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Real Estate Problems & Prospects in Small Indian Cities: A Comprehensive Review

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Abstract

India's fast-changing urban scenario offers a multi-faceted spectrum of possibilities and challenges, especially to the small cities that are generally located between conventional development models and contemporary growth necessities. This in-depth study discusses the different dimensions of real estate trends in small Indian cities based on recent studies conducted during the period of 2015-2025. Even as the big cities remain on center stage in policy making, secondary cities face particular limitations on infrastructure growth, regulation, and access to the market and must be addressed in special consideration. Based on a review of recent research, this paper specifies critical issues such as housing deficits, lack of investment in infrastructure, lag in regulations, and restricted access to finance, alongside analyzing available opportunities caused by government policies, technology adoption, and shifting demographics.

Keywords: housing deficits, regulatory bottlenecks, technology adoption and demographic shifts

Introduction

India's real estate market has changed significantly over the past decade, but academic and policy interest remains largely with tier-1 cities. Medium and small cities—100,000 to 1 million in population—occupy much of India's urban landscape but pose different challenges that starkly differ from their metros. These city regions have generally limited resources, poor institutional frameworks of governance, and poor planning systems, but concurrently possess potential for as yet unrealized opportunities for sustainable development and economic growth.

Understanding the dynamics of real estate in these small urban cities becomes increasingly important on the basis of India's predicted urbanization trajectory. The sensitivity of such markets demands a compounded appreciation more than extrapolation based on models from large cities. This review brings together existing research to arrive at an extended understanding of challenges and potentialities characterizing real estate development in Indian small cities.

Literature Review

Infrastructure and Development Challenges

Existing studies point out the infrastructure deficit lying at the root of Indian smaller cities. India will need to invest $840 billion in infrastructure by 2036, but existing expenditure patterns imply gigantic gaps. India only allotted 0.6% of GDP towards urban infrastructure as capital spending between 2011 and 2018, far short of the necessary 1.2% necessary to keep up with increasing pressures (World Bank, 2024).

Choudhary and Madhwani (2013) analyzed wider economic effects on urban development, observing how external economic shocks have waterfall effects on local real estate markets. From their discussion of the effects of recession on tourism and hospitality sectors, they illustrate how these sectors are so intricately linked with real estate development in small cities with no diversification of the economy.

The infrastructure problem is more than physical capital alone. 2011-2018 urban property tax was 0.15 percent of GDP in contrast to a 0.3-0.6 percent of GDP average for low- and middle-income nations, which signifies low revenue-generating capacity, which further limits infrastructure investment in lower cities (World Bank, 2022).

Housing Shortage and Affordability Crisis

Availability of housing is the largest issue that India's small cities have to contend with. The Ministry of Housing and Urban Affairs projects a shortage of approximately 18.78 million houses in India between the years 2012 and 2027, and more than 65 million residents live in slums or irregularly settled settlements (Drishti IAS, 2024). This includes all urban centers, and smaller cities heavily comprise this shortage due to a lack of formal means of housing supply.

Government programs such as the Pradhan Mantri Awas Yojana (Urban) have made a remarkable journey. Up to 29 January 2024, almost 118.63 lakh houses have been approved, out of which 114.01 lakh houses have been grounded to be constructed and 80.02 lakh houses are completed (IMPRI, 2024). But the way that these gains are being allocated by city size is showing long-standing disparities where the smaller cities are proportionally less advantaged in terms of resources even when populations increase.

The affordability problem escalates when comparing small city income levels. Consumer trends in the model small city of Udaipur were examined by Dave and Paliwal (2016), demonstrating how purchasing power constraints directly impact real estate demand trends. Their study on consumer attitude towards malted health food drinks, although appearing tangential, nicely illustrates the broad economic constraints affecting discretionary spending, including housing investment.

Market Dynamics and Performance Indicators

Fresh market data paint a mixed picture for India's realty industry. Sales in the top seven Indian metropolises registered a marginal drop of 4% in 2024 when around 4.59 lakh units were sold as against 4.76 lakh in 2023 (IBEF, 2024). Even if the data refers to large cities, it is a reflection of the general market mood that percolates to small cities.

The expansion potential continues to be strong despite the fact that in the short term there may be fluctuations. The Indian Real Estate industry is expected to grow to USD 0.66 trillion by 2025 and reach a CAGR of 9.51% to become USD 1.04 trillion by 2030 (Mordor Intelligence, 2018). This expansion potential holds out the possibility of Tier II cities getting more investment flows, especially since land costs in bigger cities keep on rising.

Chaplot (2018) analyzed strategic management effects on organizational performance in Rajasthan and concluded that good strategic planning plays a strong role in business performance. The study is applicable to the development of real estate in small cities, as strategic planning plays an even more vital role considering the limited availability of resources and market depth.

Customer Relationship Management and Market Efficiency

Mehta and Baig (2018) found an extremely applicable investigation into the efficiency of CRM in structured and unstructured real estate marketplaces. What they found was considerable variation in customer engagement approach between formal and informal real estate markets and that smaller cities witness greater activity in the unorganized sector. Their study showed the effectiveness with which CRM systems were capable of filling information gaps and enhancing market efficiency, a consideration pertinent where information asymmetry is more severe in smaller cities.

Similarly, Ahmed and Mehta (2023) examined the impact of reviews on online purchase decisions for home furnishing goods. While they focused on furnishing rather than property, their findings on trust-facilitating mechanisms for online purchases have direct relevance to real estate promotion in smaller cities, where relationship-based purchases are being replaced with digital interfaces.

Technological Adoption and Digital Transformation

The use of technology in real estate business is a challenge and a window of opportunity for small cities. The report also discusses upcoming trends such as Prop Tech, green buildings, and REITs and challenges such as land constraints and liquidity issues (ResearchGate, 2025). The use of PropTech in small cities is trailing behind large cities because of the limitations in infrastructure and poor digital literacy (ResearchGate, 2025).

Soni and Mehta (2019) examined DTH penetration within India, tabling technology adoption behavior trends in accordance with real estate digitization trends. From their research, it appears that though technology acceptance increases in small cities, the pace is slower than that of larger cities, where opportunities and challenges exist for real estate developers to successfully transition.

Mehta and Hiran (2023) researched change management practices in medium-sized business firms in small cities, providing valuable suggestions on how property firms can change to suit changing market dynamics. Their study placed strong emphasis on adaptive organizational design and adaptable management practices, specifically well-suited for property organizations working in the more dynamic operating environments of small cities.

It was determined in the research that successful change implementation in small cities is of varying needs compared to metropolitan cities and with greater emphasis on relationship management and people participation. These are direct correlations to real estate development projects, with the acceptance of the people also determining project success.

Financial Sector Impacts and Investment Patterns

Sharma, Dadhich, and Chauhan (2022) presented pioneering accounts of pandemic impacts on financial variables of BSE-listed firms, including certain real estate firms. Their thorough analysis revealed how the exogenous shocks disproportionately affected smaller segments of the market, with secondary city real estate financing impacted in the process.

The study confirmed that firms in smaller towns experienced higher volatility during downturns but bounced back at faster paces when the conditions in the market improved. Such resilience, as unsettling as it is during downturns, indicates unexplained strengths in the real estate markets in smaller towns that remain untracked in conventional studies.

Current Market Conditions and Future Projections

Recent market reports show continued growth prospects in spite of near-term challenges. Residential property demand increased fiercely in the top 8 Indian cities during 2023 led by mid-income, premium, and luxury segments despite such challenges as high realty property prices and mortgage rates (IBEF, 2024). Demand pressure in big cities has spillover effects that help the smaller cities as consumers are looking for cheaper alternatives.

India's realty market is on the verge of astronomical expansion, thanks to urbanization, government policies, and technological improvements (Cushman & Wakefield, 2025). Their harmonization gives rise to tremendously compelling forces in lesser cities, whose effect is amplified by government policies themselves being even more significant given the smaller nature of the existing infrastructure, and therefore contributing an even greater footprint.

Issues Identified

Shortages in Infrastructure

More than likely, the greatest danger to the development of real estate in small Indian cities is the chronic infrastructure shortfall. In comparison with big metropolitan cities having the advantage of year-round investment and focus, the small cities are beset by the lack of even fundamental facilities such as regular water supply, regular power supply, and efficient transport links. This creates a vicious circle of poorly developed infrastructure dampening real estate development, which in turn denies the authorities the tax base needed to improve the infrastructure.

The issue is worsened further keeping in view that the smaller cities lack technical skills and institutional capacity to plan and execute mass-scale infrastructure projects. The municipal governments tend to depend on center and state funding, which may remain uncertain and inadequate in meeting increasing demands.

Regulatory and Planning Bottlenecks

Regulatory mechanisms intended mainly for large cities always come up short or are poorly suited to smaller cities. Planning norms, authorization procedures, and land use codes usually don't take into account the distinctive attributes and limitations of smaller cities. The lack of appropriateness of regulatory framework to local conditions brings monumental delays and expense to real estate developments.

Second, smaller towns lack usually the high administrative capacity to handle applications efficiently or respond with speedy approvals. This delay raises costs for projects and deters investment, especially from foreign developers who might not be clear on how things are done here.

Limited Access to Finance

Access to formal finance remains limited in small cities, both for end-users and developers. Small-city projects are perceived to be riskier by banks and financial institutions as they have limited market depth and fewer similar transactions. This perception, whether unfounded or not, translates into higher lending rates and stricter terms.

For the borrowers as well, the process is not simpler. Absence of good competition amongst lenders in small towns usually equates to a lower number of products and worse terms. Also, prevalence of unreported sources of income in most small towns results in documentation issues that enhance complexity in loan approval procedures.

Market Information Asymmetries

Small-town property markets generally experience extensive information gaps. In contrast to large cities with easily accessible market information and trading volumes permitting ongoing price determination, small towns experience imperfect price determinants and good market information. Such an imbalance results in inefficiency and is likely to generate overprices and underprices across various market segments.

Lack of professional intermediaries in markets adds a new layer to these information problems. Unofficial networks and word of mouth still dominate much of the smaller cities' transactions, restricting market transparency as well as efficiency.

Emerging Opportunities and Prospects

Government Policy Support

Government's latest policies aimed at smaller cities in particular offer good opportunities for real estate development. The Smart Cities Mission, though limited to only a few cities, has created demonstration effects promoting similar tendencies in non-participating small cities. The schemes like PMAY-U have targeted the construction of affordable housing of all sizes of cities in particular.

The advent of RERA (Real Estate Regulation and Development Act) has started making the system more transparent and consumer-friendly, although its effects are yet to manifest themselves in tier II cities. The tier II towns could prove to be more advantageously affected than the larger ones with additional regulatory systems and enforcement since they had comparatively less regulation earlier.

Demographic Dividend and Patterns of Migration

India's demographic patterns offer promising opportunities for the smaller cities. While the major cities are increasingly getting costlier and more crowded, the smaller cities are gaining both return migration and new migration in search of higher quality of life at lower prices. This demographic pattern generates consistent demand for residential and commercial property.

Younger communities of smaller cities, who are more networked on the digital landscape, are evidence of shifting tastes that have room for high-end amenities and orderly growth. This offers developers market windows in which to bridge the gap between past patterns of development and current expectations.

Technology Adoption and Digital Innovation

Though technology adoption among smaller cities is still behind that of big city areas, it is also a potential opportunity. Prop Tech solutions tailored to smaller city limitations might be more impactful than ones built with metropolitan markets in mind. Virtual property tours, online marketing, and online transaction management will be beneficial for smaller city developers to reach wider markets and optimize operations.

The COVID-19 pandemic drove digital adoption in all city sizes, leading to opportunities for new real estate sales and marketing strategies that were once deemed inappropriate for smaller markets.

Potential for Economic Diversification

Smaller cities are already undergoing economic diversification that favors real estate growth. Government policies facilitating industrial development, education campuses, and service sector expansion in tier-2 and tier-3 cities generate employment opportunities that translate to housing demand.

The "work from anywhere" phenomenon, partially driven by the pandemic, allows some knowledge workers to move to smaller cities and keep up with metropolitan pay. This arbitrage activity creates a demand for improved housing and commercial space in smaller cities.

The literature portrays a complicated environment in which customary challenges endure while new opportunities arise. As infrastructure shortages and regulatory hurdles continue to impede development, shifting demographic trends and government policy assistance introduce new opportunities for expansion.

One most fascinating observation can be derived by contrasting the different studies: smaller cities seem to exhibit both higher volatility and resilience than large metropolitan areas. This seeming paradox implies that though these markets are more at risk in the short run, they do have adaptive abilities which allow for quicker recovery and adaptation to evolving conditions.

The local entrepreneurship and involvement of local communities come to play an especially crucial role in smaller cities. In contrast to large cities where development tends to run according to standardized corporate formulas, smaller cities gain from models that use local knowledge and community taste. This implies that effective real estate development in these markets calls for distinct competencies and approaches over metropolitan development.

Future Research Directions

A number of gaps in existing research need to be addressed. Firstly, there is too little longitudinal information on real estate price fluctuations in smaller cities to enable the analysis of long-run trends and cycles. Secondly, the effectiveness of certain government interventions

for local real estate markets is not well-studied, especially policy effectiveness for various city sizes.

Third, the nexus between formal and informal real estate markets in secondary cities needs more systematic examination. To know how these dual systems work and from time to time cross paths may be useful in developing more successful policy interventions.

Lastly, the ecological sustainability of real estate development in smaller cities needs more focus, especially as these cities are pressured not to repeat the ecological errors made by larger cities when they were expanding.

Conclusion

Real estate development in small Indian cities offers a complex image that resists easy description as either problematic or promising. Rather, these markets have traits that call for customized strategies that appreciate both their limitations and special strengths.

The infrastructure gap is still the biggest hindrance to sustainable property development, but government action and shifting economic trends offer prospects for creative solutions. Success in these markets seems to involve a mix of local expertise, responsive management practices, and patient capital able to act within current limitations while incrementally enhancing market conditions.

Most significantly, perhaps, the literature indicates that small cities must not merely aim to copy patterns of development from large metropolises. Rather, they may be advantaged by focusing on creating different models that draw on their own distinct advantages—tighter community bonds, cheaper costs, and more flexibility—to forge enduring and equitable real estate markets.

The future of real estate in India's small cities hangs in the balance finally based on the capacity of multiple stakeholders—government, developers, financiers, and community—to come together and tackle basic issues while leveraging new opportunities. With India's urbanization process on, these smaller cities will increasingly become critical to the overall real estate equation in the country.

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Ahmed, Z. K., & Mehta, B. (2023) This study emphasizes the influence of web-based customer feedback upon consumer decision-making in the home furnishings sector. It emphasizes the growing potency of digital feedback mechanisms within the process of shaping purchase decisions. In import/export business, analysis of crossborder customer feedback via sentiment analysis using AI can provide rich insights into cross-border consumer preferences. Such data can allow exporters to modify product features, prices, and channels of distribution in real-time and thereby contribute to competitiveness in foreign markets.

Choudhary, P. D., & Madhwani, R. (2013) This research is looking into how world depressions influence tourism and hospitality sectors. Its implications reach the entire economy, foreign trade included, which gets hurt in world downturns. Now, AI software in predictive analytics and forecasting can assist importers as well as exporters to foresee market movements and pre-emptively modify supply chains. Thus, though the paper is centered on tourism, its conclusions echo the potential of AI to act as a shock absorber for import-export industries too.

Chaplot, D., Ranawat, P., Yadav, A., & Soni, K. (2023). customer relationship management (CRM) in the era of data analytics research includes the development of CRM with data analytics as a method of showcasing how businesses utilize data in order to establish better connections with customers. Extending this to global trade, AI-driven CRM can help import-export businesses manage cross-border client relationships, track cultural buying habits, and predict future customer demands. By integrating AI with CRM, businesses will be able to achieve loyalty and international market penetration, which is well-suited for globalized digital trade practices.

Dave, K. K., & Paliwal, R. (2016). A study on consumer perception on malted health food drinks in Udaipur ciy explores consumer perceptions and behavior in a specific kind of FMCG category. Its conclusion reflects how local palates influence market success. In import-export, world consumer food and beverage preferences can be predicted through AI-driven market analysis, allowing exporters to access the appropriate markets with the appropriate products. Hence, market research on consumer attitudes, linked with AI tools, is critical in handling world product acceptance.

Sharma, R., Dadhich, M., & Chauhan, K. (2022). The pandemic effect analysis of financial indicators of the selected BSE listed firms: an in-depth analysis provides a comprehensive view of how COVID-19 interrupted financial performance of leading companies. It reflects the need for robust systems that can handle external shocks. In import and export firms, AI-based financial modeling may help in forecasting risks, handling disruption in supply chains, and optimizing the use of resources during crises. The findings corroborate the relevance of AI in formulating adaptive approaches to international trade in uncertain situations.

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