our goal is to offer actionable recommendations that can enhance collaboration across these sectors, leading to sustained growth and better outcomes for stakeholders in both real estate and BFSI.

2

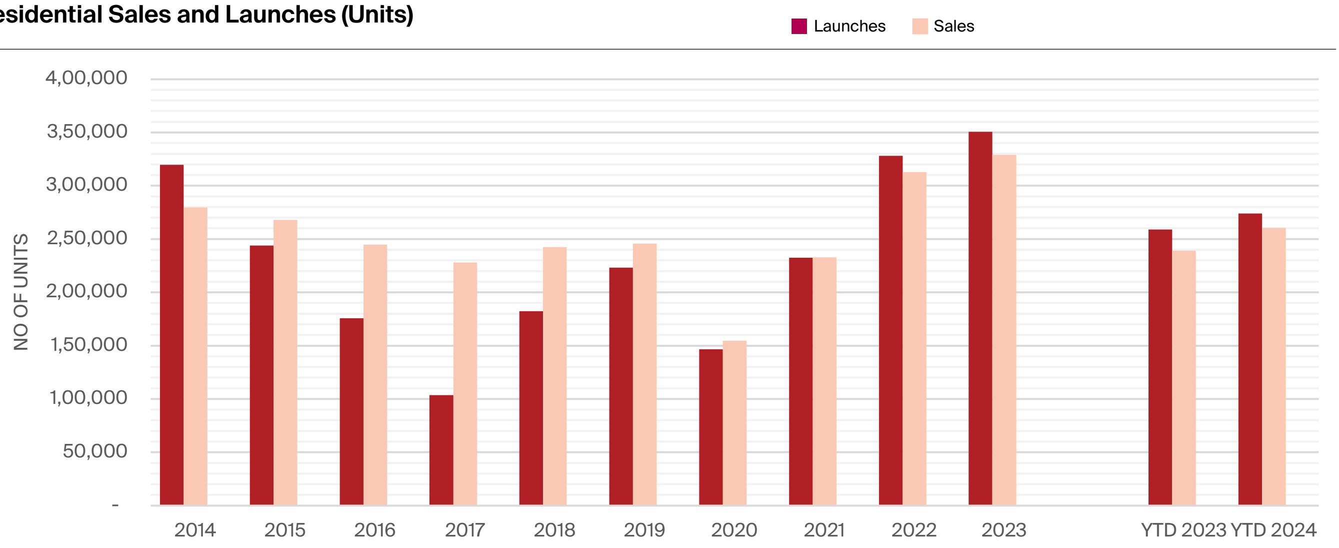
Indian Residential Real Estate Overview

As we move away from the pandemic, all categories of real estate assets have seen a recovery, with the residential sector experiencing the most rapid and significant resurgence. The need for security and open living spaces during the pandemic spurred the demand for homes, further supported by relatively stable interest rates.

Despite the Reserve Bank of India's cumulative increase of 250 basis points in policy repo rate between May 2022 and February 2023, the demand for residential properties in India remained resilient, surging to a ten-year high in annual sales in 2023. Increased savings during the lockdowns, minimal income disruptions among mid and high-income groups, and robust economic growth fuelled this demand. Additionally, a positive trend in house prices since 2021 created a sense of optimism among prospective buyers, driving sales further.

The resurgence in demand also propelled residential launches into overdrive, underscoring strong market fundamentals and a continued appetite for housing in India. In 2024, this momentum persists, with residential sales increasing by 9% YoY in the first nine months, and new launches growing by 6% YoY, reflecting sustained confidence in the market.

Residential Sales and Launches (Units)



Source: Knight Frank Research
*Top 8 cities: Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, MMR, NCR and Pune
YTD – Jan-Sep

A deeper analysis of residential real estate trends reveal a notable shift in the distribution of sales across different price segments between 2018 and YTD 2024. Properties priced below INR 5 mn, which constituted 54% of sales in 2018, now account for only 26% of sales in 2024. This sharp decline suggests a gradual move away from the affordable housing segment, likely driven by rising property prices, lack of supply and evolving buyer preferences.

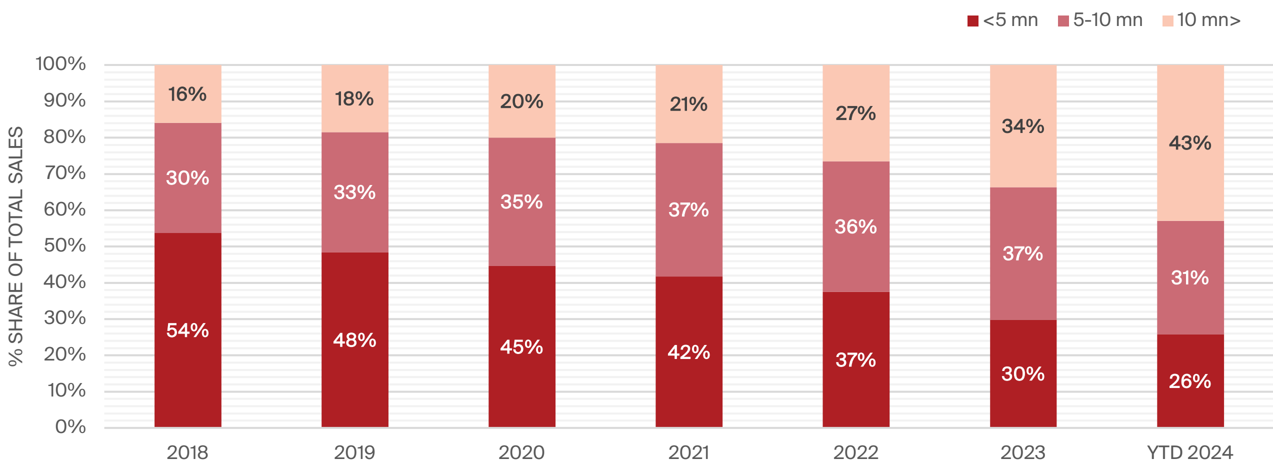
In contrast, the luxury market has witnessed a significant surge. Properties priced above INR 10 mn have grown from 16% of total sales in 2018 to 43% in YTD 2024. This increase highlights the growing demand for luxury homes, fuelled by affluent buyers seeking larger living spaces, premium locations, and enhanced amenities.

The mid-range segment, priced between INR 5 mn and INR 10 mn, has shown stability, fluctuating between 30% and 37% over the years. Despite some variations, this segment continues to cater to a substantial portion of homebuyers, offering a balance between affordability and upgraded living standards.

These shifts are driven by several key factors:

- Economic Recovery: Post-pandemic economic recovery has led to higher disposable incomes among certain demographics, prompting more buyers to invest in higher-priced properties.
- Changing Buyer Preferences: The pandemic has heightened the desire for larger homes with more amenities, encouraging buyers to move towards the luxury segment.

Ticket size split comparison of sales



Source: Knight Frank Research
YTD – Jan-Sep

To fully understand real estate trends, it is essential to consider unsold inventory levels across price segments in India's residential market. Coupled with Quarter-to-Sell (QTS)[2] metrics, this data reveals insightful trends about market health and demand dynamics. As of YTD 2024, the inventory for properties priced below INR 5 mn remains substantial at 195,451 units, while the mid-range (INR 5–10 mn) segment holds 140,505 units, and the luxury segment (>INR 10 mn) has seen an increase in unsold inventory to 151,087 units.

However, the movement of the QTS metric paints a more nuanced picture, showing that despite rising inventory in some segments, the pace of sales varies significantly. The QTS for the <INR 5 mn segment has risen slightly to 8.2 quarters, indicating slower turnover, despite a gradual decline in unsold inventory.

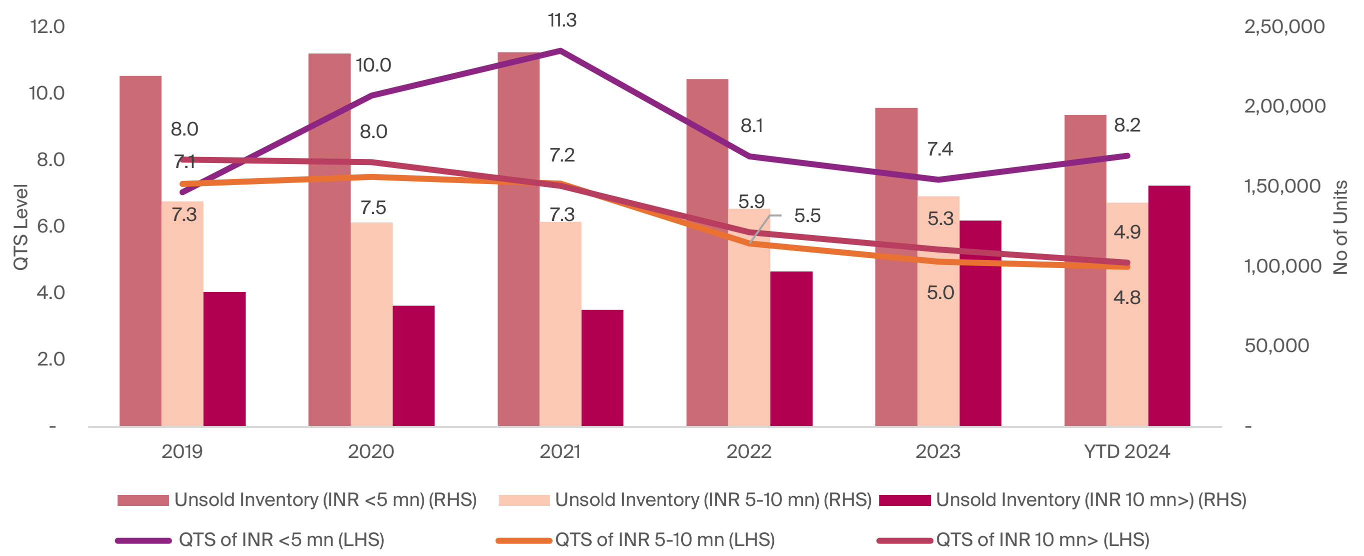
In contrast, the mid-range segment (INR 5-10 mn) shows healthier dynamics, with the QTS dropping to 4.8 quarters, suggesting quicker sales. Though inventory remains relatively high, the faster turnover reflects strong market demand and greater affordability for a wider audience.

Lastly, in the luxury segment (>INR 10 mn), despite the increase in unsold inventory, the QTS remains low at 4.9 quarters, indicating robust demand and fast-moving sales among affluent buyers.

This data suggests a growing preference for premium and luxury housing, driven by a shift in consumer preferences towards larger, high-value properties with enhanced amenities.

The luxury market's strong sales velocity and relatively low QTS reflect its resilience, while the affordable segment faces prolonged challenges due to affordability constraints and slower sales traction. Developers are responding by recalibrating their strategies, focusing more on launching premium and luxury projects to cater to rising demand, while grappling with inventory management in the affordable segment. These trends underscore a clear shift in consumer demand towards higher-value properties, yet also highlight the need for more innovative approaches to address challenges in the affordable housing market.

Trend in unsold inventory and QTS



Source: Knight Frank Research
YTD – Jan-Sep

[2]Quarters to Sell (QTS): The number of quarters required to exhaust the unsold inventory is termed as the QTS of a particular market. It is calculated by dividing the unsold inventory by the average sales of eight trailing quarters from the end of the analysis period.

City analysis

An insight into the key trends and drivers of the residential market in Tier 1 cities is essential for understanding the market's nuances and identifying the factors shaping its growth. These trends often include growing urbanization, increased infrastructure development, and evolving buyer preferences, all of which are influencing both supply and demand dynamics in these metropolitan areas. Additionally, economic factors such as interest rates, job opportunities, and affordability, continue to play pivotal roles in shaping the trajectory of residential real estate in Tier 1 cities.

Mumbai

- ***Trend:*** Mumbai has consistently been India's leading real estate market. The city's property market has exhibited robust growth, with increasing sales, especially post-pandemic.
- ***Key Drivers:*** Positive economic outlook, rising disposable incomes, and a strong demand for larger homes are key factors driving the upsurge. Buyers are increasingly keen to secure properties amidst price escalations.

National Capital Region (NCR)

- ***Trend:*** NCR remains a critical real estate market, with Gurugram dominating sales in the premium segment. Projects along the Dwarka Expressway and in locations like Central Peripheral Road and Southern Peripheral Road have boosted demand.
- ***Government Influence:*** The Uttar Pradesh government's focus on resolving issues around stalled projects has improved sentiment in areas like Noida, Greater Noida, and Ghaziabad.

Bengaluru

- ***Trend:*** The Bengaluru market has shown resilience and strong demand, with new launches selling quickly. The IT hubs in South Bengaluru and the emerging North Bengaluru micro-markets are key growth drivers.
- ***Key Insights:*** Strong buyer confidence, proximity to employment hubs like Electronic City and Outer Ring Road, and end-user dominance in key micro-markets are driving the city's growth.

Pune

- ***Trend:*** Pune's real estate market continues to grow due to the thriving IT sector, infrastructure development, and competitive pricing. The Western Zone leads in sales.
- ***Key Drivers:*** Proximity to employment hubs, growing infrastructure, and diverse housing options keep demand steady.

Chennai:

- ***Trend:*** Chennai is recovering but has not yet reached pre-COVID levels.
- ***Key Insights:*** Sales are concentrated in South and West Chennai, driven by the IT and industrial sectors.

Hyderabad

- ***Trend:*** Hyderabad's real estate market continues to grow, with West Hyderabad leading the way due to its proximity to HITEC City and the Financial District. North Hyderabad is emerging as a key growth area due to its affordability and improving infrastructure.
- ***Key Drivers:*** Economic growth, infrastructural improvements, and affordability in emerging regions are boosting demand. Sales have steadily increased, making it one of the fastest-growing markets.

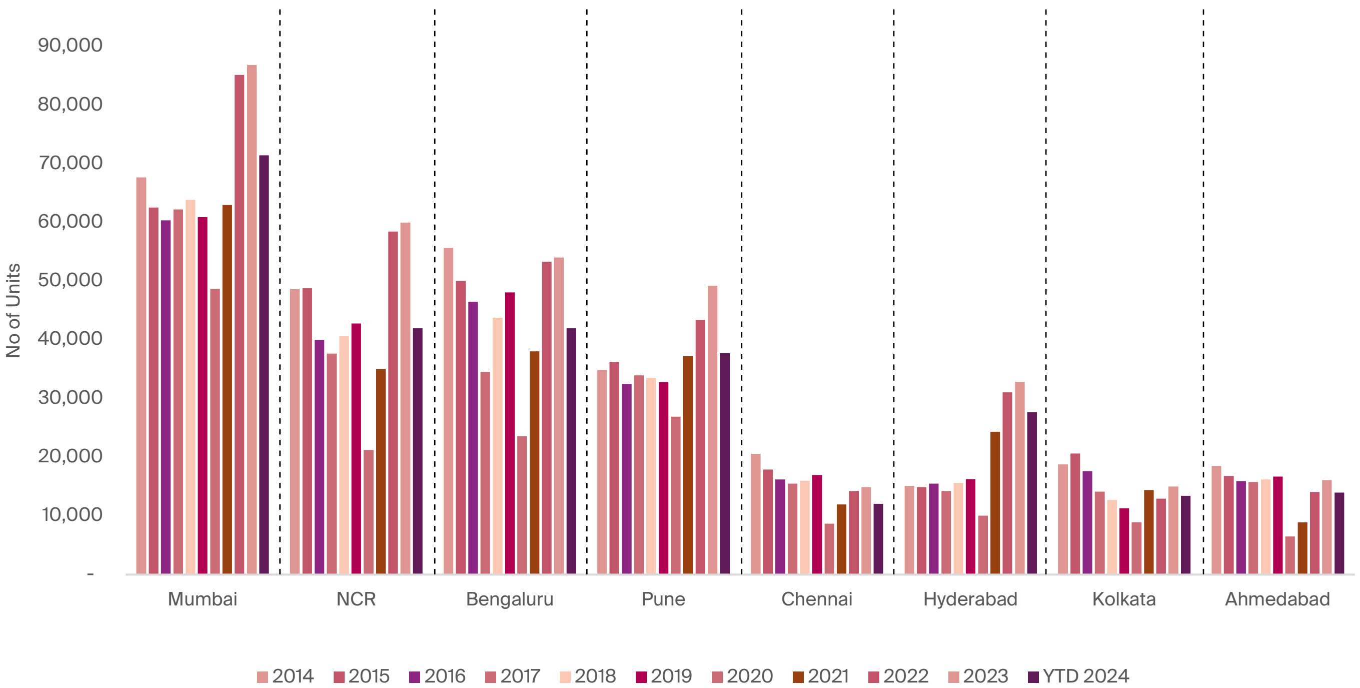
Kolkata

- ***Trend:*** Sales in Kolkata are primarily concentrated in the South and North regions, with Rajarhat emerging as a popular micro-market.
- ***Key Drivers:*** Proximity to employment hubs and infrastructure development are driving sales in key areas.

Ahmedabad

- ***Trend:*** Ahmedabad's real estate market has consistently grown, rebounding from pandemic lows. Government planning and the city's expansion have maintained affordability while avoiding congestion.
- ***Key Drivers:*** Aggressive project launches, large property areas, and strong demand have kept the market healthy.

Trend in Sales of Tier 1 cities



Source: Knight Frank Research
YTD – Jan-Sep

Greater preference towards higher value homes

Across India's Tier 1 cities, there is a growing shift toward luxury housing, although the pace varies depending on each city's economic conditions and buyer demographics. Bengaluru, NCR, and Hyderabad are leading this transformation with a strong demand for high-end properties whereas cities like Pune, MMR and Chennai are witnessing a more gradual transition. Kolkata and Ahmedabad maintain a balanced market, though premium housing is growing steadily

Ahmedabad

- Ahmedabad's transition towards higher ticket sizes has been gradual but steady, with a clear trend towards premium housing in recent years. The share of sales in the >INR 10 mn category rose from 9% in 2018 to 21% in YTD 2024.
- The city's infrastructure developments and rising investor interest have supported this trend. However, Ahmedabad remains more rooted in affordable housing compared to cities like Bengaluru, Hyderabad, or NCR, where luxury housing has boomed more quickly.

Bengaluru

- Bengaluru's booming IT sector and vibrant start-up ecosystem have bolstered residents' purchasing power, driving strong demand for premium housing. Post-pandemic, the desire for larger homes with premium amenities surged, as remote work and lifestyle changes led buyers to prioritize space and comfort. This shift is evident in the demand for luxury homes (>INR 10 mn), which made up 55% of total sales in 2024, compared to just 14% in 2018.
- With an influx of HNIs and high-income earners, luxury residential areas such as Whitefield, Indiranagar, and Koramangala have become hotspots for premium real estate.

Chennai

- Chennai is seeing a clear movement toward higher ticket sizes, with 29% of sales now in the >INR 10 mn range compared to 11% in 2018.
- The city's evolving real estate market reflects a balanced demand for affordable, mid-range, and luxury housing. Factors such as the growth of the IT sector and the expansion of manufacturing and services industries are supporting a more affluent class of buyers.
- Chennai's market tends to be more conservative compared to other metros like Bengaluru or NCR, with buyers focusing on long-term investments, often preferring to upgrade to larger homes over time rather than rushing to buy luxury homes.

Hyderabad

- Hyderabad has seen one of the most dramatic shifts towards luxury housing, with the share of >INR 10 mn sales surging from 21% in 2018 to 62% in YTD 2024, making it one of the strongest luxury housing markets in India.

- The city's growth as a major hub for Global Capability Centres (GCCs) and multinational companies, especially in information technology and healthcare, has created a significant affluent population looking for high-end homes.
- Luxury residential projects around IT corridors such as HITEC City, Financial District, and Raidurg have attracted high-income professionals and NRIs seeking premium properties with top-notch amenities.

Kolkata

- While Kolkata remains more affordable compared to other metros, it has seen a gradual shift towards premium housing. The share of sales in the >INR 10 mn category grew modestly from 16% in 2018 to 18% in YTD 2024.
- Kolkata has maintained a steady demand for affordable and mid-segment housing, with developers catering to the needs of middle-class buyers. However, the rise in premium housing sales reflects the city's gradual economic growth and the growing aspirations of an emerging affluent class.

Mumbai Metropolitan Region (MMR)

- Mumbai, with its traditional mix of luxury and affordable housing, has seen a modest increase in high-end properties. The share of sales in the >INR 10 mn category rose from 24% in 2018 to 32% in YTD 2024.
- Mumbai's high land prices and constant demand for housing have always maintained a balance between affordable and luxury segments. While the affordable segment remains significant (44% of sales), the growth in premium housing reflects the constant demand for upmarket residential spaces by the city's wealthy residents and investors.

National Capital Region (NCR)

- As the political and economic centre of India, NCR attracts a large concentration of high-net-worth individuals, bureaucrats, and business tycoons, driving demand for premium homes.
- Luxury housing is now the dominant segment in NCR, with only 9% of sales in the <INR 5 mn category. This reflects the region's evolving real estate landscape, where buyers increasingly prefer high-end homes in areas such as Golf Course Road.
- NCR has also become a magnet for wealthy migrants, especially NRIs and top executives in industries like finance and consulting, further contributing to the surge in demand for luxury properties.

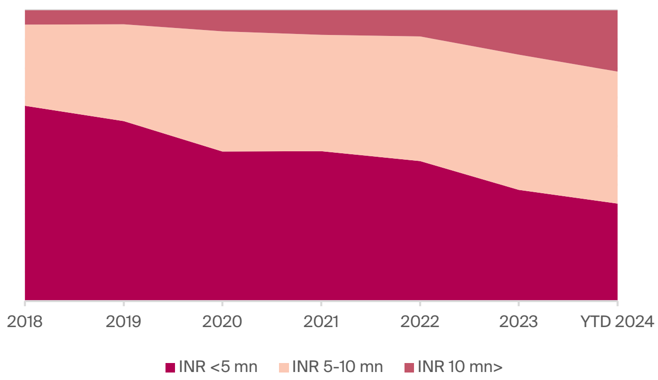
Pune

- Pune is also seeing a slow but steady shift towards higher ticket sizes, with the >INR 10 mn category increasing from 5% in 2018 to 21% in YTD 2024.
- Pune's growth is somewhat balanced, with a strong demand for mid-segment homes yet a noticeable rise in luxury housing, driven by IT professionals and returning migrants looking for upgraded lifestyles.
- Pune's growing commercial sectors have also contributed to rising incomes and higher aspirations, translating into increased demand for premium homes.

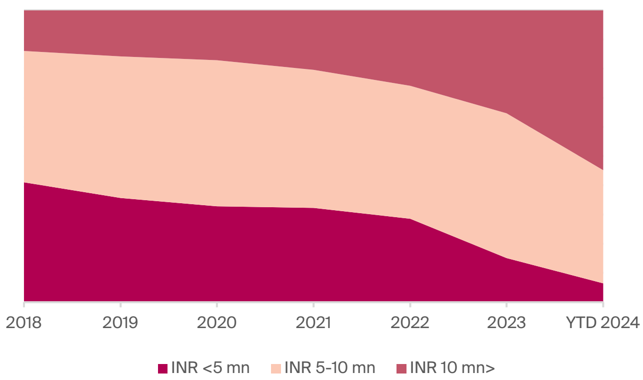
The city-wise residential sales comparison from 2018 to YTD 2024 highlights a clear shift in buyer preferences, with luxury housing (>INR 10 mn) gaining prominence in many of these urban markets, reflecting a broader trend toward upscale living across the country.

City-wise ticket size split comparison of sales

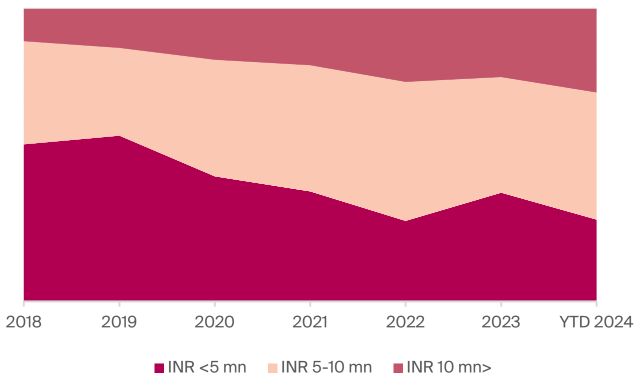
Ahmedabad



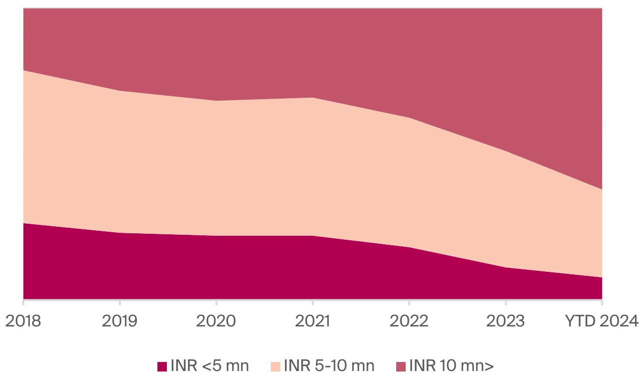
Bengaluru



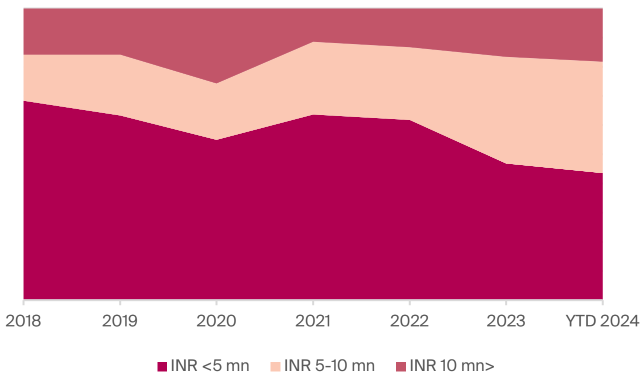
Chennai



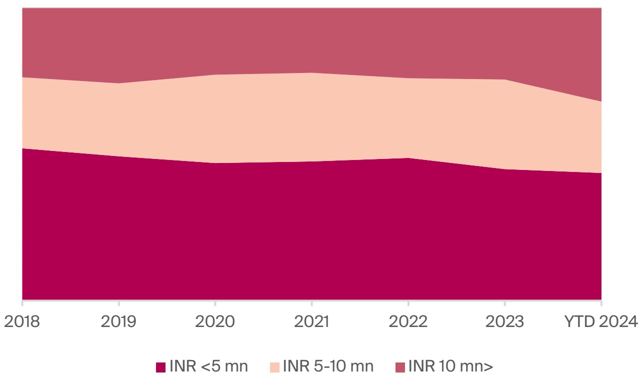
Hyderabad



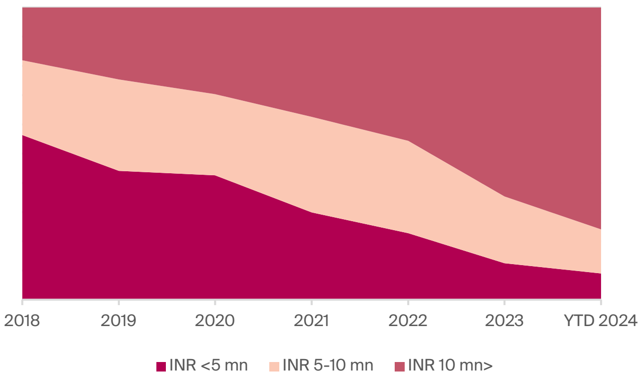
Kolkata



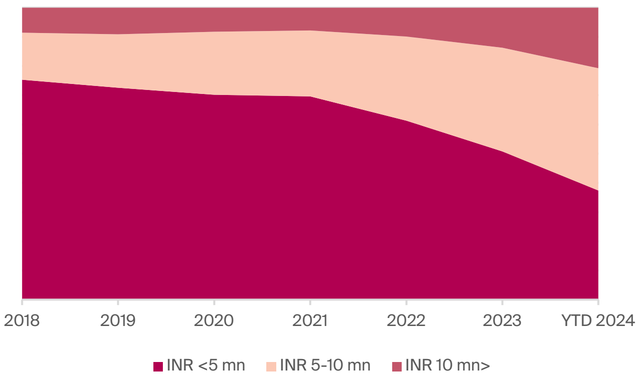
Mumbai Metropolitan Region



National Capital Region



Pune



Source: Knight Frank Research
YTD – Jan-Sep

As per Knight Frank Research market intel, the micro-markets mentioned in the table are where most of the sales of high-value homes /luxury housing is taking place.

Luxury Housing Micro-Markets

City	Micro-Market
Ahmedabad	Bodakdev, Ambli, Satellite Road, Jodhpur Village, Shantigram, Law Garden
Bengaluru	RMV II Stage Extn, Indiranagar, Koramangala, Basavangudi, Jayanagar, Malleswaram, HSR Layout, Whitefield
Chennai	T. Nagar, Adyar, Aminijkarai, R A Puram, MRC Nagar, Anna Salai, Alwarpet, Thiruvanmiyur (OMR), Velachery, Keelakattalai, Kilpauk, Perambur
Hyderabad	Jubilee Hills, Banjara Hills, Madhapur, Gachibowli, Nanakramaguda, Kokapet, Gandipet, Narsingi
Kolkata	Elgin Road, Shakespeare Sarani Rd, Rawdon Street, Camac St, Ballygunge, Alipore HO, Jubilee Park, Jodhpur Park
Mumbai	Walkeshwar, Altamount Road, Nepean Sea Road, Hughes Road, Worli, Malabar Hill, Bandra(W), Tardeo, Juhu, Prabhadevi, Khar(W)
National Capital Region	Greater Kailash, Vasant Kunj, Hauz Khas, Defence Colony, Friends Colony, Jor Bagh, Chanakyapuri, Panchsheel Enclave, Karol Bagh, Golf Course Road, Golf Course Extension Road, Southern Peripheral
Pune	Prabhat Road, Senapati Bapat Road, Deccan Gymkhana, Model Colony, Gokhale Nagar, Boat Club Road, Shivajinagar, Erandwane, Koregaon Park, Kalyani Nagar

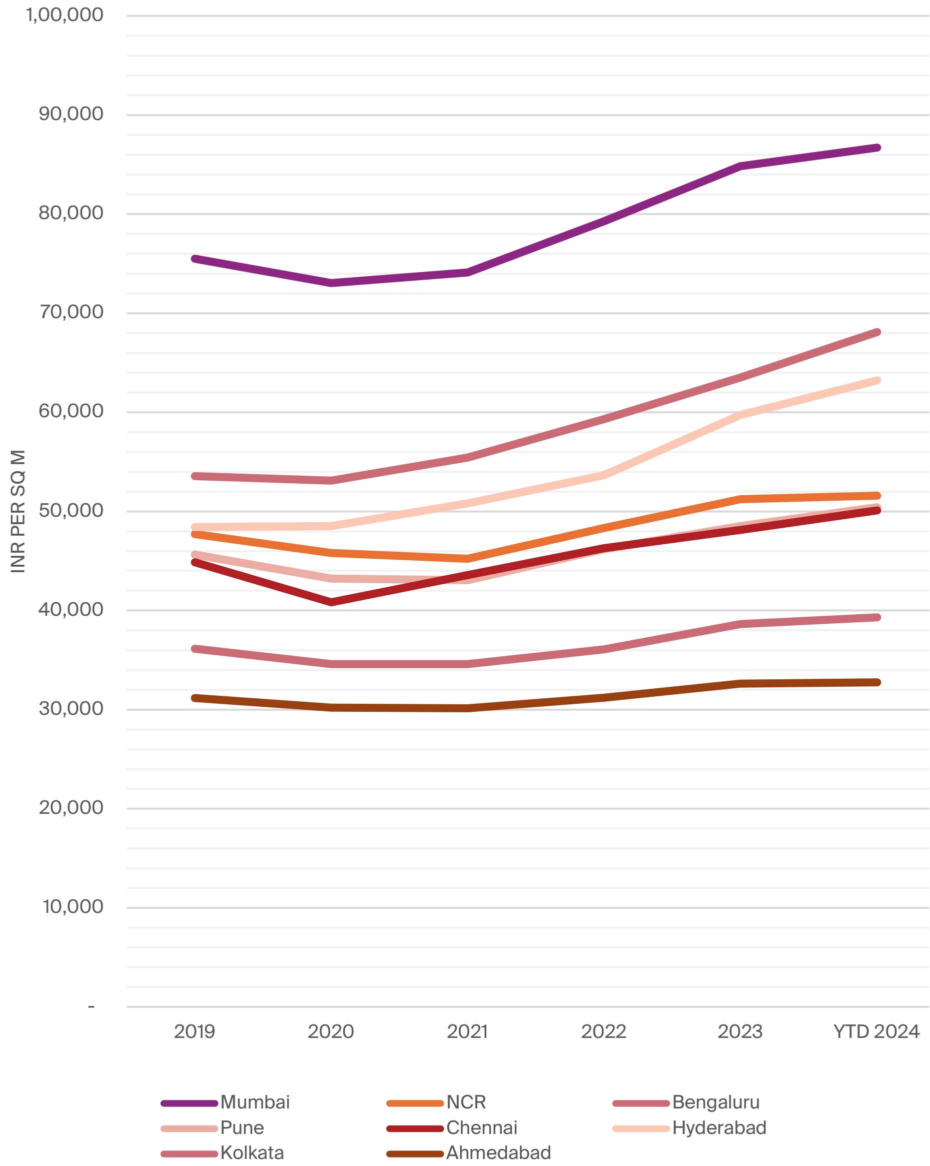
Source: Knight Frank Research

The analysis of weighted average price growth in various Indian cities from 2019 to the YTD Q3 2024 reveals significant trends and variations in property values. Post-pandemic, property prices have surged, driven by renewed demand, economic recovery, and increased real estate investments.

Hyderabad and Bengaluru saw the highest growth, with prices rising by 31% and 27% respectively, fuelled by strong demand in these tech hubs. Mumbai's market rebounded with a 15% increase, showcasing its resilience. NCR, Pune, and Chennai experienced steady, moderate growth, while Kolkata and Ahmedabad lagged with slower price rises.

Understanding these trends is crucial for participants in the real estate sector, as it enables them to make informed decisions in the evolving Indian real estate landscape. The price growth reflects not only market dynamics but also the underlying economic factors influencing demand and investment in these regions.

City Wise Trend in Weighted Average Price



Source: Knight Frank Research
YTD – Jan-Sep

Weighted Average Price

Year	Unit	Mumbai	NCR	Bengaluru	Pune	Chennai	Hyderabad	Kolkata	Ahmedabad
2019	INR/Sq. m	75,499	47,702	53,572	45,656	44,886	48,438	36,156	31,173
2019	INR/Sq. ft	7,014	4,432	4,977	4,242	4,170	4,500	3,359	2,896
YTD Q32024	INR/Sq. m	86,715	51,581	68,090	50,436	50,123	63,239	39,310	32,766
YTD Q32024	INR/Sq. ft	8,056	4,792	6,326	4,686	4,657	5,875	3,652	3,044
YoY Change *	%	15%	8%	27%	10%	12%	31%	9%	5%

Source: Knight Frank Research
*"YoY Change YTD Q3 2024 vs 2019

3

Homebuyer Sentiment Survey

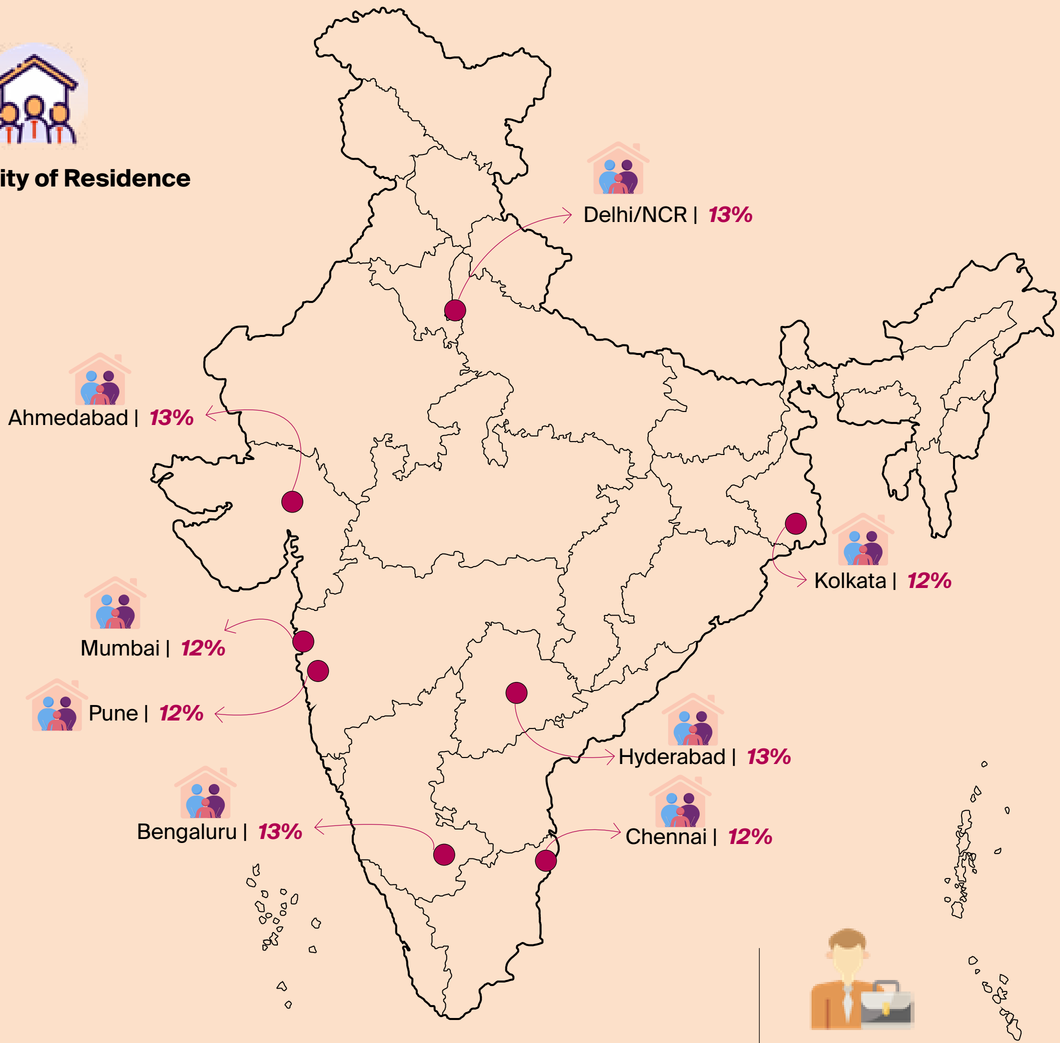
Knight Frank Research has surveyed 1,629 homebuyers across India's Tier 1 cities – Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai, NCR, and Pune – to analyse preferences and buyer psyche. The survey encompassed respondents across diverse age groups, income levels, professions, and generations[3], offering a comprehensive view of the evolving housing market.

The findings reveal critical insights into buyer preferences and emerging trends, helping stakeholders better understand the motivations driving home purchases today. These key trends shed light on shifting buyer demands, varying priorities across income levels, and the types of homes that are now in highest demand across different markets.

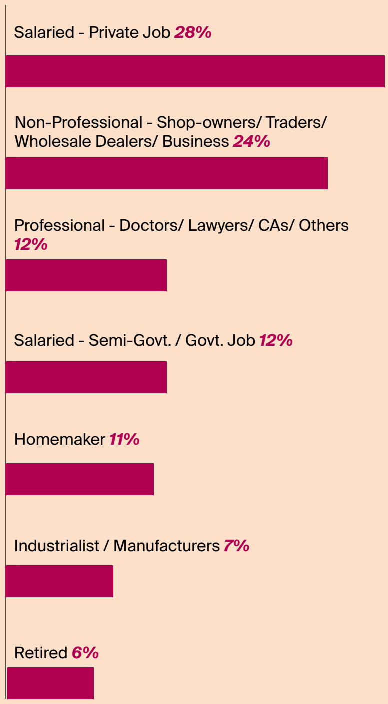
[3]Baby Boomers: Born between 1946 – 1964, Gen X: 1965 – 1980, Millennials: 1981 – 1996, Gen Z: 1997 - 2012

General profile of the surveyed participants

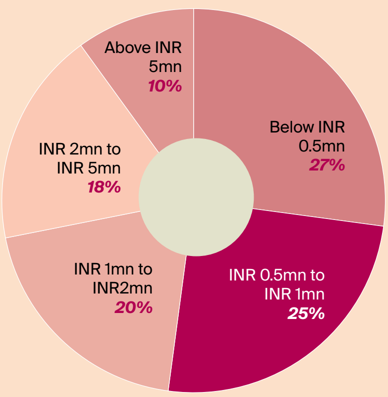
City of Residence



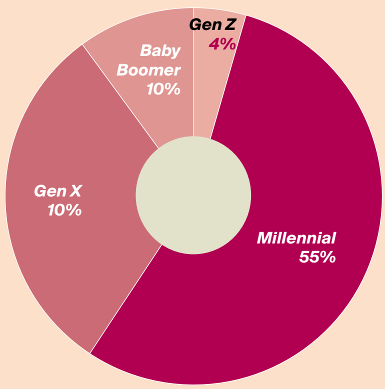
Profession/Occupation



Income Level



Generation



Survey Findings

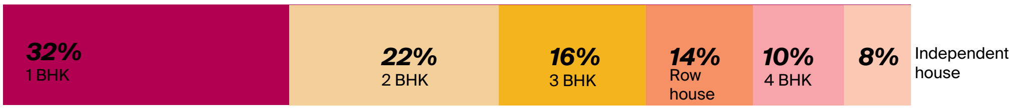
A significant portion of surveyed homebuyers currently reside in 1 BHK units which make up 32% of the total, closely followed by 2 BHK at 22% and 3 BHK at 16%. The data also highlights that many participants live in smaller spaces with 30% occupying homes below 450 sq ft and 26% in the 450-800 sq ft range, while 14% reside in properties ranging from 800 to 1200 sq ft.

When it comes to preferred residential property types, the trend leans heavily towards modern living solutions. A striking 52% of respondents express a preference for apartments or flats, indicating a strong inclination for convenience and community living. A preference for studio apartments follows at 19%, while independent houses or villas attract 17% of preferences. Interestingly, gated communities and plots of land are less favoured, comprising just 7% and 5% of choices, respectively.

These findings reveal a dynamic picture of the real estate market where current living situations may vary in size and configuration, yet a clear trend emerges: a strong desire for apartments and flats. This reflects a growing inclination among homebuyers towards modern, convenient living arrangements that align with contemporary lifestyles, emphasizing community, accessibility, and a touch of urban sophistication.

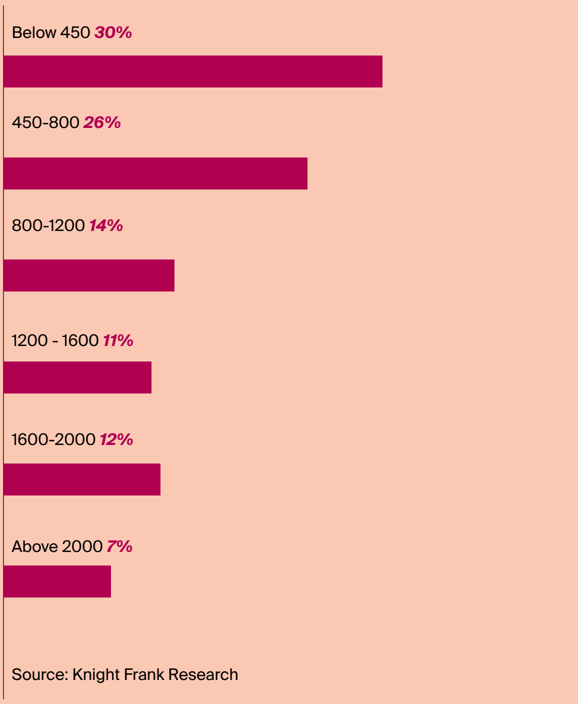
Surveyed Homebuyers Current Residence (Type and Area)

Current Residence



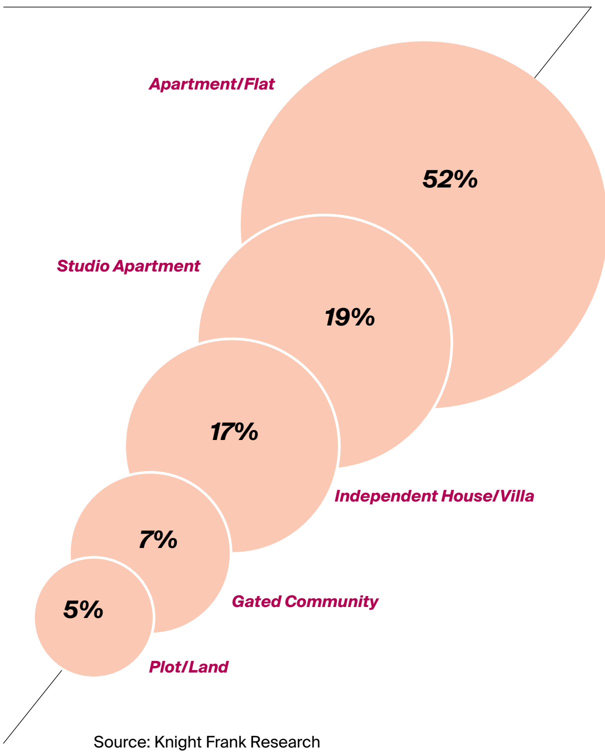
Source: Knight Frank Research

Current Residence Size (sq. ft.)



Source: Knight Frank Research

Apartments Lead Homebuyer Residential Choices

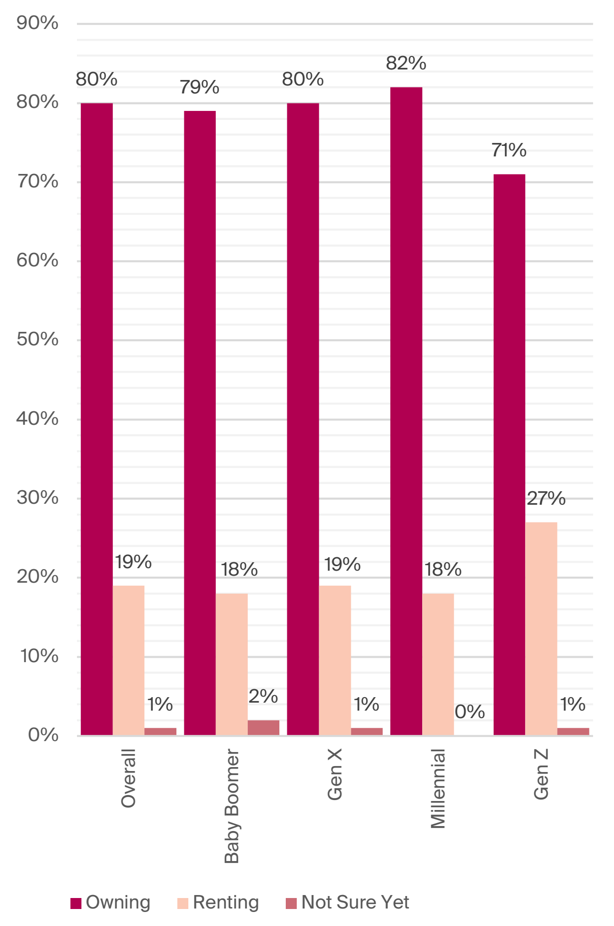


Source: Knight Frank Research

When surveyed for preferences regarding renting versus owning a home, a strong inclination towards homeownership emerges across all generations. Overall, 80% of respondents express a preference for owning a home with only 19% opting for renting and a mere 1% remaining uncertain. This sentiment is consistent across generations: 79% of Baby Boomers, 80% of Gen X, and 82% of Millennials favour homeownership, while Gen Z shows a notable difference, with only 71% preferring to own, and a high 27% leaning towards renting.

This divergence in preference among Gen Z may reflect broader societal changes and economic realities that shape their housing decisions. Factors such as student debt, job market uncertainties, and a desire for flexibility are likely influencing this younger generation's approach to housing. Understanding these preferences provides valuable insights for stakeholders in the real estate market, enabling them to tailor their offerings to meet the evolving needs and aspirations of different demographic groups. As the landscape of homeownership continues to shift, adapting strategies to resonate with each generation's unique circumstances will be crucial for success in the industry.

Homeownership prevails amongst homebuyers



Source: Knight Frank Research

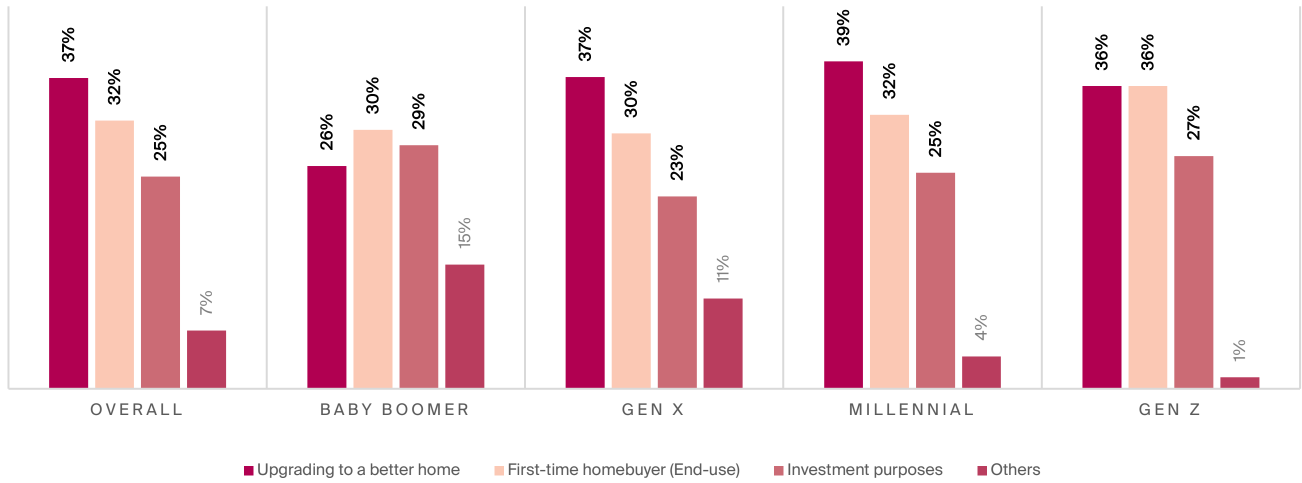
The reasons for purchasing a home show distinct generational differences. Overall, 37% of respondents are upgrading to a better home, 32% are first-time homebuyers for end-use, 25% are investing, and 7% cite other reasons, such as retirement or acquiring a second home or vacation home. Millennials (39%) and Gen Z (36%) are leading the trend of upgrading and purchasing for end-use, while Baby Boomers display a stronger interest in investments (29%) and retirement plans (15%). As highlighted earlier, the data reflects a growing shift towards mid-range and luxury housing which was traditionally concentrated in select cities, but is now expanding to Tier 1 cities in India.

The survey data presents a nuanced picture of Indian homebuyers who are balancing practical and aspirational factors in their decision-making. Location stands out as a priority and is the determining factor for 50% of respondents, affirming its timeless importance in real estate. However, the near-equal emphasis on property size and layout (45%), price and affordability (45%), suggests that homebuyers are equally focused on securing value for their money while looking for spaces that meet their lifestyle needs.

Interestingly, the builder's reputation (35%) and proximity to workplace (33%) play an important role, reflecting a strong demand for reliability and convenience, key factors that enhance buyer confidence in their long-term investment. Moreover, with amenities (32%) becoming more significant, buyers are not just purchasing homes, but are opting for enhanced living experiences, seeking integrated facilities like gyms, parks, or co-working spaces.

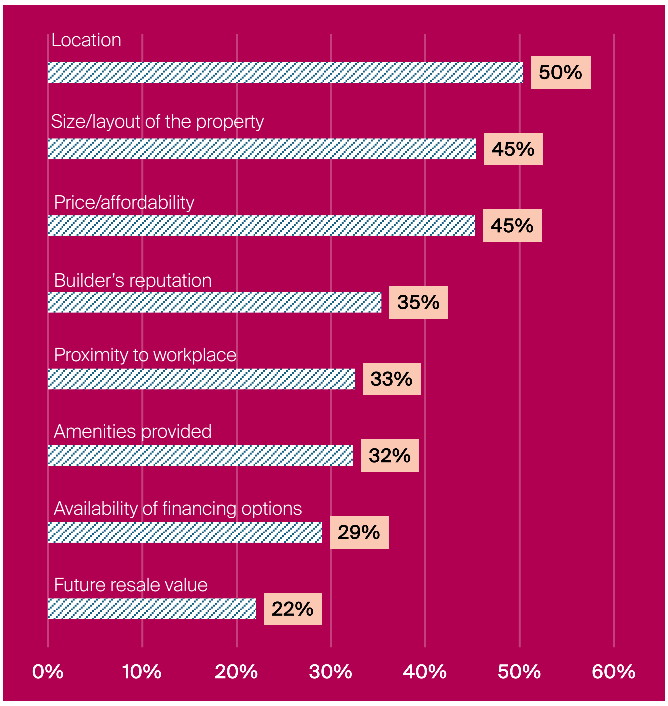
On the financial front, financing options (29%) and future resale value (22%) highlight that affordability and long-term investment potential remain crucial factors in the decision process, particularly as more buyers gravitate towards high-end homes. Though premium properties are increasingly in demand, these findings show that decisions are rooted in practicality, and buyers evaluate how well a home fits into their budget and its potential to offer returns in the future. Ultimately, the insights demonstrate that while the allure of luxury is on the rise, Indian homebuyers remain strategic, ensuring their choices satisfy both present-day comforts and future financial security.

Investment vs. End-Use: Baby Boomers Favor Investments, Millennials Upgrade

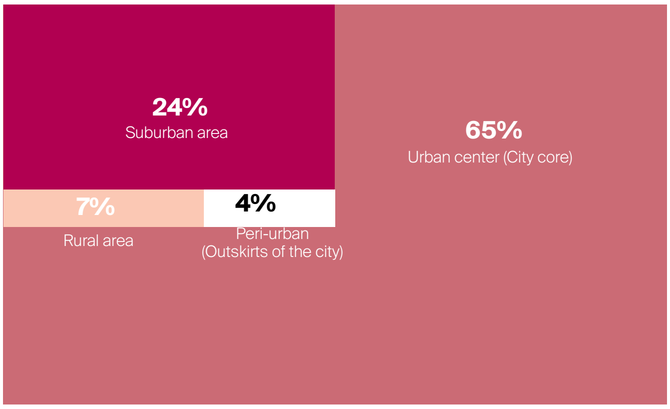


Source: Knight Frank Research
Others includes reasons to purchase for retirement or as a second home/vacation home

Balancing Aspirations and Practicality: Key Factors Influencing Homebuying Decisions



The Urban Advantage: 65% Preference Among Survey Participants



Source: Knight Frank Research

The survey reveals that 65% of homebuyers prefer purchasing homes in urban centres, underscoring a strong desire for accessibility, employment opportunities, and a vibrant community life that city cores offer. Meanwhile, 24% favour suburban areas, 7% prefer rural settings, and 4% opt for peri-urban locations on the outskirts of the city.

When considering essential external facilities in a residential project, health facilities such as hospitals and clinics top the list at 58%, followed by a proximity to shopping and retail outlets (53%), public transport (40%), and schools (37%). The high priority placed on health services and retail accessibility indicates that homebuyers value convenience and want essential services closer to home. Proximity to schools and easy access to public transport reflects the need for connectivity and family-friendly environments, while the emphasis on green spaces and parks (37%) shows a growing awareness of the importance of outdoor spaces for recreation and relaxation. Furthermore, 36% of respondents prioritize 24/7 security, signalling that safety and security measures are a key concern for many homebuyers.

These insights reveal that while urban living is highly sought after, homebuyers also look for a well-balanced living environment with easy access to essential services, connectivity, outdoor areas, and security.

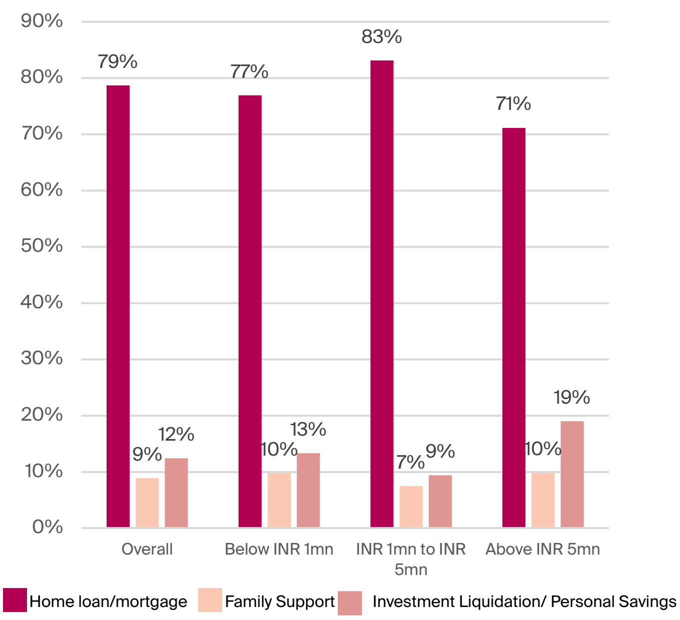
Home loans tops as the most preferred mode of financing across all income groups, with 79% of respondents relying on this option. However, there is a noticeable variation in how affluent homebuyers approach funding. While 83% of households earning between INR 1 mn to INR 5 mn prefer home loans, affluent buyers with household incomes above INR 5 mn show a higher inclination (19%) to utilize their personal savings or liquidate investments for home purchases compared to 11% in the less than INR 5 mn household income group. This suggests that wealthier individuals take a more flexible, diversified approach to financing, blending traditional home loans with personal resources to secure property.

The reliance on home loans prevails, but affluent homebuyers are more comfortable tapping into their investments, demonstrating a strategic approach to managing their assets while acquiring a home.

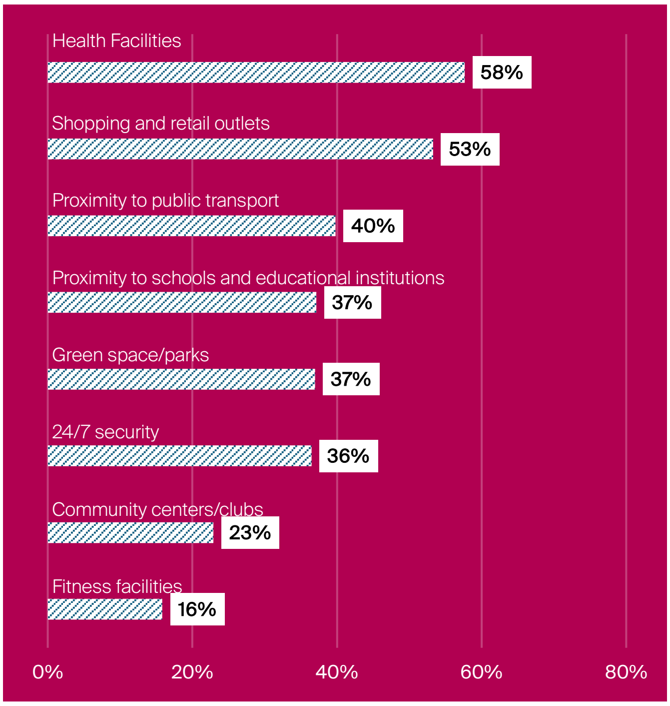
In addition to financing, the survey sheds light on homebuyers' expectations from banks and financial institutions during the homebuying process. The top priority for 74% of respondents is competitive interest rates, followed by flexible loan tenures (48%) and a quick loan approval process (38%). Guidance on legal and documentation aspects is also important for 25% respondents, and 15% of them value home insurance options.

Financial institutions play a pivotal role in enabling home purchases by offering competitive and flexible financing solutions. Lenders who go beyond the basics, providing comprehensive support such as quick loan approvals, legal guidance, and customized loan options, are well-positioned to meet the diverse and evolving needs of modern homebuyers. For both first-time buyers and affluent investors, access to tailored financial products is crucial. For this reason, banks need to align their offerings with such preferences, ensuring they deliver solutions that cater to the unique demands of various segments within the housing market.

Home loans prevail as the most preferred mode of financing amongst surveyed homebuyers.

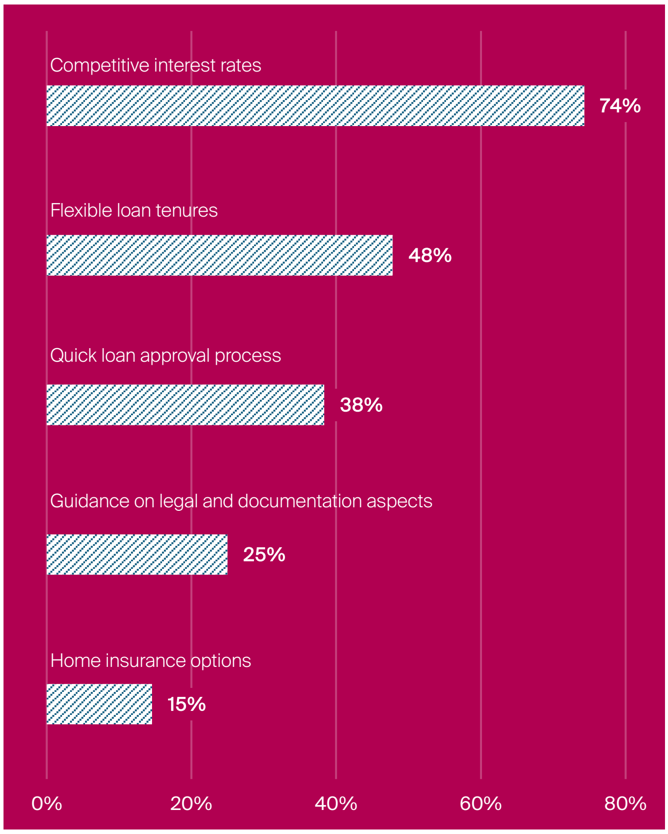


Top external facilities considered essential in a residential project



Source: Knight Frank Research

Support expected from banks or financial institution during the homebuying process

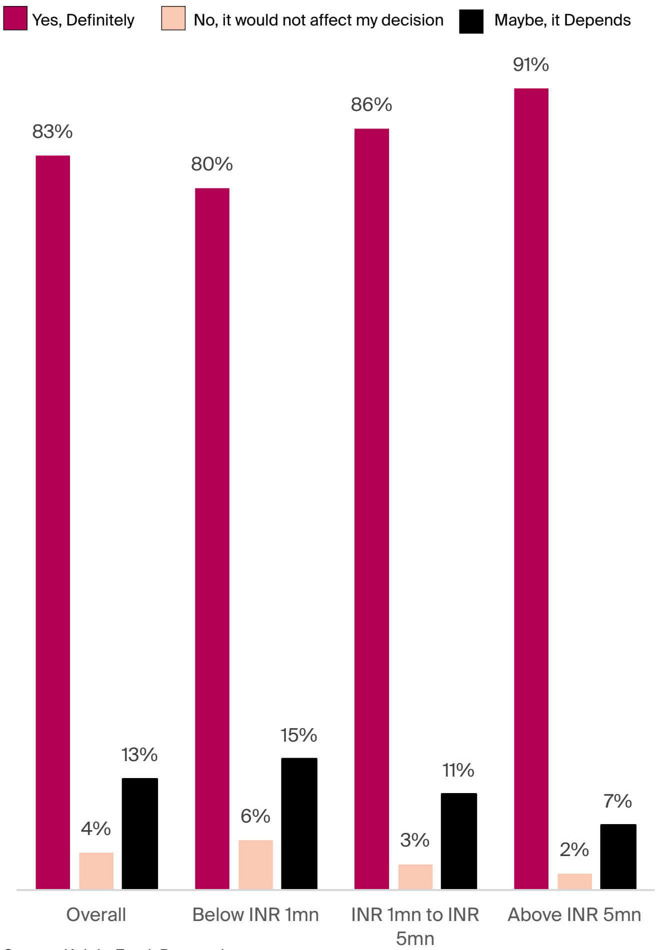


Source: Knight Frank Research

While the reduction in stamp duty has received widespread approval across all income brackets, its most pronounced effect is among households earning above INR 5 mn, with 91% of the buyers indicating that a decrease would significantly influence their purchasing decisions. This trend was particularly observable in a high value market like Mumbai during the COVID-19 pandemic when the Maharashtra government temporarily lowered the stamp duty rates to 2% and 3% from the standard 5%, resulting in a surge of property registrations, especially for homes valued above INR 50 mn which is particularly the subject for this study. There is a clear positive correlation between reduction in stamp duty and the number of home registrations in the higher value segment. Notably, the highest number of registrations occurred when the stamp duty was set to increase the following month, with December 2020 seeing record registrations at the reduced rate of 2%.

The survey results firmly establish a link between stamp duty reductions and the willingness of homebuyers to invest in properties, with affluent buyers showing strong responsiveness to these financial incentives. The historical data from Mumbai underscores how strategic policy changes can effectively stimulate market activity and drive home sales. Understanding these dynamics is crucial for policymakers and real estate stakeholders aiming to foster a robust housing market.

Perception of Homebuyers regarding Stamp Duty Reduction



Source: Knight Frank Research

Relationship between Stamp Duty Reduction and High Value Home Registrations in Mumbai

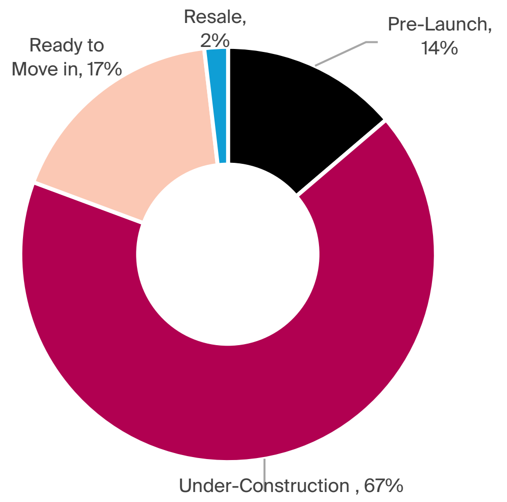
	>INR 50 mn (Units)	Stamp Duty
Jan-20	248	6%
Feb-20	182	6%
Mar-20	154	5%
Apr-20	-	5%
May-20	6	5%
Jun-20	90	5%
Jul-20	110	5%
Aug-20	**102**	**5%**
Sep-20	**246**	**2%**
Oct-20	337	2%
Nov-20	430	2%
Dec-20	**1,065**	**2%**
Jan-21	**405**	**3%**
Feb-21	405	3%
Mar-21	**1,006**	**3%**
Apr-21	**466**	**5%**
May-21	219	5%
Jun-21	314	5%
Jul-21	443	5%
Aug-21	338	5%
Sep-21	416	5%
Oct-21	378	5%
Nov-21	519	5%
Dec-21	481	5%
Jan-22	342	5%
Feb-22	406	5%
Mar-22	**873**	**5%**
Apr-22	**526**	**6%**
May-22	451	6%

Source: Knight Frank Research, Maharashtra Govt- Dept. of Registrations and Stamps (IGR)

Lastly, the survey reveals a strong inclination among homebuyers toward purchasing homes that are under construction, with 67% of respondents expressing comfort with this stage. This preference likely stems from low ready inventory, advantages such as lower prices and the potential for customization, despite the obligation to pay a 5% GST on under-construction properties. While only 14% of buyers are comfortable with pre-launch purchases, 17% prefer ready-to-move-in homes. The minimal interest in resale properties (2%) suggests a preference for new developments or concerns about the condition of older homes.

It is interesting to note that buyer perceptions toward under-construction properties have undergone a drastic change. Around 4-5 years ago, there was a lower preference for such properties and a higher inclination towards ready-to-move-in options. This shift emphasizes a clear preference for under-construction properties, reflecting buyer confidence in new developments and favourable pricing.

The Shift in Homebuyer Preference: Favouring Under-Construction Properties



Source: Knight Frank Research

4

India Commercial Real Estate Industry

India's commercial real estate market is being shaped by rapid urbanization, population growth, economic expansion, and government initiatives. These trends, alongside technological advancements, are driving demand for commercial spaces. Factors like investor sentiment, technology, economic conditions, demographics, and government policies will influence future growth. The Reserve Bank of India's adept monetary policy has helped manage inflation, reinforcing India's position as the fastest-growing major economy, with strong GDP growth projected for FY 2025.

Urbanization is a key driver, concentrating populations in cities and increasing the need for retail and commercial spaces. Mixed-use developments are on the rise, combining residential, commercial, and recreational facilities. As cities expand, commercial development spreads to peripheral areas, supported by improved connectivity through metro rail projects and highways.

Technological advancements are transforming workspace needs, with businesses favoring flexible office spaces and smart buildings. Sectors like IT and e-commerce demand modern, tech-enabled office spaces, pushing developers towards sustainable designs. Infrastructure development, including transportation and energy projects, enhances connectivity and fuels commercial growth.

Sustainability is becoming increasingly important, with green building certifications like LEED gaining traction. Energy-efficient buildings reduce operational costs and align with corporate social responsibility goals, attracting environmentally conscious tenants and investors.

Office Market

India's office space market, an integral part of the commercial real estate industry, has shown remarkable resilience and growth post-pandemic, outperforming in a global context where many economies are still grappling with the aftermath. This economic vigor has been a catalyst for the office market, with occupier activity being buoyed by the optimistic economic climate.

An analysis of office market trends from 2014 to 2024 reveals significant growth and resilience, particularly in recent years. From 2014 to 2019, the office market demonstrated a consistent upward trend in both completions and transactions, with transaction volumes peaking in 2019 at 5.6 mn sq m (60.6 mn sq ft). This period was marked by steady demand for office space, supported by economic growth and expanding business activity.

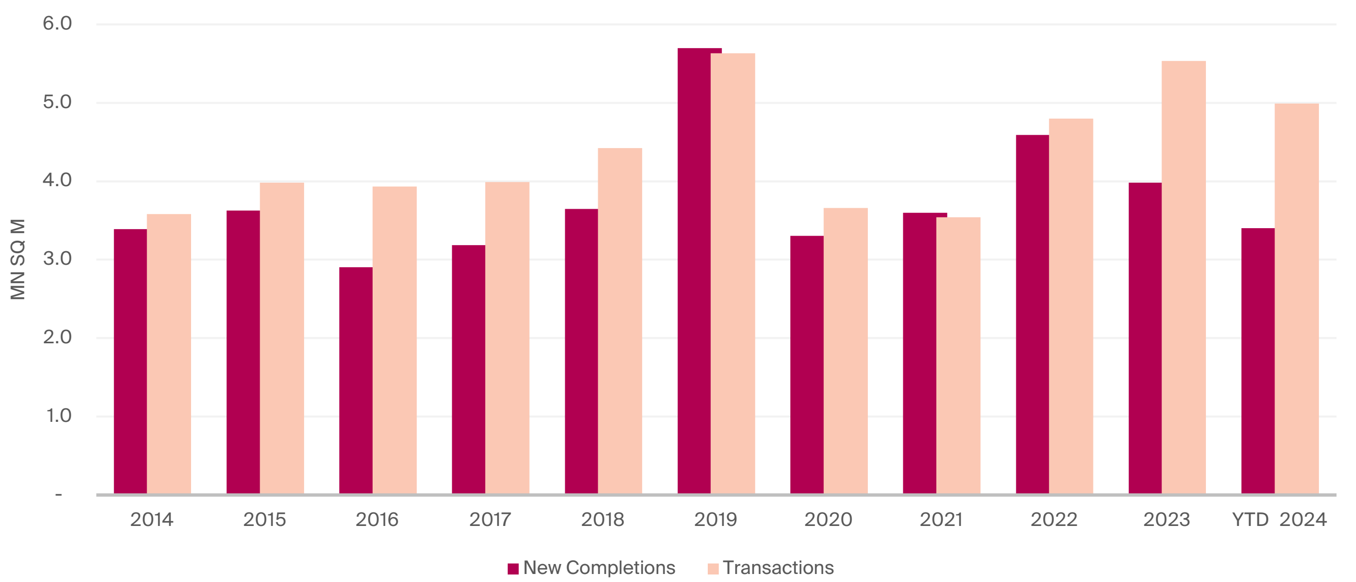
The onset of the COVID-19 pandemic in 2020 resulted in a noticeable decline in both completions and transactions, reflecting the global economic disruption and the shift to remote working. The market experienced a slowdown as businesses paused expansion plans, leading to lower office space demand.

By 2021, the market began showing signs of recovery. While there was a slight dip in both completions and transactions, the office sector started to regain momentum in 2022 and 2023. Notably, transaction volumes reached 5.5 mn sq m (59.6 mn sq ft) in 2023, indicating that the demand for office space had largely rebounded. This recovery aligns with businesses adapting to new work environments and a resurgence in demand for flexible office solutions.

The YTD data for 2024 reveals a robust office market with 5 mn sq m (53.7 mn sq ft) of transactions already recorded, a 27% increase compared to the same period in 2023. This suggests that 2024 is poised to be a record-breaking year for office space transactions, driven by factors such as growing business confidence, the expansion of Global Capability Centers (GCCs), and the strengthening of India-facing businesses.

The data points to a resilient office market that has successfully navigated challenges over the past decade, particularly through the pandemic. The significant recovery observed in transaction volumes since 2021 reflects the adaptability of businesses and the ongoing demand for office space solutions. With 2024 on track to achieve a fresh annual high, the market outlook remains positive, underpinned by strong economic sentiment and occupier activity.

Trend in Office Completions and Absorption (mn sq m)



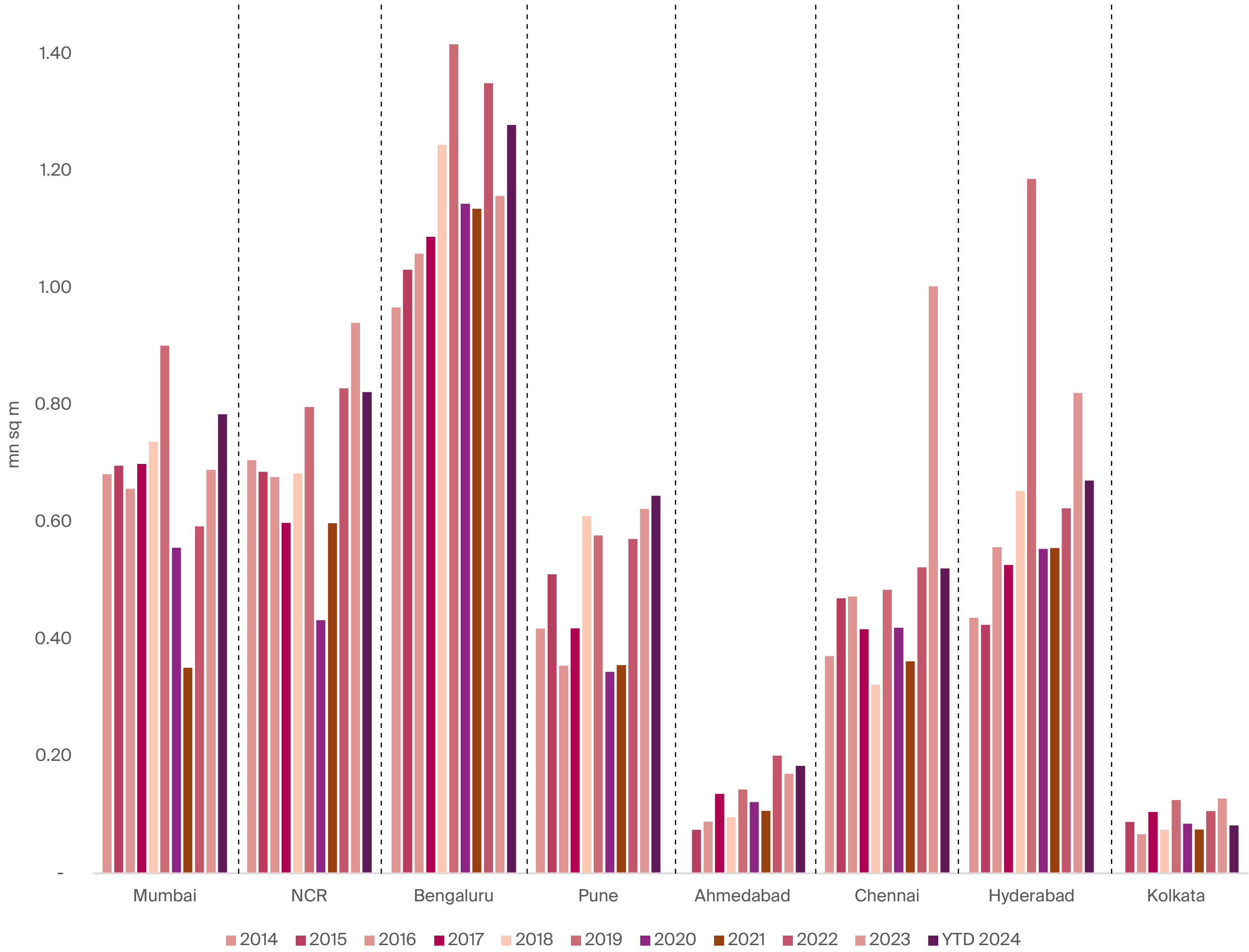
Source: Knight Frank Research
YTD – Jan-Sep
Note: 1 square metre (sq m) = 10.764 square feet (sq ft)

Bengaluru has consistently led in office transactions, reaching a peak of 1.42 mn sq m (15.3 mn sq ft) in 2019 and maintaining strong performance with 1.28 mn sq m (13.8 mn sq ft) in YTD Q3 2024. The city's dominance reflects its status as a tech hub with robust demand for office space. NCR has also shown steady growth, with transactions increasing from 0.71 mn sq m (7.6 mn sq ft) in 2014 to a peak of 0.94 mn sq m (10.1 mn sq ft) in 2023, highlighting its importance as a key business region in India.

Mumbai's office transactions fluctuated over the years but showed a notable recovery, increasing from a low of 0.35 mn sq m (3.8 mn sq ft) in 2021 to 0.78 mn sq m (8.4 mn sq ft) in YTD Q3 2024, signaling regained momentum in the city's commercial real estate sector. Pune has remained relatively stable, with slight growth, reaching 0.65 mn sq m (6.9 mn sq ft) in YTD Q3 2024, maintaining a steady demand for office spaces.

Chennai saw a significant increase, peaking at 1 mn sq m (10.8 mn sq ft) in 2023, suggesting a resurgence in demand. Hyderabad experienced remarkable growth, especially in recent years. It peaked at 1.19 mn sq m (12.8 mn sq ft) in 2019 and has stabilized since, continuing to be a strong contender in the office space market.

Trend in City wise Office Absorption (mn sq m)



Source: Knight Frank Research
YTD – Jan-Sep
Note: 1 square metre (sq m) = 10.764 square feet (sq ft)

The total office stock across major Indian cities stands at approximately 89.1 mn sq m (959 mn sq ft) highlighting a robust commercial real estate market poised for further growth. Leading cities such as Bengaluru, NCR, and Mumbai continue to dominate in terms of both supply and demand, reflecting their importance in the country's economic landscape.

This data aligns with recent trends showing strong demand for premium office spaces, driven primarily by sectors like technology, BFSI, and flexible workspace operators. These industries are major contributors to the sustained growth and expansion of the office market, reinforcing the outlook for continued activity and development in these cities.

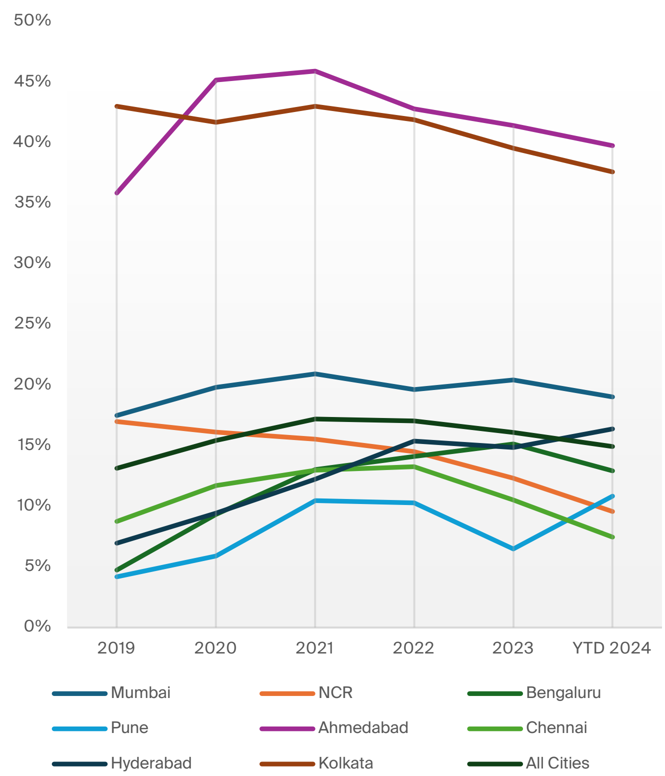
Current Office Stock

City	In mn sq m	In mn sq ft
Mumbai	15.5	166.4
NCR	17.9	192.8
Bengaluru	20.9	225.2
Pune	9.0	96.4
Ahmedabad	3.7	39.4
Chennai	8.3	89.8
Hyderabad	10.7	115.4
Kolkata	3.1	33.6
Total	**89.09**	**958.9**

Source: Knight Frank Research
Note: As of Sep- 2024

The trend in office vacancy levels across major Indian cities suggests a gradual tightening of the market, fueled by a growing demand for high-quality office spaces in prime locations, especially in Mumbai, NCR, and Bengaluru. Post-pandemic recovery is evident as the vacancy rates have dipped, reflecting improved economic conditions and businesses adapting to new operational models. This trend aligns with the increased absorption levels and heightened leasing activity, indicating that the office sector is on a strong growth trajectory.

Trend in Office Vacancy (%)



Source: Knight Frank Research
YTD – Jan-Sep

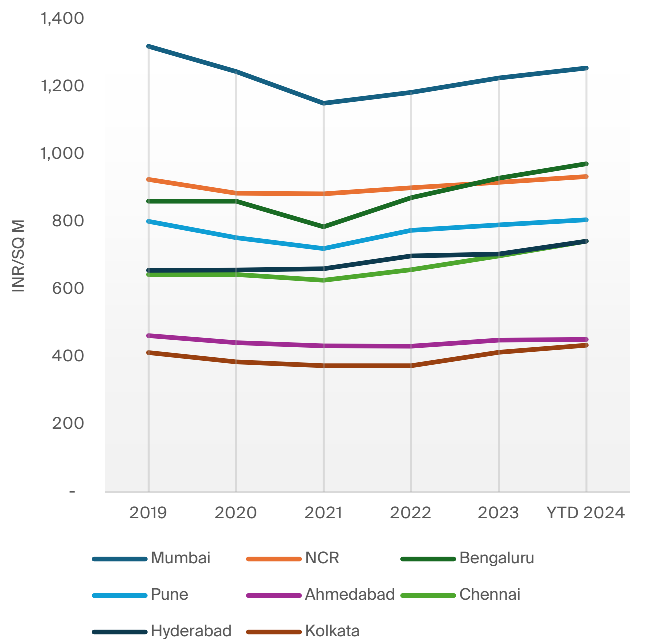
Latest Office Vacancy (%)

Mumbai	19.0%	Ahmedabad	39.8%
NCR	9.6%	Chennai	7.5%
Bengaluru	12.9%	Hyderabad	16.4%
Pune	10.8%	Kolkata	37.6%
All cities			**14.9%**

Source: Knight Frank Research
YTD – Jan-Sep

The office rental landscape across major Indian cities from 2019 to YTD 2024 reflects resilience and adaptability in the face of pandemic-induced challenges. Despite a dip, Mumbai remains the most expensive market, with a slight recovery to INR 1,256/sq m (INR 116.7/sq ft) driven by high demand in prime areas like BKC. NCR saw fluctuations but has rebounded to INR 934/sq m (INR 86.8/sq ft), fueled by Gurugram's growing demand. Bengaluru, India's tech hub, witnessed strong growth, recovering from INR 786/sq m (INR 73/sq ft) in 2021 to INR 972/sq m (INR 90.3/sq ft) in 2024, driven by the presence of Global Capability Centers. Pune's recovery to INR 807/sq m (INR 75/sq ft) was moderate, supported by the IT and engineering sectors. Ahmedabad remained stable with minimal fluctuations, while Chennai and Hyderabad experienced steady growth, reaching INR 743/sq m (INR 69/sq ft) by 2024, led by BFSI, tech, and life sciences demand. Kolkata, however, faced slower recovery, with rentals at INR 435/sq m (INR 40.4/sq ft), reflecting challenges in economic growth compared to other metros.

Trend in Rentals (INR/sq m)

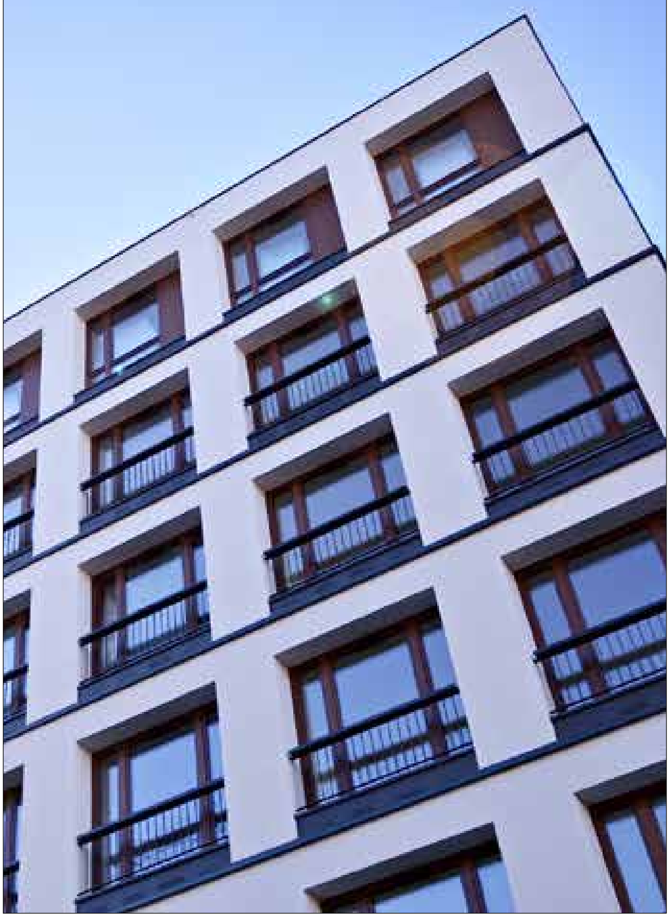


Source: Knight Frank Research
YTD – Jan-Sep

Occupier landscape

The landscape of office market occupiers in India is diverse, encompassing:

- India Facing Businesses: This segment includes transactions by lessees/buyers who have businesses focused on the Indian market.
- Third-Party IT Services: Occupiers in this category provide IT and IT-enabled services to offshore clients, servicing multiple clients without necessarily being owned by any of them.
- Global Capability Centres (GCC): These transactions involve lessees/buyers that provide various services to a single offshore company, which has complete ownership of the entity transacting the space.
- Flexible Operators/Space: This category includes companies specializing in offering comprehensive office space solutions with flexibility in tenure, services provided, and scalability according to business needs.



Latest Office Rentals

City	INR/sq m/month	INR/sq ft/month
Mumbai	1,256	116.7
NCR	934	86.8
Bengaluru	972	90.3
Pune	807	75.0
Ahmedabad	452	42.0
Chennai	743	69.0
Hyderabad	743	69.0
Kolkata	435	40.4

Source: Knight Frank Research
YTD – Jan-Sep

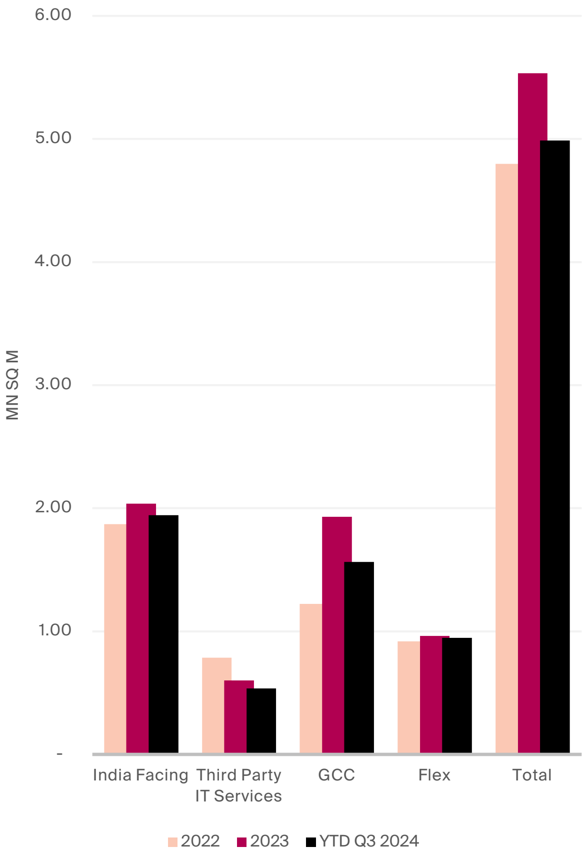
The India facing domestic-focused segment has shown a consistent increase, growing from 1.87 mn sq m (20.1 mn sq ft) in 2022 to 2.04 mn sq m (21.9 mn sq ft) in 2023. This pattern suggests sustained demand from Indian firms, driven by the country's strong economic growth.

In contrast, the third-party IT services sector has faced challenges, with leasing decreasing from 0.79 mn sq m (8.5 mn sq ft) in 2022 to 0.60 mn sq m in 2023 (6.5 mn sq ft), and further dropping to 0.54 mn sq m (5.8 mn sq ft) in YTD Q3 2024. This decline may be attributed to changing client demands and strategic adjustments by IT service providers, post-pandemic.

Global Capability Centres (GCCs) have experienced remarkable growth, expanding from 1.22 mn sq m (13.2 mn sq ft) in 2022 to a peak of 1.93 mn sq m (20.8 mn sq ft) in 2023, before settling at 1.56 mn sq m (16.8 mn sq ft) in YTD Q3 2024. This surge reflects the increasing trend of multinational companies establishing dedicated centres in India to centralize their operations and services.

Absorption by flexible space operators has demonstrated stability, with minor fluctuations. Leasing, rising from 0.92 mn sq m (9.9 mn sq ft) in 2022 to 0.96 mn sq m (10.4 mn sq ft) in 2023, has maintained status at 0.95 mn sq m (10.2 mn sq ft) in YTD Q3 2024. This steadiness highlights the continued demand for flexible office spaces, as companies increasingly adopt hybrid work models.

Trend in End Use Classification (mn sq m)



Source: Knight Frank Research
YTD – Jan-Sep
Note: 1 square metre (sq m) = 10.764 square feet (sq ft)

Retail Market

With the retail sector firmly emerging from the shadow of the pandemic, the past couple of years have witnessed revenge shopping, influencer marketing, Gen Z focused marketing by retailers, and the creation of unique and immersive shopping environments as redefining themes for the brick-and-mortar formats. Today, the retail sector in India boasts a diverse landscape and a vast geographic spread of brick-and-mortar stores. Economic growth, employment opportunities, higher disposable incomes and the wide reach of e-commerce to smaller cities has brought them under the spotlight as the next growth fulcrum for the real estate sector. The retail sector in Tier 2 cities has been relatively under penetrated compared to Tier 1 cities and this scenario is gradually changing as the sector enters the next phase of growth in India.

Shopping Centres

As of 2023, India has a total shopping centre stock of 11.6 mn sq m (125 mn sq ft) across 340 operational assets in 29 Indian cities. These 29 cities include the top eight markets – Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai, the National Capital Region (NCR) and Pune. The shopping centres are inclusive of institutionally owned assets across all grades. As Tier 1 cities have been leading the real estate development in India – whether residential, office or retail, the top 8 cities constitute 75% of the total gross leasable area of the 11.6 mn sq m (125 mn sq ft) cited above across 263 shopping centres. Of the top 8 cities, NCR, Mumbai and Bengaluru are the top three in the pecking order of gross leasable area available in shopping centres.

The tables below depict the Gross Leasable Area (GLA) constituted by the operational shopping centre stock in all 29 cities based on our primary retail store survey. Within Tier 2 cities, Lucknow has emerged as a key player with an impressive share of 18.4% gross leasable area amongst its counterparts. Other Tier 2 cities which contributed significantly to the shopping centre stock were Kochi, Jaipur, Indore, and Kozhikode.

Tier 1

8.8 (94.3)

Shopping Centre GLA in mn sq m (mn sq ft)

Tier 2

2.9 (30.8)

Shopping Centre GLA in mn sq m (mn sq ft)

Shopping Centre Stock in Top 8 cities in mn sq m (mn sq ft)

Top 8 cities	Gross Leasable Area (GLA)
Ahmedabad	0.3 (3.2)
Bengaluru	1.5 (15.6)
Chennai	0.7 (7.5)
Hyderabad	0.6 (6.7)
Kolkata	0.5 (5.5)
Mumbai	1.5 (16.3)
NCR	2.9 (31.3)
Pune	0.8 (8.2)
Total	**8.8 (94.3)**

Source: Knight Frank Research

Shopping centre development in Tier 2 cities has panned out differently from the Tier 1 markets. Unlike Tier 1 markets, where shopping centres became operational in the early 1990s, Tier 2 cities witnessed their advent only at the dawn of the millennium. Owing to this phenomenon, most Tier 2 cities are populated with relatively smaller shopping centres. While 16 Tier 2 cities still have shopping centres sized less than 0.1 mn sq m, only 5 Tier 2 cities have shopping centres admeasuring above this threshold.

Shopping Centre Stock in Tier 2 cities

Gross Leasable Area in mn sq m (mn sq ft)	No. of Cities	Name
Up to 0.1 mn sq m (Up to 1.1 mn sq ft)	16	Aurangabad, Bhopal, Bhubaneswar, Chandigarh, Coimbatore, Guwahati, Hubli, Jalandhar, Ludhiana, Mangaluru, Nagpur, Raipur, Surat, Vadodara, Vijayawada, Visakhapatnam
0.1-0.2 mn sq m (1.1 – 2.2 mn sq ft)	4	Indore, Jaipur, Kochi, Kozhikode
Above 0.2 mn sq m (Above 2.2 mn sq ft)	1	Lucknow

Source: Knight Frank Research

Grade Wise Stock Analysis

Since the advent of the mall culture in India in early 1990s, the shopping centre stock development began rampantly. While the 29 cities under our review are in various stages of shopping centre development, the underlying theme across all of them remains the same – unavailability of institutional-grade retail assets despite the increase of new supply in this category.

As of 2023, Grade A shopping centre stock with enviable occupancy, strong tenant mix, good positioning, and active mall management, contributed 47% to the overall shopping centre space across the country with 5.4 mn sq m (58.2 mn sq ft). Grade B shopping centre stock with decent occupancy and tenant mix, contributed 31% with 3.7 mn sq m (39.7 mn sq ft). Grade C stock on the other hand, with high vacancy rates, inferior tenant mix, poor mall management, contributed the lowest at 22%, with 2.5 mn sq m (27.2 mn sq ft) leasable space locked in these assets. In the current assessment period, we also observed that some Grade C shopping centre assets in Tier 1 cities such as the NCR, Mumbai and Pune were demolished to pave the way for construction of residential inventory to monetize the land parcels as demand for residential units has been strong since the pandemic.

While concerns around asset quality and revenue potential may put some of these struggling structures completely out of business, the future of Grade A assets in India remains bright as they continue to bustle with footfalls and remain hotspots for new retailer entry and expansion. Most of the new shopping centre supply in 2023 belongs to the Grade A category in cities such as the NCR, Mumbai, Bengaluru and Ahmedabad.

5.4 (58.2)
Grade A
Stock mn sq m (mn sq ft)
82
No. of Shopping Centres

3.7 (39.7)
Grade B
Stock mn sq m (mn sq ft)
126
No. of Shopping Centres

2.5 (27.2)
Grade C
Stock mn sq m (mn sq ft)
132
No. of Shopping Centres

It is important to understand the grade-wise vacancy in Tier 1 and Tier 2 cities separately, given the difference in the quality and growth of shopping centre stock. The lower vacancy in Grade C stock in Tier 1 and 2 cities is largely due to a lower stock base.

Grade-wise Shopping Centre Vacancy

Vacancy 2023	Grade A	Grade B	Grade C
Tier 1	4.2%	12.4%	36.5%
Tier 2	7.1%	22.2%	17.9%

Source: Knight Frank Research

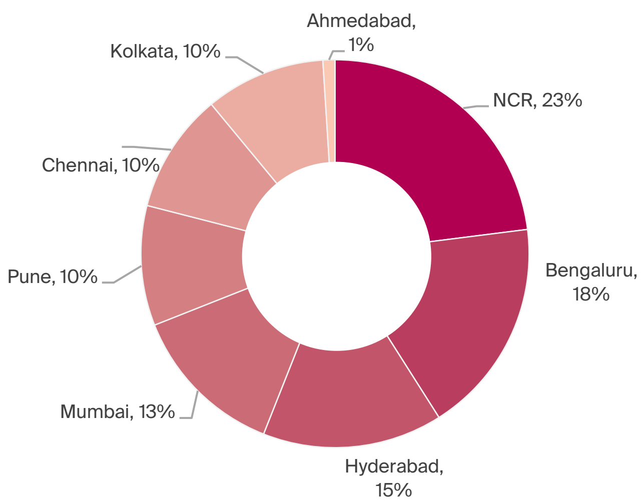
High Streets

The expanse of the 58 high streets includes 59% listed in Tier 1 cities, comprising 82% of the total retail stores surveyed.

High street stores in top 8 markets

Of the 82% stores located in the top 8 cities, NCR (with 23%), Bengaluru (with 18%), and Hyderabad (with 15%), account for the top 3 cities with the maximum number of stores. Mumbai comprised 13% share in the total number of stores in the top 8 cities. There is a certain kind of shopping experience that some high streets in Bengaluru, Mumbai and NCR provide, which shopping centres cannot match. Early advent of modern retail, participation in organized retailing and mega retailer expansion across the length and breadth of these cities offer a unique character to high streets in locations such as Brigade Road, Indiranagar, Colaba Causeway, Connaught Place and Khan Market. These high streets are famous for their mix of regional and international showrooms and have a loyal customer base. In these three cities, the real estate footprint of international origin brands ranges between 13-15% which is much higher compared to the other cities.

Percentage Share of High Street Stores in Tier 1 Cities



Source: Knight Frank Research

Comparison Between Shopping Centres and High Streets

High streets and shopping centres represent two ends of the retail spectrum, each offering distinct and unique advantages and characteristics. High streets are characterized by a diverse yet a limited mix of small to medium-sized independent stores accommodating brands across retail categories. It is seldom that high streets offer large store footprints which limits the retail categories. Yet, certain unique, localized, and traditional brands can be found only in high streets. Conversely, the shopping centres are designed and built to encompass and conveniently provide a larger assortment of brands across categories housed in large, medium and small sized stores. Both play important roles in the retail landscape, catering to different consumer needs and preferences.

There is a great deal of disparity between retailer footprint in high streets and shopping centres; where the number of stores in shopping centres are 16,815, those in high streets are 7,246. This is essentially due to factors such as strata sold assets, fragmented nature of retailer presence on the ever expanding high streets, size and location of shopping centres. This impacts the size of stores located on high streets and in shopping centres. High streets typically feature smaller format stores which allow for more stores to occupy the available space. In contrast, shopping centres usually house larger stores alongside smaller shops, resulting in a lower average number of stores per centre. While some high streets may have a few big format stores, they are somewhat rare compared to shopping centres which are designed to accommodate multiple anchor stores of various formats ranging from department stores to entertainment.

Retailer Category Comparison

Apparel leads across shopping centres and high streets with 33% and 29% of stores, respectively, highlighting its consumer appeal across retail environments. Shopping centres, with more space, tend to house a higher concentration of fashion retailers.

Beauty and footwear categories are more prevalent in shopping centres, each at 8%, compared to 4% and 6% on high streets, reflecting the greater variety of brands these centres accommodate.

Food and beverage outlets are significant in both formats, comprising 18% of high street stores and 16% in shopping centres, underscoring the role of dining in retail experiences. High streets may offer more diverse culinary options.

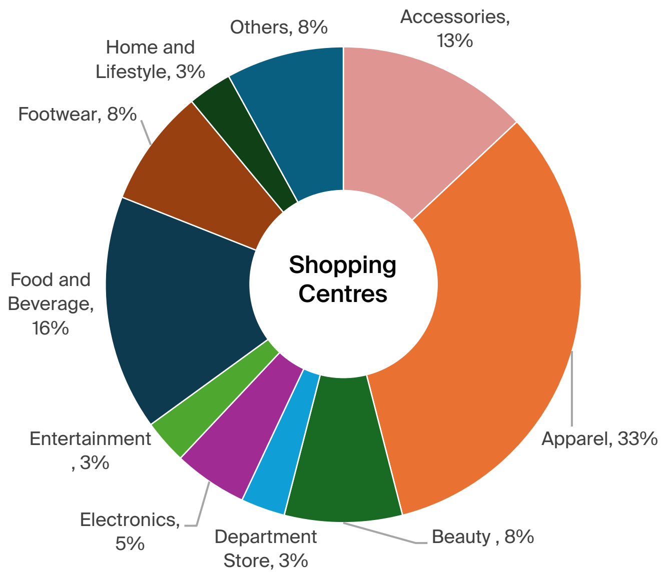
Department stores and entertainment such as cinemas, are more common in shopping centres (3% each) due to larger spaces, while high streets face limitations (2% and 1%, respectively).

High streets hold a slight edge in accessory stores (17% vs. 13%), reflecting impulse shopping trends, while electronics maintain an equal presence with 5% in both formats.

Home and lifestyle stores appear more on high streets (5%) than on shopping centres (3%), with high streets also having a higher percentage of other categories (13% vs. 8%).

These differences reflect how each retail format caters to varied consumer preferences and shopping experiences.

Retailer Category Comparison between Shopping Centres and High Streets



Source: Knight Frank Research

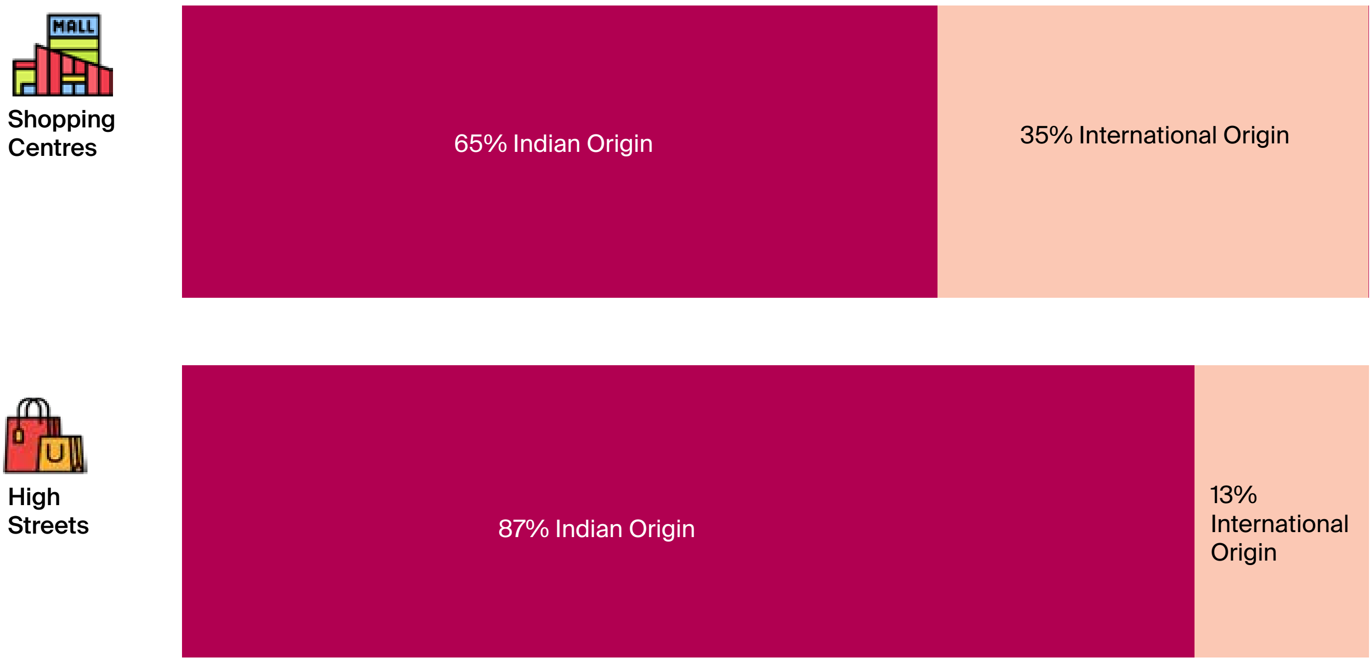
Brand Origin Comparison across Retail Formats

These statistics underscore the distinct retail compositions of high streets and shopping centres in India. High streets are dominated by Indian origin brands, which make up 87% of stores, reflecting local tastes, established businesses, and cultural significance. In contrast, international brands account for only 13% of high street stores. Shopping centres, while still home to a majority of Indian brands (65%), have a larger share of international brands at 35%, driven by developers' efforts to attract global names and position these centres as cosmopolitan hubs.

Indian brands have a clear advantage across both formats, occupying about 85% of total retail space, while international brands take up 15%. Shopping centres are preferred by international brands due to their structured environments, which better align with global standards for store size, access, and signage. High streets, with their individual and family-owned spaces, often have more flexible guidelines, making them a natural fit for Indian brands, including traditional local and hyperlocal businesses. These local brands are expanding beyond their initial geographies, moving from high streets into shopping centres. Additionally, homegrown start-up brands that initially operated online, are now branching out into physical retail spaces. These brands are leveraging a diversified approach, establishing their presence in shopping centres, high streets, neighbourhood markets, and shop-in-shop formats within department stores.

Overall, this highlights the complex and dynamic nature of India's retail sector, shaped by the unique characteristics of high streets and shopping centres, and the interplay between local and international brands.

Brand Origin Comparison between Shopping Centres and High Streets



Warehousing Market

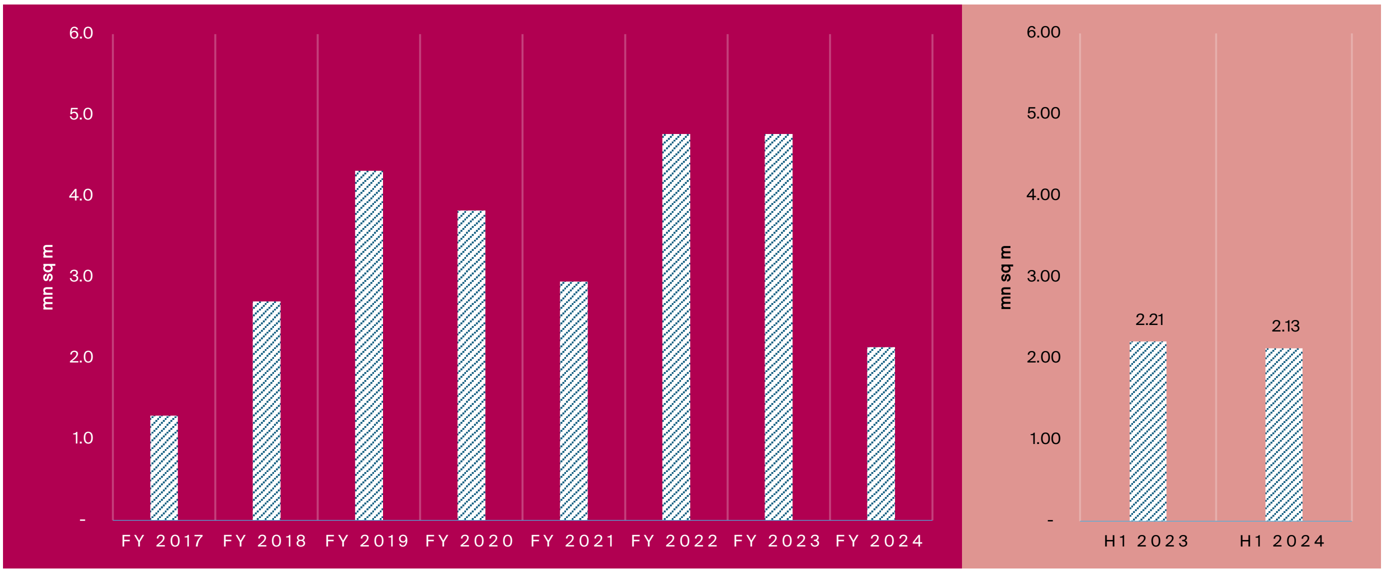
The warehousing market has experienced steady growth since the pandemic, with annual transaction volumes consistently trending upwards. While demand from the e-commerce sector has softened, it was effectively offset by increased demand from the manufacturing sector. This shift marked a positive development for the market, as it showcased a more diverse and resilient occupier base that no longer relied on a single tenant group to drive volume. Despite these strong fundamentals, the market saw a period of consolidation towards the end of 2023, causing overall activity to slow temporarily.

As the market entered 2024, occupier demand remained stable, with a total of 2.13 mn sq m (22.9 mn sq ft) transacted in the first half of the year. This figure represented a 4% decline compared to the same period in 2023. Of these transactions, 55% occurred in Grade A spaces.

A key trend in H1 2024 was the continued dominance of the manufacturing sector, which surpassed the 3PL (third-party logistics) sector by accounting for 36% of the total transaction volume. The manufacturing sector's growth was driven by industries such as automotive, energy, and chemicals, which have benefited from the ongoing decentralization of manufacturing capacity from China. India has emerged as a prime destination for this shift, attracting major global manufacturers like Apple, Samsung, Foxconn, and TSMC.

Following manufacturing, the 3PL sector accounted for 30% of transaction volume. Other sectors had smaller shares, all in single digits. Meanwhile, the e-commerce sector has remained stagnant since early 2022 due to surplus capacities from the pandemic era's aggressive expansion. Many large players in the sector have secured captive-owned, large-format spaces for regional hubs, which do not appear in market demand figures since they are not part of the leasable space pool. As e-commerce companies prioritize profitability, they have focused on cost reduction and avoided speculative expansion, further limiting their impact on the warehousing market.

Warehousing Market Transaction Volume



Source: Knight Frank Research
Note: 1 square metre (sq m) = 10.764 square feet (sq ft)

Industry-split of transaction volume

	3PL	Ecommerce	FMCD	FMCG	Other Manufacturing	Miscellaneous	Retail
FY 2017	15%	18%	14%	10%	30%	4%	10%
FY 2018	35%	14%	6%	7%	21%	4%	12%
FY 2019	36%	24%	3%	4%	21%	1%	11%
FY 2020	35%	23%	4%	4%	23%	3%	8%
FY 2021	31%	31%	5%	5%	23%	1%	4%
FY 2022	29%	23%	3%	2%	28%	4%	11%
FY 2023	39%	7%	4%	3%	30%	5%	13%
H1 2024	30%	9%	6%	5%	36%	6%	8%

Source: Knight Frank Research
Notes:
- Warehousing transactions data includes light manufacturing/assembling.
- Other Manufacturing – These include all manufacturing sectors (automobile, electronics, pharmaceutical, etc.) except FMCG and FMCD.
- Miscellaneous – These include services such as telecom, real estate, document management, agricultural warehousing and publishing.

The top eight warehousing markets in India hold a warehousing stock of 42.9 mn sq m (462 mn sq ft). Mumbai is by far the largest market constituting 40% of the total stock with the NCR being a distant second at 22%. Healthy transaction volumes, in tandem with comparatively lower supply in recent times, have brought down the vacancy levels to 9.3% in H1 2024. Vacancy levels in the markets of Mumbai, Pune and Ahmedabad now stand at single digits at 9.4%, 8% and 8.3% respectively.

Share of Grade A Stock

Market	Chennai	Pune	Kolkata	Hyderabad	Bengaluru	Ahmedabad	NCR	Mumbai	Total
H1 2024	76%	71%	51%	44%	39	38	37%	22%	**40%**

Source: Knight Frank Research

The development of Grade A warehousing facilities has continued to increase in recent years, and currently constitutes 40%. The larger warehousing markets of Mumbai and NCR have a significantly lower proportion of Grade A warehouses as they are much older markets, and the bulk of their stock had been built before the demand for Grade A warehousing gathered momentum. Pune and Chennai have the highest concentration of Grade A stock due to their primary demand base of auto and auto ancillary occupiers. With the emerging focus on sustainable development, there is also an increasing need to improve the aesthetics of these warehousing parks and enable a better working environment.

Market-split of Warehousing Stock and Vacancy in H1 2024

Market	Existing Stock mn sq m (mn sq ft)	Vacancy
Mumbai	13.3 (143)	9.4%
NCR	9.2 (99.1)	15.7%
Bengaluru	4.3 (46.4)	21.1%
Chennai	3.8 (41.2)	11.2%
Ahmedabad	3.8 (40.7)	8.3%
Kolkata	3.5 (37.3)	10.4%
Pune	2.8 (30.6)	8.0%
Hyderabad	2.2 (23.2)	11.6%
Total	42.9 (461.6)	9.3%

Source: Knight Frank Research

Rent

Rent growth had been a challenge for the warehousing market over the past decade, and it only started to gain momentum in 2021 due to the inflationary pressures on steel and cement prices and the recovery in demand. Although occupier activity appears to have moderated during the current analysis period, the rent growth trajectory across markets has been maintained in H1 2024 compared to levels at the end of H1 2023.

Average Rent in INR /sq/m (INR/sq ft/month)

	H1 2023	H1 2024	% Change
Pune	269 (25.0)	280 (26.0)	4.0%
Chennai	242 (22.5)	252 (23.4)	4.0%
Ahmedabad	183 (17.0)	189 (17.6)	3.7%
NCR	217 (20.2)	224 (20.8)	3.0%
Kolkata	249 (23.1)	256 (23.8)	3.0%
Hyderabad	215 (20.0)	221 (20.5)	2.5%
Mumbai	249 (23.1)	254 (23.6)	2.3%
Bangalore	231 (21.5)	237 (22.0)	2.3%

Source: Knight Frank Research

5

India Real Estate Investment Trust (REITs)

REITs: Reshaping Real Estate Investments in India

In course of financial evolution, the Securities and Exchange Board of India (SEBI) first introduced its draft REIT regulations in 2007, and after considerable revisions, the Real Estate Investment Trusts Regulations, 2014 (REIT Regulations) were enacted in India on 26th September 2014. The inaugural REIT, Embassy Office Parks, was listed on the Exchange in April 2019. Following suit, Mindspace Business Parks REIT got listed in August 2020, Brookfield India Real Estate REIT in early 2021, and Nexus Select Trust REIT in 2023.

Indian Office REITs Portfolio

Office Portfolio (mn sq ft)	Mumbai	Hyderabad	Pune	Chennai	NCR	Kolkata	Bengaluru	Chandigarh
Embassy Office Parks REIT	2.0	-	6.4	1.4	4.6	-	23.2	-
Mindspace Business Parks REIT	10.6	10.1	4.4	1.1	-	-	-	-
Brookfield India REIT	4.3	-	-	-	16.7	3.2	-	-
Nexus Select Trust	-	-	1.0	0.2	-	-	-	0.2

Note: Under construction portfolio not considered

Nexus Select Trust Retail Portfolio (mn sq ft)

Amritsar	0.5
Chandigarh	1.3
Delhi	0.5
Udaipur	0.4
Bengaluru	1.2
Mysuru	0.3
Chennai	0.6
Mangaluru	0.7
Hyderabad	0.8
Ahmedabad	0.9
Indore	0.6
Mumbai	1
Pune	0.4
Bhubaneswar	0.4

The Indian REIT market has made significant strides in recent years with major players such as Embassy Office Parks, Mindspace Business Parks, Brookfield India, and Nexus Select Trust building expansive portfolios across key cities. Embassy Office Parks leads, with the largest office assets (23.2 mn sq ft) concentrated in Bengaluru; Mindspace follows, holding sizable portfolios in both Mumbai (10.6 mn sq ft) and Hyderabad (10.1 mn sq ft), positioning itself strongly in these metropolitan markets. Brookfield India REIT commands a significant presence in NCR with 16.7 mn sq ft of office space. Nexus Select Trust, though primarily focused on retail, maintains a smaller office portfolio across Pune, Chennai, and Chandigarh.

Beyond office assets, Nexus Select Trust is notable for its retail holdings, with 9.6 mn sq ft of space spread across 14 cities, including major urban centers like Bengaluru, Hyderabad, Mumbai, and Delhi. This diversification reflects the growing interest in retail real estate within India's REIT market.

In total, Indian REITs control 114.5 mn sq ft of assets, of which 89.4 mn sq ft are dedicated to office space. Additionally, 25.1 mn sq ft of office space are currently under development, indicating the potential for continued growth in the sector. This expansion highlights India's increasing appeal as a destination for institutional real estate investments, with its urban markets experiencing heightened demand for both commercial and retail spaces. As the REITs continue to grow, they will play an essential role in the development and transformation of India's urban landscapes.

The Performance of Indian REITs since Inception

Company	Sector	Issue date	Issue price	YoY*	Price change since listing*	Annual yield
Embassy Office Parks REIT	Office	5th Apr 19	300	26.4%	30.0%	5.7%
Mindspace Business Parks REIT	Office	7th Aug 20	275	19.0%	33.3%	5.5%
Brookfield India Real Estate Trust	Office	19th Feb 21	275	20.6%	6.5%	6.5%
Nexus Select Trust	Retail	19th May 23	100	12.8%	44.4%	5.9%

*Data as on 16thOctober 2024

The improved performance of most Indian REITs can be attributed to several key factors that have led to their outperformance compared to broader market indices such as the Nifty 50 which delivered 26.7% returns in the last one year*. Several REITs, including Embassy Office Parks, Mindspace Business Parks, Brookfield India, and Nexus Select Trust, have consistently generated strong returns due to a growing demand for quality commercial and retail spaces, resilient rental incomes, and strategic portfolio management. This performance is further bolstered by favorable macro-economic conditions, especially the post-pandemic recovery, which fueled increased leasing activity and higher occupancy rates across office and retail segments.

REITs such as Embassy Office Parks and Mindspace Business Parks have particularly benefitted from the strong demand for premium office spaces. The growth of e-commerce and organized retail has also contributed to the strong showing of Nexus Select Trust. This sectoral tailwind has driven REITs to deliver impressive YoY (year-on-year) price gains, with Nexus Select Trust leading with a 44.4% increase in the last one year*, closely followed by Embassy and Mindspace.

In terms of annual yield, REITs in India have delivered an average of 5.9%. Embassy Office Parks offers a yield of 5.7%, while Brookfield India Real Estate Trust provides 6.5%. These yields make REITs attractive for investors seeking both potential capital appreciation and steady income streams. REITs provide an additional avenue for diversification within the market, offering a balance between income and growth opportunities for investors.

REITs have thus emerged as a compelling alternative for income-seeking investors, providing diversification benefits along with better returns. This strong performance underscores the robustness of the commercial real estate market in India and positions REITs as an increasingly attractive investment vehicle in the Indian capital markets.

Global Recognition: Indian REITs Making Their Mark

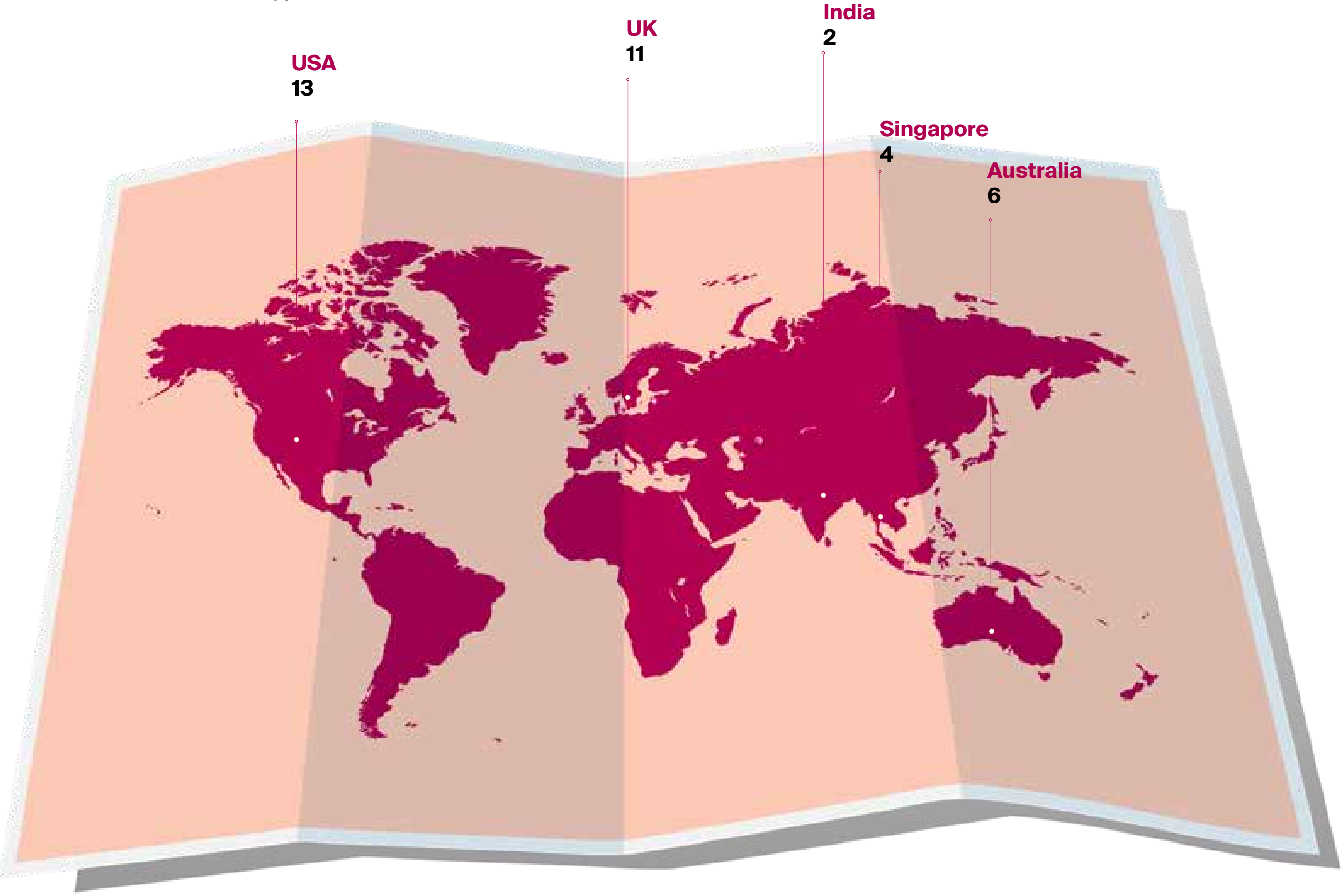
Office Portfolio (mn sq ft)	USA	UK	Australia	Singapore	China	India
GDP (USD bn) *	26,980	3,762	1,865	440	21,595	3,791
First REIT Launch Year	1960	2007	1971	2002	2001	2019
No. of REITs	225	50	45	40	28	4
REITs Market Cap (USD bn)	1,226.1	65.9	90.3	77.5	4.7	11
Market Cap/GDP	4.8%	2.1%	5.6%	13.1%	0.0%	0.2%

India's REIT market, while nascent compared to its global counterparts, is set for significant growth. Currently focused on the office and retail sectors, the future holds immense potential for diversification in warehousing, data centers, hospitality and other sectors. As India's real estate landscape evolves, REITs are expected to play a pivotal role in unlocking value and attracting both domestic and international investors.

Number of different types of REITs listed in countries

Types of REITs	
1) Industrial	5) Diversified
2) Office	6) Hotel REIT
3) Retail	i) Lodging/Resorts
i) Shopping Centres	7) Health Care
ii) Regional Malls	8) Self Storage
iii) Free Standing	9) Timber
4) Residential	10) Infrastructure
i) Apartments	11) Data Centres
ii) Manufactured Homes	12) Gaming
iii) Single Family Homes	13) Specialty

Number of different types of REITs listed in countries



India entered the REIT space in 2019, nearly six decades after the US launched its first REIT. While India has only four REITs, its potential is evident when compared to mature markets. For example, while the US REIT market with 225 REITs and a market cap exceeding USD 1.2 trn represents 4.8% of its GDP, India's REIT market cap stands at a modest USD 11 bn, representing just 0.2% of its GDP. This indicates vast untapped potential for expansion, especially considering the country's growing economy and demand for quality office and retail spaces.

Globally, REIT markets have diversified beyond office and retail properties into sectors like industrial, healthcare, infrastructure, and data centers. In comparison, India's REIT market is still in its early stages of development, but the success of these initial offerings sets a strong foundation for future growth.

Rising Potential for REITs

India's office REITs cover only 11.9% of the total available office space across major cities, highlighting significant room for expansion. The demand for office spaces, especially from India facing businesses and Global Capability Center (GCCs), continues to rise as the economy strengthens post-pandemic. With increasing corporate leasing and growing demand for high-quality office spaces, REITs focusing on this sector have a solid growth trajectory ahead.

Moreover, the introduction of retail REITs comes at a time when the retail sector is undergoing a revival. As of December 2023, over 94 mn sq ft of retail stock exists across the top 8 markets in India. As the retail industry shifts towards organized formats like shopping centers, retail REITs offer an excellent opportunity to unlock value in the commercial real estate market.

Warehousing and Industrial REITs: A New Frontier

One of the most promising sectors for future REITs in India is warehousing. The demand for high-quality logistics infrastructure, driven by e-commerce growth and third-party logistics (3PL) providers, has surged. In H1 2024, 22.9 mn sq ft of warehouse space was leased across major cities, reflecting robust demand. Grade A warehousing facilities, known for their technology-enabled operations, are gaining traction among occupiers, and this presents a ripe opportunity for the introduction of India's first industrial or warehousing REIT.

The top eight warehousing markets in India hold a warehousing stock of 462 mn sq ft. With growing interest from both developers and investors, industrial REITs are expected to be launched in the next few years, offering a new investment avenue for those seeking exposure to India's booming logistics sector.

Data Centers: The Next REIT Opportunity

The growing demand for data centers, fueled by digitalization and cloud technology adoption, positions data centers as a potential REIT segment in future. As businesses increasingly rely on big data, artificial intelligence, and digital services, the demand for data storage and processing facilities has skyrocketed. Globally, data center REITs have emerged as a high-growth asset class, particularly in the US.

In India, telecom infrastructure and data center investments are expanding, laying the groundwork for data center REITs. As regulatory frameworks evolve to accommodate this asset class, data center REITs could become a reality in the next few years, offering investors another high-growth opportunity.

Hospitality and Hotel REITs

While India's hospitality sector is currently under-represented in the REIT space, there is potential for growth. Embassy REIT holds a portfolio of hotel assets, but a dedicated hotel REIT could emerge once regulatory issues are resolved. Hotel REITs could transform the hospitality industry, attracting capital into this capital-intensive sector with tourism and business travel bouncing back post-pandemic.

Conclusion: A Bright Future for Indian REITs

India's REIT market, although in its early stages, has the potential to become a key investment avenue. The current focus on office and retail properties is just the beginning. With the introduction of industrial, warehousing, data centers, and hospitality REITs in the near future, the market is expected to diversify and expand. As REITs gain traction, they will not only unlock value in India's real estate sector but also offer investors a transparent and robust investment option. Inspired by global success, Indian REITs are on the cusp of significant growth, positioning themselves as a cornerstone of the country's evolving real estate landscape.

6

Private Equity in Indian Real Estate

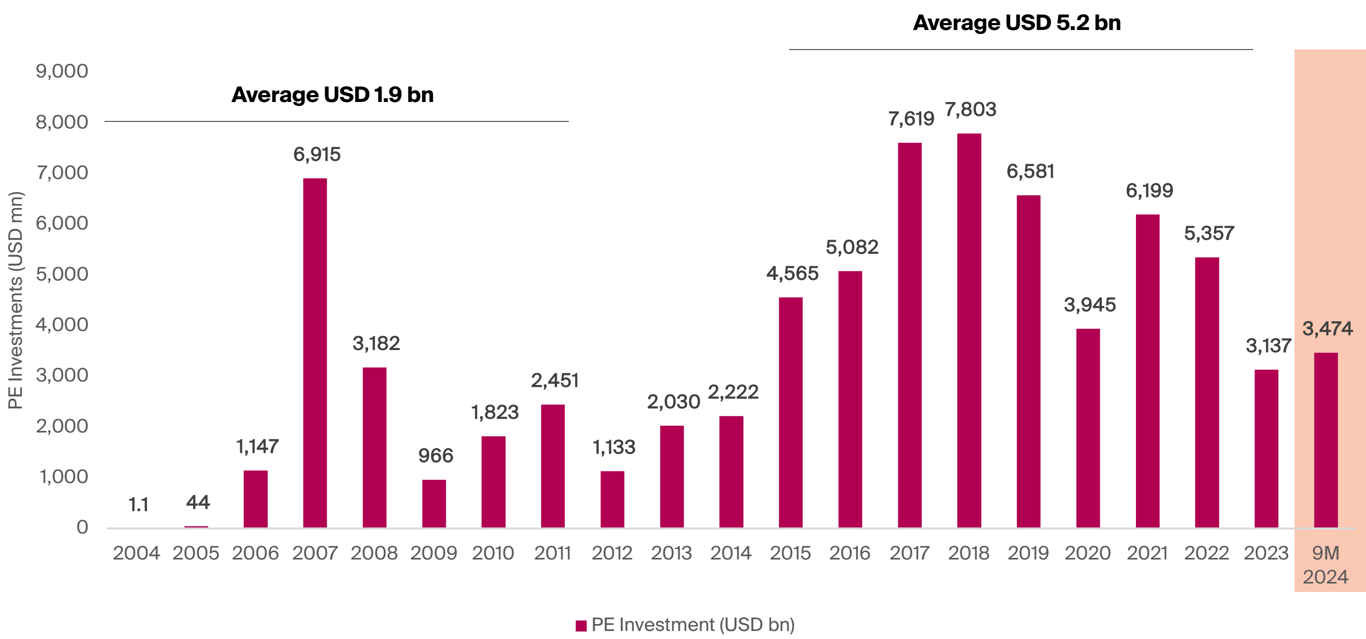
REITs: Reshaping Real Estate Investments in India

Private equity (PE) investments in the Indian real estate sector have steadily increased from USD 1.1 bn in 2004 to USD 7.8 bn in 2018, reaching USD 3.5 bn in the first nine months of 2024. Over the past two decades, the sector has experienced consistent growth, accumulating over USD 75.7 bn across the Office, Warehousing, Residential, and Retail sectors. Particularly striking is the sector's significant expansion of 174% over the last decade, with an average annual PE investment of USD 5.2 bn between 2013 and 2023, compared to USD 1.9 bn annually from 2004 to 2013.

PE investments in Indian real estate peaked at USD 6.9 bn in 2007 but were severely affected by the 2008 global financial crisis, leading to stagnation between 2008 and 2014. However, since 2014, the sector has seen a robust recovery, supported by India's economic growth, increasing real estate demand, favorable government policies, and improved supply.

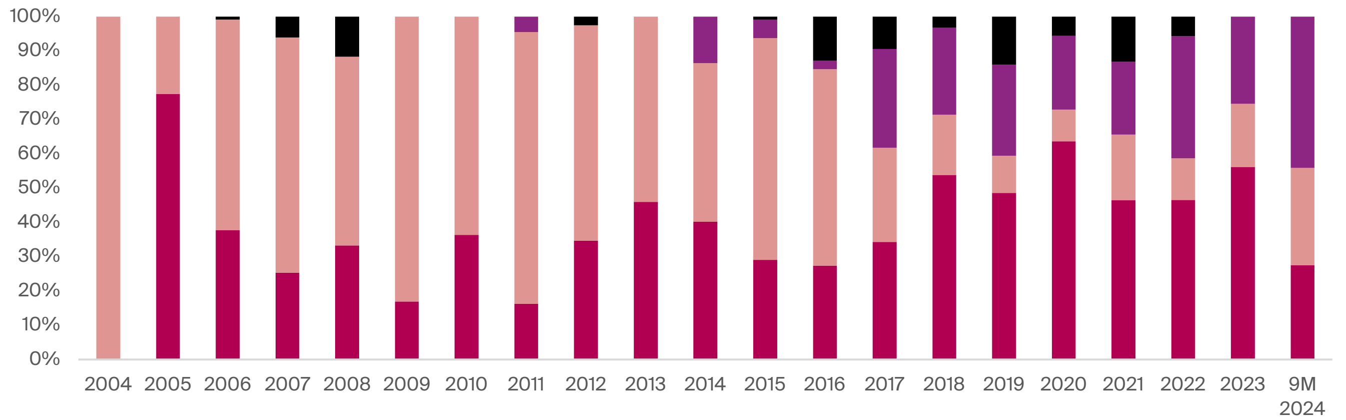
PE investments in 2023 were affected as investors adopted a more cautious approach in response to rising interest rates in major economies and ongoing geopolitical tensions. However, India remains a key global investment destination, and as these challenges ease, investments are expected to rebound. Notably, PE investments in Indian real estate have already reached USD 3.5 bn in the first nine months of 2024, surpassing the total investment for 2023.

Investment Evolution: Private Equity's Journey in the Indian Real Estate Landscape



Source: Knight Frank Research, Venture Intelligence

Private Equity across Real Estate Segments

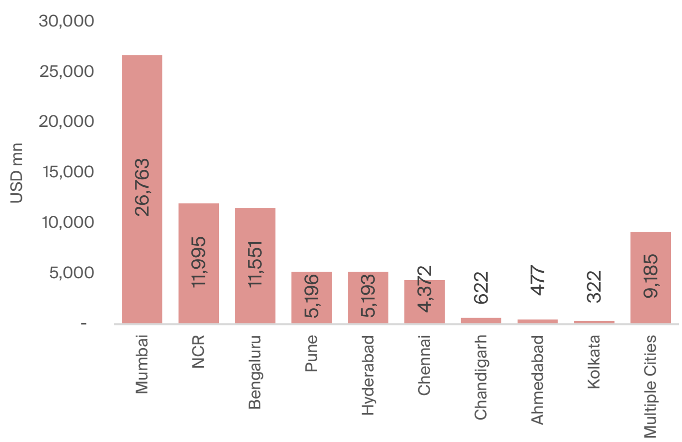


Source: Knight Frank Research, Venture Intelligence

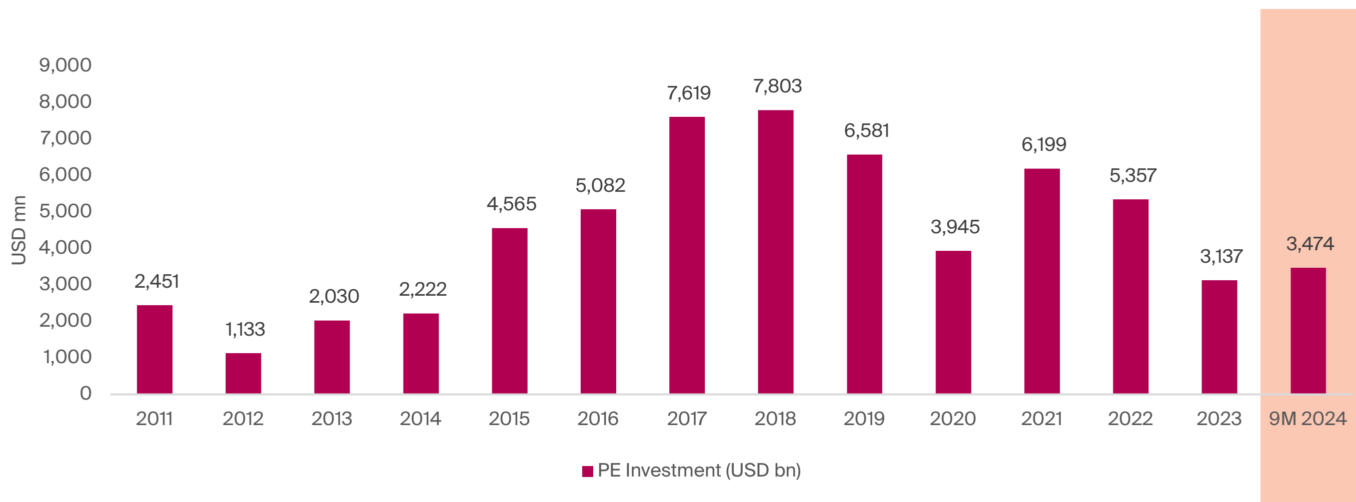
Mapping Private Equity Investments across Cities

Fueled by robust demand for both office and residential spaces, Mumbai has emerged as the primary recipient of investments since 2004, accumulating a total of USD 26.7 bn in investments. Following close behind, the National Capital Region (NCR) secured the second position with a cumulative investment of USD 12.0 bn. The top five ranks were secured with the addition of the three principal IT hubs and emerging IT centers. Bengaluru, Pune, and Hyderabad collectively attracted USD 21 bn in PE investments, primarily driven by the high demand for IT-centric spaces within these urban centers.

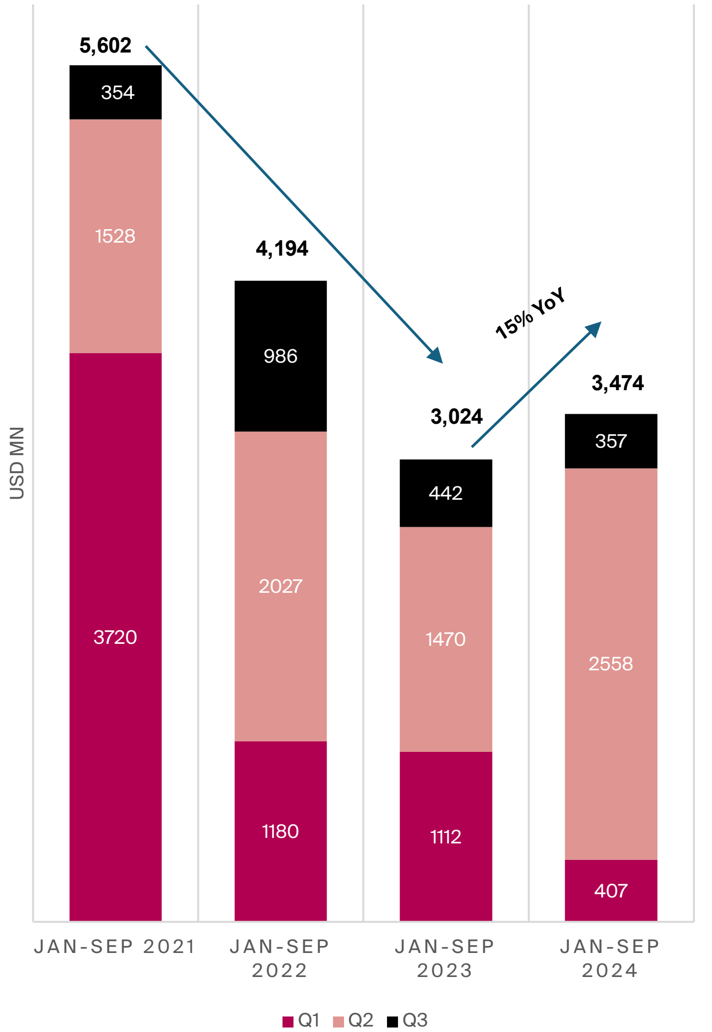
PE Investments across Cities



PE investments surpass 2023 levels in September signaling growth



YTD PE investments surge in September 2024, reversing previous downturn

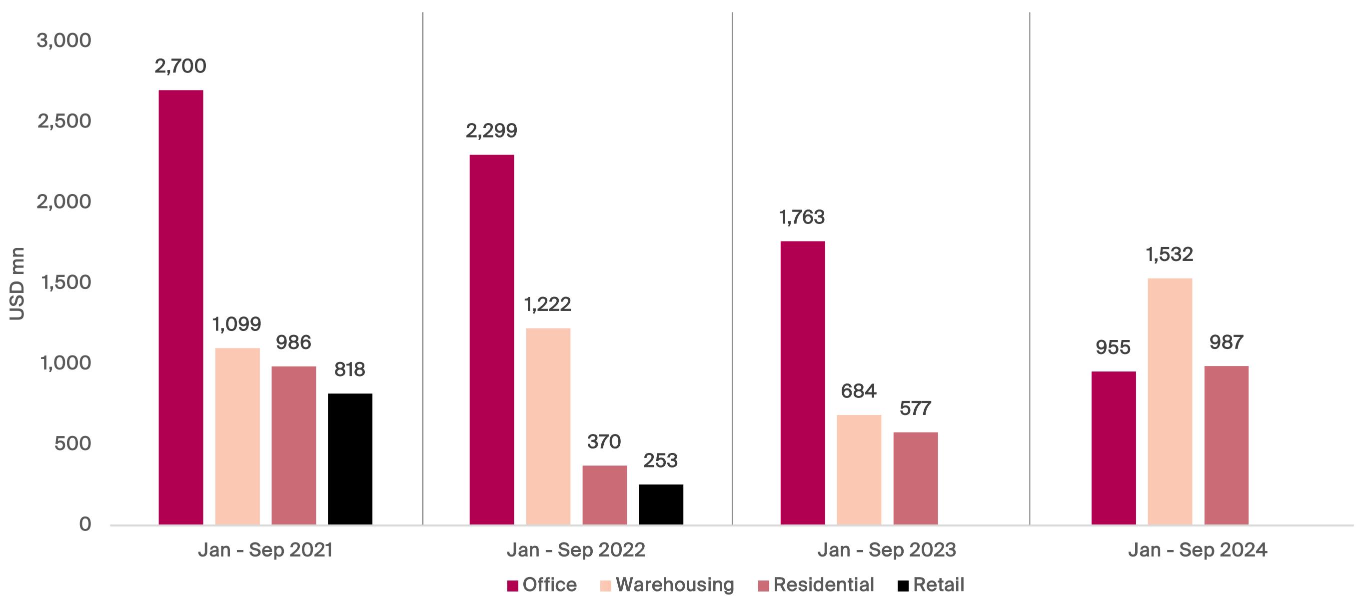


Source: Knight Frank Research, Venture Intelligence

Private equity (PE) investments in Indian real estate have witnessed significant fluctuation in recent years. In 2023, PE investments dropped to USD 3.1 bn, largely driven by rising geopolitical tensions and surging interest rates. These global headwinds created a risk-averse environment for investors, causing a notable decline in capital flow. However, with major central banks like the US Federal Reserve and the Bank of England signaling rate cuts and planning further reductions, there is renewed optimism in the investment landscape. This shift has provided a breather to PE players, and money is flowing into the Indian real estate market once again.

The strong fundamentals of the Indian economy have further bolstered investor confidence. As one of the fastest-growing major economies globally, India's resilience has played a crucial role in maintaining the appeal of its real estate sector. With consistent demand in key asset classes such as residential, office, and logistics, coupled with the country's robust economic trajectory, PE investments are showing a positive trend. The upward momentum in PE inflows underscores the long-term attractiveness of Indian real estate. In the first nine months of 2024, PE investments in Indian Real Estate stood at USD 3.5 bn, up 15% YoY, having surpassed the investments of USD 3.1 received throughout 2023.

Warehousing and Residential sectors observed highest investments since 2021



Source: Knight Frank Research, Venture Intelligence

Warehousing Sector

Warehousing has emerged as a standout performer over the years, with investments rising from USD 1.1 bn in Jan - Sep 2021 to a substantial USD 1.5 bn in Jan - Sep 2024. This sector overtook other sectors due to the robust growth of e-commerce and the rising need for efficient supply chain management. The investment surge, particularly highlighted by one major deal, underscores the increasing demand for large, modern warehousing facilities. As businesses adopt advanced storage solutions, warehousing is expected to remain a highly attractive segment for investors.

Residential Sector

After being overshadowed by office investments for several years, the residential sector has experienced a notable resurgence. Investments in residential assets moved steadily from USD 986 mn in Jan - Sep 2021 to USD 987 mn in Jan - Sep 2024. Domestic PE investors, buoyed by strong market fundamentals, are driving this growth. The sector's rebound is supported by the rising demand for housing solutions and urbanization trends along with government initiatives, making it a key area for future growth and investment, particularly in major metropolitan regions.

Office Sector

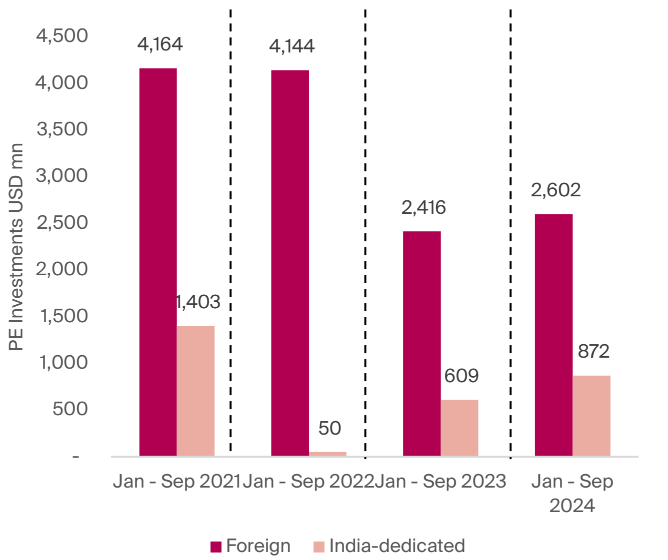
The office sector has traditionally been a dominant investment category, attracting significant capital flows. From a high of USD 2.7 bn in Jan - Sep 2021, office investments declined to USD 1.8 bn in Jan - Sep 2023 and further reduced to USD 955 mn by Jan - Sep 2024. Foreign investors have traditionally favored office spaces due to their potential for high returns and established demand. The dearth of investments from foreign players has led to the current decline in office investments. However, demand for premium Grade A office spaces in key locations continues to sustain the sector's appeal, amidst challenges.

Retail Sector

The retail sector faced a slowdown in PE investments during H1 2024 due to global economic concerns and rising interest rates, leading to cautious investor sentiment. However, the recent listing of a retail REIT offers a promising shift, providing a secure, regulated, and liquid investment option, which is expected to reignite investor interest and potentially boost future capital inflows into the sector.

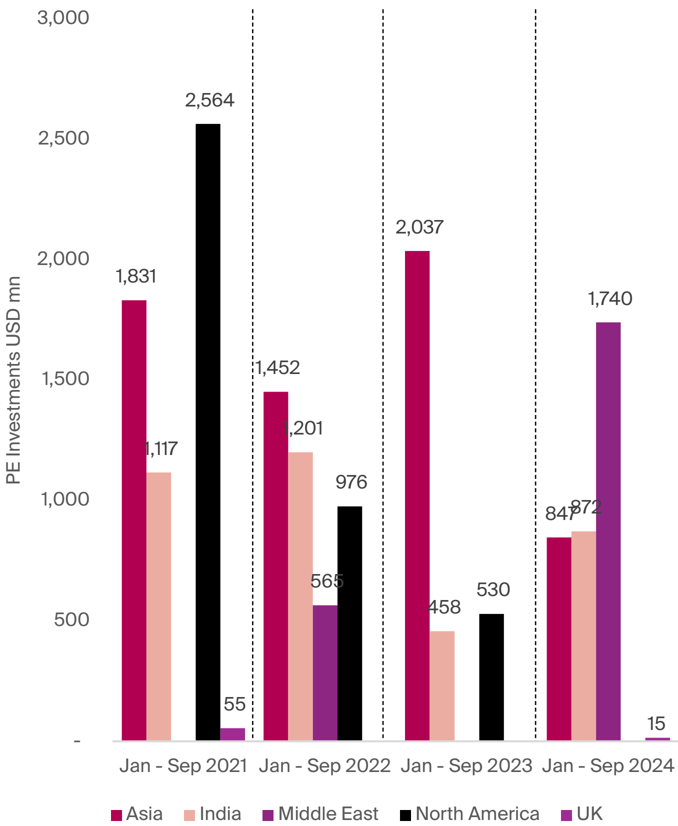
Geographic Investments Trends In Indian Real Estate

Foreign players continue to remain major investors in the real estate space



Source: Knight Frank Research, Venture Intelligence

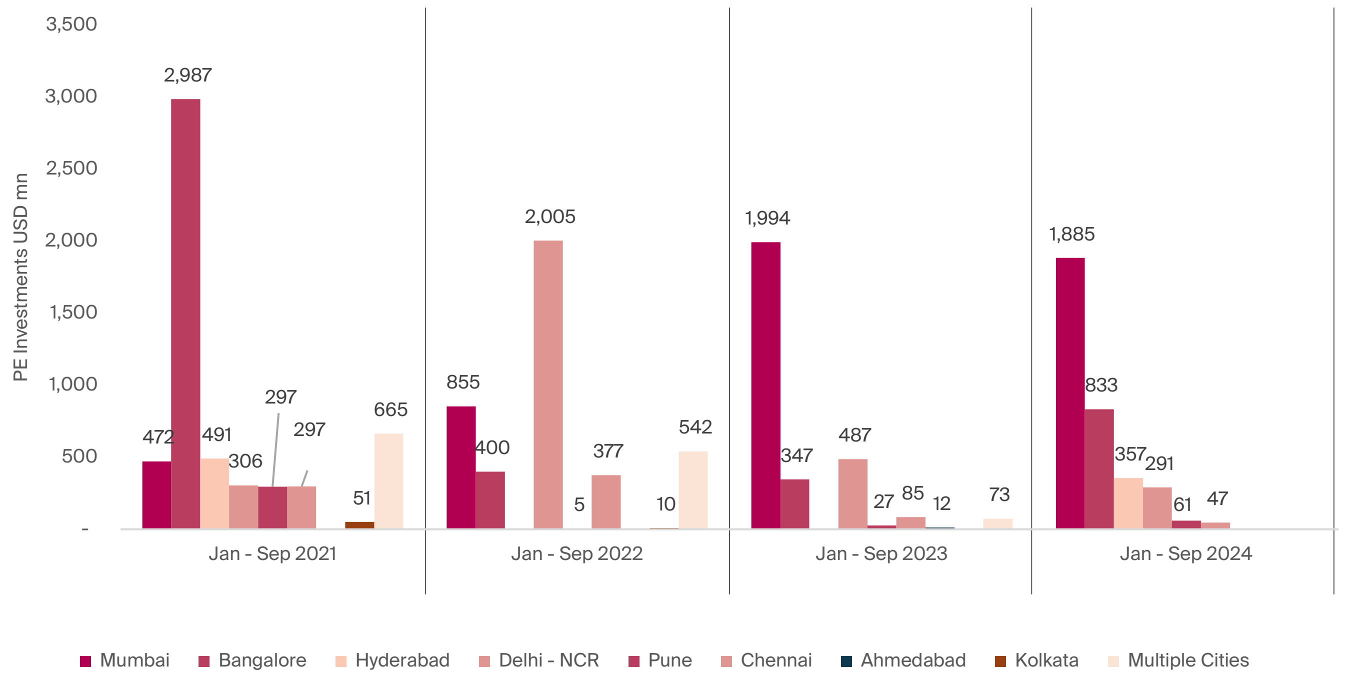
Share of Asian PE Investments in Indian Real Estate increases



Source: Knight Frank Research, Venture Intelligence

Private equity investments in Indian real estate have shown up interesting regional trends over the past few years. While foreign PE investors continue to dominate the investment scenario, Asian investors have steadily increased their involvement, with investments peaking in Jan - Sep 2023. Their average share of PE investments has remained more than 50% in the last four years. In contrast, investments from North America and the UK, which dominated investments before Covid have fluctuated significantly, possibly due to rising interest rates in both regions. Since the COVID-19 pandemic, the US Federal Reserve has raised rates by more than 5.0 percentage points, and the Bank of England by over 4.0 percentage points, leading to higher borrowing costs and dampening investment activity. However, as interest rates have begun to come down now, a resurgence in investments is becoming evident... This trend suggests that with borrowing costs reducing, we can expect further increases in foreign investment, which will potentially provide a significant boost to the Indian real estate sector in the coming years.

Mumbai Received Highest PE Investments in 2024



Source: Knight Frank Research

Mumbai remained the top destination for private equity investments in Indian real estate for the second consecutive time, receiving inflows of USD 1,885 mn in Jan – Sep 2024, following inflows of USD 1,994 mn in same period in 2023. During this time, Bangalore and Hyderabad also attracted significant investments, with Bangalore rebounding to USD 833 mn in Jan - Sep 2024. Meanwhile, Delhi-NCR, Pune, and Chennai saw more modest inflows. Overall, metro cities continue to dominate, attracting the most investments and reinforcing their prominence in India's real estate market.

2024: A Year of Recovery and Renewed Optimism for Private Equity in Indian Real Estate

In 2024, private equity investments in Indian real estate gained strong momentum, reaching USD 3.5 bn in the first nine months, surpassing the total investments of 2023. Investor sentiment in 2023 was cautious due to rising interest rates and geopolitical uncertainties, which impacted capital flow. As the challenges gradually resolve, the outlook for increased investment is brighter. With interest rates stabilizing globally, especially in the USA and the UK, the potential for further investment growth in Indian real estate is high, signaling a promising year ahead for the sector.

7

Balancing Caution with Opportunity - Exposure of Banks and NBFCs to Indian Real Estate

Indian banks have taken a dynamic approach to the real estate sector, adjusting their exposure based on the property cycle while recognizing its vital role in economic growth and urban development. Banks have not shied away from lending to the RE sector, Instead, they maintain a balanced and cautious stance, acknowledging both the risks and opportunities associated with real estate investments. Housing has emerged as a stable and lower-risk driver of bank lending portfolios, fuelled by sustained demand for homes and government.

Exposure criteria of banks to real estate

Urban Cooperative Banks (UCBs)

The Reserve Bank of India (RBI) limits the total amount of loans for real estate, housing, and commercial real estate to 10% of a UCB's total assets.

Banks in general

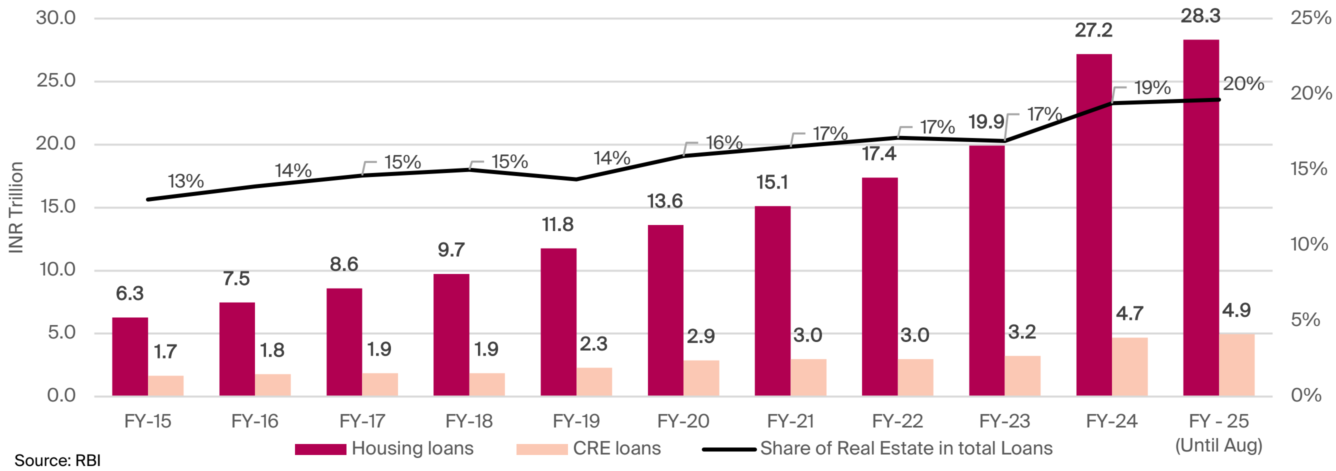
While the RBI doesn't directly limit a bank's exposure to commercial real estate (CRE) and housing loans, the boards of the banks usually approve a limit of 15% to 20% of the bank's total net worth or capital base as their exposure in these loans.

The RBI limits the amount of a bank's lending exposure to Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) to 10% of the unit capital of each. The total amount of a bank's exposure to REITs and InvITs is limited to 20% of the bank's net worth.

Trends in Bank Credit to Indian Real Estate

The evolution of bank credit to the real estate sector in India over the past decade demonstrates the critical role of housing loans and the increasing importance of commercial real estate (CRE) lending. Despite the inherent risks associated with the sector, the consistent growth in both segments underscores the banks' commitment to supporting real estate development.

Deployment of Bank Credit in Real Estate



Source: RBI

The housing sector has emerged as a cornerstone of bank credit to real estate, driven by the strong demand for homes, besides government initiatives like the Pradhan Mantri Awas Yojana (PMAY), and post-pandemic trends favouring home ownership. Banks have generally favoured this segment due to its perceived lower risk, with most borrowers being salaried individuals or families seeking primary residences. As a result, housing loans have been a significant driver of real estate credit, increasing from INR 6.3 tn in 2014-15 to INR 28.3 tn by August 2024.

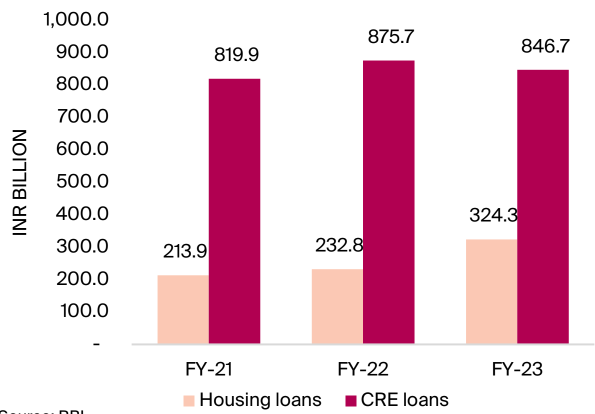
While the commercial real estate (CRE) segment remains smaller in terms of total bank exposure compared to housing loans, it has shown steady growth over the years. Economic cycles, regulatory adjustments, and shifts in office space demand have influenced banks to exercise caution with their CRE portfolios. However, despite these challenges, CRE loans have more than trebled from INR 1.66 tn in 2014-15 to INR 4.9 tn by August 2024. This growth is fuelled by the increasing demand for office spaces, retail infrastructure, and logistics hubs, which continue to thrive being critical components of India's economic landscape. Although banks maintain a prudent approach due to the cyclical nature of the CRE sector, the consistent rise in CRE loans signals renewed confidence in the segment's long-term potential.

Overall, the Indian real estate market has proven its adaptability to changing economic conditions, and banks continue to play a pivotal role in supporting its growth and development.

NBFCs and Their Real Estate Exposure

NBFCs, particularly those in the mid and upper tiers, have become critical players in the real estate sector, providing credit to developers who may not meet the stringent criteria of traditional banks. NBFCs typically cater to smaller developers or projects where flexibility is key, allowing them to take on higher risk ventures.

Deployment of NBFC's in Real Estate



Source: RBI

NBFCs, particularly those in the mid and upper tiers, have emerged as significant players in the real estate sector, catalysing development by providing credit to developers who may face challenges securing traditional financing. These financial institutions often cater to smaller developers or projects where flexibility is key, allowing them to take on ventures with higher perceived risk.

However, with the RBI tightening regulatory norms for NBFCs, especially regarding real estate exposure, these institutions must now ensure that developers have obtained all necessary approvals, including registration under the Real Estate (Regulation and Development) Act (RERA), before loan disbursements. This has led to more prudent lending practices among NBFCs, striking a balance between their appetite for risk and the need for regulatory compliance and long-term sustainability.

NBFCs continue to play a crucial role in filling the credit gap left by banks, particularly in mid-sized real estate projects. Their higher exposure to riskier segments, such as under-construction projects or smaller developers, means they must navigate a more volatile market environment compared to Scheduled Commercial Banks (SCBs).

8

Developer Financing Study: Challenges, Opportunities, and Solutions

Developer financing plays a pivotal role in the success of real estate projects, enabling developers to fund various stages of a project—from land acquisition to construction and project completion. This financing is generally a mix of debt and equity, with the composition tailored to match the unique risks and requirements associated with each project. This section delves into the financing methods employed by developers, the challenges they face, and proposed solutions to ease the financial burden.

To better understand the nuances of developer financing, ***Knight Frank Research conducted interviews with developers across various asset classes and at different stages of project development.***

Challenges in Land Acquisition Financing

A major pain point for developers is the difficulty in financing land acquisition, following a Reserve Bank of India (RBI) circular that prohibits banks and Non-Banking Financial Companies (NBFCs) from providing loans for this purpose. As a result, developers are increasingly turning to alternative funding sources such as:

- Alternative Investment Funds (AIFs)
- Family Offices
- Private Equity Players

While these sources provide the necessary capital, they often come with higher interest rates, thus increasing the overall cost of the project. Developers with strong cash reserves sometimes rely on internal accruals to finance land purchases. Alternatively, others enter into joint ventures with landowners, wherein the landowner contributes land as equity, thereby reducing the upfront capital required from the developer.

Solutions

Given the high cost of land acquisition financing due to the limitations imposed by the RBI circular, it is necessary to explore alternative financing mechanisms or recommend policy changes. A potential solution involves:

- Track record-based interest rate determination: Policymakers could introduce a system where interest rates are tied to the developer's track record. A transparent scoring mechanism could be developed, where developers with a strong history of project completion and financial health receive preferential rates, lowering their overall cost of funds.
- Dedicated land financing products: Another approach could be the creation of dedicated land financing solutions through specialized institutions or policy-driven instruments. These could be structured with longer repayment terms and competitive interest rates, specifically designed for land acquisition.

Construction Financing Options

As the project moves into the construction phase, developers employ a variety of financing methods:

- Construction finance loan: This is a short-term loan disbursed in phases, aligned with project milestones. Interest-only payments are typically made during the construction period, making this an efficient way to cover the high upfront costs associated with building.
- Strata financing - This is a method used by developers to fund real estate projects by selling individual units (such as apartments or offices) before the project is completed. Buyers get ownership of a specific unit (strata title) and share ownership of common areas. This approach allows developers to raise capital early, reducing the need for large loans and mitigating financial risks by securing sales commitments during or before construction. It is commonly used in multi-unit developments like condominiums or commercial complexes.
- Lease rental discounting (LRD): Developers can use the expected rental income from completed properties as collateral to secure LRD loans. This financing method enables developers to lower their cost of borrowing by leveraging predictable future cash flows.

Conversion from Construction Finance to Strata or LRD

Developers frequently noted during interviews that transitioning from construction finance to strata financing or LRD is a common practice, especially as projects near completion. This conversion requires meticulous planning, documentation, and compliance with lender requirements, but ultimately allows developers to reduce the cost of credit.

By moving from high-interest construction loans to strata or LRD arrangements, developers can take advantage of lower interest rates associated with more stable income streams from completed units or long-term rental contracts.

Challenges in Loan Security and Stamp Duty

During discussions with developers, one of their recurring concerns was the high transaction cost associated with creating new security for every loan facility. Every time a new loan is secured, a separate security agreement needs to be created, necessitating fresh registration and payment of stamp duty. In some states, such as Karnataka, stamp duty can be as high as 2% of the loan amount, adding significant costs to the project.

This additional financial burden is often referred to as "leakage," as it neither benefits the lender nor the borrower but increases the overall cost of financing.

Proposed Solution: Rolling Security Structure

Possible solutions to reduce these costs are the introduction of a rolling security structure or a Master Facility Agreement.

- Master Facility Agreement: Instead of registering a new security for each loan, a single master agreement would be established, with stamp duty paid just once. This agreement would allow developers to draw and repay loans as needed without incurring additional registration or stamp duty costs.
- Rolling Security: Once the security is created, it remains valid for multiple loan facilities. Developers can borrow and repay funds on a revolving basis up to the agreed limit without needing new legal agreements or additional stamp duty each time new financing is secured. For instance, a developer could borrow INR 200 mn, and after repaying INR 150 mn, borrow up to the limit again, all under the same security.
- Trustee Supervision: Trustees would oversee the security coverage to ensure compliance with financial covenants and track the borrower's credit facility to guarantee adequate security remains in place. This structure would allow flexibility while maintaining security for lenders.

Fintech Parallel: Revolving Credit

A similar concept has already been successfully implemented in the fintech sector, where revolving credit facilities allow businesses and individuals to borrow and repay funds flexibly. This has proven to be effective in reducing transaction costs and streamlining the borrowing process, providing a potential model for the real estate industry to follow.

Benefits for Affordable Housing

The rolling security model could be particularly beneficial for sectors like affordable housing, which enjoys infrastructure status from the central government. This status could further reduce the cost of funds and make it easier to secure financing for projects that align with broader public policy goals. Streamlining the lending process with rolling security would reduce financing costs, particularly stamp duties, and facilitate more affordable housing development.

Key Insights

The challenges developers face, particularly in land acquisition financing, require innovative solutions to ensure the continued success of real estate projects. Joint ventures, land financing products, and track record-based interest rate mechanisms could ease the financial burden of land acquisition.

Furthermore, by adopting a rolling security structure, developers and lenders can reduce redundant costs and streamline the financing process. This approach would not only lower stamp duty expenses but also increase operational efficiency, allowing developers to focus on delivering high-quality projects while maintaining financial flexibility.

The integration of such solutions would create a more efficient, cost-effective, and developer-friendly financing environment, supporting the growth of the real estate sector and helping it meet the increasing demand for affordable and high-quality housing.

9

Insurance Sector and Real Estate

Introduction

The Insurance sector plays a pivotal role in supporting and safeguarding the real estate industry at every stage of its lifecycle. From land acquisition and development to the management and sale of properties, various insurance products help mitigate risks, ensure legal compliance, and provide financial protection for developers, builders, property managers, homeowners, and investors.

Beginning with land acquisition, products like title insurance and environmental liability insurance offer developers security against legal disputes and environmental hazards. As projects move into the construction phase, builder's risk insurance and contractor's liability insurance protect against damages and liabilities that could disrupt project timelines or financing. Workers' compensation and equipment insurance further ensure that operations proceed smoothly, while providing legal and financial coverage for on-site incidents.

Post-construction, property, and liability insurance safeguard the finished assets against risks such as fire, natural disasters, and legal claims, enabling long-term financing and enhancing asset value. When properties are sold or leased, errors and omissions insurance protect real estate agents from claims, while rent guarantee insurance ensures steady income for landlords. For homeowners and tenants, policies like homeowner's and renter's insurance provide financial security and peace of mind by covering personal property and offering liability protection.

In 2022, India was ranked as the 10th largest insurance market in the world with a premium volume of USD 131 bn (1.9% share in USD in global insurance premium). It is projected to become the 6th largest by the year 2032 as India's insurance market is one of the fastest growing insurance markets in the world[4]. The insurance sector plays a critical role in supporting real estate investments by offering portfolio insurance for large property holdings and title insurance to ensure clear ownership. This broad range of insurance solutions not only mitigates risks but also facilitates investment opportunities, enabling the real estate sector to grow with confidence.

While most of the insurance products mentioned above have wide acceptance and are actively marketed by insurance companies, title Insurance remains in its early stages of acceptance. Despite its importance, it is still not adopted as widely. Given the rapid growth of the real estate market, understanding title insurance and its various facets is essential. This product plays a crucial role in safeguarding property ownership and mitigating risks related to title disputes, making it increasingly relevant as real estate transactions continue to expand.

Title Insurance

Title insurance plays a crucial role in securing legal ownership by protecting buyers and lenders against disputes over property titles, such as unpaid taxes or undisclosed heirs. It serves as a form of indemnity insurance that safeguards property owners and lenders from financial losses due to defects in property titles.

In India, where land disputes and poor land records are common, title insurance gains importance, especially as the government focuses on digitizing land records.

Key Buyers of Title Insurance in India:

- Homebuyers: Individual buyers purchase title insurance to protect their investment against potential title defects, providing security in a market where land disputes are common.
- Real Estate Developers: Under the Real Estate Regulation and Development Act (RERA), developers are obliged to obtain title insurance for their projects. This is later transferred to buyers, ensuring the title is clear and dispute-free, enhancing developer credibility.
- Financial Institutions: Banks and lenders often require title insurance to mitigate risk when financing property purchases, ensuring the property title is valid and free from hidden claims.
- Investors: Institutional investors use title insurance as part of their risk management strategy, securing their investments against potential legal issues related to property titles.

Current Market Landscape

- Limited Offerings: Currently, only a few companies offer title insurance products. The market remains underutilized compared to the more developed markets.
- High Costs: Title insurance premiums can be expensive, often including costs associated with land value and developer profit margins, making it less accessible for many.
- Quality of Land Records: The inadequacy of land records significantly impacts the viability of title insurance. Poor record-keeping increases the risk of claims due to undiscovered defect.

Knight Frank Research conducted interviews with developers to gauge their willingness to purchase title insurance. Initially, developers were unaware of the product and its benefits. However, upon learning that title insurance involves a one-time premium, many expressed a willingness to pay up to 2% of the land value for this coverage. This indicates a high interest in title insurance as developers become more informed about its role in safeguarding property titles.

Challenges Facing Title Insurance

- Lack of Comprehensive Land Records: Inaccurate and incomplete land records lead to higher risks for insurers and potential claims from policyholders.
- Judicial Uncertainty: Ongoing litigation related to property titles contributes to an unpredictable environment for both insurers and policyholders.
- Underwriting Quality: Many insurers lack the expertise needed for effective underwriting, which can lead to higher risks associated with claims management.
- Market Awareness: There is a general lack of awareness about title insurance among property buyers and developers, which affects demand.

US Title Insurance Market

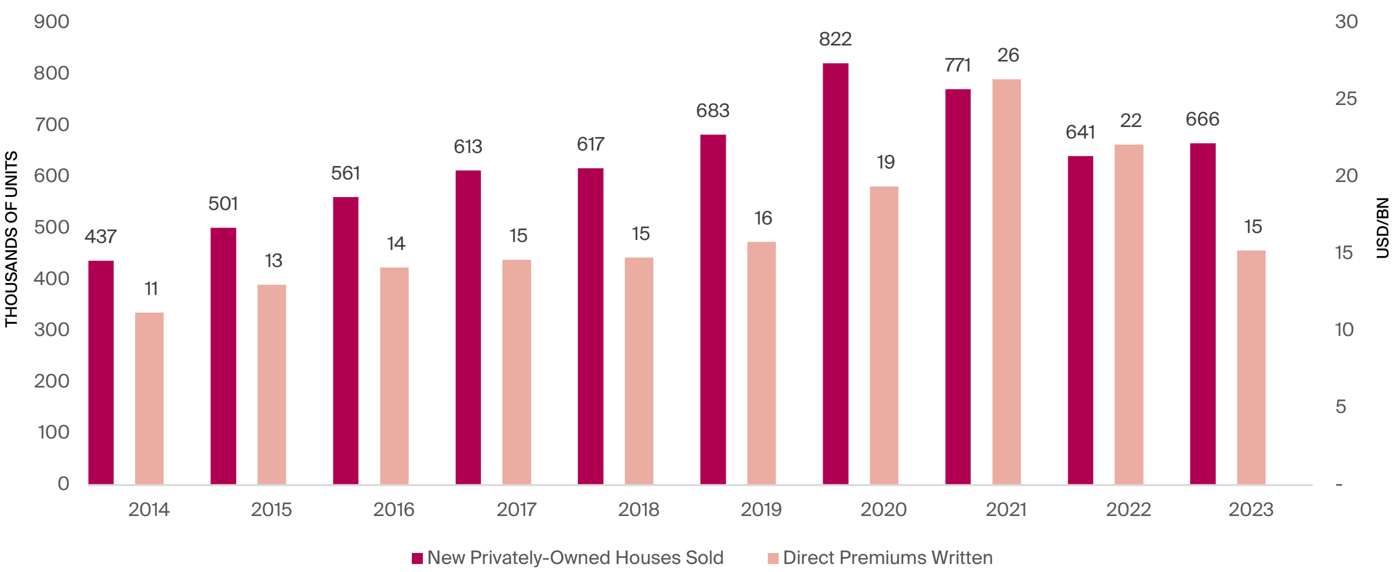
In the US, the market for title insurance is well-established and specialized, with monoline insurers focusing exclusively on this product. Regulations are robust, guided by the National

[4]Insurance Regulatory and Development Authority of India Annual Report 2022-23

Association of Insurance Commissioners (NAIC), and title insurance is widely used and often mandatory in real estate transactions.

Title insurance premiums generally correlate with housing sales, but exceptions have occurred in recent years. The decline in title insurance premiums from 2021 to 2023 is closely linked to shifts in the housing market. Despite relatively stable housing sales, the drop in premiums is primarily due to a significant reduction in mortgage originations. Rising interest rates have made borrowing more expensive, discouraging homebuyers and resulting in fewer new purchases and refinancing activities. This reduction in transactions has led to a decreased demand for title insurance policies. Lower transaction volumes mean fewer policies for title insurers to underwrite, reducing their premium income. Additionally, after a period of rapid housing market growth, the market is undergoing a correction, further slowing down title insurance activity.

Trend in US housing sales (thousands of units) versus Title Insurance Premiums (USD/bn)



Source: US Census, NAIC

US and India Title Insurance Comparison

In contrast to the US insurance markets, India's title insurance market is still emerging. General insurers offer title insurance alongside other products, and regulatory structures are being developed by the Insurance Regulatory and Development Authority of India (IRDAI). While adoption is growing due to regulatory encouragement, it remains limited compared to the US, where awareness and mandatory requirements are far more prevalent.

Aspect	United States	India
Market Structure	The US market is mature, primarily consisting of monoline insurers specializing in title insurance.	The Indian market is emerging, with general insurers offering title insurance as one of several products, which may lead to risk spillover.
Regulatory Framework	Title insurance is regulated at the state level, with variability across states. The NAIC has adopted the Title Insurance Agent Model Act to guide licensing.	Title insurance products must be registered with the IRDAI, which is developing a regulatory framework for this emerging product.
Premiums and Rates	Premiums are regulated in some states, with competitive pricing allowed in others, leading to rate variability.	Title insurance rates are not yet regulated; the focus is on fair consumer treatment as the market matures.
Claims Process	Claims are generally straightforward, focusing on indemnifying losses from defects existing at policy issuance.	Claims arise from undiscovered defects or disputes, as the process is still evolving in India.
Consumer Protection	Strong consumer protection ensures transparency and fairness in real estate transactions.	Consumer protection is developing, aiming to ensure fair treatment without imposing excessive regulatory burdens.

Source: Knight Frank Research, NAIC

Advisory

As India develops its title insurance market further, it may draw lessons from the established practices adapting them to fit its unique legal and economic context.

I. Regulatory Framework Enhancement

ALTA Model: To enhance title insurance practices in India, adopting a structured regulatory framework similar to the ALTA standards from the US could be the key. These standards set clear guidelines for land title surveys, improving transparency and reducing risks in property transactions. Implementing mandatory title insurance, as is common in the US, where lenders often require it, would further standardize practices and increase the product's acceptance and penetration in the Indian market.

II. Consumer Awareness Campaigns

Education Initiatives: Launch comprehensive campaigns to educate consumers about the importance of title insurance. In mature markets, consumer trust and understanding are significant factors in the adoption of title insurance.

Partnerships with Real Estate Professionals: Collaborate with real estate agents and developers to include title insurance discussions in property transactions, similar to the way ALTA promotes its standards among real estate professionals.

III. Leveraging Technology

Digital Platforms: Invest in technology to streamline title searches and insurance processes. The US has seen success with digital platforms that enhance efficiency and transparency in transactions.

Blockchain Solutions: Explore blockchain technology for maintaining property records to reduce fraud risks, as seen in some advanced markets.

IV. Collaboration with Financial Institutions

Integration with Mortgage Products: Work closely with banks and financial institutions to integrate title insurance into mortgage products. This can help ensure that borrowers are informed about the requirement of obtaining title insurance as part of their loan agreements.

Risk Sharing Mechanisms: Develop risk-sharing arrangements with lenders to mitigate their concerns about potential losses related to title defects.

V. Tailored Products for Emerging Markets

Flexible Premium Structures: Create flexible premium payment options that cater to different income groups, making title insurance more accessible.

Custom Solutions: Develop products tailored to specific regional needs, especially in rapidly urbanizing areas where redevelopment is common. This could include coverage for older properties undergoing redevelopment.

Redevelopment Potential and Increasing Title Insurance Penetration in India

Redevelopment is emerging as a major trend in India's real estate sector, especially in urban areas where land is scarce. As per Knight Frank Research during FY 2023-24, redevelopment deals accounted for 12% of the total registrations[5]. The increasing focus on redevelopment presents a unique opportunity for expanding title insurance penetration in India.

- Growing Awareness: As more homeowners engage in redevelopment, awareness of title insurance will rise, with homeowners seeking protection against potential title disputes.
- Complex Transactions: Redevelopment involves multiple stakeholders, making title insurance essential for ensuring clear property titles and facilitating smoother transactions.
- Regulatory Support: Government initiatives promoting redevelopment create opportunities for insurers to collaborate with developers and housing societies to include title insurance in redevelopment packages.
- Risk Mitigation: Older properties involved in redevelopment often have hidden title issues. Title insurance mitigates risks like unresolved liens, encumbrances, or claims from previous owners.
- Legal Protection: Title insurance provides legal defence and financial protection in case of disputes, ensuring clear ownership and making properties more attractive to investors and lenders.

The title insurance industry in India offers significant potential, especially as regulatory frameworks improve and efforts to digitize land records advance. However, addressing challenges related to land record accuracy and regulatory clarity will be crucial to building a robust market that effectively protects property owners from title defects and financial losses. As urban redevelopment accelerates, the synergy between real estate development and title insurance presents a unique opportunity for growth. The increasing demand for title insurance solutions will enhance transaction security, foster investor confidence, and contribute to greater stability in India's evolving real estate sector.

[5] Homebuyers in Mumbai must pay stamp duty and registration charges to the state government. The current stamp duty rates are 6% for male buyers and 5% for female buyers. Transactions below 5%, such as mortgage deeds, gift deeds, and lease deeds, are assumed to be redevelopment deals.

10

Integration of Emerging Technology in Real Estate and BFSI

A Primer on Emerging Technology Influence on Real Estate

The integration of emerging technologies in the real estate sector is not merely a trend but a transformative force reshaping how properties are bought, sold, and managed. From predictive analytics and big data to blockchain and smart home systems, these innovations enhance operational efficiency, improve decision-making processes, reduce costs, and foster customer engagement. As technology continues to evolve, the potential for further innovation within the real estate sector will expand, creating new opportunities for growth, sustainability, and competitive advantage.

Key emerging technologies transforming the real estate sector

Technology	How it Helps
AI-Driven Solutions	
Automated Valuation Models (AVMs)	Provides quick and accurate property valuations, speeding up transactions and reducing appraisal dependency.
Predictive Analytics	Forecasts market trends, property values, and buyer demand for better investment decisions.
AI-Powered Customer Service	Enhances property search with personalized recommendations and 24/7 chatbots for improved engagement.
Generative AI Applications	
Virtual Tours and 3D Modelling	Creates immersive virtual tours of properties for remote buyers, enhancing marketing efforts.
Content Creation	Automates the creation of customized marketing materials for targeted outreach.
Property Management and Automation	
Operational Automation	Streamlines tasks like rent collection, maintenance scheduling, and tenant communications.
Predictive Maintenance	Anticipates maintenance issues before they arise, improving tenant satisfaction and reducing costs.
Document Automation	Simplifies document handling, reducing errors and saving time for real estate professionals.
Security and Fraud Detection	
AI-Driven Fraud Detection	Detects anomalies in listings and transactions to prevent fraud and ensure compliance.
Blockchain Technology	Ensures secure, transparent transactions with decentralized ledgers and allows fractional ownership.
Big Data Analytics	Provides insights into market trends, consumer behaviour, and property data for better decision-making.
Internet of Things (IoT)	
Smart Home Technologies	Converts properties into smart homes with remote-controlled systems, enhancing convenience and value.
Virtual Reality (VR) and Augmented Reality (AR)	
Virtual Property Tours	Enables remote property tours, especially useful for distant buyers or under-construction properties.

Source: Knight Frank Research

While many of the technologies highlighted such as predictive analytics, 3D modelling, and virtual reality are enhanced by AI, Generative AI goes a step further by offering solutions that automate complex tasks, personalize user experiences, and even simulate real-world scenarios.

The juxtaposition of emerging technology with the Real Estate and BFSI sectors

To draw further inferences, the evolution of technology, particularly AI, Generative AI, VR, AR, IoT, and FinTech, is set to significantly reshape the real estate market from a BFSI perspective. These technologies enhance decision-making, streamline operations, improve customer experiences, and mitigate risks. As they continue to advance, their integration will lead to more efficient transactions, smarter investment strategies, and a more dynamic market, directly influencing the BFSI sector's role in real estate.

Enhanced Decision-Making in Property Valuation

AI algorithms can analyse vast datasets to provide accurate property valuations in real-time. This capability allows financial institutions to make quicker, data-driven decisions regarding mortgage approvals and investment opportunities. For instance, AI-driven automated valuation models (AVMs) assess various factors like location, market trends, and property features, enabling more precise pricing strategies. Data-driven insights are also driving this revolution, combining financial and real estate data to offer deeper insights into market trends, property valuations, and investment risks.

Streamlined Mortgage Lending Processes and Transactions

AI and machine learning are transforming mortgage lending by automating underwriting processes and risk assessments. By analysing borrower data more effectively, lenders can offer faster pre-approvals and reduce closing times. This efficiency enhances customer satisfaction and mitigates risks for financial institutions through better credit assessments. Additionally, streamlined transactions through digital payments and smart contracts can reduce the time and complexity of real estate deals, creating faster, more secure transactions.

Predictive Analytics for Market Insights

AI's predictive capabilities allow real estate professionals and financial institutions to forecast market trends and property demand accurately. This insight helps investors identify emerging opportunities and mitigate risks associated with market fluctuations. For example, AI can analyse economic indicators and consumer behaviour to predict shifts in demand for specific property types. Risk Assessment** tools powered by AI also enable real estate developers and financial institutions to understand potential risks in a given property or market, supporting smarter, safer investments.

Personalized Customer Experiences and Enhanced Access to Capital

Generative AI can create tailored marketing strategies based on individual customer preferences and behaviour. In the BFSI context, banks and financial services can offer personalized mortgage products or investment options that align with a customer's financial history and goals. Enhanced customer engagement leads to increased loyalty and higher conversion rates. Additionally, access to capital through innovative financing options like crowdfunding or peer-to-peer lending offers PropTech firms and real estate developers new ways to secure funding, boosting project feasibility and market entry.

Virtual Tours and Enhanced Property Marketing

VR and AR technologies enable immersive property tours that allow potential buyers to explore homes remotely. This capability is particularly beneficial for international buyers or those unable to visit properties in person. Financial institutions can leverage these technologies to enhance their marketing efforts for mortgage products tied to specific properties. User-friendly apps and platforms that allow easy access to property listings, mortgage applications, and payment systems further enrich the customer experience.

IoT Integration for Smart Properties

The integration of IoT devices in real estate properties allows for real-time monitoring of building systems (like HVAC or security). This data can be used by financial institutions to assess the value of smart buildings more accurately, as they often command higher rents due to enhanced efficiency and tenant satisfaction. Data-driven insights from IoT systems can also help property managers optimize building operations, improving profitability and sustainability.

Fraud Detection, Regulatory Compliance, and Risk Management

AI-powered systems enhance fraud detection capabilities by analysing transaction patterns and identifying anomalies that may indicate fraudulent activities. This is crucial for both real estate transactions and mortgage lending, where large sums of money are involved. Improved security measures protect both buyers and lenders from potential losses. Additionally, regulatory compliance automation through FinTech solutions ensures financial institutions and PropTech firms can efficiently navigate evolving regulations, reducing the administrative burden while mitigating legal risks.

Case Study: Enhancing Mortgage Underwriting with AI

Challenge:

A Swiss global financial services institution faced significant challenges in its mortgage underwriting process, which was heavily reliant on manual input. This led to a time-consuming process that created a backlog of applications, delaying loan disbursals and negatively impacting customer satisfaction due to lengthy wait times and unpredictable service levels. Streamlining this process was crucial for improving operational efficiency and maintaining customer trust and loyalty.

Solution:

To transform its mortgage underwriting process, the institution adopted an AI-driven approach. The AI system leverages machine learning to assess applicant data, including income, credit score, employment history, market trends, and property evaluations, more quickly and accurately than traditional manual methods. This automation enables faster decision-making and more precise risk assessment.

Overall Impact:

- Faster Processing Times: The time required to approve mortgages has been significantly reduced, leading to enhanced customer satisfaction.
- Increased Accuracy: AI provides more accurate assessments of applicant risk profiles, minimizing the likelihood of loan defaults.
- Operational Efficiency: By automating routine tasks, human underwriters can focus on more complex cases, freeing up valuable resources for critical and detailed work.
- Scalable Underwriting Capacity: The system can handle a larger volume of applications without needing additional staff.

Key Learnings:

- Automation in Risk Assessment: Utilizing AI to process and analyse complex applicant data streamlines the risk assessment process.
- Improved Customer Experience: Reduced wait times for loan approvals positively impacts customer satisfaction.
- Enhanced Decision Making: AI tools offer deeper insights into potential risks and applicant credibility, supporting better decision-making.

Future Prospects:

The institution plans to further enhance its AI system capabilities by integrating real-time economic indicators and more detailed applicant lifestyle data to predict future financial stability more accurately. This advancement aims to streamline the underwriting process and tailor mortgage products to suit individual needs, setting a new standard in personalized banking services.

Ultimately, the synergy between real estate and the BFSI sector, facilitated by emerging technologies, promises to enhance operational efficiencies and elevate customer experiences. By embracing these advancements, industry players can better meet the demands of a rapidly changing market landscape, ensuring their relevance and success in the years to come.

11

Infrastructure Development: A Catalyst for Real Estate Growth

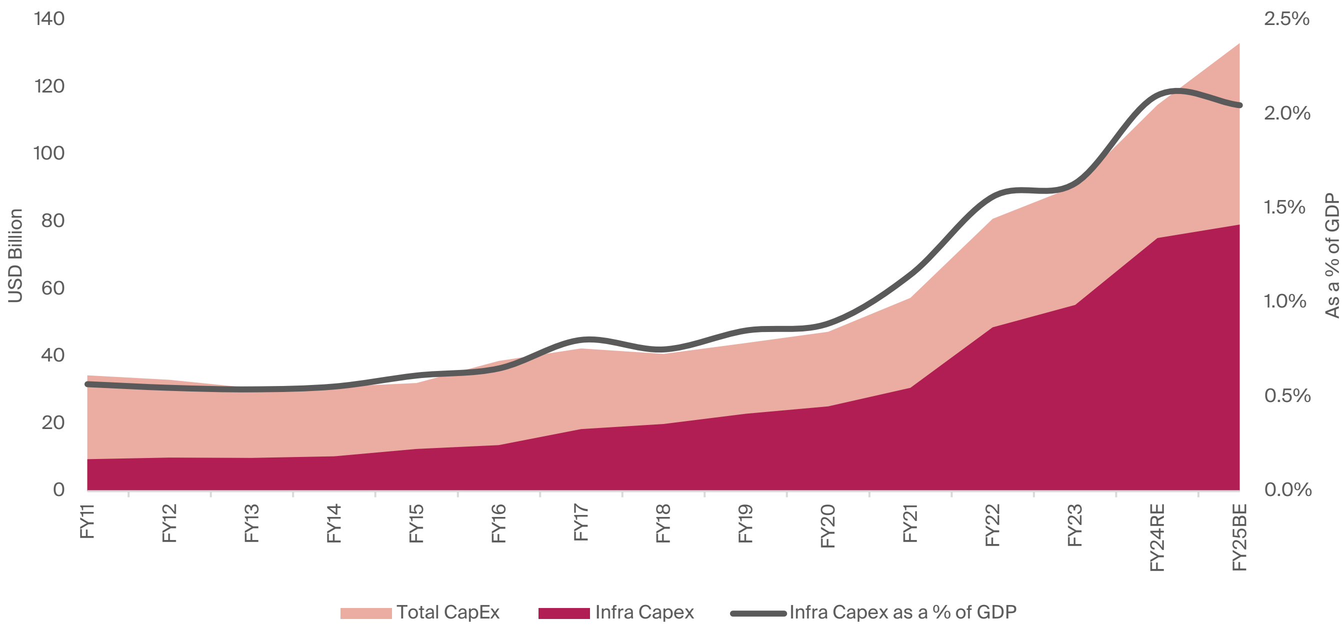
Over the past decade, India's infrastructure development has witnessed a remarkable growth, driven by substantial investments from the central and the state government. This surge in public investment has been complemented by a suite of institutional and procedural reforms aimed at facilitating project execution and expedite issue resolution. Notable initiatives include, enhancing private sector participation through Public-Private Partnerships (PPPs), establishment of the National Infrastructure Pipeline (NIP), the Project Monitoring Group, PM-GatiShakti, and innovative financial instruments like Infrastructure Investment Trusts (InvITs) to address long-term financing constraints.

Significant policy initiatives such as Bharatmala Pariyojana, Sagarmala, and projects related to green energy corridors, industrial corridors, and freight corridors have greatly expanded the scope of infrastructure development in India. For instance, the National Infrastructure Pipeline (NIP) aims to invest USD 1.6 trn in infrastructure projects between 2020 and 2025, significantly boosting economic development.

The central government's push for infrastructure development has intensified over the last decade. Capital expenditure on core infrastructure has risen from 0.5% of GDP (USD 9.9 bn) in 2013 to 2.2% of GDP (USD 75 bn) in 2023. The length of national highways has increased by 1.5 times, adding approximately 48,154 kms. Productivity in highway construction has also improved, with the average daily construction rate rising from 12 kms in 2013 to 34 kms today. Additionally, there have been significant upgrades and modernization efforts, such as the operational Vande Bharat trains, seaport taxis, and expanding expressways, highlighting the substantial progress in India's infrastructure development.

As infrastructure expands, India's performance in various metrics, such as logistics, has improved significantly. India's ranking in the Logistics Performance Index (LPI) has risen from 54 in 2014 to 38 in 2023. Improved logistics and the ease of moving goods and services are crucial for reducing logistics costs, a key objective of the central policymakers. According to the Economic Survey 2020-23, logistics costs in India ranged from 14-18% of GDP, higher than the global benchmark of 8%. With ongoing infrastructure investments and project developments, it is expected that India's logistics costs will decrease significantly in the coming years. However, achieving this goal will require substantial investments into infrastructure from the central and state governments, as well as from

Central Government Capex Allocation to Infrastructure



Source: Government documents, Knight Frank Research

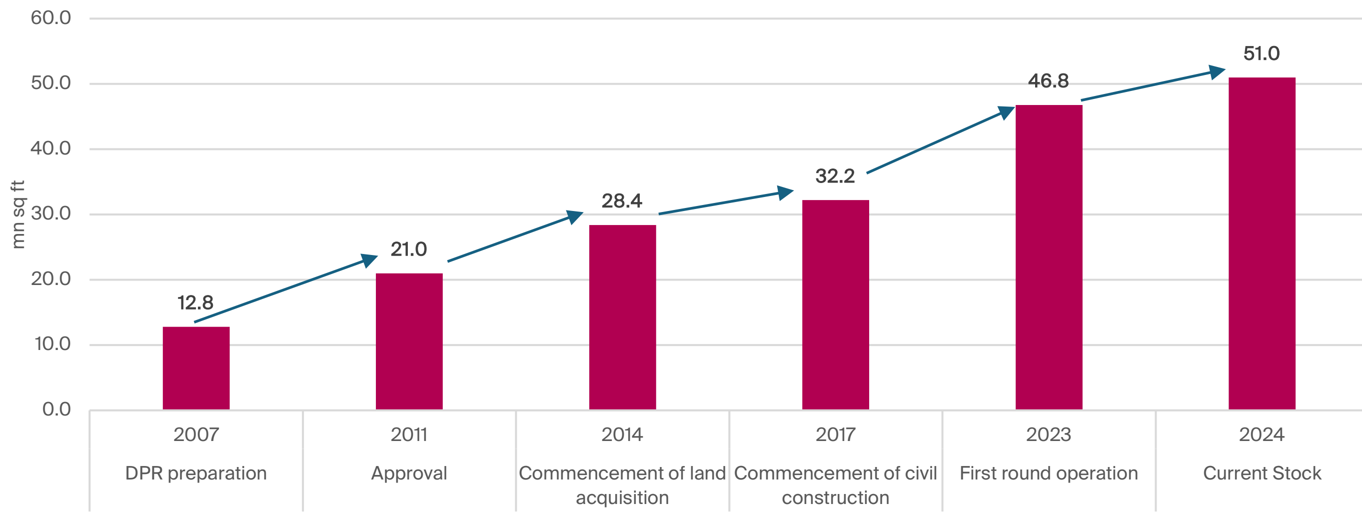
Inter-linkages Between Infrastructure Development and Real Estate

Infrastructure development serves as a catalyst for real estate growth by enhancing connectivity. Well planned transport networks such as urban roads, highways, metro rails etc attract investments and elevate the economic profile of a region. The impact of these infrastructure projects ignite a multiplier effect on the economy. They improve the quality of life, attract investment, and generate employment, thereby influencing the socio-economic dynamics of the region. Infrastructure development often initiates the growth of commercial real estate asset class, which includes, office buildings, retail spaces and industrial properties. As improved connectivity enhances accessibility and makes the region more attractive for investments and businesses. Over time, this also spurs residential development and support social infrastructure such as schools, hospitals etc as people move to live closer to their workplaces.

Transit infrastructure such as the metro rail (MRTS), improves connectivity and mobility, shapes property values and land use in the surrounding areas. Empirical evidence suggests that real estate property prices and land values within the vicinity of the transit stations, otherwise known as influence zones, significantly increases between the phases of and operation of the project.

For instance, the Whitefield micro market, located in the peripherals of East Bengaluru, is currently one of the prime real estate markets in the city. Bengaluru Metro Rail Corporation Limited's (BMRCL) purple line metro spanning 43 kms connects Whitefield with Challaghatta in the South West. This has significantly enhanced connectivity to Whitefield which now is a prime commercial hub comprising SEZ tech parks and a vast supply of Grade A office buildings. The infusion of commercial office stock in Whitefield has significantly increased since the preparation of the metro project's Detailed Project Report (DPR) in 2007. When the DPR preparation for purple line metro had started, the Grade A office stock in Whitefield was approximately 13 mn sq ft. By 2011, when the metro project received an approval, the office stock increased by 9 mn sq ft scaling up the cumulative stock to 21 mn sq ft. The micro market further gained appeal for the commercial real estate developers, leading to a large supply of Grade A office stock. And by 2023, when the operation of the metro line commenced, the Grade A office stock in this micro market stood at 46.8 mn sq ft. Thus, between 2007 and 2023, between the phases of project initiation and first round of operation, the Grade A office stock in Whitefield increased by 3.6x.

38.2 mn sq ft of office stock added in Bengaluru East between 2007-2024

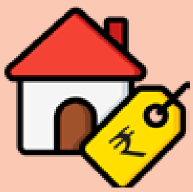


Source: Knight Frank Research, 2024 data is until September 2024. Bengaluru East comprises of Whitefield and Brookefield

The rapid commercial office development propelled residential demand. As stated earlier, metro development appraises the real estate values in influence zones. As per our assessment, assuming all the other factors constant, the residential real estate price varies by 12% for each kilometre from the metro station. The closer a residential property is to the metro station, higher is the price. Over the last few years, the presence of quality office supply in Whitefield has attracted larger MNCs and R& D centres such as SAP Labs, Mercedes Benz, Collins Aerospace, General Electric (GE) etc. This influx has led to a high-income demography, establishing it as a prime micro market in the city. Metro connectivity further escalated the residential prices in the region. The average residential price in Whitefield was Rs 3,500 per sq ft in 2007, has increased significantly to INR 10, 905 per sq ft in 2024.

As per our assessment the sharp spike in residential prices occurred in two phases. The first phase, between 2007 and 2011 was a period between DPR preparation and project approval. During this timeline, residential prices increased by 42.5%. The second phase, between 2017 and 2023, was the period between commencement of civil construction of the metro project and the first round of operation. Residential prices between this period increased sharply by 53%. It is to be noted that, this period includes post the COVID-19 pandemic real estate boom.

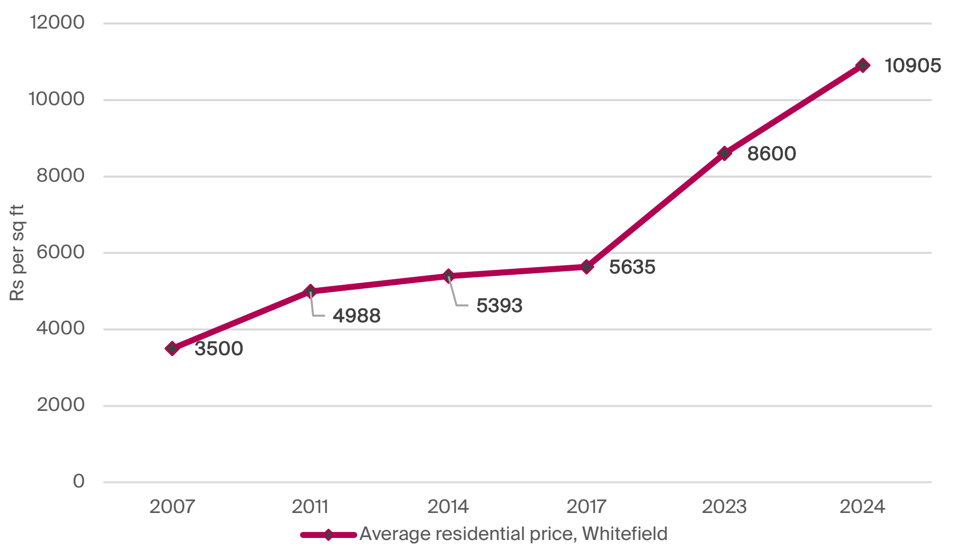
An expansion in commercial and residential real estate propels the need for social infrastructure promoting opportunities for the development of other real estate asset classes such as schools, hospitals, hospitality etc. Over the last few years, numerous Grade A retail malls, hospitals and educational institutions including international schools have been established in this region.



12%

Real Estate price varies for each kilometre from the metro station.

Weighted Average Residential Price



Residential real estate prices in Whitefield increased by a CAGR of 7.4% between 2007-2024, a growth above the city average of 5.2%

Source: Knight Frank Research, 2024 data till September 2024. Bengaluru East comprises Whitefield and Brookefield

Quality infrastructure, especially MRTS, has the potential to generate revenue through land value capture (LVC), which can be used to fund various infrastructure projects. In 2019, the Maharashtra government imposed a metro cess of 1% on residential purchases, which was re-introduced in 2022 post the COVID-19 pandemic pause. Cumulatively, in FY 2022-23 and FY 2023-24, an estimated USD 117 mn (INR 9781 Cr) has been collected through metro cess[6]. These funds are being utilised for various metro projects such as the Mumbai metro line 3, Pune metro etc.

Infrastructure development and change in land use

Infrastructure development and the following real estate spur has the capacity to transform land use of a locality. It has the potential to change the core economic activity of the location, especially those located in the peripherals. With improved connectivity, areas which were primarily dominated by industrial use have now transformed into key commercial and residential hubs. For example, the Rajajinagar - Yeshwantpur – Peenya region located in North-West Bengaluru has undergone a remarkable transformation. The region was historically known for its industrial base comprising engineering and manufacturing industries. Rajajinagar, was the city's first planned industrial suburb. However, with growing urbanisation, Rajajinagar gradually transitioned into a prime residential market.

Further ahead, Yeshwantpur – Peenya continued to remain industrial areas for a longer period. However, de-industrialisation and expansion of the city has reduced the industrial activities in this region. BMRCL's green line elevated north – south metro corridor, connecting this region to the southern part of the city further spurred land use rezoning. The construction of this metro line began in 2009-10 and commenced its operation in 2014.

With this, Peenya witnessed gradual rezoning efforts wherein the industrial plots were converted into mixed use real estate development comprising commercial and residential spaces. Over the last few years, the region has attracted large scale commercial projects, further transforming its real estate landscape.

Infrastructure Funding and Financing

Infrastructure projects are capital intensive and have long gestation periods. Hence, the central and the state government budgetary sources are the key avenues of funding for infrastructure development in India. Historically, states share of expenditure towards infrastructure development exceeded that of central government. However, in recent years, though, the larger share of funding infrastructure projects is from the states, the share of the centre has significantly increased owing to an aggressive allocation of capital expenditure towards infrastructure development. The share of central government expenditure towards, infrastructure development increased from 15% between 2009-13 to 45% between 2019-23. Between 2019-2023, the central government expenditure towards infrastructure development is estimated to be USD 244 bn, whereas the states expenditure is estimated at USD 263 bn.

While the central and the state government expenditure continues to remain the key funding sources for infrastructure development, private players as well have played a pivotal role. However, the participation of the private sector into infrastructure development in India, has remained subdued. Support such as public private participation (PPP), especially in sectors such as roads, energy etc. Between 2009-2013, private investments in infrastructure stood at USD 160 bn,

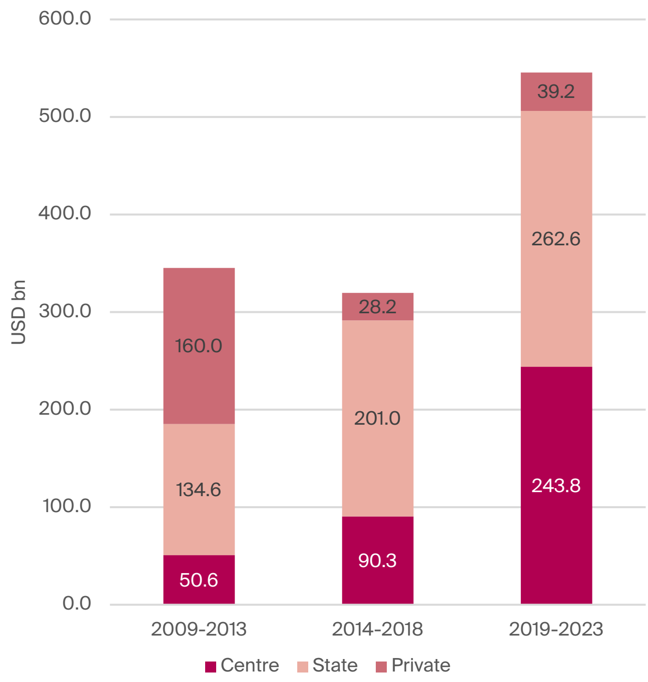
[6]Maharashtra state budget

equivalent to 46.4% of the total infrastructure investments during this period. However, due to multiple factors such as – delays in project initiation, cost overruns, delay in approvals, under performance of the infrastructure assets, low generation of revenues, etc has hindered the uptake of private investments in infrastructure development in India.

The potential for infrastructure development in India is significant as the policy makers aim to attain a developed economy status by 2047. For this, there needs to be a supportive physical and social infrastructure that improves the economy's investment and business conditions, which is crucial for overall economic development. Key policy initiatives such as the Bharatmala Pariyojana, Sagarmala etc and initiatives pertaining to green energy corridors, industrial corridors, freight corridors etc have significantly supported the scope of infrastructure development in India. Large scale initiatives such as the National Infrastructure Pipeline (NIP) envisages an investment of USD 1.6 trn between 2020-2025, and it is expected to significantly expand the scope of economic development in India.

Thus, the growing potential for infrastructure development in India under a conducive policy environment, widens the scope of investments and financing infrastructure projects.

Government and Private Investments in Infrastructure in India



Source: Central and state budgetary documents, World Bank, Knight Frank Research

Infrastructure Financing

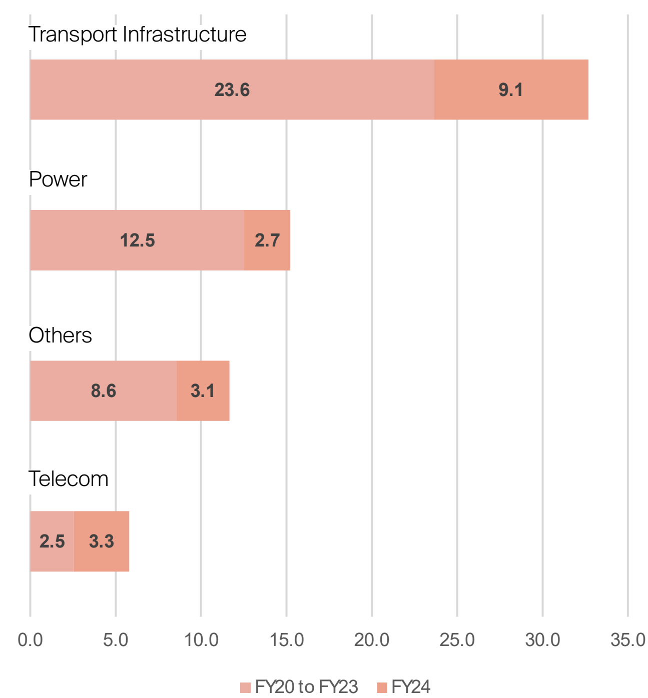
As mentioned above, there has been a massive infrastructure thrust in India in the last few years. The central government has allocated a Capex of USD 79 bn in FY 2024-25 for the development of core infrastructure. Going forward, with an aspiration to attain its near-term and long-term economic size targets, the near-term goal being USD 7 trn economy by 2030, infrastructure development will play a pivotal role. Hence, there will be a continuity in infrastructure development in India. Subsequently, the growing infrastructure sector will require funding and financing. Lending institutions such as multi-lateral banks, commercial banks, NBFCs etc. will play a pivotal role in financing infrastructure projects.

Multi-lateral and Bi-lateral Financing

Multi-lateral agencies such as the World Bank, Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB), are the key sources of funding large infrastructure projects in developing and emerging economies. These institutions provide low interest loans, zero to low interest credits and development grants for developing and emerging economies. India, supported by its strategic focus on infrastructure development, is one of the largest beneficiaries of the World bank for its development initiatives. Between 2014-2024, World bank made a provision of USD 37 bn towards various development projects in India. Infrastructure projects have been the largest receiver of funds from multilateral agencies.

India is also the largest borrower from agencies such as the Asia Infrastructure Investment Bank (AIIB). Since its inception in 2016, the AIIB has approved 48 projects in India amounting to USD 10.5 bn. Additionally, banks such as the Asian Development Bank (ADB), and bilateral agencies such as Japan International Cooperation Agency (JICA) also actively fund infrastructure projects in India. The primary focus of these investments includes transport, power, irrigation and water & wastewater etc.

External commercial borrowings to infrastructure



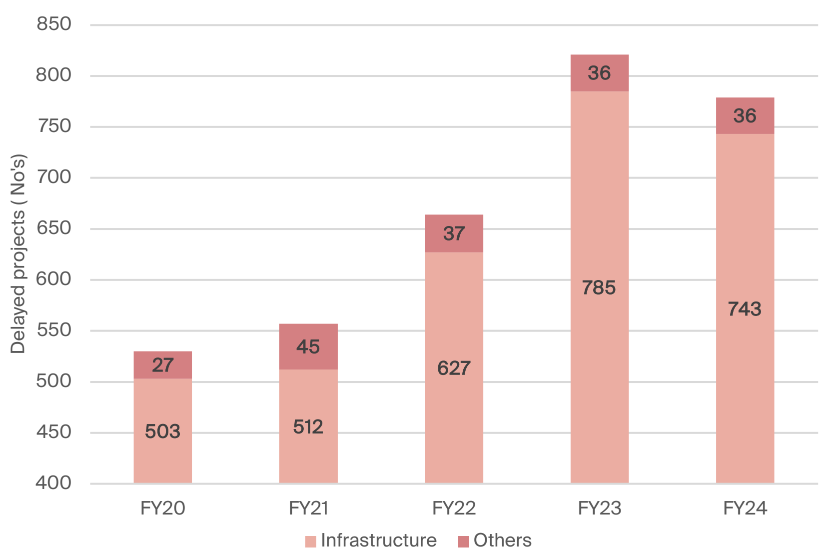
Source: Economic Survey FY 2023-24, Knight Frank Research

Domestic Lending to Infrastructure

Currently, domestic lending institutions that includes commercial banks and NBFCs are the key sources of financing infrastructure projects in India. As of FY 2022-23, the outstanding loan of banks and NBFCs in India towards infrastructure sector stood at USD 150 bn (INR 12 trn), having grown at a CAGR of 5.1% over the decade. In the period between FY 2013-14 to FY 2022-23, merely USD 16 bn of financing was provided by SCB and NBFCs in India, which is merely 1.8% of the total public and private investments in infrastructure development. This indicates low exposure of banks and NBFCs towards the sector. Owing to the economic characteristics of the infrastructure assets in comparison to the other asset classes, banks and NBFCs have displayed a minimal appetite towards this sector.

Infrastructure projects are capital intensive with long gestation periods, and are thus prone to a variety of risks such as delays in project clearances, changes in policies etc. Any delay in project implementation leads to cost and time overruns that further increase the price affecting the cost dynamics of the project. Project delays and subsequent cost overruns, impact the revenue of the project, risking its capacity of repayment of loans and interest rates. As of FY 2024, 95% of the project delays are concentrated in the infrastructure sector with an estimated cost overrun of USD 60 bn.

Delayed Projects w.r.t original schedule



Source: MOSPI, Knight Frank Research, Note: Other sector includes: Education, health and family affair, home affairs, Social justice, defence production etc

As a result banks and NBFCs are at risk of accumulating NPAs which can impact their overall balance sheet. Consequently, financing infrastructure projects through banks and NBFCs is a challenge. However, given the critical role of the infrastructure towards economic development, it is essential to introduce or promote policy measures to facilitate flow of funds through various mechanisms into infrastructure development.

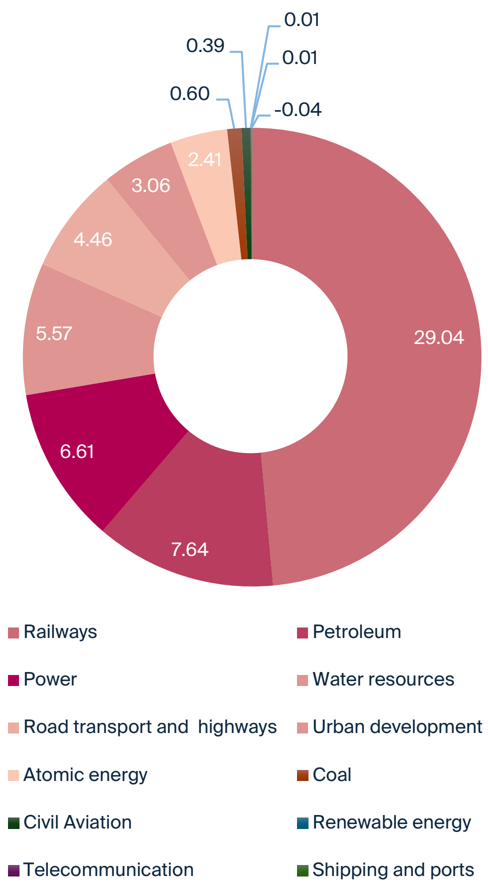
To assist the flow of funds for infrastructure projects, the RBI has undertaken certain key measures, such as – provision of extended timelines for project completion subject to conditions, establishment of Infrastructure Development Funds (IDFs) to take over post construction assets from banks, provision of credit enhancement up to 50% to banks for bond issuances, secured loan status to public private partnership (PPP) infrastructure projects etc.

USD

64.4 bn

of ECB funds directed towards infrastructure development between FY2000-2024

An estimated USD 60 bn of cost overruns in infrastructure segment



Source: MOSPI, Knight Frank Research

Sample infrastructure projects in India supported by domestic lending institutions

Project Name	Project Details	Project Cost (USD)	Lending agencies	Project Completion Status	Funding Provided by Banks (USD)
Mumbai Trans Harbour Link	22 km long sea bridge connecting Mumbai with Navi Mumbai	2.4 bn	Consortium of banks including State Bank of India (SBI) and other commercial banks	Completed	1.33 bn
Rewa Ultra Mega Solar Power Project	750 MW solar power plant in Madhya Pradesh	600 mn	Financed by a consortium of banks including SBI and other commercial banks	Completed	400 mn
Hyderabad Outer Ring Road	158 km long ring road around Hyderabad	900 mn	Funded by commercial banks and the Government of Telangana	Completed	533 mn
Hyderabad Metro Rail Project	72 km metro rail network across three corridors in Hyderabad	2.62 bn	Funded by a consortium of banks led by State Bank of India (SBI)	Completed	1.33 bn

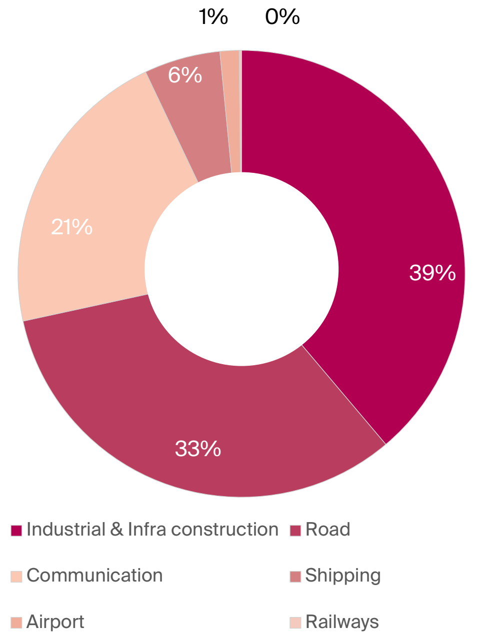
Source: Government of India, Project documents, Knight Frank Research

Primary Debt Market:

The primary market has emerged as an enticing avenue for (borrower) to procure debt for their projects owing to several facilitating factors. These include swift access to requisite funds for project expansion or refinancing existing debt, coupled with the autonomy to dictate the terms of borrowings, such as maturity dates, and the flexibility to select debt instruments like bonds, notes, and debentures tailored to their specific needs and financial strategy. Developers frequently encounter obstacles when seeking loans from banks due to the elevated risks inherent in infrastructure projects. By tapping into primary markets, issuers can diversify their funding sources beyond conventional bank loans, thereby mitigating reliance on a singular capital source.

Although borrowing costs in the primary market are generally tethered to government securities and can exhibit greater volatility compared to bank interest rates, raising debt from the primary market can be more cost-effective contingent upon market conditions and the credit rating of the borrower. Between FY 2014-15 and FY 2023-24, an estimated USD 116 bn of debt was raised from the same for various infrastructure services and construction projects. Of this, 39% was earmarked for the construction of infrastructure and industrial corridors, while the remaining 61% was allocated to various transport and allied services, with the road sector at the forefront, raising USD 38 bn. Notably, USD 78 bn, or 67% of the total debt raised in the last decade, was secured in the last five years (FY 2019-20 to FY 2023-24), underscoring a significant expansion in infrastructure construction and related activities in the country.

USD 116 bn of debt raised from primary market between FY 2014-15 and FY 2023-24



InVITs and AIFs: New Sources of Funding

Infrastructure Investment Trust (InvITs) regulations were introduced by Securities Exchange Board of India (SEBI) in 2014, to stimulate investments in infrastructure. InvITs are a trust that hold infrastructure assets generating steady cash flow through long term concession. The structure of InvITs in India is similar to Master Business Trusts (MBTs) instruments that are prevalent in developed countries such as the UK, USA, Singapore, Hong Kong etc. In these economies, MBTs are listed on their respective stock exchanges by issue of their units to the investors.

In India, 26 InvITs are registered with SEBI concentrated across multiple asset classes such as roads, power, pipeline, renewable energy, logistics and warehousing etc, with an asset under management (AUM) of USD 60 bn (INR 5000 bn). Of these, four InvITs are publicly listed with a market cap exceeding USD 3.2 bn (INR 267 bn). Sectorally, roads account for the highest number of InvITs comprising more than 50% of the AUM. While InvITs are primarily dominated by private developers, government entities such as NHAI, PGCIL etc also have InvITs for their operational assets.

Currently, InvITs in India are at a nascent stage, having raised USD 13.25 bn (INR 1100 bn) via equity. fundamental features of InvITs such as cap on leverage, mandatory distribution of 90% cash flow and limit on proportion of under construction assets benefits both investors and financiers. These favourable features enable InvITs to potentially become a new standard for infrastructure financing. Additionally, financial instruments such as pensions and insurance funds, as well as domestic savings can be potentially routed as investments into infrastructure development. Supported by policy push, the scope of infrastructure development in India is significant and expected to grow with asset types such as HAM highways, renewable energy, logistics etc. As per various studies, total market opportunity for InvITs is estimated to be INR 21 trn between 2024-30[7].

Alternative Investment Funds (AIFs) and Infrastructure

AIFs are a category of investment vehicles that differ from traditional mutual funds and stocks. AIFs provide investors with opportunities for diversification, potentially higher returns, and access to asset classes that may not be readily available through traditional investments. They encompass various assets and strategies, including private equity, hedge funds, real estate, venture capital, and more. AIFs expose investors to assets that are not readily available in conventional investment options. Compared to traditional mutual funds, volatility in AIFs is very less hence alluring as an attractive investment option for risk averse investors. In recent years, AIFs have emerged as an alternative source of funding infrastructure projects in India. Infrastructure AIFs are well diversified with investments across roads, railways, airports, utilities, power sector etc. Since its inception in 2012, USD 991 mn (INR 82.26 bn) of funds have been raised through AIFs for various infrastructure projects. Despite its attractiveness, the AIFs in India are yet to reach its full potential. Factors such as high entry barriers, wherein the minimum investment is of USD 0.12 mn (INR 10 mn), stringent regulations, lack of awareness etc has limited the scope of AIFs to attain their full potential.

Untapped Financial Products

While various financial vehicles can raise funds for infrastructure projects, many large capital holders, such as insurance and pension funds, are not significantly routed towards infrastructure development in India. This underutilization represents a missed opportunity for leveraging substantial capital for essential infrastructure growth.

Unlike their global counterparts, the use of pension funds for financing infrastructure projects is very limited in India. Currently, investments from domestic pension funds continue to be skewed towards government securities, with around 50% of investments being in this category. The domestic pension fund corpus under the National Pension System (NPS) Trust is USD 156 bn (INR 12.96 trn) as on Sep 30, 2024 and an additional corpus of USD 257 bn (INR 21.3 trn) with EPFO provides adequate alternative funding opportunity for infrastructure investments in India. The long-term investment horizon of the pension funds matches with the long concession period of the infrastructure projects, thus providing a long-term investment opportunity. With clear regulations, and return guarantees, pension funds in India have massive potential to be routed into infrastructure development.

In the developed countries, major pension funds investment into infrastructure projects globally. Global sovereign wealth and pension funds such as the Qatar Investment Authority, Singapore-based GIC, Canadian Pension Fund etc among others have invested in India's infrastructure assets in India as well, the Canada Pension Plan Investment Board (CPPIB), Caisse de dépôt et placement du Québec (CDPQ) has invested in infrastructure assets such as ReNEW Power, PGInvit, NHAI Invit, Maple highways, TVS logistics etc.

India also has its own sovereign backed fund for infrastructure which is National Infrastructure Investment Fund (NIIF). NIIF aims to attract investments from both domestic and international sources to support infrastructure projects both greenfield and brownfield. NIIF operates under a master fund which aims to invest in well-established infrastructure projects, and strategic funds which focuses on equity and equity linked infrastructure investments. NIIF is registered with SEBI as a category II AIF. Currently, NIIF manages assets over USD 4.9 bn across various infrastructure assets such as roads, power, sustainable projects etc.

Conclusion

Favourable policy reform, an aggressive infrastructure push by the state and central governments, and capital recycling through stake sales of completed projects are gradually improving the credit profile of infrastructure projects in India. As India embarks on developed economy status by 2047, infrastructure development will play a pivotal role, providing ample investment and financing opportunities for the banking and financial sector. Currently, bank lending to infrastructure development is meagre, in comparison to the requirement. Other financial instruments are largely untapped. To minimize excessive dependency on government budgetary allocations for infrastructure development, it is essential that various financial instruments are adequately utilised. Adequate financing also has the potential to narrow the financing challenges of a infrastructure projects in turn reducing the project delays.

[7] Indian REIT association, Primer on REITs and InvITs, June 2024, CRISIL estimates

KNIGHT FRANK INDIA PVT LTD

Authors

Urvisha Jagasheth
Lead Consultant
Research
+91 22 6745 0116
urvisha.jagasheth@in.knightfrank.com

V Shilpa Shree
Assistant Vice President
Research
+91 80 6818 5600
shilpa.shree@in.knightfrank.com

Naresh Sharma
Assistant Vice President
Research
+91 22 6745 0118
naresh.sharma@in.knightfrank.com

For further information contact

Gulam Zia
Senior Executive Director
Research, Advisory, Infrastructure,
& Valuation
+91 22 6745 0152
gulam.zia@in.knightfrank.com

Viral Desai
Senior Executive Director
Occupier Strategy & Solutions,
Industrial & Logistics,
Capital Markets and Retail Agency
+91 80 6818 5699
viral.desai@in.knightfrank.com

Vivek Rathi
National Director
Research
+91 22 6745 0119
vivek.rathi@in.knightfrank.com

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