

Union Budget 2025

Real estate alert

4 February 2025

The Economic Survey 2024-25 and Union Budget 2025-26 reinforce a growth-oriented roadmap for India's real estate sector. With infrastructure expansion driving urbanisation, the deepening REIT and InvIT market enhancing investor participation, and advancements in geospatial and digital land records boosting transparency, the sector is witnessing a shift towards a more structured and technology-integrated ecosystem.

The extension of tax incentives for sovereign wealth funds (SWFs) and pension funds until 2030 further strengthens the investment outlook for infrastructure-linked real estate projects, ensuring a steady flow of long-term capital. These policy measures collectively position real estate as a critical pillar of India's economic transformation, setting the stage for sustained momentum across residential, commercial, and logistics segments.

However, some key industry expectations remain unmet. The Budget did not address the long-standing demand for industry status for the real estate sector, which could have enabled easier access to institutional financing and lower borrowing costs. Additionally, this year's policy announcements did not include the simplification of GST on under-construction properties, rationalisation of stamp duties, and enhanced incentives for affordable housing. While these gaps persist, the increase in the personal income tax exemption limit to INR 12 lakh is expected to enhance disposable income and indirectly support housing demand, particularly in the mid-income segment.

Policy announcements

1) Infrastructure-driven growth: Unlocking new real estate hubs

The Budget 2025-26 reinforces its commitment to urban transformation through infrastructure expansion, regulatory modernisation, and investment-friendly policies, focussing on creating new growth corridors and strengthening urban development, with direct benefits for real estate.

Urban Challenge Fund: The Union Budget 2025-26 has proposed to introduce the Urban Challenge Fund with INR 1 lakh crore corpus, aimed at transforming cities into growth hubs through redevelopment, water and sanitation initiatives. The fund will finance up to 25% of viable bankable projects, with the stipulation that at least 50% will be raised through bonds, bank loans, or public-private partnerships (PPPs). An initial INR 10 thousand crore allocation has been proposed for FY2025-26, which signals a strong push for infrastructure-led urbanisation, with direct benefits for real estate.

Global Capability Centres in Tier 2 cities: It has been proposed that a national framework be formulated to guide states in urban planning and development, aiming to standardise regulations and improve urban governance. This initiative is expected to streamline project approvals, enhance infrastructure planning, and create a more predictable regulatory environment for real estate development.

2) Commercial and logistics real estate: A structural shift underway

The Budget's focus on modernising logistics infrastructure is expected to drive increased demand for commercial and industrial real estate.

India Post as a public logistics organisation: The transformation of India Post into a logistics organisation, along with the ongoing development of freight corridors, will boost the demand for Grade-A warehousing and logistics hubs.

Incentives for inland waterways: In order to promote inland water transport, a tonnage tax scheme has been proposed to be extended to inland vessels. This is expected to improve inland water transport, leading to better connectivity, economic growth along waterways and potentially increasing the attractiveness for commercial and logistics real estate development.

India's growing role as a global manufacturing and supply chain hub is expected to make logistics and warehousing increasingly attractive for foreign institutional investors and global logistics firms.

3) Digital transformation: A step toward greater transparency

Geospatial infrastructure and data: The government, in the July 2024 Budget, proposed various land-related reforms, including incentives and digitisation of land records. In continuation to the aforesaid proposals, Budget 2025 proposes to start a National Geospatial Mission to develop foundational geospatial infrastructure and data.

The government's push for geospatial mapping and AI-driven automation sets the stage for a faster, more efficient, secure, and technology-driven real estate ecosystem.

4) Institutional capital: Strengthening private investment in real estate

The Budget's emphasis on PPPs, asset monetisation, and capital market deepening will unlock new avenues for private investment.

Extended investment window for sovereign and pension funds: The decision to extend tax exemptions for sovereign wealth funds and pension funds' investments in infrastructure until 2030 will ensure steady capital inflows into real estate-backed infrastructure projects.

SWAMIH Fund 2

Considering the success of the Special Window for Affordable and Mid-Income Housing (SWAMIH) fund with the completion of 50,000 stressed housing projects and on the path of completion of another 40,000 projects in 2025, Union Budget 2025 proposes the establishment of the SWAMIH Fund 2 for providing funding of INR 15,000 crore for another 1 lakh units. This fund will continue to create liquidity in the stressed real estate projects and enable homebuyers to get possession of their apartments without significant delays.

Tax proposals (effective FY24-25)

5) Rationalisation of capital gains in case of REITs and InvITs

For business trusts (REITs and InvITs), the long-term capital gains from the sale of listed shares are currently taxed at the maximum marginal rate (effective rate of 42.74%). It is now proposed to bring parity in the taxation and tax long-term capital gains from the sale of listed shares by business trusts at the rate of 12.5%.

6) Extension of tax exemptions for sovereign wealth funds and pension funds

For notified sovereign wealth funds and pension funds, long-term capital gains and income from other sources from specified infrastructure investments made before 31 March 2025 are exempt from tax. Budget 2025 proposes to extend the date of investment to 31 March 2030.

The Finance Act, 2024, introduced provisions to tax income from the transfer, redemption, or maturity of unlisted debentures as short capital gains, irrespective of the holding period. This jeopardised the exemption available to notified sovereign funds and pension funds that could claim an exemption if held for the long term. It is now proposed that the exemption be granted to notified sovereign wealth funds and pension funds with respect to the gains from unlisted debentures.

These proposals are expected to channel long-term capital into urban development projects, logistics hubs, and large-scale infrastructure developments.

7) Tailoring in provisions related to ITC

A retrospective amendment proposed under the CGST w.e.f. 1 July 2017 to substitute 'plant or machinery' with 'plant and machinery' will restrict the ITC on the construction of immovable property.

The amendment clarifies that 'plant or machinery' should always be understood as 'plant and machinery', even if a previous judgement, decree, or order suggests otherwise.

8) Simplification of condition for treatment of self-occupied property

Existing provisions provide that the taxable annual value for two self-occupied house properties can be claimed as 'Nil' when the owner has occupied the house or cannot actually occupy it due to his employment, business, or profession at any other place.

It is proposed that this benefit be extended even when the property cannot be occupied for any reason.

9) Simplification of withholding tax provisions

Among others, the threshold for the following payments increased:

S. No	Description	Present threshold for applicability of TDS	Proposed threshold for applicability of TDS
1	Payment of rent	INR 2,40,000 (aggregate during the financial year)	INR 50,000 (per month or part of a month)
2	Payment in respect of enhanced compensation	INR 2,50,000	INR 5,00,000



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