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SHAPING VIBRANT INDIA

Realty Bytes

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Contents

Foreword

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Financial year 2023 was a resurgence year for the Indian real estate sector. After facing a downturn in business and detrimental impact of the Covid-19 pandemic, the sector has seen phenomenal recovery across the segments, with the residential real estate market experiencing a significant rise of 36% compared to the previous year.

One notable shift post-pandemic is that Tier 2 and Tier 3 cities are garnering attention, both from businesses as well as home buyers. Some of it is attributable to the Covid-19 induced reverse migration caused by hybrid work arrangements, leading to the emergence of an ecosystem enabling businesses to thrive in Tier 2 and Tier 3 cities. Micro, Small and Medium Enterprises (MSMEs), including startups, have also been instrumental in driving inclusive growth in these cities. Today, nearly 50% of the recognised start- ups are from Tier 2/ Tier 3 cities.

The key differentiator for these cities is the availability of requisite talent pool, good infrastructure, connectivity and cost effective commercial real estate. And one cannot overlook the role technology has played in achieving this shift at a fast pace with minimal disruptions. While technology has served as the catalyst in shifting the focus to Tier 2 and Tier 3 cities, changing demographic and lifestyle preferences of tech savvy millennials has also completely changed the industry outlook. Their preference for a work-life balance, need for sustainable buildings with amenities such as fitness centres, recreational areas and spacious homes has also contributed to the shift.

That said, rising realty prices in Tier 1 cities has also been one of the significant push factors for propelling the demand for affordable spaces in Tier 2 and Tier 3 cities.

Government initiatives have also been instrumental in bringing this change. Focused infrastructure development, improved rail-road connectivity, development of industrial corridors, logistic hubs and creation of robust urban infrastructure has allowed industries to expand to Tier 2 and Tier 3 cities.

While the real estate market in Tier 2 and Tier 3 cities is growing, the developers will also need funds, and therefore, we may see the emergence of dedicated funds for investing in Tier 2/ Tier 3 cities, in real estate as well as MSMEs. Interestingly, the draft Micro-REIT regulations could become an attractive proposition for developers seeking to raise funds by monetising existing properties or developing plug and play real estate facilities, as well as for investors pursuing fractional ownership of commercial real estate.

There is an increasing interest for real estate in Tier 2/ Tier 3 cities and some of it may be part of the normal urbanisation process, though accentuated by several factors. However, what is essential is that this growth needs to be holistic and sustainable in the long run without any bottlenecks.

Industry speaks

> The surge in real estate activity within India's Tier 2 and 3 cities is an intricate interplay of multiple factors, chiefly driven by the confluence of robust infrastructure development and the strategic interest of major corporations and industrial entities seeking cost-effective operational bases. Improved connectivity through new roads and rail network has played a significant role in this respect. In these cities, there is a notable surge in the interest for integrated townships and group housing communities. These modern property developments encompass a wide spectrum of amenities, including expansive green spaces, well-equipped clubhouses, sports facilities, shopping opportunities, and recreational options. This trend reflects a strategic shift in how these cities are perceived, from peripheries to thriving centers of economic and residential activity.

Gaurav Malik
Chief Financial Officer, Experion Developers

> In the heart of Tier 2 and Tier 3 cities lies a dormant treasure trove, the real estate sector, waiting to be harnessed. These urban centers, long overshadowed by their metropolitan counterparts, now stand as the canvas for untold growth opportunities. As the dawn of development spreads its light, these cities emerge as the next frontier, where bricks and mortar pave the way for economic prosperity. The potential they hold for both real estate magnates and the nation's progress is immeasurable, a testament to the power of exploration, innovation, and the transformation of dreams into thriving landscapes of possibility.

Rohit Kishore
Chief Executive Officer, Eldeco

Are Tier 2 and Tier 3 cities emerging as the growth drivers for Indian real estate sector?

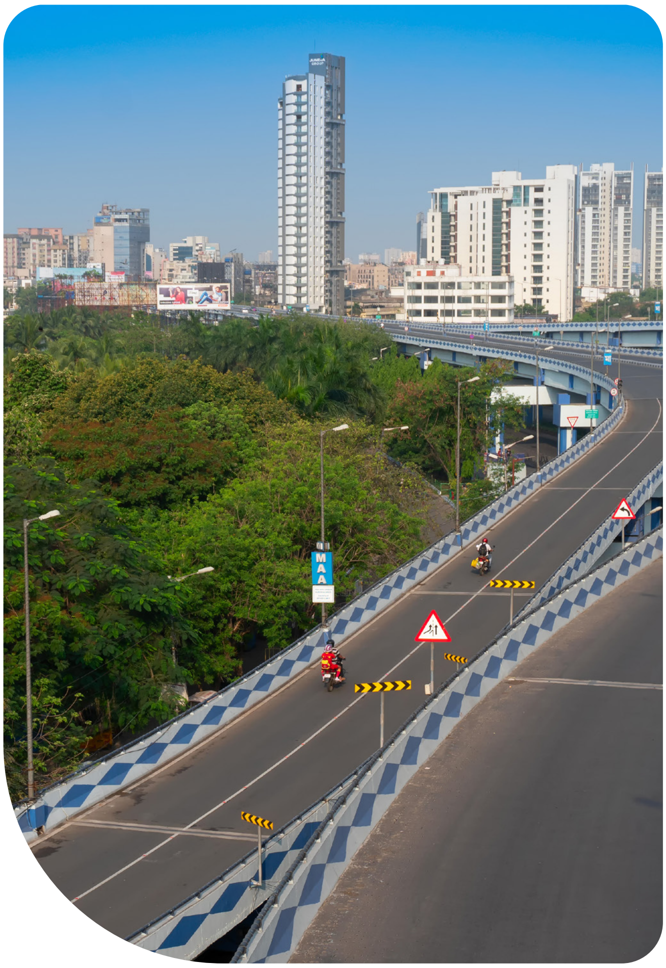
Background

The COVID-19 pandemic not only influenced our lifestyles but also changed the way businesses operate and significantly contributed to accelerating digital transformation, making technology all pervasive across industries. This, coupled with saturation in Tier 1 cities and the availability of improved infrastructure at a lower cost, triggered the expansion of businesses to Tier 2 and Tier 3 cities, thereby increasing demand for real estate in these markets. This shift is expected to continue and gain momentum, requiring a serious consideration for developing robust urban infrastructure.

According to the National Commission on Population, about 38.6% of Indians (~600 million) are likely to live in urban areas by 2036. As this rural-urban divide reduces, Tier II and Tier III cities are expected to emerge as hot spots for real estate development. Increased connectivity, including air and road transport networks, affordable land prices, potential for industrialisation, employment opportunities, and higher returns on rentals are also contributing factors for the growth of real estate in Tier 2 and Tier 3 cities.

The government's focus on improving urban infrastructure and the 'Housing for All' initiative is also expected to further fuel economic growth and development in Tier 2 and Tier 3 cities.

In this issue, we take a look at various factors accentuating this change, how technology has been the greatest catalyst and also understand from the Omaxe Group what opportunities are unfolding for developers in Tier 2 and Tier 3 cities.



Key factors contributing to impetus for change:

01

Infrastructure development: Government initiatives and increased private investments in infrastructure development that provide access to basic amenities, improved connectivity and efficient public transportation have a significant ripple effect on real estate appreciation, thus creating a value proposition for real estate investors.

02

Government push: Considering the need for urban development, the Indian government has rolled out many state and center-sponsored schemes, as well as incentives like tax benefits, single window clearance and FDI norms relaxation. These incentives make it financially beneficial for companies to set up operations and for investors to acquire properties in these regions.

03

Increased demand: Tier 2 and Tier 3 cities have witnessed a surge in population due to factors like urbanisation, improved infrastructure, a hybrid working model and the availability of employment opportunities. This demographic shift has resulted in an increased demand for residential and commercial properties, stimulating the real estate development in these cities.

04

Affordability: Compared to metropolitan cities, the real estate prices in Tier 2 and Tier 3 cities are generally more affordable. Lower fixed costs/ overheads in these smaller towns lead to higher disposable incomes. This affordability has attracted homebuyers and investors looking to make sound property investments without having to deal with the high cost of living.

05

Employment opportunities: The development of industries and the establishment of companies in Tier 2 and Tier 3 cities have created employment opportunities. This, in turn, has led to an influx of people seeking better employment prospects, further driving the demand for real estate.

06

Investment potential: With the real estate market maturing in major cities, investors have started looking for opportunities in smaller cities where property prices are relatively lower. There is an expectation that these cities may offer higher return on investments in the long run as the real estate markets in these cities mature.

07

Urbanisation and population growth: Tier 2 and Tier 3 cities have been witnessing significant urbanisation and population growth. As people from rural areas move to these cities in search of better opportunities and lifestyle, the demand for housing and commercial spaces is driving the real estate sector's growth.

08

Social factors: Lower pollution levels and better air quality index as compared to most Tier 1 cities are some of the key contributing factors to making Tier 2 cities more attractive.

How information technology is propelling real estate growth in Tier 2 and Tier 3 cities?

Technological advancement has led to information technology playing a central role in the development and growth of various industries, and real estate is no exception. From designing, constructing to marketing & sales promotion, technology has become an integral part of real estate. Virtual reality tours, property management applications, data analytics and artificial intelligence not only cater to tech savvy buyers but also provide developers with buyer preferences, thus enhancing customer experience for both retail and commercial buyer.

Advanced data analytics tools are being leveraged by developers to gain insights into market trends, customer preferences, and pricing patterns. By analysing this data, developers, and agents are beginning to align their offerings with market demands, identify emerging opportunities, and optimise their strategies for sustainable growth. Moreover, this data-driven approach is also reducing the risks and enhancing profitability in the real estate sector.

Use of prop-tech and other digital tools have empowered home buyers to identify, evaluate and shortlist properties virtually before finalising the deal. These tools have widened the market reach for developers and customers, allowing both developers and customers to explore properties across geographies. This ease in business has been a major factor for an increase in the demand of smart homes, which is expected to grow at an estimate of 18% CAGR during 2020 - 2025.

Another aspect is 'data centres', an emerging segment, demand for which is directly linked to technology and has real estate at its core. Tier 2/ Tier 3 cities can provide land at economical rates, giving these companies a competitive edge in commercial real estate spaces and complement other businesses to flourish.

In conversation with Omaxe Group

Atul Banshal, Director Finance, Omaxe Ltd

Besides infrastructure development and unavailability of land in Tier 1 cities, what other factors have led to a shift in the focus of real estate developers to Tier 2 and Tier 3 cities?

In my opinion, lockdown was a trigger for this change where the employees shifted back to their homes, and thus arose a sudden demand for bigger homes both in metros and non-metros. Tier 2 and Tier 3 cities have the benefit of more land at reasonable rates with lesser competition, which created a win-win situation for both developers as well as customers.

Another factor that is leading to an improved real estate sector in Tier 2 and Tier 3 cities is the growing pollution levels in Tier 1 cities, booming social infrastructure, booming population, improved connectivity, government efforts, urbanisation and rising middle class wanting a higher quality of life.

What is the future growth potential for the residential market in these cities? Do we see possibilities of growth of other segments like luxury, data centres or warehousing also?

The future of Tier 2 and Tier 3 cities' real estate holds an immense opportunity to grow at a rapid rate. It also comprises of high-rise residential spaces, including 2, 3 & 4 BHK luxury apartments, splendid penthouses, and so on.

On the commercial side, we see there is a rise in the demand for data centres, and with the onset of big players like Adani and international investors taking keen interest in investing in data centres, this segment is set to witness propelled growth in these segments in the coming times.

In conversation with Omaxe Group

Atul Banshal, Director Finance, Omaxe Ltd

What is the plan of Omaxe developers for these cities?

The combination of factors such as urbanisation, infrastructure development, government initiatives, and a rising middle class contribute to the growth potential of these cities. Omaxe developers plan to contribute to this growth opportunity and be a part of a better tomorrow by launching new residential projects and commercial spaces in Tier 2 cities and further initiating the steps to bring this change of urbanisation in Tier 3 cities by launching real estate projects in these cities.

What are the key challenges to serve these cities, if any, and how Omaxe plans to address them?

Although the future of real estate in Tier 2 and Tier 3 cities appears to be bright and booming, with every growth comes certain challenges. Some of the challenges that the real estate market faces or will face in the future are:

- Infrastructure in line with urbanisation: Often, it is seen that in pursuit of rapid development, the balance between urbanisation and basic infrastructure is overlooked. To mitigate this factor, proper facilities that aid stable development are required, such as adequate water supply, sanitation, drainage, continuous power supply, and transportation networks are vital for sustainable growth.
- Understanding local dynamics: This is another major concern that comes up when planning a real estate in Tier 2 and Tier 3 cities. Although the lifestyle and development in Tier 1 cities might seem alluring, in reality, it depends on its residents as well. Dwellers in Tier 2 and Tier 3 cities often don't prefer luxury homes. To remove this mindset, Omaxe plans to ensure that the upcoming projects, as well as projects already initiated in these regions, are made available to the residents of these cities at a affordable market rates.

In conversation with Omaxe Group

Atul Banshal, Director Finance, Omaxe Ltd

The government has provided a lot of support towards infrastructure by introducing favourable schemes in this sector. Are there any other key things that the government can support to ensure the sustenance of growth in these cities?

The governments at both the national and local levels should actively encourage the growth of Tier 2 and Tier 3 cities. To further boost the growth potentials in these cities, the government should come up with investor-friendly policies, provide tax breaks and foster a favourable business environment.

Apart from the proposed initiatives, the government should also ensure to ease up the regulatory frameworks, solid implementation of RERA policies, ease of getting licences, and simplified property acquisition procedures to ensure sustenance of growth in these cities.

What are your views on the government's initiative of setting up the Urban Infrastructure Development Fund (UIDF) to foster real estate development in Tier 2 and Tier 3 cities?

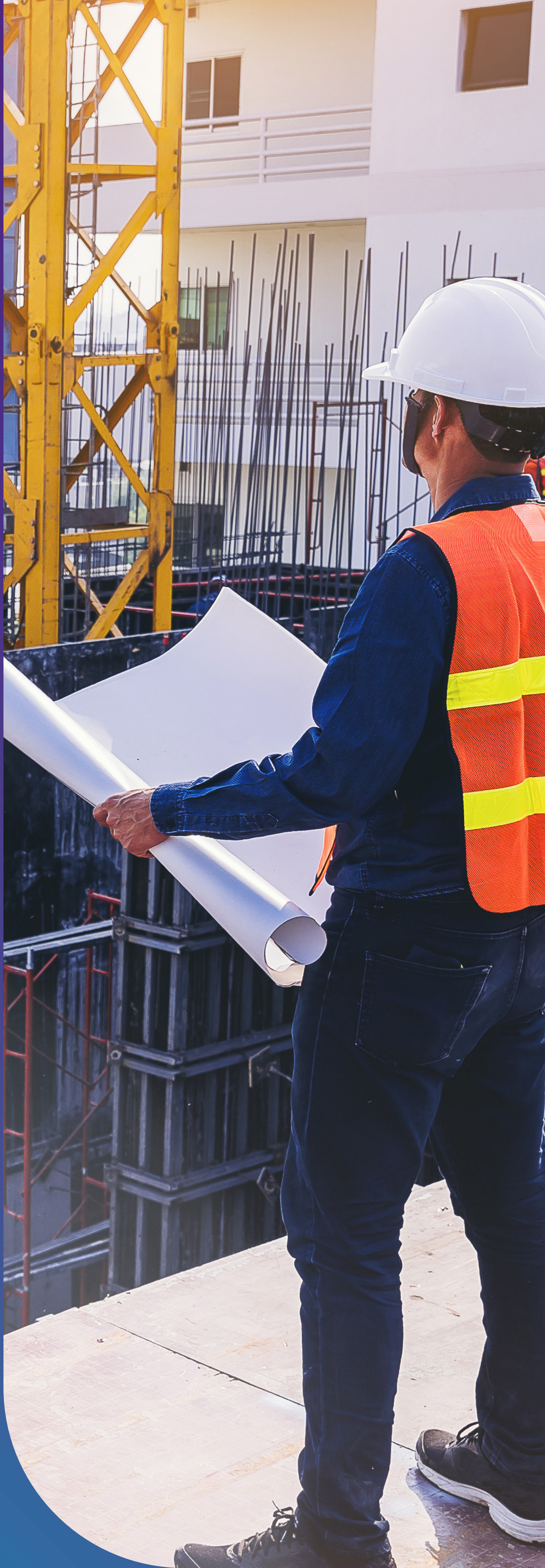
The government's initiative of setting up the Urban Infra Development Fund is of paramount importance and a great boost to the Indian economy. The INR 10,000 cr per annum impetus by the government will lead to an inclusive growth and shall have a profound impact on the Indian economy. Further, the initiative shall foster real estate growth and is a welcome move for the real estate sector of the country.

Future outlook

By 2047, India is envisioned to become a developed nation of more than 1.6 billion people, and it is expected that 50-60% of this population will be living in urban cities. This vision itself demonstrates the potential growth prospects for real estate across the segments over the next few years.

Increasing urbanisation will keep churning new avenues of growth for the sector. Recent trends indicate a more focused investment in warehousing, commercial real estate and residential real estate. Other segments that are garnering attention are retail, hospitality, co-working spaces, co-living spaces and student housing. The other growth driver for real estate demand is data centers, which is expected to drive the demand for about 9.1 million sq ft of land space and an investment of around USD 5 billion by 2025 . One can also expect EV battery manufacturing and charging infrastructure to drive the demand for real estate.

Overall, the sector is resilient and is expected to continue its growth trajectory in 2024.



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Notes

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