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India Union Budget 2025-26

Point of view

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Building, Construction and Real Estate

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Key announcements for the sector

- Relief for homeowners and incentivizing ownership
  - SWAMIH Investment Fund 2 will be established as a blended finance facility with contributions from the Government, banks, and private investors. This fund of INR 15,000 crore will aim for expeditious completion of another 1 lakh units
  - Annual limit of INR 2.40 lakh for the Tax Deducted at Source (TDS) on rent is being increased to INR 6 lakh
  - Presently tax-payers can claim the annual value of self-occupied properties as nil, on fulfilment of certain conditions. It is proposed to allow the benefit of two such self-occupied properties without any condition.
- Urban Infrastructure initiatives
  - A national framework will be formulated as guidance to states for promoting Global Capability Centers (GCC) in emerging Tier II cities. The framework is expected to suggest measures for enhancing availability of talent and infrastructure, building-byelaw reforms, and mechanisms for collaboration with industry
  - The Government will set up an Urban Challenge Fund of INR 1 lakh crore to implement the proposals for ‘Cities as Growth Hubs’, ‘Creative Redevelopment of Cities’ and ‘Water and Sanitation’ announced in the July, 2024 Budget.
- Push towards manufacturing and Micro, Small & Medium Enterprises (MSMEs)
  - The investment and turnover limits for classification of all MSMEs will be enhanced to 2.5 and 2 times respectively
  - Building on the National Action Plan for Toys, a new scheme will be implemented to make India as a global hub for toys. The scheme will focus on development of clusters, skills, and a manufacturing ecosystem that will create high-quality, unique, innovative, and sustainable toys that will represent the ‘Made in India’ brand.
- Tourism initiatives
  - A modified Ude Desh ka Aam Naagrik (UDAN) scheme will be launched to enhance regional connectivity to 120 new destinations and carry 4 crore passengers in the next 10 years. The scheme will also support helipads and smaller airports in hilly, aspirational, and Northeast region districts
  - Top 50 tourist destination sites in the country will be developed in partnership with states through a challenge mode. Land for building key infrastructure will have to be provided by states. Hotels in such destinations will be included in the infrastructure harmonized master list
  - Medical Tourism and Heal in India will be promoted in partnership with the private sector along with capacity building and easier visa norms.

- Relaxation in Income Tax threshold and Tax Slabs for Individual taxpayers
  - Multiple reliefs to taxpayers at large under new tax regime with revamped tax slabs and full tax rebate for normal income (excluding capital gains) up to INR 12 lakh (increased from INR 7 lakh earlier).
- Amendment in Section 17 of the Central Goods and Services Tax (CGST) Act, 2017
  - Clause (d) of sub-section (5) is being amended to substitute the words "plant or machinery" with the words "plant and machinery" with effect from 1st July, 2017.

Implications for the sector

- Impetus on home ownership and incentives for investors
  - SWAMIH Investment Fund 2 will be launched as an INR 15,000 crore blended finance facility aimed at ensuring the timely completion of stalled projects and restoring buyer confidence. By unlocking stalled projects and boosting the supply of affordable and mid-income housing, the fund could play a pivotal role in supporting homeownership aspirations and ensuring financial viability for developers
  - The increase in the TDS threshold on rent from INR 2.4 lakh to INR 6 lakh could ease tax burdens, streamline compliance, and enhance liquidity in the real estate sector. By ensuring higher cash flow and reinvestment potential, this change will make rental investments more attractive, particularly for small landlords. Tenants will also benefit from reduced compliance complexities, fostering greater transparency and smoother transactions. Overall, this policy shift could be a significant step toward strengthening India’s rental housing market and driving long-term sectoral growth
  - Homebuyers and investors will be able to claim nil valuation for two self-occupied properties instead of just one. Previously, homeowners were taxed on notional rental income for the second home, unless certain conditions were satisfied; however, now such conditions have been removed. This move is expected to encourage second home investments.
- Expanding Urban Growth Centers and driving development to Tier II and Tier III cities
  - The INR 1 lakh crore ‘Urban Challenge Fund’ aims to improve the condition of public utilities and urban infrastructure in our cities. An allocation of INR 10,000 crore has been made for FY 2025-26, which will be essential in improving the delivery of public utilities and infrastructure and in turn unlock real estate potential and attract investments. This fund could transform cities into growth hubs and could lead to balanced regional development and reduce urban-rural disparities
  - A national framework for GCCs, will be a significant policy initiative to drive the growth of GCC outside of the traditional hubs such as Bengaluru and NCR into Tier II cities, thereby, creating infrastructure development and talent growth in Tier II cities, which will further enhance demand for commercial real estate in these locations.
- MSME benefits for developers and India’s toy manufacturing push
  - The higher investment and turnover limits will allow more real estate businesses to qualify as MSMEs, allowing them to access capital at lower interest rates, secure collateral-free loans, and receive electricity consumption exemptions. This will enable real estate MSMEs to diversify their project portfolios, complete projects on schedule, prevent delays, and streamline documentation processes
  - The initiative to make India as a global hub for toys could lead to transformative growth across the country’s industrial landscape. Specialized manufacturing clusters will drive demand for industrial land, logistics hubs, and eco-friendly infrastructure. This initiative could spur ancillary development in residential and commercial real estate, as workforce influx and supply-chain expansion elevate demand for housing, retail, and office spaces near the toy manufacturing clusters and zones.

- Expanding air connectivity, unlocking real estate growth, and strengthening Hospitality Infrastructure
    - Revamped UDAN scheme aims to significantly improve connectivity to Tier II and Tier III cities; with 120 new destinations being planned to be connected. Improved air connectivity will not only promote trade and commerce but also offer real estate development opportunities around airport cityside. This initiative is expected to further enhance demand for real estate in Tier II and Tier III cities and towns, which has already been on the rise post pandemic
    - To accelerate tourism growth, hotels in the top 50 destinations will be added to the harmonized infrastructure list, which would enable hospitality developers to access cheaper, long-term secured financing and development support. The expansion of 50 new destinations and the push for medical tourism will significantly boost hotel capacity, elevate India's global tourism footprint and drive employment opportunities through intensive skill development programs for youth, including specialized training in hospitality management.
- Driving consumption through enhanced tax relief to individuals
    - Introduction of the new tax bill would potentially enhance disposable income across the Indian middle class, easing their financial obligations towards housing loans. This increase in disposable income could also stimulate spending on real estate-related goods and services, such as home décor and improvements, creating new value opportunities.
- Impact on real estate developers due to amendment in Goods and Services Tax (GST) law
    - The proposed retrospective substitution of the term 'plant or machinery' with 'plant and machinery' in the CGST Act is expected to affect real estate developers, limiting their ability to claim input tax credits and potentially increasing project costs.

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