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**Critical Analysis of the Indian Housing Sector**

**Anshumi Johri, (LLB, Student)**  
**Mudra Singh, (Assistant Professor)**  
Amity Law School  
Amity University  
Uttar Pradesh Lucknow Campus

**Abstract**

*The housing market in India has undergone significant changes and encountered various obstacles over the years due to a complex interplay of economic, social, and policy influences. This research paper seeks to provide a thorough examination of the dynamics within the Indian housing market, with a keen focus on identifying pivotal trends, drivers of change, challenges encountered, and future possibilities. Employing a multifaceted approach that integrates quantitative data analysis, etc. The paper delves into critical aspects such as the impact of urbanization, demographic shifts, governmental interventions, trends in real estate investment, affordability concerns, and how global economic conditions influence the Indian housing landscape. Moreover, the paper investigates investment patterns in the real estate sector, both domestic and foreign, and their implications for the housing market's stability and growth. In light of these analyses, the paper explores potential strategies and policy recommendations aimed at addressing existing hurdles and fostering sustainable development in the housing sector. This involves proposing measures to enhance affordability, streamline regulatory frameworks, promote inclusive housing solutions, and leverage innovative financing mechanisms.*

**Keywords:** *Policy influence, Urbanization, Government intervention, Investment patterns, Affordability, Inclusive housing solutions*

## **Introduction:**

As per the information provided by *Indian Brand Equity Foundation*, the real estate industry stands as a globally prominent sector. It is intricately linked to the growth of corporate sector, fueling the pressure for offices spaces and urban housing. Notably the construction industry holds a significant position, ranking 3<sup>rd</sup> among the 14 primary sectors concerning its indirect, direct impacts. Subsequently, in India the real estate domain emerges as the second largest employment provider after the agricultural sector. Forecasts indicated a surge in investment from non-residential Indian (NRIs). Bengaluru was anticipated to be the prime choice for non-residential Indian, closely followed by Ahmedabad, Pune, Chennai, Goa, Delhi and Dehradun.

Aside from infrastructure advancement, the escalation in disposable income and the expansion of the middle-class populace have notably fuelled the progress of the real estate domain. The intensifying urbanization and the influx of people from rural to urban areas have spurred a pronounced demand surge for various real estate segments including housing, commercial and retail spaces, as well as office premises. Consequently, a new breed of real estate developers has emerged, specifically targeting the requirements of the middle-income demographic. The burgeoning real estate sector has ushered in a favourable impact on the employment landscape in India. Directly and indirectly, the sector engages a workforce exceeding 50 million individuals, thus positioning it as one of the primary employment generators in the nation. Serving as a significant catalyst for job creation, the sector has been instrumental in providing employment opportunities to millions of individuals

nationwide. This concerted effort has contributed significantly to poverty alleviation and enhanced the overall living standards across India.

By the year 2040, it is projected that Indian real estate sector will witness considerable. Forecasts indicate that the Indian real estate market will attain a market size of Rs. 100,000 crores by 2030, a absorbent surge from Rs. 16, 600,00 in 2021, with a corresponding contribution of almost 13 per cent in the India's GDP by 2025.

In the year 2023, the Indian housing property market experienced remarkable growth, evidenced by the unprecedented rise of home sales, which surged to Rs. 3.47 lakh crore marking an impressive yearly growth of 48%. Furthermore, the consistency of sales displayed robust upward surge, witnessing a 36% rise, with a total of 379,095 units sold.

## **Research Methodology**

This descriptive research study gives a comprehensive picture of India's Housing Market by utilizing secondary sources. The study consults secondary sources of information such as newspaper, journals, websites, virtual interviews etc.

## **Background**

In ancient India, housing was primarily determined by socio-economic status and occupation. Cities like Mohenjo-Daro and Harappa from the Indus Valley Civilization showcase well-planned urban settlements with sophisticated drainage systems and multi-story houses made of bricks and wood. During the Vedic period, the concept of housing expanded with the

emergence of larger settlements and the construction of more elaborate structures. In the British colonial rule urbanization and industrialization led to the development of cities like Mumbai, Kolkata, and Chennai, where the British built colonial-style bungalows and residential areas for their administrators and officers. The concept of planned urban development emerged during this period, with the establishment of areas like Lutyens' Delhi.

After gaining independence in 1947, India witnessed rapid urbanization and population growth. The government initiated various housing programs to address the housing shortage, particularly for low-income groups. The most notable among these was the Slum Clearance Program and the later establishment of government housing boards in states to provide affordable housing. The liberalization of the Indian economy in the 1990s led to significant changes in the housing sector. Foreign direct investment (FDI) was allowed in real estate, leading to the emergence of modern housing complexes, gated communities, and integrated townships. The rise of private developers and real estate companies transformed the housing market, offering a variety of options across different segments. Early 2000s witnessed a boom in the Indian real estate sector, driven by factors such as increasing urbanization, rising incomes, favourable demographics, and easier access to housing finance. This period saw a surge in property prices, especially in metropolitan cities and urban centers, fueled by speculative investments and a booming economy.

Over the years, the Indian government has introduced various policies and initiatives to regulate the housing market, promote affordable housing, and address issues such as slum redevelopment, land acquisition, and urban planning. Government Programs like the

“Jawaharlal Nehru National Urban Renewal Mission” (JNNURM) and the “Pradhan Mantri Awas Yojana” (PMAY) have been launched to access affordable and easy housing for all. The Indian housing market has witnessed fluctuations due to factors like economic slowdowns, regulatory changes and the COVID-19 pandemic. Challenges such as affordability, sustainability, and housing finance remain pertinent, while opportunities for growth and innovation continue to emerge.

Overall, the housing market in India has undergone significant transformations over time, reflecting the country's economic, social, and political evolution. It continues to be a vital sector driving growth, employment, and urban development in the country.

### **Significance of Housing Market in India**

Firstly, from an economic standpoint, the housing market is one of the biggest contributors to India's GDP, providing employment opportunities and stimulating economic activity in various sectors. The construction industry, in particular, thrives on housing projects, creating jobs for millions of workers involved in building homes, infrastructure, and related amenities. Moreover, the real estate sector serves as a significant source of investment, attracting both domestic and foreign capital, and contributing to the overall liquidity and vibrancy of the economy. Secondly, housing serves as a cornerstone for wealth creation and asset building for millions of Indians. Homeownership is not only a symbol of financial security but also a means of accumulating wealth over time. As property values appreciate, homeowners benefit from capital gains, thereby enhancing their net worth and financial stability. Additionally, homeownership fosters a sense of pride, belonging, and social status, further reinforcing its significance beyond purely economic considerations.

Thirdly, it plays an important role in promoting social stability and welfare by providing shelter and amending living conditions of individuals and families. It is fundamental to human dignity to have a safe and affordable house to live in. Adequate housing contributes to the creation of vibrant and cohesive communities, fostering social cohesion, and reducing disparities in living standards.

Fourthly, the housing market drives urban development and infrastructure growth, particularly in rapidly expanding cities and urban areas. As urbanization accelerates and populations migrate to urban centers in search of economic opportunities, there is a growing demand for residential housing and supporting infrastructure. Investments in housing projects spur the development of essential amenities such as roads, transportation networks, water supply, sanitation, and utilities, contributing to the overall livability and sustainability of urban environments.

Furthermore, the housing market generates substantial government revenue through taxes, fees, and duties associated with property transactions and real estate development. These revenues play a crucial role in funding public services, urban infrastructure projects, and social welfare programs, thereby supporting inclusive growth and equitable development across the country.

In conclusion, the significance of the housing market in India transcends mere economic considerations, encompassing social, cultural, and developmental dimensions. Recognizing its importance, concerted efforts to promote sustainable and inclusive housing policies are essential to ensuring equitable access to housing opportunities and fostering long-term prosperity for all segments of society.

### **Government Reforms and Policies**

In the last 10 years governmental reforms have injected considerable momentum into the Indian residential market, resulting in notable improvements in the timely possession of housing projects.

#### **Impact of Government Reforms**

Special Window for Affordable and Mid-Income Housing (SWAMIH) Fund: The SWAMIH initiative has reignited the optimism of investment funds by successfully delivering around “26,000 homes” till 2023. In addition within the next coming three years 80,000 units are suspected to be finalised. The initiative has not only stimulated the growth within infrastructure and real estate sectors but has also effectively unlocked liquidity exceeding Rs 35,000 crore.

Pradhan Mantri Awas Yojana (PMAY): The Pradhan Mantri Awas Yojana (PMAY) has facilitated the provision of cost-effective housing solutions for both rural and urban demographics. To date, around 11.86 million dwellings have been approved under the PMAY (Urban) initiative, while the PMAY (Gramin) scheme has sanctioned approximately 29.48 million homes.

In addition to this, the Indian government has crafted numerous housing policies aimed at ensuring the availability of affordable housing, land, and basic amenities for low-income groups, thereby mitigating the

proliferation of slums in urban areas. A retrospective analysis of India's housing policies since Independence reveals a predominant focus on extending subsidies to homebuyers within the economically weaker sections and lower-income group segments.

### **Investment and Market Patterns**

Indian real estate sector has experienced significant growth, driven by heightened demand for residential properties and office spaces. Notably, there has been a notable surge in foreign institutional inflows, witnessing a three-fold increase to US\$ 26.6 billion during the period spanning 2017 to 2022. Exports from Special Economic Zones (SEZs) reached Rs.

7,96,00,000 lakh crore in the year 2020, marking a growth of 13.6% from Rs. 7.1 lakh crore in the fiscal year 2019. The construction sector stands as the third-biggest receiver of foreign direct investment.

Given below are some of the significant investments and advancements witnessed in this sector:

During the first half of 2023, there was a notable uptick in the sale of luxury residences in India, marking a 130% rise as against the prior year. Within the span of January to June 2023, a total of 6,900 high-end homes valued at Rs. 4,00,00,000 and higher were transacted, in contrast to three thousand units sold in the year 2022.

In the most developed 8 cities of India, accommodation prices noticed a 7% yearly surge due to vigorous demand fuelled by ongoing buyer interest and loan rates.

In Q2 of 2023, the industry saw substantial investments in the form of private equity (PE), underscoring investors' confidence and trust in the market. As per the new Investment report by “Cushman & Wakefield”, this amount marks a 63 per cent increase from the last year quarter, i.e, 2023 and a 60% rise compared to same period of previous year.

Delhi-NCR in the month of July, 2023 rose to become the 3<sup>rd</sup> largest city in the Asia-Pacific region in many terms such as flexible office space etc., leaving behind Seoul and Beijing in the race. This information comes from real estate consultancy firm CBRE, with

Bengaluru maintaining its position as the leading city in this regard.

In 2023, housing transactions in the top 7 cities reached 1,14,000 lakh units, marking a notable surge of more than 99,500 units compared to the corresponding period in 2022.

As of June 5, 2023, a total of more than 1 crore houses have been approved, while more than 74 lakh houses are completed and had been successfully handed over to urban underprivileged individuals through the (PMAY-U) initiative.

In 2021, a wave of legal guidance and support service was initiated by online platforms such as Lawrato, Vakil etc. in partnership with an online company named Housing.com owned by REA India, HDFC Capital Advisors in collaboration with Cerberus Capital Management formed a platform directed towards acquiring inventory and extending final stage finances to the residential projects which were under construction throughout India.

## Government Initiatives

The central and state government has implemented numerous initiatives aimed at fostering growth in the real estate sector. Among these, projects such as the “Smart City Project”, aims to develop hundred smart cities, is an important opportunity for real estate big players. Additionally, several other initiatives include:

In the year 2023-24, the Union budget disclosed a pledge of Rs. 79,000 crores for the PM Awas Yojana, indicating a 66 per cent as against the previous year.

The Reserve Bank of India the month of October 2021 maintain the interest rate at 4%, giving crucial push to the Indian real-estate sector. Such continuation of low-interest rates for housing loans was anticipated to stimulate housing demand, potentially leading to a 35-40% increase in sales during the festive season of 2021.

In November 2020, Finance Minister announced the “Atmanirbhar Bharat 3.0 package”. The package covered measures for tax relief for both developers and buyers for the primary sale or purchase of housing units up to the value of Rs. 2 crores from the month November 2020 - June 2021.

Government initiated the formation of a fund known as “Affordable Housing Fund” (AHF) within the “National Housing Bank” (NHB), commencing with a fund size of Rs. 10,000 crores. This fund was created by utilizing the deficit in priority sector lending from banks and financial institutions to offer micro-financing assistance to Housing Finance Companies (HFCs).

As of December 31, 2022, India officially sanctioned 425 “Special Economic Zones” (SEZs), out of which 270 of them being operational as of January 2023. The majority of these them are situated in IT/BPM sector.

## Conclusion

Real estate has been a pivotal force behind India's economic growth, making significant contributions to the nation's gross product and opportunities in employment. The sector's expansion has been primarily driven by advancements in infrastructure, favourable governmental policies, and the emergence of new investment prospects. However, it faces various challenges such as lack of transparency, exorbitant land prices, and delays in regulatory approvals. To tackle these issues, the government has implemented several initiatives, one of them is establishing “**Real Estate Regulatory Authority**” (RERA) in 2016 and efforts to streamline land acquisition procedures and enhance transparency. Real estate development has also played a vital role in advancing India's infrastructure, generating employment opportunities, and stimulating demand for raw materials. Furthermore, foreign direct investment (FDI) has positively impacted India's economy, contributing to sectoral growth and overall national development. The fluctuation of property prices is influenced by a complex interplay of economic, demographic, governmental, and social factors. A thorough comprehension of these dynamics enables stakeholders to make informed decisions.

## Suggestions

Government initiatives such as the Pradhan Mantri Awas Yojana and Rajiv Awas Yojana have encouraged developers to engage in affordable housing endeavors, thereby promoting inclusivity and accessibility within the real estate sector. However, despite these efforts, the challenge of meeting the urban housing demands of approximately 40 million people persists, especially given the country's population growth rate of 2.1% per year on average and the limited purchasing power of a significant segment of the population. This issue requires urgent attention and strategic interventions to ensure adequate housing for all.

Given below are some of recent trends emerging in real estate sector in India:

**Low Density Housing:** There's a growing preference for low-density housing like villas and townhouses due to its sustainability and appeal of nature, privacy, and space.

Developers are responding with meticulously planned projects emphasizing open spaces and exclusivity. High-end buyers are willing to invest significantly, as seen with Landmark Group's successful sales of plots in their new project, Landmark Avana in New Gurugram.

**Technological Integration:** Technology integration is transforming residential living by boosting convenience, security, and comfort. Smart homes, featuring IoT devices, home automation systems, and AI assistants, are becoming increasingly prevalent, offering residents a seamless and futuristic living experience. India ranked third globally in smart home adoption in 2020, and the number of smart homes is expected to soar to 442 million by 2025, as per the Statista's Digital Market Outlook for 2021.

**Preference for Home-ownership:** The Covid-19 pandemic has shifted societal attitudes towards homeownership, with more people now preferring to own a home rather than rent. This trend is driven by a greater appreciation for the benefits of having a dedicated space for work, study, and leisure. Indian banks disbursed around Rs. 2 trillion in residential loans in FY22, similar to pre-pandemic levels, signalling renewed confidence among homebuyers and a growing inclination towards property ownership.

**Luxury Housing:** Recent research suggests a rising interest among affluent individuals to invest in luxury properties, driven by changing demographics, technological integration, and increased income levels. Millennials, in particular, are drawn to luxury homes for their potential returns on investment and rental income. Sales of luxury homes in India saw a significant increase in the first quarter of 2023 as against the last year. Landmark Group's new residential project on Dwarka Expressway promises luxurious living with modern amenities tailored to evolving lifestyle preferences.

**Tier 2 cities emergence as powerful players:** Tier 2 cities have emerged as burgeoning real estate centres, witnessing heightened investment activity and significant changes in property landscapes. Fuelled by a flourishing housing market, these cities are undergoing rapid infrastructure expansion, offering diverse residential and commercial opportunities. Moreover, government initiatives promoting smart cities are further fueling real estate growth, including allowing 100% foreign direct investment (FDI) for township and settlement development projects.

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