

THE SCANNER

India’s real estate sector: Recalibrating for the long-term



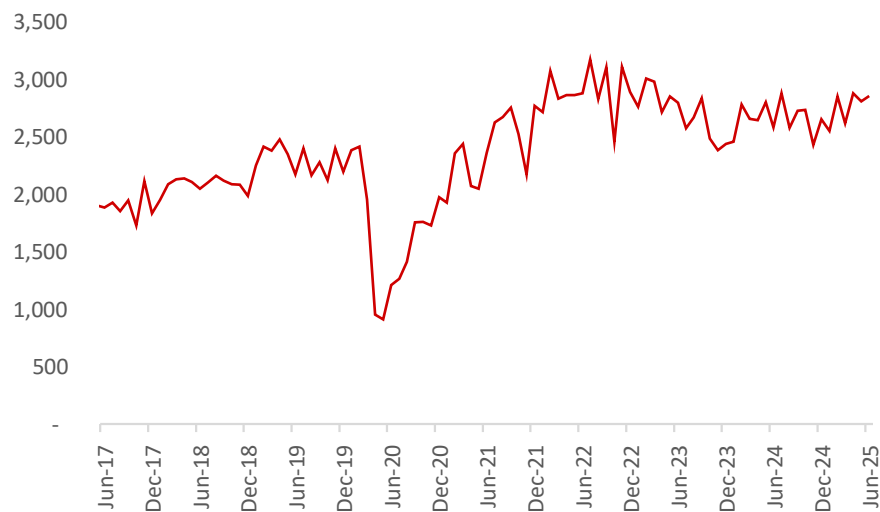
India’s real estate sector has laid a strong foundation for the country’s economic growth, contributing ~7% to the nation’s GDP, generating significant employment, and stimulating allied sectors like cement, steel, and building materials - residential real estate accounts for the chunk of the share. Prognosis for future growth also remains strong as a host of factors including rising disposable incomes, rapid urbanisation, and access to finance conflate to provide support to sectoral growth. However, given the changing contours of the Indian population and the sector’s sensitivity to rates, it is important to assess the current strength of the sector and identify the more important trends, as well as factors affecting these trends.

Employment Activity



The employment activity in the country is a major factor that drives the residential real estate market in India. The employment activity had been subdued till March 25, as per the Naukri Jobspeak index, however, post March there seems to have been some revival in hiring, in urban India.

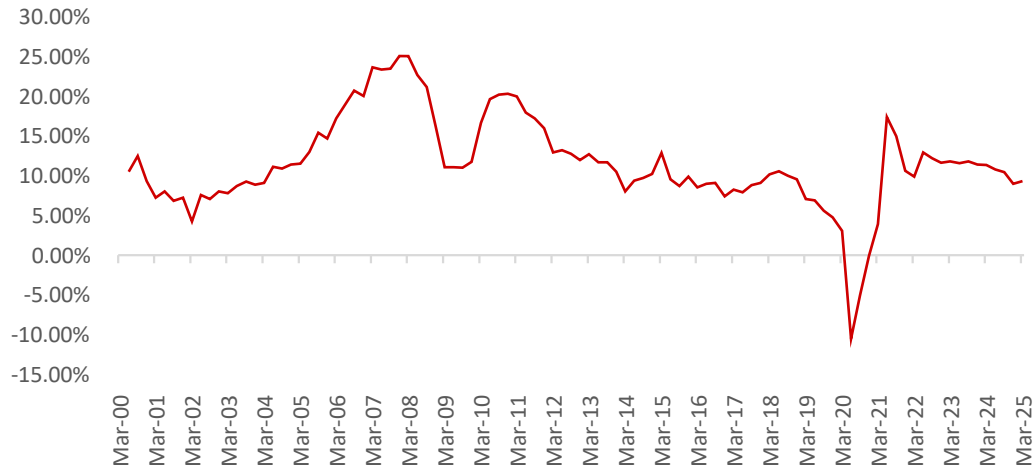
Exhibit: Naukri Job Speak Index



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Employees also have been seeing a moderation in income levels. Employee cost growth of listed companies, a proxy for employee income growth, has been moderating.

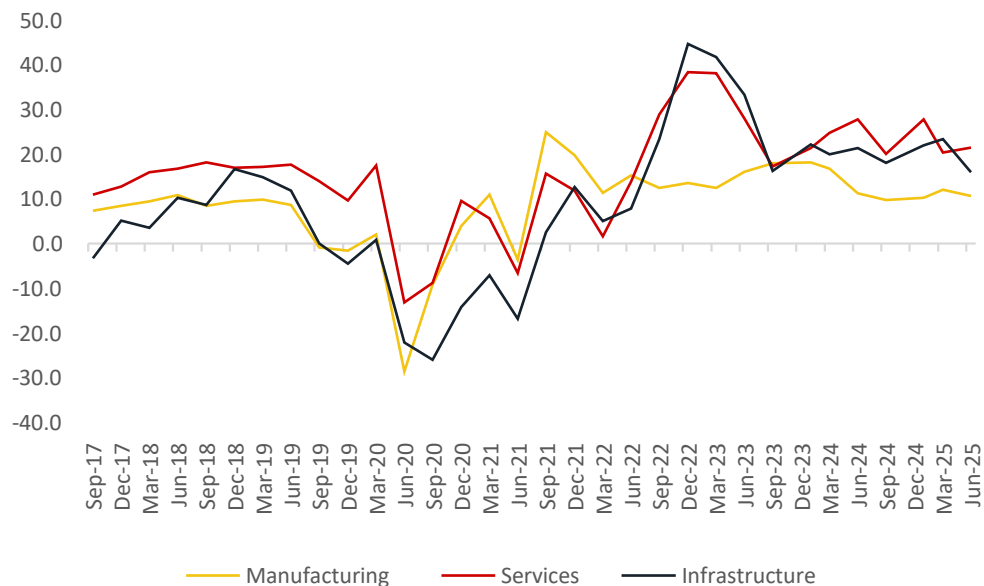
Exhibit: Median Employee cost growth



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Employers' perceptions about employment also have seen a dip in the manufacturing sector as well as the infrastructure sector, while a slight increase was seen in the services sector in Q1 of FY 26. Employers' expectations for hiring eased significantly in the services sector as well as infrastructure sector while manufacturers have an improved outlook towards employment.

Exhibit: Employer perception of employment



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Consumers' perception on employment worsened in the recent survey round but perception on income improved slightly. Thus overall, employment indicators are mixed with a slight negative bias. Income levels and employment activity in an economy are important for the growth of the real estate sector. The poor perception of employment casts a shadow on the growth of the sector in the coming months.

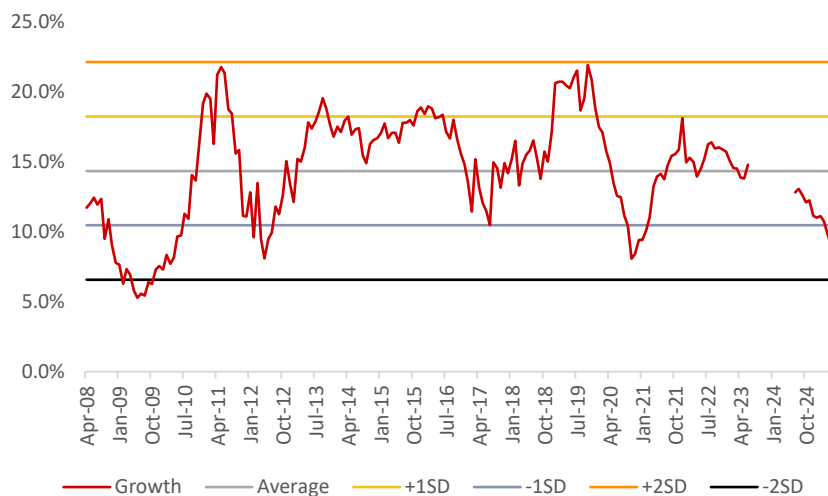
Demand for housing



Housing loan growth

A proxy for housing demand, housing loan growth has been growing at a tepid pace and the growth has been slowing. In the last 3 months, the growth in demand for housing loans has been at high single digit pace, the slowest in almost 5 years. The TransUnion Cibil credit market indicator report also indicated a reduction in origination for home loans both in volume and value terms. However, within the segment home loan greater than 1 crore has seen a growth in origination indicating the higher end of the market continues to see growth.

Exhibit: Home loan growth



Housing sales

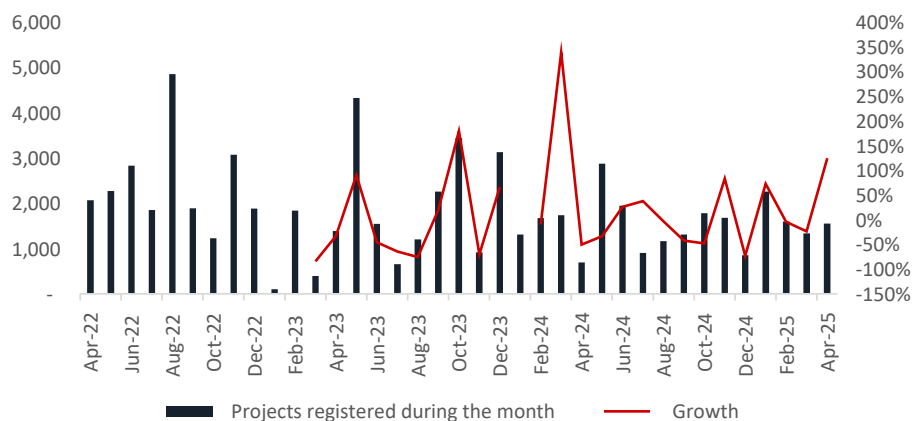
According to ANAROCK's latest Q2 2025 PAN India Residential Market Viewpoints report, housing sales in the top 7 cities of India fell by 20% to 96,300 units y-o-y, while average property prices increased by 11%¹ annually. The most surprising trend is that while sales have fallen, prices have risen even faster. Rising costs, high land rates, and demand for premium homes are the main reasons for this².



New project registrations

FY25 witnessed a bit of a setback as new project registrations under RERA saw a 20% decline, indicating a slowdown in project launches by real estate developers. This is the first substantial decline in RERA registrations since 2021. However, the start of FY 26 has been strong with double the projects being registered in April.

Exhibit: RERA projects registered



1. https://websitemedia.anarock.com/media/Q2_2025_PAN_India_Residential_Market_Viewpoints_3aefc8c97b.pdf

2. <https://www.financialexpress.com/money/homebuyers-pause-prices-surge-whats-fueling-the-housing-market-slowdown-in-2025-3918078/>



Pricing

Real estate prices continue to stay elevated. Average property prices across the top seven cities of the country have witnessed a significant 17% annual increase, with the National Capital Region (NCR) and Bengaluru recording the highest appreciations at 34% and 20%, respectively³. Separately, the NHB housing prices index continues to grow at a significant pace. Such dramatic price appreciation, will inevitably have an impact on affordability and dampen demand across market segments.

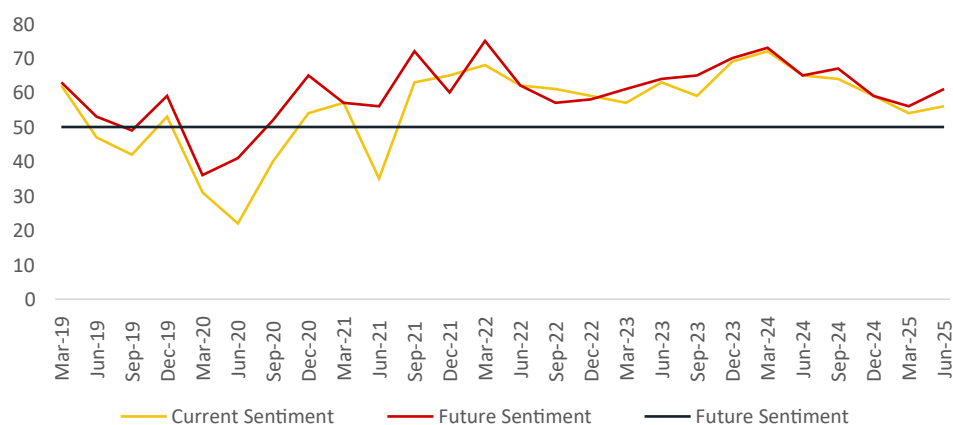
Exhibit: NHB housing prices growth



Sentiment and demand environment

The real estate sentiment index for the quarter ending June-25 saw an improvement after witnessing a dip for four consecutive quarters. The improvement in sentiment was also driven by the office market. Residential market sentiment remained cautiously positive with slight improvement seen in the space driven by rising confidence in the premium housing space. Developers have moderated launches in mid and affordable segments. Separately, the 50-bps rate cut by the RBI may result in a potential improvement in demand conditions, especially in affordable and mid-income segments, which have been facing headwinds.

Exhibit: Knight Frank Real estate sentiment Index⁴



The residential real estate sector in India is currently experiencing a recalibration phase after several quarters of strong growth. Rising property prices have started to hit resistance levels, and broader global economic uncertainties have led to a cooling of the housing market. This correction may not necessarily be a sign of long-term weakness but rather a healthy and necessary adjustment. The rate cut by the RBI may spur sentiment in the sector, however, this may take time to pass through the system. Considering the mixed signals and the evolving macro-economic environment caution may be warranted in the sector. Overall, the sector appears to be moving toward a more grounded and mature growth trajectory.

3. https://websitemedia.anarock.com/media/Q1_2025_Pan_India_Residential_Market_Viewpoints_d53ed5e813.pdf

4. <https://naredco.in/sites/default/files/2025-07/17th%20National%20Convention/convention%20theme/Sentiment%20Index%20Q2%202025.pdf>



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Do you think that the real estate sector is critical for India's growth aspirations? Why?

Real estate has a significant role to play in India's overall development. India faces housing shortage to the tune of 1-2 crore units and this could rise to 3 to 5 crore units by 2030. This is especially true in the affordable housing segment of the market. The shortage is particularly seen in urban areas. This expected shortage offers immense opportunities for the sector. Currently, real estate's contribution to GDP in India stands at 7%, significantly lower than developed markets like the US (~21% of GDP), Canada (~13% of GDP), and China (25%). The combined contribution of housing investments and housing services in 11 emerging market economies ranged from 6.9% to 18.5% of GDP, averaging 13.1%. Thus, India is currently at the lower end of the GDP contribution. Fulfilling the shortfall would thus be important for the overall growth of the country.



Headwinds of which investors need to be cautious in the near-term?

The sector may face macro headwinds in the form of slower employment activity as well as slower wage growth, restricting demand for housing. Affordability has also been a major concern, and this is also precipitated by an increase in per sq. ft. cost as well as growth in the premium category of residential housing.



From a valuation perspective, how are real estate stocks currently valued?

The valuation multiple to be looked at while looking at real estate companies is Price to Book Value (P/BV). This multiple is comparable across companies as companies use different accounting methods to recognise sales and thus, multiples like P/E and P/S would not be comparable. A look at the Price to Book value multiples of the Nifty realty sector indicates that valuations are currently at highs seen post GFC in 2009. Although, multiples have cooled off a bit, they continue to remain close to those highs. Considering the near-term uncertainties in the sector with employment activity mixed, we need to be careful about the sector and take only measured exposure.

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Statutory Disclosure: Portfolio Manager – Multi-Act Equity Consultancy Private Limited (Registration No. INP000002965)

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