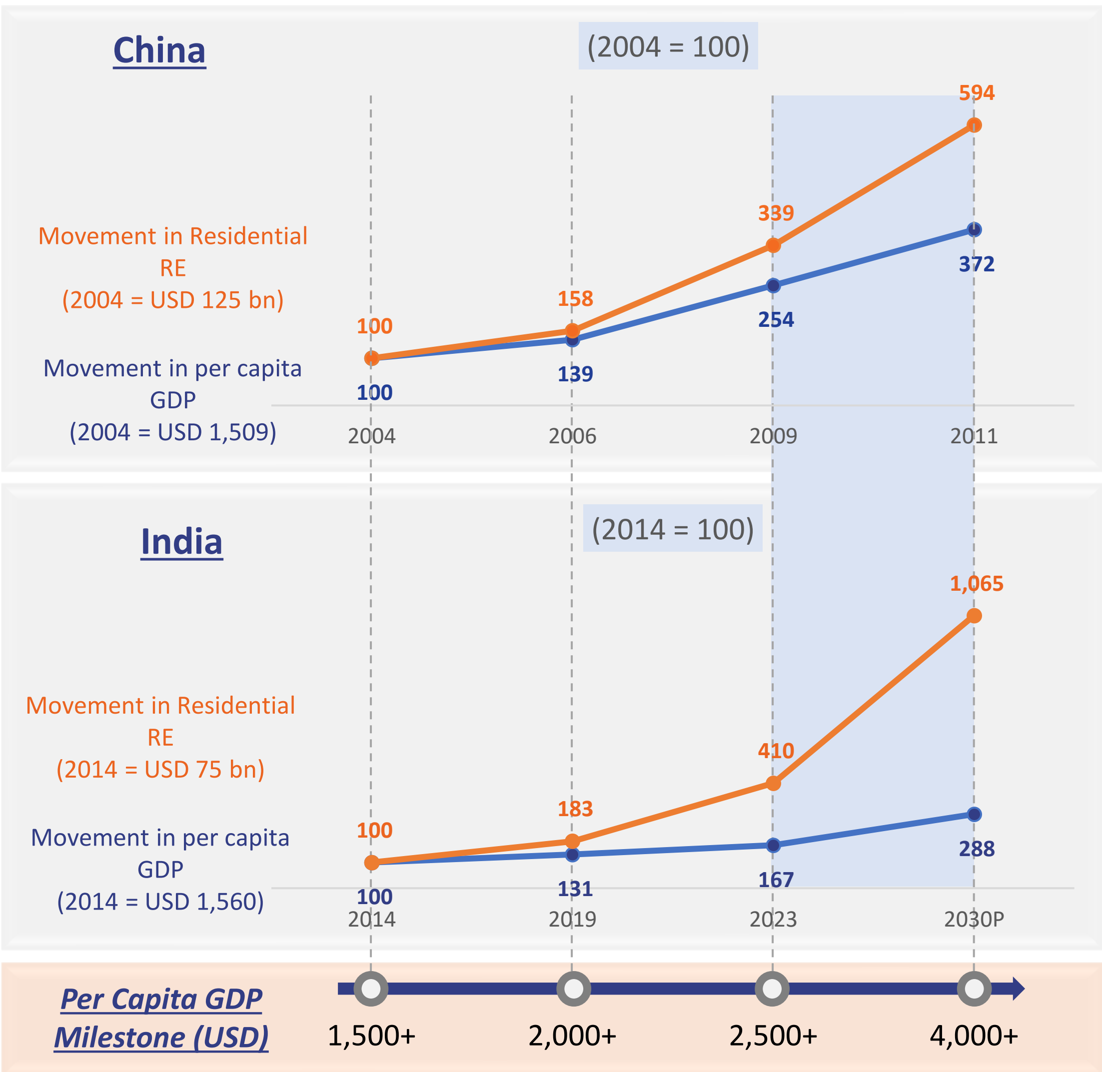
Investment Outlook for Residential RE India

India has recently achieved a significant milestone by surpassing per capita GDP of USD 2,500 mark. With a favorable outlook, it is poised to maintain its position as the world's fastest-growing major economy, aiming to reach a GDP of ~USD 7 tn by 2030. This growth is underpinned by increasing consumption, moderate inflation, a stable interest rate regime, and robust foreign exchange reserves. Heading into FY25, India's macroeconomic indicators seem robust with expected GDP growth of 6.2% in FY2025. Retail inflation is expected to decline to 4.8% during FY25 which is likely to enable RBI to reduce interest rate in second half of FY25. After 250 bps hike in Repo rate during May’22 to Feb’23, the RBI has kept it unchanged at 6.5% since Feb’23. Robust GDP growth coupled with reducing interest rate environment is expected to help it sustain the growth of residential RE sector in India.

In terms of overall growth trajectory, India in 2024 seems to be in similar place where China was in 2009 when China’s per capital GDP crossed the USD 2,500 mark. Both countries share similarities in median age, with China's population median age in 2009 at 33 yrs compared to India's current 29 yrs. China's urbanization rate in 2009 was of 48% against India's 36% - reflecting higher potential for growth for residential RE market in India.

In the following years during 2009-11, China’s per capita GDP grew by 46% and surpassed USD 4,000 mark which was coupled with ~75% growth in residential RE – reflecting overall GDP growth post this milestone boosting growth of residential RE exponentially and vice versa. Higher per capita GDP accompanied with younger median age and increasing urbanization in India is expected to boost growth of residential RE in India. This mirrors the trajectory observed in China, where a similar progression occurred as their per capita GDP transitioned from the USD 2,500 mark to the USD 4,000 mark. Per capita GDP in India is expected to grow at ~7% p.a. to surpass USD 4,000 mark by 2030. During this period, residential RE is expected to grow by 15% p.a. to reach USD 800 bn by 2030.



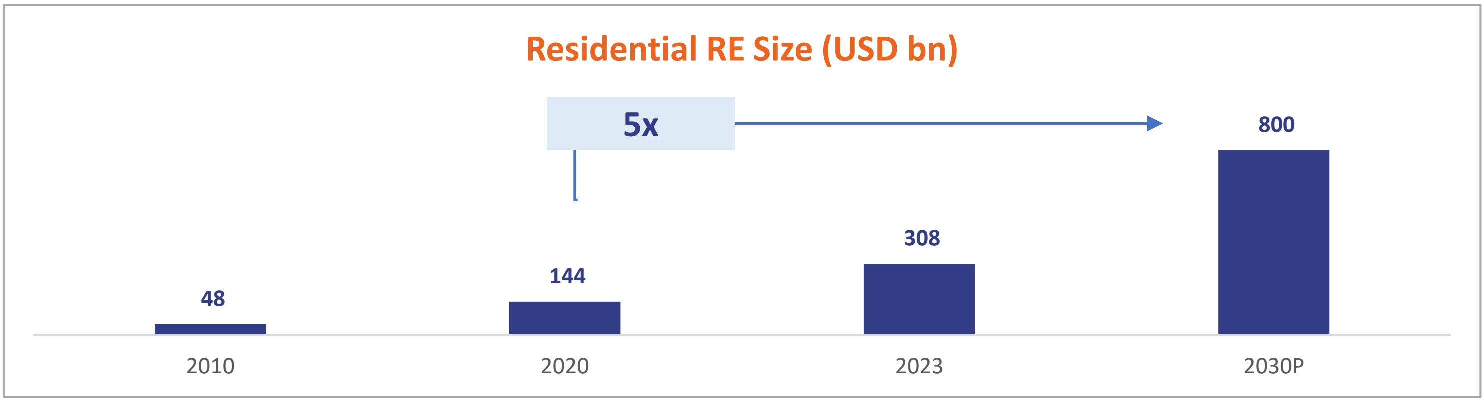
Sources: World Bank, News Run, KPMG Report, SEBI, Morgan Stanley Report, IMF Report, Economic Times

Investment Outlook for Residential RE India

Arnya
The difference is *real*

Decade of India’s Residential Real Estate (RE) Sector: 5x Growth Story

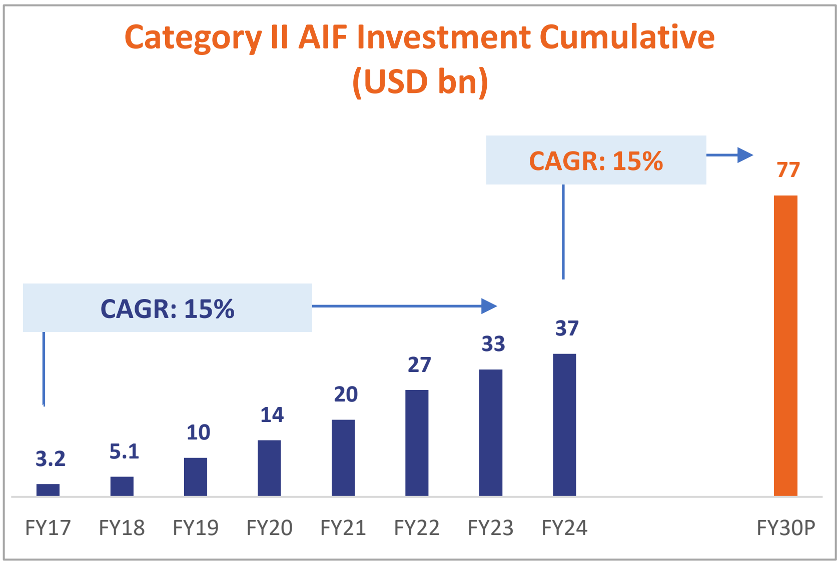
India’s residential RE market is expected to grow by 5 times during the current decade to reach USD 800 bn by 2030. Factors such as Robust GDP growth, increasing urbanization from current rate of ~36% to ~40% in 2030, stable interest rate regime, better affordability and lower mortgage penetration are expected to drive the growth of residential RE market in India. Affordability ratio as in 2023 stood at ~39% against ~50% in 2013. Mortgage penetration India is one of the lowest at 11%.

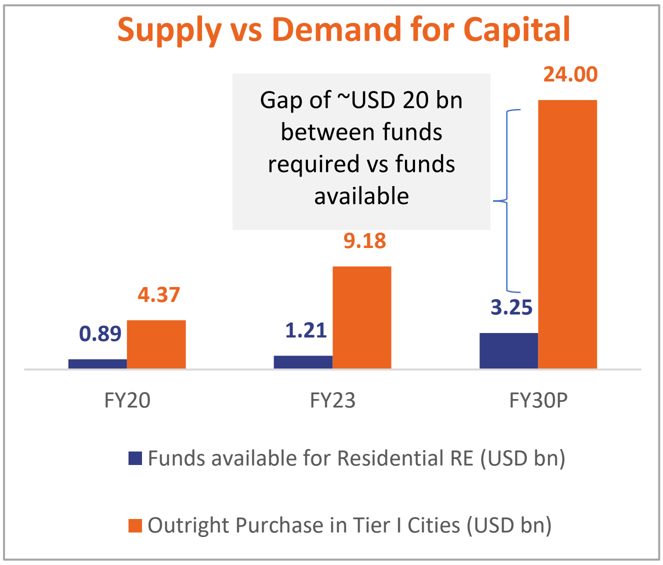


AIFs to Play Pivotal Role in the Growth Trajectory

Residential RE development is a capital-intensive business, requires substantial upfront investments towards land acquisition and approvals. Expected growth of residential RE during the current decade will require substantial early-stage growth capital investments. As per our estimates, early-stage capital requirement for residential RE development in top 8 cities is expected to increase from ~USD 9 bn in 2023 to ~USD 24 bn in 2030. However, the availability of early-stage growth capital is severely limited, mainly due to regulatory constraints on banks and NBFCs for pre-approval land acquisition funding. AIFs are expected to play an instrumental role in financing this early-stage growth capital required for residential RE development India.

Cat II AIF witnessed growth of ~15% CAGR during FY17-24P, reaching approximately ~USD 4 bn during FY24. Cat II AIF funding available for residential RE in India during FY24P is ~USD 1.2 bn, against estimated requirement of early-stage growth capital of ~USD 9.2 bn. Assuming CAGR of ~15% in Cat II AIF and ~35% allocation available for residential RE, the projected early-stage growth capital available in FY30 would be ~USD 3.25 bn, significantly below the estimated demand of ~USD 24 bn. This widening disparity between the demand and supply of early-stage growth capital is anticipated to result in high yields and superior risk-adjusted returns on such investments.





Conclusion

The Indian residential RE market is poised for significant growth, projected to increase 5x thanks to a positive economic outlook and supportive macroeconomic and demographic factors. This surge in demand will necessitate capital, especially for early-stage growth capital. We expect high demand for such capital during this period and significant gap between demand and supply of such capital which is expected to ensure superior risk adjusted returns on such investments.

Sources: World Bank, News Run, KPMG Report, SEBI, Morgan Stanley Report, IMF Report, Economic Times

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