

India's Next Real Estate Growth Cycle:

The Rise of Tier-2 and Tier-3 Cities





Tier-2 and Tier-3 cities are emerging as the fastest growing residential markets, driven by infrastructure investment, affordability advantages, and expanding employment ecosystems.

Preface

The moderation in residential sales and launches through 2025 has been widely discussed across the industry. Several major Tier-1 markets have entered what may be described as a “too-premium-to-afford” phase, as sustained price appreciation over the last few years has pushed affordability under visible strain.

At the same time, new supply in the affordable segment has declined steadily, limiting small-ticket investment options for end-users and investors alike. In the absence of direct demand-side incentives, housing affordability has remained under pressure, particularly for India’s salaried middle class.

However, 2026 represents a structural inflection point.

Recent policy measures, including announcements in the **Union Budget 2026–27** and calibrated actions by the RBI, signal the beginning of a new infrastructure-backed growth phase. This report evaluates these policy interventions and examines how they are likely to **reshape residential demand across India, particularly in Tier-2 and Tier-3 cities.**

We believe these measures will not merely revive sentiment but reset the structural momentum of the sector. More importantly, they strengthen the foundations of employment, infrastructure, and regional economic ecosystems, creating the conditions for geographically diversified and income-based housing demand.

This phase should not be viewed as a short-term stimulus cycle. It reflects a deeper structural strengthening of India’s economic base, spanning manufacturing expansion, infrastructure development, capital formation, and macroeconomic stability. Together, these factors are expected to underpin a more sustainable residential expansion.



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Executive Summary: Infrastructure-Led Budget Sets Stage for Residential Growth Beyond Tier-1 Cities

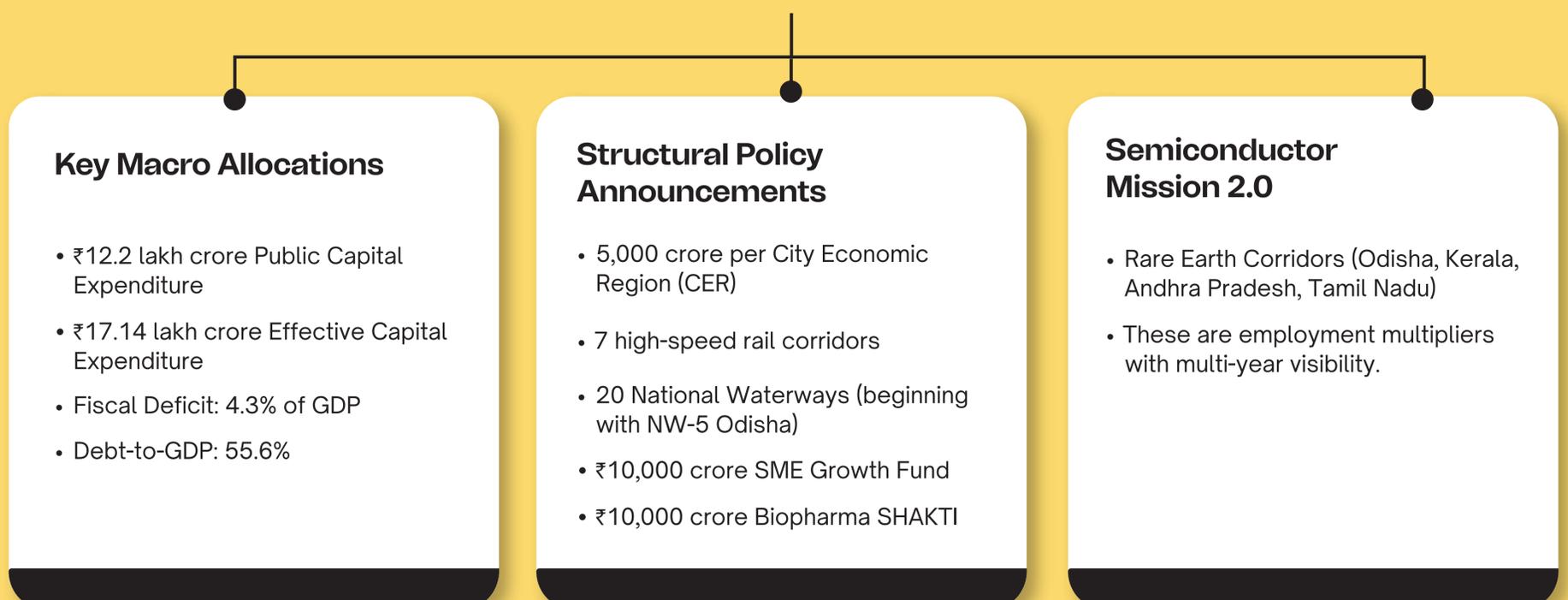
India's residential market is entering a structurally distinct phase. The post-pandemic premium cycle that powered accelerated price appreciation across metro markets is now showing signs of stabilisation. In several Tier-1 corridors, price growth has outpaced income expansion, resulting in visible affordability compression and a gradual tempering of incremental demand at higher ticket sizes.

In contrast, emerging cities are exhibiting a more sustainable growth configuration. These markets offer lower entry ticket sizes and stronger price-to-income alignment, creating a more accessible ownership landscape. Infrastructure-led micro-market activation is unlocking previously peripheral zones, while employment expansion beyond metro cores is broadening the residential demand base. Importantly, absorption in these cities remains largely end-user driven, lending greater durability to the cycle.

Budget 2026 formalises and accelerates this structural pivot. A targeted infrastructure thrust towards Tier-2 and Tier-3 cities, the revitalisation of 200 legacy industrial clusters, the creation of City Economic Regions CERs and the continuation of sustained public capital expenditure collectively reinforce the decentralisation narrative.

The 2026–2028 residential cycle, therefore, is unlikely to mirror the speculative premium surge of the recent past. Instead, it is poised to be employment-backed, affordability-aligned and geographically diversified, marking a decisive recalibration of India's housing growth trajectory.

Budget 2026: Quantified Growth Anchors



Second To None: The Rise Of Tier-2, Tier-3 Growth Centres

The announcement of City Economic Regions represents one of the most structurally significant urban planning shifts in recent years.

With ₹5,000 crore allocated per region over five years, the framework formalises region-based economic planning. Tier-2 and Tier-3 cities that already function as industrial, educational, and administrative hubs are now being integrated into structured economic clusters.

This institutionalised distributed growth.

Historical patterns show that infrastructure activation meaningfully alters property value trajectories:

Metro corridors command 8 to 25% premium within 500 metres to 1 kilometre

Corridor-level appreciation ranges between **15 and 40% post-completion**

Airport and expressway zones record **30 to 70% cumulative appreciation**

Industrial corridor land values **grow 20 to 60%**

Peripheral plotted developments can see up to 80 to 100% growth in strong cycles

Land markets typically respond earlier and more sharply, while apartment markets demonstrate steadier and absorption-led gains.

This dynamic is particularly relevant for emerging cities where base prices remain moderate and infrastructure multipliers are more pronounced.



State-Wise Opportunity Matrix

City	Key Advantage	Property Price Range (per square foot)	Upcoming Infrastructure
 Bhubaneswar	Odisha capital; temple town	INR 4,000-8,000	<ul style="list-style-type: none"> Bhubaneswar Ring Road Bhubaneswar-Cuttack-Puri-Paradip Corridor
 Cuttack	Cultural, commercial hub; second largest city in Odisha	INR 2,000-7,000	<ul style="list-style-type: none"> Cuttack Outer Ring Road Mahanadi Riverfront Project
 Coimbatore	Textile hub; second largest city in Tamil Nadu	INR 2,400-8,500	<ul style="list-style-type: none"> Coimbatore-Tiruppur-Erode-Salem RRTS Coimbatore Airport Expansion
 Erode	Industrial, agricultural hub in Tamil Nadu	INR 1,600-6,000	<ul style="list-style-type: none"> Coimbatore-Tiruppur-Erode-Salem RRTS State Highway 20 expansion
 Puri	Temple town	INR 5,500-10,500	<ul style="list-style-type: none"> Puri Airport Bhubaneswar-Cuttack-Puri-Paradip corridor
 Surat	River town; textile hub in Gujarat	INR 2,000-11,000	<ul style="list-style-type: none"> Surat Outer Ring Road Mumbai-Ahmedabad high-speed rail corridor
 Tiruppur	Textile hub; temple town in Tamil Nadu	INR 1,500-7,000	<ul style="list-style-type: none"> Coimbatore-Tiruppur-Erode-Salem RRTS Four-laning of Avinashi and Mettupalayam highway
 Varanasi	Commercial and cultural hub; temple town in UP	INR 4,000-8,000	<ul style="list-style-type: none"> Varanasi-Ranchi-Kolkata Highway Varanasi-Sarnath Ring Road
 Visakhapatnam	Port city and industrial hub in Andhra	INR 3,000-8,000	<ul style="list-style-type: none"> 6-lane Raipur-Visakhapatnam Expressway Visakhapatnam-Bhogapuram Coastal Corridor

As connectivity improves, residential demand increasingly aligns with employment clusters rather than legacy central business districts. This is the core structural shift behind the Tier-2 thesis.

Infrastructure: Expanding India's Economic Geography

With the government of India allocating a record ₹52.47 lakh crore in total expenditure, including a landmark ₹12.2 lakh crore dedicated infrastructure budget, public capital deployment has reached unprecedented scale, positioning infrastructure as the primary catalyst reshaping economic geography, compressing travel times, and unlocking new high-growth urban corridors beyond traditional CBDs (central business districts).

Key value creation patterns observed across infrastructure-linked corridors:

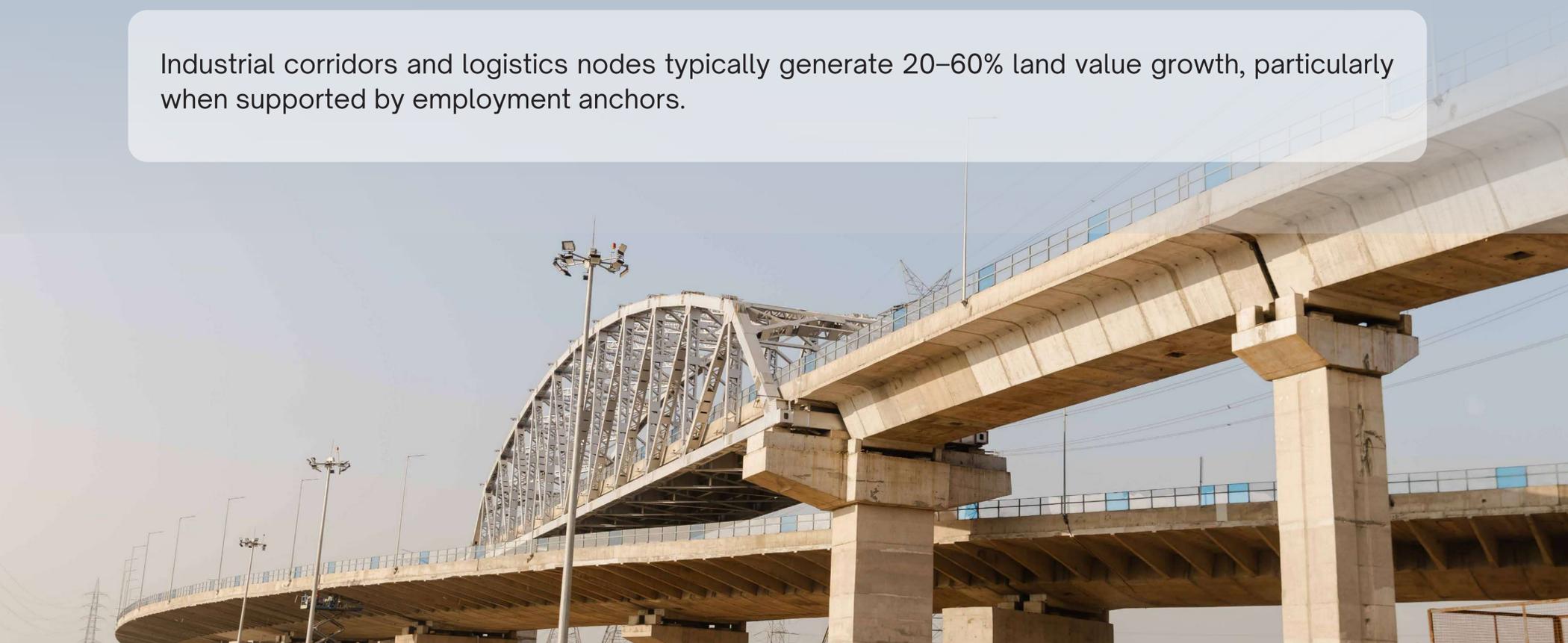
Properties within 500m–1km of operational metro corridors typically command 8–25% price premiums, with corridor-level appreciation of 15–40% post-completion, depending on demand depth.

Airport and expressway influence zones often see stronger early-cycle impact, with 30–70% cumulative appreciation from announcement to completion.

In select high-growth micro-markets, especially peripheral land and plotted developments, appreciation can exceed 80–100% over multi-year cycles.

Land markets respond more sharply than stabilized apartment segments, where gains tend to be steadier and absorption-driven.

Industrial corridors and logistics nodes typically generate 20–60% land value growth, particularly when supported by employment anchors.



Infrastructure Opportunity Matrix

Policy Initiative	Allocation / Structure	Economic Transmission Channel	Direct Real Estate Impact
Manufacturing Expansion: Dual Employment Engine	Semiconductor Mission 2.0; Electronics Components ₹40,000 cr; Rare Earth Corridors; Textile Mega Parks; Biopharma SHAKTI ₹10,000 cr	Industrial output + formal job creation	Mid-income housing demand in industrial belts; rental growth; township expansion
High-Tech Manufacturing Push	Semiconductor & electronics clusters	High-skill employment concentration	Grade A office leasing, premium housing, mixed-use ecosystems
Income-backed Demand Shift	Formal payroll expansion	Stable household income	Demand becomes income-supported rather than speculative
City Economic Regions (CERs)	₹5,000 cr per CER over 5 years; reform-linked funding	Institutionalised urban clustering	Early suburban land appreciation; planned multi-nodal expansion
CER Urban Governance Reform	Corridor + industrial integration	Infrastructure + planning discipline	Reduced Tier-I congestion; spillover into peripheral belts
Corridor-led Urbanisation	Integrated economic nodes	Economic decentralisation	Balanced regional growth; secondary city capital inflow
Tourism & Heritage Infrastructure	15 archaeological sites; Buddhist Circuit; Purvodaya tourism push; Digital Knowledge Grid	Tourism footfall + services ecosystem	Hospitality, boutique hotels, branded homestays
Heritage Node Development	Religious + archaeological upgrades	Micro-market commercial activity	Retail clustering near temple/heritage hubs
Cultural Corridor Branding	Digital integration + destination development	Lifestyle migration + second homes	High-margin niche appreciation (spiritual towns)
Industrial & Logistics Corridors	East Coast Corridor (Durgapur); NW-5 logistics link; 200 legacy cluster revival; 3 Chemical Parks; Container Scheme ₹10,000 cr	Industrialisation → logistics scale-up	Warehousing demand; land value shift in early-stage belts
Industrial Cluster Multiplier	Port connectivity + freight movement	Workforce migration	Affordable housing near clusters
Port-linked Corridors	Paradeep, Dhamra connectivity	Export-oriented growth	Retail-commercial expansion near workforce hubs
High-Speed Rail Corridors (7 routes)	Mumbai–Pune; Pune–Hyderabad; Hyderabad–Bengaluru; Hyderabad–Chennai; Chennai–Bengaluru; Delhi–Varanasi; Varanasi–Siliguri	Travel time compression	Transit-Oriented Development (TOD)
Catchment Zone Expansion	Inter-city integration	Workforce migration	Affordable housing near clusters
Tier-2 Node Uplift	Corridor station towns	Connectivity premium	Residential + logistics integration

Affordability to Boost Consumer Sentiment

In 2025, the Reserve Bank of India reduced its benchmark lending rate by 125 basis points, bringing it to 5.25%. Housing loan rates have consequently moved into the sub-7% range.

For a ₹50 lakh loan with a 20-year tenure and a 700 plus CIBIL score:

- Monthly EMI savings are approximately ₹3,900
- Total tenure savings are approximately ₹7.4 lakh

Repo Rate Transmission: EMI Impact Analysis

Loan Assumption: ₹50 lakh | 20 years | 700+ CIBIL

Metric	Dec 2024	Dec 2025
Repo Rate	6.5%	5.25%
Home Loan Rate	8.75%	7.30%
Monthly EMI	₹43,900	₹39,998
Total Interest	₹55.4 lakh	₹48 lakh

- This materially improved affordability in the ₹50 lakh to ₹1 crore housing segment, which represents the core price band in Tier-2 and Tier-3 markets.
- With limited likelihood of near-term rate reversals amid moderate inflation, the current rate environment supports effective demand expansion.
- In contrast to metros where elevated base prices limit elasticity, emerging cities combine lower entry costs with improved financing conditions, amplifying demand sensitivity.

Outlook 2026

The Indian real estate market is entering a period of steady and structurally supported growth.

This expansion is not liquidity-driven. It is underpinned by:

**Record
infrastructure
spending**

**Manufacturing and
industrial expansion**

**Technology and
semiconductor
investments**

**Lower
interest rates**

**Fiscal consolidation
and macroeconomic
stability**

Demand is increasingly shaped by end-user fundamentals rather than speculative excess.

The next growth phase will prioritise geographic diversification, employment-backed demand, affordability alignment, and stable absorption over volatility.

Tier-2 and Tier-3 cities are no longer peripheral spillover markets. They are becoming primary growth engines within India's evolving urban landscape.

12-24 Month Forward Outlook

Variable

2026 View

2027 View

Interest Rates

Stable to mildly accommodative

Neutral

Inflation

Within RBI band

Anchored

Residential Demand

Premium-led growth

Broader-based expansion

Office

Gradual recovery

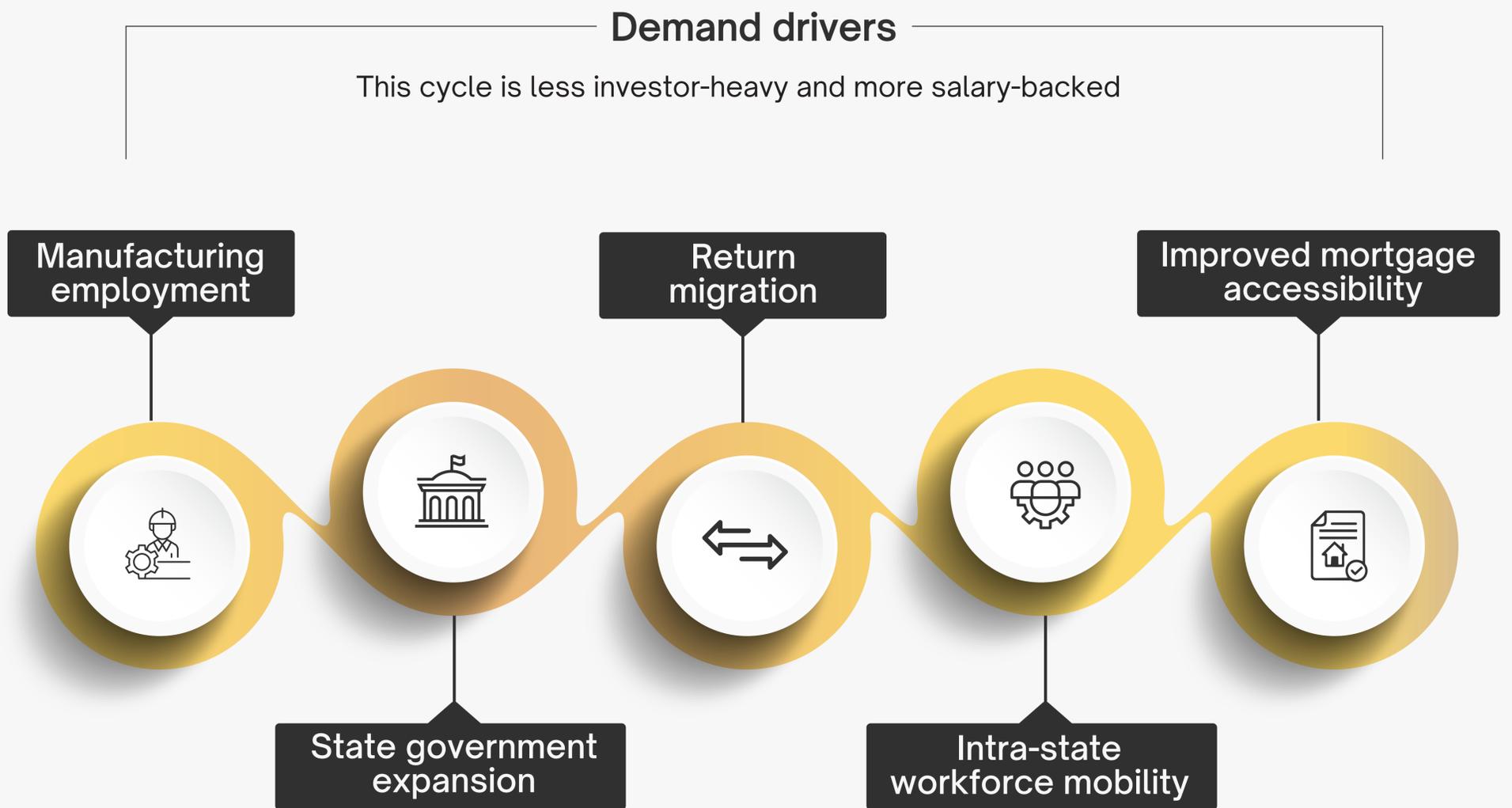
Full normalization

Capital Flows

Domestic capital dominant

Foreign capital resurgence

Segment Outlook (2026–2028)



Outlook 2026

Segment	Tier-2 / Tier-3 Outlook
₹30-60 lakh	Strong first-time buyer traction
₹60 lakh - ₹1 crore	Core mid-income expansion
₹1-1.5 crore	Select aspirational corridors
Plotted developments	High traction in peripheral zones

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