

How far has FDI (foreign direct investment), and government involvement helped the growth of the real estate sector? Has it adequately provided safety nets for the buyers and sellers? An in depth study

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ABSTRACT

FDI in the realty sector in India has been a great impetus to the economy as it has a number of forward and backward linkages attached to it. The Indian economy has slowly been opening various sectors to foreign investors. In this sector too there has been a slow increase in the FDI. Though most of this sector now is allowed 100% , there are certain restrictions in place in some segments. The paper traces the path of foreign investment that is allowed and how the different segments within this sector have grown due to the inflow. What are the safeguards in place for both the investors as well as the consumers? Have the end consumers benefited by the approach followed by the government? What are the limitations that are visible and what are the solutions to the obstacles?

Key words: Foreign Direct Investment (FDI); Indian Real Estate Sector; Regulatory Framework; Real Estate (Regulation and Development) Act, 2016 (RERA); Real Estate Investment Trusts (REITs); Commercial Real Estate; Residential Real Estate;

1. Introduction:

The real estate sector has been an extremely important part of Indian economy for centuries with an immensely rich and diverse history. The evolution of this industry could be traced to ancient times when land was considered one of the most valuable assets owned by the ruling class and wealthy landowners.

During the Mughal period, the construction of grand places, forts and mausoleums such as the Taj Mahal and other such monuments led to a thriving construction industry. When India was a colony of Britain, the period saw the development of urban centers such as Mumbai, Kolkata and Chennai with the construction of railway networks, ports and administrative buildings.

After 1947, the real estate sector in India experienced several changes and trends that shaped the industry. In the 50's and 60's, the government launched several public housing projects, to provide affordable housing to low income families. These were aimed to reduce the housing shortage in urban areas and the improvement of living standards. This improvement occurred due to the provision of basic amenities, such as schools, hospitals and parks.

figure 1: image of real estate sector in India in 50's and 60's



Source: The NoBorker Times

In the rural areas around the time of Independence, the government imposed land ceilings which resulted in redistribution of land to the landless, tenant farmers and rural laborers. These steps impacted the rural real estate sector.

Independent India realized the importance of urban planning and infrastructure development. As private investment in the initial stages of development was limited, the government took upon itself to invest in infrastructure development, which includes construction of roads, bridges and ports to improve connectivity and support economic growth. This further led to an increased demand for real estate around infrastructure development.

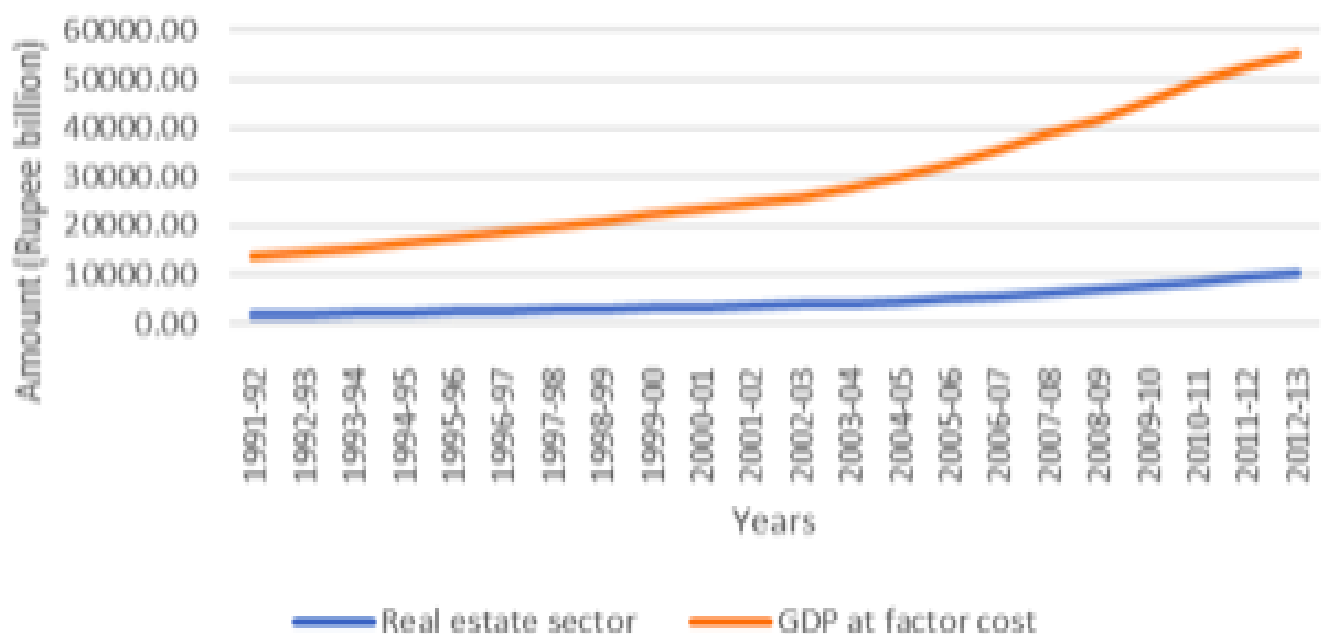
India was experiencing a high population growth rate essentially till 1990's. The growth rate hovered around 2+% per year. As jobs in the rural sector were inadequate, this led to migration from rural to urban areas, leading to rapid urbanization. This further increased the demand for housing and commercial real estate in the urban areas.

The 1990's in India is considered a period where big major reforms were undertaken, it was the end of the 'licensing raj', and the opening up of the economy to external competition. This period witnessed the entry of private players in the economy especially the real estate sector.

The country witnessed and a gradual shift from public housing to private housing. It was a period which saw the emergence of private developers, leading to the development of new real estate segments such as luxury housing and commercial real estate.

The liberalization of the Indian economy in the 1990, led to an influx of foreign investment and expertise into the real estate sector, leading to the development of I.T. parks, shopping malls and entertainment complexes. The main factors of the reforms that helped in encouraging this sector, was reducing import tariffs, deregulating markets and lowering taxes. Besides this, there were huge changes in the capital and financial sector reforms. The focus area was on liberalization, privatization and globalization. These reforms, led to widespread economic development of the country. Civil aviation and telecommunication were the main sectors that benefited immensely from the relaxed regulation and surged ahead.

Figure 2: growth of the real estate sector since 1990



Source: SCO

2. Linkage impact of civil aviation and telecommunications sector:

Air transport is a vital element in a country's transport infrastructure. This sector contributes significantly to the process of development, by generating employment opportunities directly and indirectly, along with enhancing productivity and efficiency in the movement of goods and services.

The civil aviation sector is an important link in the growth of infrastructure of an economy both in terms of connectivity, as well as the linkage impact it has on the employment, incomes and growth of business, trade and tourism, all of this leading to the demand of real estate. It is quite apparent that the growth of an economy has a direct impact on the growth of the real estate sector.

The high growth sectors like the I.T. sectors in the Indian economy are heavily dependent on speed, reliability, air connectivity, which results in reduction of inventory cost. As it is known that, better connectivity attracts foreign direct investment, furthering the impetus to GDP growth.

With the growth in the civil aviation sector, there is an increase in the demand for land to build the airport and with it comes demand for cargo hubs and offices and automatically an increase in connectivity as well as tourism. All of it leading to an increase in the demand for land and with it an automatic linkage impact on the real estate sector. This would lead to a positive advantage for this sector.

The similar scenario is played out with respect to the I.T. sector. In this case too, demand for commercial and residential real estate increases the impact on real estate.

3. Definition:

The real estate sector is real property that includes land and anything permanently attached to it or built on it, whether natural or man made. There are five main categories of real estate, that include;

- residential real estate
- Commercial real estate
- Industrial real estate
- Raw land
- Special use real estate

The term 'land', 'real estate' and 'real property' are often used interchangeably, but there are distinctions. The physical characteristics include its in-mobility, in-destructibility and uniqueness, where each parcel of land differs geographically.

Real estate encompasses the land, plus any permanent man made additions, such as houses and other buildings. Any additions or changes to the land that affects the property's value are called

improvement. Once a land is improved, the total capital and labor used to build the improvement, represent a sizable fixed investment. Though a building can be razed, improvements like drainage, electricity, water and sewer systems tend to be permanent. Real estate includes the land and additions to the land, plus the rights inherent to its ownership and usage.

2.1 Types of Real estate:

The real estate in India, comprises of four sub-sectors;

- Housing
- Retail
- Hospitality
- Commercial

Figure 3 types of real estate in India



Source investormart.co.in

The growth of all these sectors are complemented by the growth in the corporate environment, which leads automatically to an increase in the demand for office space and for urban and semi-urban accommodation. For a developing economy like India, the real estate sector plays an extremely significant role in contributing to the growth of GDP of the economy. As there is an increased urbanization of the economy, there is automatically a growth of the real estate industry. The urban population has been growing at 2.4% on an average in recent years according to world

bank data. It is estimated that the real estate industry is a multi-billion dollar one that contributed about 7% to GDP in 2021 and is likely to account for 10-13% of GDP by 2025 (IBEF 2021). In terms of direct and indirect economic influence, the construction industry ranks third among the fourteen major industries in India (Marketline 2019). It also has the second largest number of employees.

The business environment plays a significant role in the acceleration of this sector. This sector directly employed 67 million people in 2022 and 10% of this workforce are employed in activities like construction completion, fixtures, electricity, plumbing, demolition and preparation of construction sites.

3.1.1 Housing sector:

India's housing sector has shown remarkable resilience and growth potential that have been driven by market forces and government policies. Affordability initiatives have catalyzed the expansion of the residential segment ensuring that housing is accessible to a wider demographic section. There has been a greater emphasis by the government with respect to provision of affordable housing. According to the 2011 Census, India has around 1.7 million homeless people who are in dire need of affordable housing. Affordable housing is taking center stage in the national agenda and is a term largely used in the urban context. The term 'affordability' can be described as the income level of the family size of the dwelling unit, affordability in terms of EMI size or ratio of house price to annual income.

The reasons for the increase demand are;

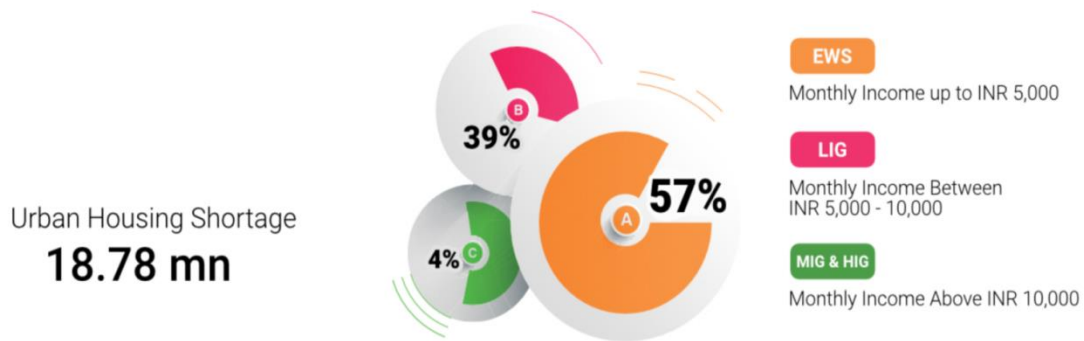
- Growth of the urban population
- Rising incomes
- Expansion of the middle class

Both the public and the private sector are the agencies that work in the provision of construction affordable housing. Both face problems like;

- Scarcity of land
- Scarcity of marketable land parcels
- Rising costs
- Regulatory concerns

Figure 4 Urban housing shortage in 2012

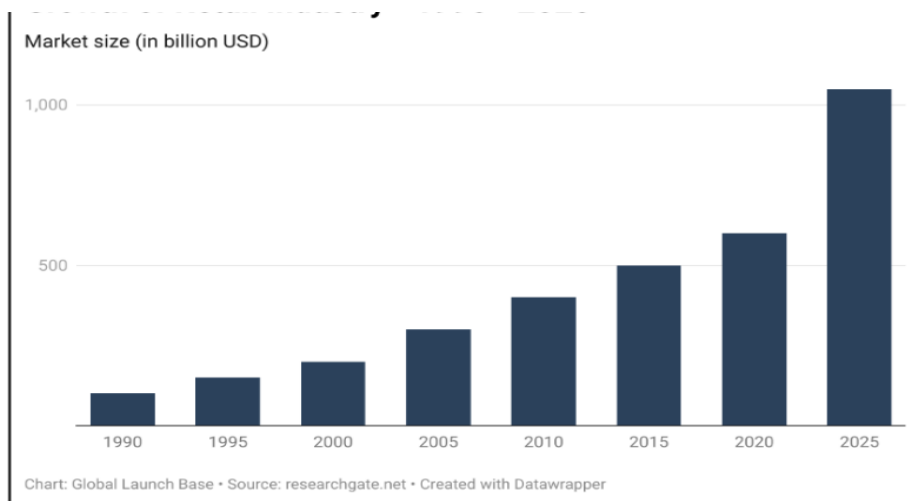
Distribution of Estimated Urban Shortage in India (Millions) - 2012



Source: Ministry of housing and urban poverty alleviation

3.1.2 Retail sector: The retail sector in India is a dynamic market and is expected to reach 2 trillion dollars by 2032 (Boston consulting group). The main reason being a growing population, rising income level and increasing urbanization. Changing consumerism is one of the most important factors that are responsible for this rising trend. With the advent of e commerce, the online retail market is expected to increase. There is an increase in both online and offline increase in retail space due to shift in demand.

Figure 5: Growth of Retail Industry 1990-2025



Source: researchgate.net

In 2014 the retail sector had a market of roughly 405 billion dollars to now cross 1 trillion dollars in 2024.

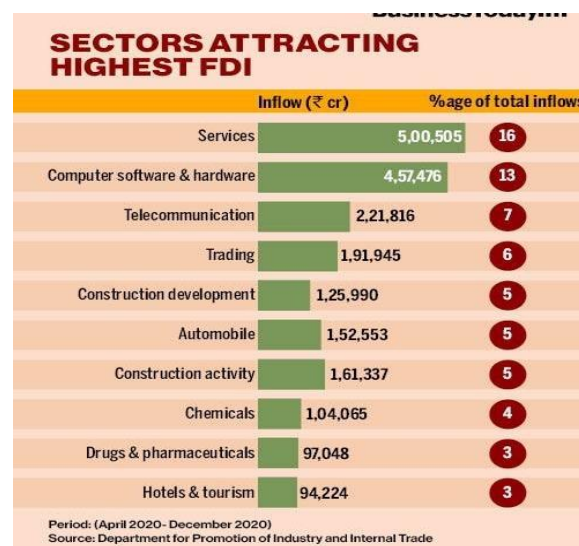
3.2 FDI: The FDI in the reality sector in India is based on certain directives by the government, there are eligibility factors that have to be adhered to. Investment in this sector could enter through the automatic route, but under certain conditions. They are allowed to invest in residential and commercial construction, as well as townships, housing and infrastructure, but they are not allowed in lottery, gambling, tobacco, automatic and railway operations. 100% FDI is allowed under the automatic route in development of townships, housing, infrastructure and construction development projects, but they are not allowed in buying and selling land for profit or in the construction of farmhouses. FDI is not allowed in businesses which deals in land and immovable property with a view to earning profit like construction of farmhouses, trading in transferable development rights (TDRs).

Figure 6: Extent of FDI in specific spaces in India

| Year | FDI | Commercial space | Hospitality sector |
|-----------|-------------------------------------|------------------|--------------------|
| 2019-2020 | \$24.54 Billion(real estate sector) | \$7.15Billion* | |
| 2023-24 | | \$6 billion** | \$340 million |

Source:* <https://ijlr.iledu.in>** <https://www.pib.gov.in/>

Figure 7 : Specific sectors that attract FDI



Source: BusinessToday.In

3.3 Macroeconomics goals of the Government of India: FDI in this sector significantly impacts macroeconomics goals by:

- Creating jobs
- Increased GDP
- Technological advancements
- Improved infrastructure

The linkages are both forward(rental, maintenance, insurance and property maintenance) and of the backward type (industries that supply steel and cement). Besides this it brings in foreign capital in the country, that boosts the Balance of Payment, local entrepreneurship, technical and management expertise of the local people, besides contributing to enhancing the GDP of the economy, employment and growth of infrastructure.

The impact is sector specific, the main beneficiary is the manufacturing sector. The linkage impact on the primary and the service sector is not very statistically significant.

4. Research gap and Methodology

FDI is an important factor in the India economy, analysis would be presented to the extent that this increases employment, GDP and infrastructure of the country. How has the government encountered this flow? Are the interests of the buyers safeguarded? Both quantitative and qualitative methodology would be used in understanding the impact of this sector. Reliable secondary data would be analyzed and qualitative methods would be used to explain the reasons and growth.

5. Growth of FDI in India in the Reality sector from 1990:

The reason why 1990 is taken as a benchmark year for the Indian economy is because it was the beginning of significant economic reforms. A severe balance of payment crisis, forced the economy to adopt liberalisation policies that changed the direction from a socialist one to a market oriented capitalist one. It is from the 1990s that FDI was allowed in various sectors. This followed a timeline that is indicated in the table below

Table no. 1: Time line of extent of Foreign Investment in India

| Year | FDI allowed in the Reality sector |
|-------------|--|
| 1990 | - |
| 1995 | 74% |

| | |
|------|---|
| 2000 | 100% (For development of township, commercial, and residential; Did not require government approval- it was disbursed via the automatic route.) |
| 2005 | 100% (with same conditions as in 2000) |
| 2010 | 100% (with same conditions as in 2000) |
| 2015 | 100% (with same conditions as in 2000) |
| 2018 | 100% (with same conditions as in 2000) |
| 2021 | 100% (with same conditions as in 2000) |
| 2024 | 100% (with same conditions as in 2000) |

Source: Invest India

6. TYPES OF MAJOR COMMERCIAL REAL ESTATE SEGMENTS IN INDIA

The major verticals in the commercial space in India are the following:

- Office Space;India allows 100% FDI in the commercial space like malls and business centers but they demand a minimum built area of 50,000square feet.
- Industrial and Warehousing Space- This has been increasing at a phenomenal rate given the growth of the e commerce segment. Multinationals like Amazon have pledged to invest Rs2000 crores by the end of 2025 in opening up ‘micro fulfillment centers’, (Financial Express, September20, 2025) Ikea has been reported to invest Rs 10500 crores in the first phase(Economic Times August 19th 2025)

Retail Space: In this space, the Government of India permits 100% FDI under automatic route for Single-Brand Product Retail Trading (SBRT) and 51% permitted under the government route, for Multi Brand Retail Trading (MBRT) subject to conditions. These conditions state that a maximum of 51% foreign equity is allowed subject Government of India approval. This also requires a minimum amount of \$100 million, of this 50% being in the form of back end infrastructure, and at least 30% of the manufactured or processed goods should be from local manufacturer, and it has to be compulsorily supplied from the MSME(Medium Small and Micro Enterprises).An additional requirement in this sphere is that the outlets of such concerns are limited to cities with a population over 10 lakh,.50% of every \$100 million invested should be in back end infrastructure such as cold chains, refrigeration etc.

- Hospitality; the government has allowed 100% FDI investment under the automatic route. Foreign investors are allowed to bring in capital to fund hotels, restaurants as well as tourism without prior government approval. But they are subjected to FEMA(Foreign Exchange Maintenance Act) regulations . These investors are allowed in hotels, restaurants, resorts, amusement parks, exhibition -cum -convention centers, and other tourism related infrastructure.
- Others

RIETS (Real Estate Investment Trusts): The Indian Market Regulator SEBI, has allowed foreign portfolio investors to participate in this portfolio, by investing in their debt securities. This has been developed as an alternative financial platform to direct investment in Real Estate.

The Indian Government has further liberalised its policy towards FDI in this sector. The 2025 policy states that;

- 100% foreign ownership is provided by the automatic route
- The minimum lock in period has been done away with
- Greater emphasis in encouraging investment in co-working spaces and logistics parks.

The above measures are a clear indication of the maturity level of the real estate market in India. These policies are a clear indication of the demand for Grade A office spaces which are ‘a state of the art’. There obviously is a demand for such spaces, which is why the requirement to change the FDI norms. This clearly points to maturity of the Indian market,as it has accepted greater transparency. This is a positive for both the foreign and domestic investors.

An important development in the Reality sector as well as the extent of funding in this sector is the growing demand for co-work spaces. The demand for these spaces points to the level of development that the Indian market has achieved with respect to the growth of startups and the rising numbers of unicorns in the Indian Economy. These spaces are primarily collaborations with international co-work spaces, and brings with it the expertise and the high level of technical expertise in its functioning. The main reason for their continued growth is the strict ethical practices that they follow whether they are in India or in the country of their origin.

This sector is expected to grow to over \$2.8 billion by 2030. These spaces are:

- Cost effective
- Promote hybrid work models

- Communal atmosphere encourages networking and collaboration
- Supportive environment for the start up Eco system
- Moving to Tier 2 and Tier 3 cities has made it an affordable alternative. This has been encouraged by Multi National Corporations as they are in a position to take advantage of skilled workforce from smaller cities.

RERA(Regulation and Development Act), constituted in 2016. The main aim was to bring transparency, accountability, and timely delivery of projects. It was constituted to protect home buyers, and regulate the developers and agents at the same time. The key features of this act are;

- Mandatory project registration
- Use of ESCROW accounts- this ensures that funds declared in this account are being used exclusively for that project. The developers are required to deposit at least 70% of the project money in designated banks.
- Establishment of State Level Regulatory authorities to handle any dispute
- Time framework for readdressing of complaints.
- All real estate projects with a plot area of over 500square meters or more than 8 apartments have to register themselves under RERA.

The act has definitely improved consumer confidence, as well as market stability, but there still exists loop holes in its implementation. The main ones being insufficient and weak implementation by the States, as well as the weak recovery by the authorities in case of non compliance of the rules.

7. Limitations

The main limitations that was encountered during the research was lack of specific data with respect to FDI in the different categories of the Real Estate Sector. There should be greater transparency so that correct trends on the investment in various spheres are known. Problems in the other areas could the be adequately addressed.

8. Conclusion

Developing countries require FDI in the reality sector, not only for the forward and backward linkages that have been stated , but also as a source for up liftment of the country from its present state of ‘underdevelopment’, as well as to sustain the growth momentum. It complements local

savings, by injecting capital, providing superior technical expertise and management techniques and also brings with it transference of technology and skills among the local population. The negative aspect is the extent of repatriation of profits. The Indian Economy has safeguarded itself by slowly and steadily opening up of the economy to foreign investment. It has also curtailed the entry of such capital for speculative purposes. Where the group housing industry is concerned especially for the marginalised category there are checks with respect to the entry of such funds (the fear is that they should not be speculative in nature). The exact impact of these funds depends on the absorption capacity of the country. Is the country's labour force skilled enough to take full advantage of the new ways and latest technology which is being adopted by the investors?. There are certain basic skill requirements of the workforce towards the capability of the absorption capacity of the linkages that FDI brings in its wake.

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