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The shifting dynamics of global real estate investment: a focus on India

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Introduction

In recent years, the global real estate investment market has experienced major changes due to a mix of economic shifts, new technologies, and changing investor interests. The impact of the COVID-19 pandemic, along with increasing geopolitical tensions and uncertain economic conditions, has forced real estate markets around the world to adjust to these new challenges. Amid these changes, Asia, and particularly India, has emerged as a pivotal region for real estate investors seeking growth, diversification, and resilience in their portfolios.

This text delves into the shifting dynamics of global real estate investment, with a strong emphasis on the challenges within the Asian continent. India, being one of the world's fastest-growing major economies, serves as a key market where global trends meet local advancements, creating distinct opportunities for investors. Through a comprehensive analysis, this article aims to illuminate the factors shaping the global real estate landscape, explore the rising influence of Asian markets, and provide an in-depth examination of India's role in this evolving context.

Real estate remains one of the most significant asset classes, not only as a store of wealth but also as a critical component of economic development, urbanization, and societal well-being. As global economic power continues to shift eastward, with Asia leading the charge in economic growth, technological innovation, and urban expansion, the real estate markets within this region have garnered heightened attention from global investors. India's real estate sector, in particular, presents a compelling case for study. The country's rapid urbanization¹, burgeoning middle class, and government initiatives aimed at boosting infrastructure and housing development have positioned India as a focal point for both domestic and international investors.

Overview of global real estate investment

The global real estate market is a diverse ecosystem that includes various property types such as commercial, residential, industrial, and agricultural assets. This sector has experienced notable changes,

influenced by economic shifts, technological innovations, and changing investor preferences.²

Global real estate investment is heavily shaped by key economic factors like interest rates, inflation, and overall economic growth. After the COVID-19 pandemic, central banks worldwide adopted supportive monetary policies, leading to record-low interest rates aimed at boosting economic activity. This environment catalyzed an increase in real estate investments as investors sought stable, income-generating assets amid a low-yield landscape. However, as global economies recover and inflationary pressures mount, central banks are shifting toward tighter monetary policies. This transition is anticipated to impact real estate pricing, financing costs, and overall returns. Interest rates are a critical determinant in real estate investment, affecting both the cost of borrowing and the relative attractiveness of real estate as an investment class compared to other assets. Low interest rates generally encourage real estate investments by reducing financing costs, making property purchases more affordable. On the other hand, rising interest rates can drive up borrowing costs, which may reduce demand and put downward pressure on property values.

Within the Indian economic landscape, the RBI monetary policy exerts a significant influence on real estate investment trajectories. The central bank's interest rate decisions directly impact mortgage rates, developer financing costs, and overall real estate demand. Given the prevailing global interest rate environment, investors must diligently monitor the RBI's policy stance and its corresponding implications for the real estate market.

Despite ongoing inflation, which stood at 5.08% in June 2024, the RBI opted to keep the repo rate unchanged at 6.5% during its July 2024 meeting, maintaining a cautious approach. This decision was made even as the country's economy continued to show strong growth.³

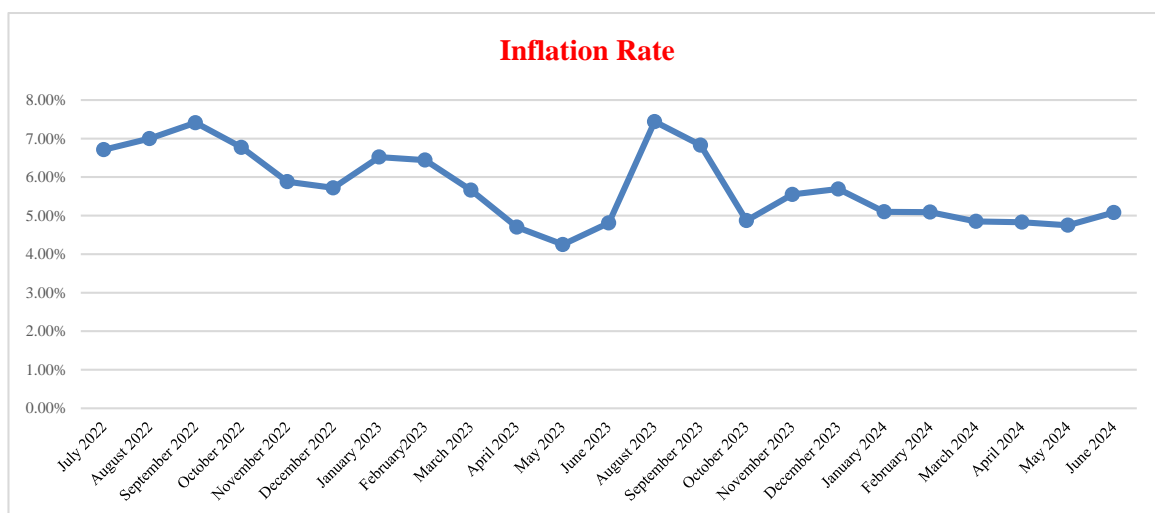


Fig.1 India's inflation rate for the past two-year period – Source: [macrotrends.net](https://www.macrotrends.net)

² https://www.mckinsey.com/~/media/mckinsey/featured%20insights/urbanization/urban%20world/mgi_urban_world_mapping_economic_power_of_cities_full_report.pdf last accessed on 8 August 2024

³ <https://www.thehindubusinessline.com/money-and-banking/rbi-monetary-policy-committee-mpc-meeting-live-updates-and-news-august-2024/article68496081.ece> last accessed on 12 August 2024

India's GDP is projected to expand by 7.2% in 2025, fueled by its burgeoning population, rapid urbanization, and a thriving technology sector. However, India also faces significant challenges, including income inequality, regulatory hurdles, and the need for substantial infrastructure development.

PropTech revolution: how AI, Big Data, and blockchain are transforming real estate

The emergence of property technology (PropTech) has transformed the real estate industry by improving efficiency, transparency, and accessibility. Tools like artificial intelligence, big data analytics, and blockchain are now commonly used in real estate transactions, property management, and investment decisions. These advancements are particularly significant in emerging markets, where technology helps overcome traditional barriers to entry and creates new opportunities for growth. For example, blockchain technology is being utilized to enable secure and transparent real estate transactions, minimizing the risk of fraud and making the property transfer process more efficient. Similarly, artificial intelligence is being leveraged for predictive analytics in property valuation and market trend forecasting, enabling investors to make more informed decisions. AI and ML have become pivotal in revolutionizing the real estate sector. These technologies enable the automation of tasks, predictive analytics, and enhanced customer experiences, thereby creating more efficient and personalized real estate services.

AI-powered platforms are increasingly being used to analyze large volumes of data on property values, market trends, and consumer behavior, helping to improve decision-making in the real estate sector. For example, AI algorithms can analyze historical property prices, local amenities, crime rates, and other socio-economic factors to accurately predict future property values. This ability is highly valuable for investors looking to make informed, data-driven decisions.

According to a 2023 report by Deloitte³ “*Generative AI: How Technology Can Revolutionize Commercial Real Estate*”, AI adoption in real estate has grown by over 300% in the past five years, with AI-driven platforms now handling approximately 40% of real estate investment analysis in the United States alone.⁴

The article "Generative AI can change real estate, but the industry must change to reap the benefits," published by McKinsey & Company⁵ in 2023, highlights that generative AI could create \$110 billion to \$180 billion or more in value for the real estate sector. It also notes that incorporating AI and big data into property management can boost Net Operating Income (NOI) by up to 15%, making it an essential tool for

⁴ <https://www2.deloitte.com/us/en/insights/industry/financial-services/generative-ai-in-real-estate-benefits.html> last accessed on 13 August 2024

⁵ <https://www.mckinsey.com/industries/real-estate/our-insights/generative-ai-can-change-real-estate-but-the-industry-must-change-to-reap-the-benefits> last accessed on 13 August 2024

property owners and managers.

Big data has become a key element in modern real estate, offering valuable insights into market trends, consumer preferences, and investment opportunities. The capacity to gather, analyze, and interpret large datasets enables real estate professionals to make better-informed decisions and create strategies that reflect current market conditions.

India: a deep dive into a transformative real estate market

India stands at the forefront of a transformative era in real estate, propelled by robust economic growth, demographic advantages, and a favorable investment climate. As the world's fifth-largest economy, India has maintained a consistent upward trajectory in GDP growth, even amidst global uncertainties. This economic resilience has positioned India as a key player in the global real estate market, attracting both domestic and foreign investments at unprecedented levels.

Over the past decade, India has achieved remarkable economic growth, maintaining an average annual GDP increase of around 6-7%. Despite global headwinds such as inflationary pressures and geopolitical tensions, the Indian economy continued to demonstrate resilience, recording a GDP growth rate of approximately 6.8% in the first half (H1) of 2024. This steady growth is underpinned by strong domestic consumption, robust industrial activity.

India's demographic profile plays a key role in driving the real estate boom. With a population of over 1.4 billion, the country has the largest youth population in the world, with more than 65% under the age of 35. This young and ambitious demographic is fueling rapid urbanization, as millions migrate to cities each year in search of better opportunities. According to the United Nations, India's urban population is projected to reach 600 million by 2030, significantly increasing the demand for urban housing and infrastructure.

This urban migration is fueling demand across all segments of the real estate market. In H1 2024, cities like Bangalore, Mumbai, and Delhi-NCR witnessed a surge in residential property sales, with the mid-segment and affordable housing categories accounting for approximately 65% of the total residential sales. In addition, the expanding middle class with increasing disposable incomes is fueling demand for premium housing, retail spaces, and leisure facilities.

India's real estate sector has also witnessed a sharp rise in Foreign Direct Investment (FDI). In H1 2024 alone, the sector attracted over \$5 billion in FDI, reflecting the growing global interest in Indian real estate. This influx of foreign capital is driven by factors such as India's economic stability, vast market potential, and ongoing urbanization, which promises sustained demand for real estate assets.

Investors are particularly drawn to India's office space market, which has seen consistent growth in leasing activity. In H1 2024, office space leasing reached approximately 20 million square feet, with cities like Bangalore, Hyderabad, and Delhi-NCR leading the charge. The rising demand for Grade A office spaces, fueled by sectors like financial services, IT/ITES, banking, and BFSI insurance, along with a thriving startup ecosystem, highlights India's expanding economic vitality and its attractiveness as a key global investment destination.

Environmental, Social, and Governance (ESG) considerations are becoming increasingly central to real estate investment decisions. Investors are progressively prioritizing sustainable practices, seeking properties that are energy-efficient, have a reduced carbon footprint, and are aligned with broader societal goals. This shift is driven not only by regulatory requirements but also by a growing recognition that sustainable investments are more resilient and likely to deliver long-term value.

The integration of ESG criteria into real estate investment strategies is reshaping the market. Properties that adhere to stringent environmental standards, such as green buildings and those with high energy efficiency ratings, are experiencing higher demand and commanding premium prices. Additionally, the focus on social and governance aspects ensures that investments align with ethical practices and contribute positively to communities.

Within this global context, *Asia—and India in particular*—emerges as a region of strategic importance. India's real estate market is shaped by a combination of robust economic growth, rapid urbanization, and a young population. However, the market also faces challenges, including regulatory complexities, infrastructure bottlenecks, and inflationary pressures.

India's real estate sector has attracted significant attention from both domestic and international investors. Despite the challenges, India's real estate market offers substantial growth potential, particularly in the residential and commercial sectors.

Residential real estate market

India's residential real estate market is experiencing a major shift, influenced by economic factors, evolving consumer preferences, and the rise of organized real estate developers. Historically fragmented and localized, this sector is maturing into a more structured and investor-friendly market, characterized by increased transparency and better governance. Key dynamics shaping the residential market include affordability concerns, rising demand in tier-two and tier-three cities, and the growing influence of large, organized developers.

Affordability remains a cornerstone of India's residential real estate market, especially given the vast middle-class population. The demand for affordable housing continues to be robust, bolstered by government initiatives like the Pradhan Mantri Awas Yojana (PMAY), which is focused on ensuring housing for all.. Recent data indicates that nearly 60-70% of residential sales in the first half of 2024⁶ were concentrated in the affordable and mid-segment categories, reflecting the continued dominance of these segments in the market.

While metropolitan cities like Mumbai, Bangalore, and Delhi-NCR have traditionally been the focal points of residential real estate, there is a noticeable shift in demand towards tier-two and tier-three cities. This trend is driven by several factors, including rapid urbanization, the expansion of economic activities beyond major metros, and improved infrastructure connectivity.

In the first half of 2024, cities like Pune, Kochi, and Jaipur witnessed a significant uptick in residential sales, with growth rates surpassing those of larger cities. These smaller cities are becoming increasingly attractive to both homebuyers and investors due to their lower cost of living, availability of affordable housing, and improving social infrastructure.⁷

The growing influence of large, organized developers is another key factor transforming the residential real estate market in India. These developers bring greater professionalism, transparency, and reliability to the sector, addressing long-standing issues such as project delays and substandard construction quality. With access to better financing⁶, advanced construction technologies, and stronger brand recognition, organized developers are increasingly dominating the market, particularly in the mid-to-high segment categories.

Additionally, the rise of remote work and digital connectivity has made it feasible for more people to consider living in these emerging urban centers, further driving demand. This shift is contributing to a more predictable and investor-friendly market environment, which is crucial for attracting both domestic and international investment. The entry of private equity firms and institutional investors into the residential real estate sector is further evidence of this maturing market, signaling a long-term growth trajectory. The entry of private equity firms and institutional investors into the residential real estate sector is further evidence of this maturing market, signaling a long-term growth trajectory.

Commercial real estate market and emerging sectors

India's commercial and office real estate market is witnessing strong growth, fueled by the expansion

⁶ <https://www.knightfrank.be/research/india-real-estate-residential-and-office-market-h1-2024-11307.aspx> last accessed on 18 August

⁷ <https://www.nhb.org.in/wp-content/uploads/2024/04/T-P-Annual-Report-2023-web.pdf> last accessed on 18 August

of key industries like IT and ITES, along with the growing popularity of co-working spaces and retail development. This sector's resilience and dynamism have been significantly enhanced by a surge in institutional investments, particularly from foreign institutional investors (FIIs), who are increasingly drawn to India's burgeoning commercial real estate market.

The IT and ITES industries continue to be the backbone of India's commercial real estate market, acting as primary drivers of demand for office spaces. Major cities like Bengaluru, Hyderabad, Pune, and Gurugram are at the forefront of this growth, benefiting from India's competitive advantage in offering a large, skilled workforce at relatively lower costs. This makes the country an attractive destination for global corporations looking to establish or expand their operations.

In the first half of 2024, the demand for Grade A office spaces surged, with technology firms leading the way in leasing activity. based on the JLL Retail Market Update⁸ IT/ITES companies accounted for nearly 40% of the total office space absorption in major cities. This sustained demand not only reflects the ongoing growth in these industries but also underscores the increasing preference for high-quality, modern office spaces that can accommodate flexible working arrangements.

India's commercial real estate sector has seen a marked increase in institutional investments, particularly from foreign investors who recognize the growth potential of this market. In the first half of 2024, FIIs played a pivotal role in driving capital inflows into commercial real estate, attracted by the strong performance of the office space segment and the growing popularity of co-working spaces. This influx of capital is not only fueling further development but also contributing to the maturation of the market, with greater transparency, improved governance, and the adoption of international best practices.

The ongoing urbanization, combined with the rise of new business models and technological advancements, is expected to sustain the India's commercial growth and office real estate market in the coming years. As the sector continues to evolve, it will remain a key focus for both domestic and international investors seeking stable and lucrative opportunities.

India's commercial real estate market is witnessing significant growth in emerging sectors such as logistics, warehousing, and data centers. These sectors are rapidly adapting to the shifting dynamics of India's economy, driven by the rise of e-commerce, the expansion of digital infrastructure, and the increasing need for efficient supply chain management. The strong demand in these areas is transforming the commercial real estate market, creating significant opportunities for both investors and developers.

The logistics and warehousing sector in India are on a dynamic growth trajectory, fueled by the rapid

⁸ <https://www.jll.co.in/en/trends-and-insights/research/retail-market-update-q1-2024> last accessed on 20 August

expansion of e-commerce and the modernization of supply chains. According to JLL's report, *Exploring*

*India's Thriving Logistics and Warehouse Landscape*⁹, the sector is projected to grow at a Compound Annual Growth Rate (CAGR) of 10-12%, reaching almost \$380 billion by 2025. This growth is being driven by the increasing demand for modern logistics and warehousing facilities that can support the efficiency requirements of fast-growing online retail.

The e-commerce industry, projected to grow to \$188 billion by 2025, is a key driver of this demand. Major players like Amazon, Flipkart, and Reliance are expanding their operations across the country, necessitating extensive warehousing infrastructure to manage inventory and ensure timely delivery to customers. The warehousing space in India is forecasted to reach an impressive 500 million square feet by 2025, reflecting the sector's rapid expansion.

Several factors are driving this growth. The widespread adoption of cloud computing, coupled with the proliferation of smartphones and the internet, has led to an explosion in data consumption. With over 750 million internet users and increasing adoption of digital services, the demand for data storage and processing has reached unprecedented levels. This surge in data consumption is necessitating the development of robust data center infrastructure across the country. Global tech giants such as Microsoft Azure, Google Cloud and Amazon Web Services are at the forefront of this expansion, significantly increasing their investments in India. AWS, for example, has announced plans to invest \$12.7 billion in India by 2030 to establish new data centers across the country, which is expected to create approximately 100,000 jobs annually. These investments are not only enhancing India's data storage capacity but also contributing to the overall digital infrastructure, supporting the country's ambition to become a global digital hub.

Conclusion

The global real estate investment landscape is undergoing significant transformation, with Asia—and particularly India—emerging as a critical region for growth and diversification. Amidst macroeconomic shifts, technological advancements, and evolving investor preferences, India stands out due to its robust economic growth, rapid urbanization, and demographic advantages. The property market in India offers a compelling mix of opportunities across residential, commercial, and emerging sectors, each driven by distinct yet interconnected factors.

The residential market is experiencing a profound transformation, with increased transparency, the rise of organized developers, and a growing focus on affordability and mid-segment housing. Tier-two and

⁹ <https://www.jll.co.in/en/trends-and-insights/research/exploring-indias-thriving-logistics-and-warehouse-landscape> last accessed on 21 August 2024

tier-three cities are becoming increasingly attractive, providing new avenues for investment beyond traditional metropolitan areas. The commercial sector, powered by the IT/ITES industries and the expansion of co-working spaces, continues to attract significant institutional investments, particularly from foreign investors. The growth of this sector not only highlights India's economic vitality but also underscores its strategic significance on the global stage.

Emerging sectors like logistics, warehousing, and data centers are transforming India's commercial real estate landscape, bringing new opportunities and reshaping the way we think about the future of business spaces.

The surge in e-commerce, the modernization of supply chains, and the explosion of data consumption are driving unprecedented demand for these facilities. As India advances towards becoming a global digital hub, these sectors offer substantial growth potential, supported by significant investments from global tech giants.

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