THE ILLUSION OF WEALTH CREATION: RISKS IN INDIAN REAL ESTATE INVESTMENTS AND DIVERSIFICATION THROUGH BONDS AND MUTUAL FUNDS

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ABSTRACT

The Indian real estate market is often seen as a reliable wealth-building avenue, driven by urbanization, economic growth, and cultural preferences for property ownership. However, this perception overlooks key risks such as market volatility, regulatory challenges, high capital requirements, and liquidity constraints, leading to financial uncertainty. Many investors overestimate real estate's profitability while underestimating cyclical downturns and hidden costs. This study critically examines these risks and explores diversification through bonds and mutual funds as a strategic alternative. Unlike real estate, these financial instruments offer greater liquidity, lower transaction costs, and more predictable returns, enhancing portfolio resilience. By analysing historical trends, risk factors, and financial performance, this research highlights the advantages of a diversified investment strategy. The findings advocate for a balanced approach that integrates real estate with diversified assets, promoting sustainable wealth accumulation and long-term financial security.

Keywords: *Real Estate Investments, Obsession, Hidden cost, Portfolio Diversification.*

1. INTRODUCTION

Wealth creation is a structured process requiring strategic financial decisions, combining revenue-generating investments with risk management. While real estate remains a preferred asset in India, its perceived stability often masks risks such as market volatility, regulatory challenges, high capital costs, and liquidity constraints. Many investors assume continuous price appreciation, overlooking factors like inflation, interest rates, and policy shifts that impact real estate profitability. Despite its cultural significance, real estate is not always the most efficient wealth-building tool. Challenges like project delays, ownership disputes, and speculative buying contribute to financial instability. Unlike stocks, bonds, mutual funds and other financial, real estate has lower liquidity, higher transaction costs, and unpredictable returns. This research examines the psychological, economic, and cultural factors driving India's real estate preference while analysing its actual financial performance. It highlights the importance of diversification through mutual funds and bonds, which offer greater liquidity, lower costs, and more stable returns. By evaluating market data, risks, and investment behaviours, this study advocates for a balanced approach that integrates real estate with diversified financial instruments, ensuring long-term wealth accumulation and financial security.

2. OBJECTIVES

- To identify the factors driving the obsession with real estate investments in India

- To identify the key risks associated with real estate investments for retail and household investors in India.
- To examine the impact of hidden costs, such as taxes and maintenance, on the profitability of real estate investments.
- To provide actionable recommendations for more balanced and diversified investment through mutual funds and bonds.

3. RESEARCH METHODOLOGY

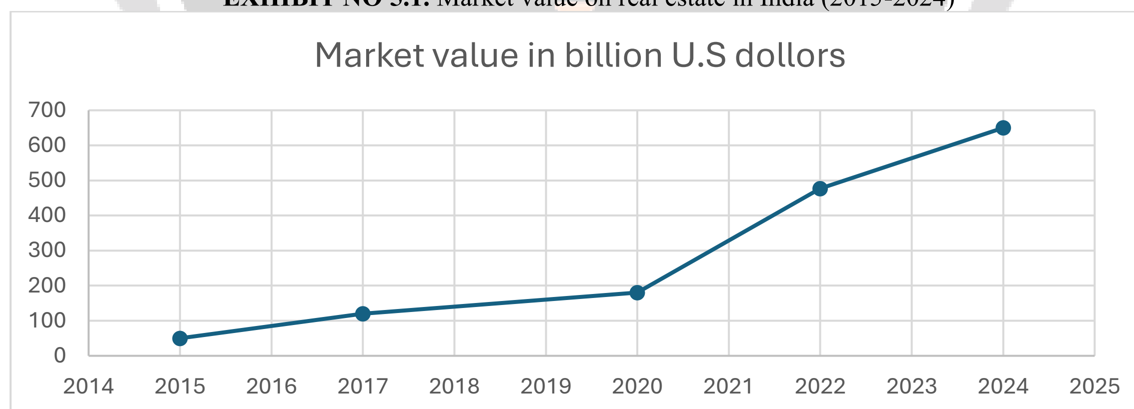
The research analysis depends on secondary data from different reliable sources which include real estate market reports with survey findings along with research publications and scholarly articles from recognized institutions and government statistics. The study will analyse the market size and growth of the Indian real estate sector, along with an evaluation of its risks. These insights will be compared with other asset classes, such as mutual funds and bonds, to assess relative investment viability. from recognized sources. The research combines Knight Frank, Jefferies and KPMG industry reports and government reports from RBI, NBFC, etc. with academic research and surveys to analyse financial regulations and market risks which impact the perception of real estate as an absolute wealth-building instrument in India.

4. REVIEW OF LITERATURE

Basu and Sen (2018) analyse the economic impact of regulatory costs on real estate investments in India, highlighting how taxes, compliance costs, and legal barriers influence investor decisions. They argue that these costs add complexity, affecting profitability and confidence, while also examining how regulatory frameworks can either stimulate or hinder sector growth. Agarwal and Singh (2018) evaluate the risk-adjusted returns of real estate investments compared to diversified portfolios. Their analysis suggests that while real estate offers competitive returns, its performance is influenced by market volatility and economic cycles. They discuss how integrating real estate into a diversified portfolio can help balance risk and improve overall returns. Sinha and Reddy (2019) highlight the risks of a real estate-centric portfolio, emphasizing the potential downsides of market downturns and liquidity constraints. They stress the need for diversification by incorporating asset classes like equities and bonds to reduce concentration risk. Their study encourages investors to adopt a balanced approach for better wealth management.

5. ANALYSIS

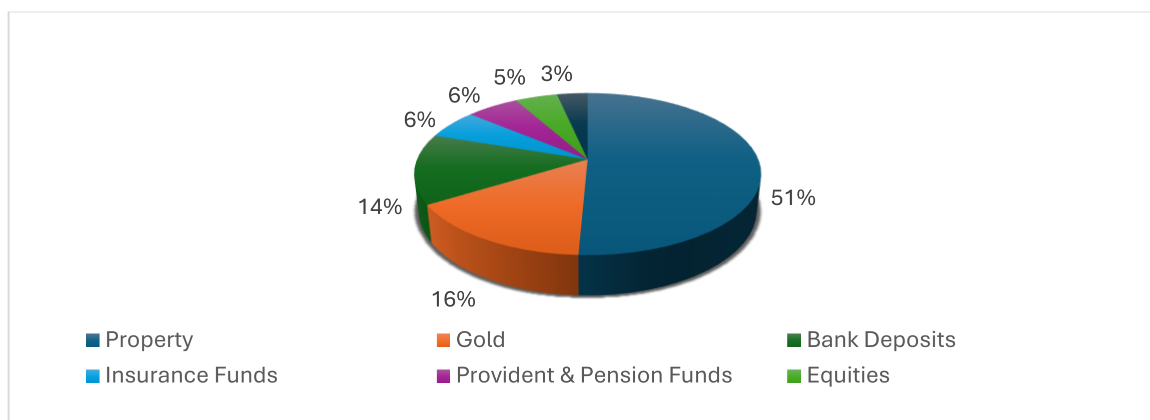
EXHIBIT NO 5.1. Market value on real estate in India (2015-2024)



***Source:* Knight Frank**

India's real estate sector has seen remarkable growth, driven by urbanization, economic expansion, and infrastructure development. Valued at ₹12,000 crore (US$1.72 billion) in 2019, it surged to US$200 billion by 2021. In FY23, residential sales reached ₹3.47 lakh crore (US$42 billion), a 48% increase, with 379,095 units sold, despite high mortgage rates and property prices. The commercial sector saw record leasing of 62.98 million sq. ft., up 26.4% annually, while office absorption stood at 41.97 million sq. ft. Retail expanded with 41 million sq. ft. of new developments planned from 2024-2028. Flexible workspaces grew by 48%, reflecting shifting workplace trends, and data centre demand is projected to reach 18 million sq. ft. by 2025. Despite a 10-million-unit housing shortage, ongoing infrastructure projects and increasing demand continue to drive sectoral expansion, making real estate one of India's most dynamic and resilient industries.

EXHIBIT NO 5.2 Percentage of Asset class savings in Indian household savings.



Source: Jefferies

Indian households hold a majority (66%) of their assets in physical assets, primarily real estate (50.7%) and gold (15.5%), with only a minor allocation to financial assets. The data strongly supports the argument that real estate investment in India is an obsession rather than just a preference. Real estate in India is more than just an investment; it is a deeply ingrained cultural preference shaping household wealth strategies. Cultural factors shape Indian investment patterns, with property ownership symbolizing stability, success, and social status. Real estate is seen as a secure, tangible asset for wealth accumulation, driving 51% of households to invest in it. Psychological biases like risk aversion, overconfidence, and herd behaviour further reinforce this preference. Investors perceive real estate as low-risk with guaranteed returns, while financial instruments seem complex and uncertain, influencing decisions based on emotions, demographics, and risk perception. Additionally, economic and demographic trends further drive this preference Inflation also impacts investment decisions, The All-India House Price Index grew by 3.30% year-on-year in Q1 2024-25, reflecting real estate's resilience. Inflation impacts property values and rental income, as rising costs of construction materials and labor drive property appreciation. Landlords adjust rents to counter inflation, preserving real income. Urbanization is another key driver, with India's urban population projected to reach 50% by 2050. In Q2 2023, housing sales in the top seven cities rose by 36% from 2022, demonstrating the growing demand. Infrastructure developments further boost property values, reinforcing real estate as a preferred investment avenue.

5.1. RISKS IN REAL ESTATE INVESTMENTS

Real estate investment comes with inherent risks that may withhold key capital flows for investors. While these risks are generally not highly volatile and follow an informed trend, the primary challenge lies in the slow recovery process, leading to property stagnation and potential depreciation.

High initial investment: Real estate requires a substantial initial capital outlay, which making it to be one of the capital- intensive asset class. Purchase of property it must bear certain significant upfront costs, which includes down payments, Registration fee, stamp duty, legal expenses, taxes, brokerage charges. In most of the situations real estate's high initial investment necessitates borrowing, which in turn leads to long term financial commitments with the obligation of interests.

Loan Burdens: Real estate often requires substantial financial assistance through loans, leading to significant debt burdens for investors. Home loans, commercial property loans, and land financing come with a high interest payment, long term repayment obligations, and EMIs based on the Market fluctuations this impacts the borrower's financial flexibility and liquidity making liable for repayments for years and even decades. Apart from higher-interest costs, its also consists of processing fees, payment penalties and foreclosure charges etc. increasing the financial strain.

Market fluctuations: Real estate investments are highly influenced to market fluctuations, which can significantly impact property values, rental yields, and overall returns. Economics conditions, inflation, government policies and interest rate changes often lead the unpredictable price movements. When the economy is in its booming phase the condition drives property appreciation and increases demand whereas during the downturn it results to property devaluation making it difficult for investors to attain profit from the holdings. Supply and demand dynamics also play a crucial role in volatility where oversupply reduces the price declining the property values where as high demand results in increase in price and value of the property.

Location-Dependent Risks in Real Estate: Real estate investments are highly dependent on location, and predicting high-growth areas is uncertain. While some investors may achieve windfall gains if they purchase land in locations that later experience rapid development, such opportunities are rare and often reliant on luck or prior knowledge of upcoming projects. For instance, an individual who bought land in Devanahalli, where Bangalore's airport is now located, or Amravati, which was planned to become the capital of Andhra Pradesh, saw significant returns. However, such cases are exceptions rather than the norm.

Despite factors like construction quality and land size, a property's value is primarily determined by its location. For instance, a flat in Noida bought for ₹35 lakh in 2012 is now worth ₹28 lakh, while one in Gurgaon has appreciated significantly. Investors might make a smart move whilst predicting the location that is set to undergo development but in the times of uncertainty, these plans often get cancelled and they end up investing a high amount in a property that does not benefit them in any way.

Assumption of Ever-Increasing Land Prices: The notion that property prices will always rise due to land scarcity is misleading. While land is finite, technological advancements optimize its use, and global population growth is expected to stabilize. Real estate booms in developing economies fuel assumptions of perpetual price increases, yet examples from developed nations like Japan and the US show significant market crashes. This proves that land value is not dictated by scarcity or national prosperity but by economic conditions and market fluctuations.

5.2. HIDDEN COSTS IN REAL ESTATE INVESTMENTS

The profitability of real estate investments in India is often perceived as high due to the general appreciation of property values over time. However, a closer examination reveals that several hidden costs significantly erode these profits, making real estate a less lucrative investment than it appears at face value. Real estate in India is often seen as highly profitable due to property appreciation, but hidden costs significantly reduce actual returns. Taxation, including GST, property tax, and capital gains tax, adds financial burdens, while RERA compliance has inflated property prices, lowering investor returns (Sharma & Kumar, 2021). Short-term capital gains are taxed at the investor's slab rate, and long-term gains at 20% with indexation, making real estate less flexible than mutual funds. Recurring costs like maintenance fees, repairs, insurance, and depreciation further erode profits, particularly in urban developments where high upkeep costs impact rental yields (Patel & Mehta, 2020). Unlike financial assets that appreciate, real estate structures deteriorate over time, requiring expensive renovations. Additionally, real estate is illiquid, with long transaction timelines, high stamp duty (4%-7%), registration, and brokerage costs (Rao, 2019). Selling property quickly is difficult, especially in economic downturns, increasing investment risk. Given these factors, a diversified approach incorporating mutual funds, bonds, and equities can mitigate risks and support sustainable wealth creation.

5.3. PORTFOLIO DIVERSIFICATION

Diversification is a risk management strategy that creates a mix of various investments within a portfolio. A diversified portfolio contains a mix of distinct asset types and investment vehicles in an attempt to limit exposure to any single asset or risk. The rationale behind this technique is that a portfolio constructed of different kinds of assets will, on average, yield higher long-term returns and lower the risk of any individual holding or security. Real estate attracts considerable investments in both direct and indirect markets due to its purported features.

While portfolio diversification is being adopted generally as a institutional investment strategy with wide range of asset classes involved, it is essential to create opportunities for retail and household investors to utilise these strategies. Among these wide array of classes, two simple but sustainable financial assets - mutual funds, bonds as a component in the investment portfolio of my user group has been explored. The risk analysis of selected bonds and mutual funds helps evaluate their performance and assess how bond and mutual funds-related risks can be measured. By calculating key risk-adjusted ratios such as Sharpe, Treynor, and Sortino, investors can understand the trade-off between returns and volatility Bonds. This analysis aids in selecting bonds that align with risk tolerance and investment goals.

TABLE NO 5.1 Risk analysis of Bonds using Sharpe ratio, Sortino ratio, Standard Deviation

Bond Type	Annual Return (%)	Sharpe Ratio	Sortino Ratio	Standard Deviation (%)
G-Sec (10Y)	7.10%	1.24	1.72	2.5
G-Sec (5Y)	6.75%	1.2	1.62	2.3

RIL NCD (Corp)	8.05%	0.9	1.27	4.5
HDFC NCD (Corp)	7.90%	0.91	1.3	4.3
NHAI (Tax free)	7.15%	0.98	1.31	3.2
PFC (Tax free)	7.00%	0.97	1.3	3.1
Maharashtra SDL	7.45%	0.99	1.38	3.5
Tamil Nadu SDL	7.40%	1	1.42	3.4
SBI AT-1(Perpetual)	8.60%	0.92	1.21	5
Axis Bank AT-1 (Perpetual)	8.50%	0.92	1.22	4.9

Interpretation:

The risk-return analysis of bonds highlights their performance and volatility across categories. Government Securities (G-Secs) are the safest, with the 10-year G-Sec yielding 7.10% and a Sharpe Ratio of 1.24, indicating strong risk-adjusted returns. The 5-year G-Sec (6.75%) offers slightly lower returns but maintains low volatility (2.3%), making both ideal for conservative investors. Corporate NCDs, such as RIL (8.05%) and HDFC (7.90%), provide higher yields but come with greater volatility (4.5% and 4.3%), reflected in their lower Sharpe and Sortino ratios, making them riskier than G-Secs. Tax-free bonds like NHAI (7.15%) and PFC (7.00%) strike a balance between returns and risk, with moderate volatility (3.1%-3.2%), making them attractive for stable income seekers.

TABLE NO 5.2. Risk analysis of mutual funds using Sharpe ratio, Sortino ratio, Standard Deviation.

Mutual Fund	Annual Return (3 Years)	Sharpe Ratio	Sortino Ratio	Standard Deviation
ICICI Prudential Bluechip Fund	15.19	0.73	1.47	12.4
Axis Bluechip Fund	8.73	0.19	0.34	13.51
SBI Blue Chip Fund	11.76	0.45	0.87	12.49
Kotak Bluechip Fund	13.1	0.54	0.89	12.87
Bank of India Bluechip Fund	11.34	0.35	0.59	15.17
HDFC Balanced Advantage Fund	18.64	1.29	2.45	9.71
SBI Balanced Advantage Fund	12.55	1.00	1.76	6.42
Kotak Balanced Advantage Fund	10.39	0.59	0.82	7.21
ICICI Prudential Balanced Advantage Fund	11.34	0.95	1.62	5.52
Axis Balanced Advantage Fund	12.44	0.78	1.47	8.08

Interpretation

The risk-return analysis of the selected mutual funds over the past three years provides key insights into their performance and volatility. ICICI Prudential Bluechip Fund delivered an annual return of 15.19%, with a Sharpe Ratio of 0.73 and a Sortino Ratio of 1.47, indicating reasonable risk-adjusted returns. SBI Bluechip Fund and Kotak Bluechip Fund had moderate returns of 11.76% and 13.1%, respectively, with standard deviations around 12.5-12.8%, reflecting slightly lower volatility than ICICI Bluechip. Among balanced advantage funds, HDFC Balanced Advantage Fund stood out with the highest 18.64% return, a Sharpe Ratio of 1.29, and the lowest standard deviation (9.71%), making it an attractive option for stable yet high returns. SBI Balanced Advantage Fund also performed well, with a Sharpe Ratio of 1.00 and a low standard deviation of 6.42%, implying lower risk. ICICI Prudential Balanced Advantage Fund showed steady performance with a Sortino Ratio of 1.62, emphasizing its resilience in down markets. Overall, balanced advantage funds demonstrated better risk-adjusted returns than bluechip funds, making them ideal for moderate-risk investors.

6. FINDINGS, SUGGESTIONS, AND CONCLUSION

6.1. FINDINGS

- ❖ Indian households dedicate 50.7% of their wealth to real estate, driven by cultural beliefs linking property ownership to stability, success, and social status. More than just an investment, real estate remains a deeply ingrained financial tradition shaping wealth strategies.
- ❖ The preference for real estate is driven by historical appreciation, psychological attachment, and societal pressure.
- ❖ To reduce risks, investors should integrate real estate with financial assets, ensuring a mix of liquidity, stability, and long-term growth.

6.2. SUGGESTIONS

- The common investors are required to increase awareness of alternative investment options like mutual funds, bonds and other financial assets to reduce over-reliance on real estate.
- Investors should adopt a balanced portfolio strategy by integrating real estate with financial assets like mutual funds, bonds, and other financial assets. This approach reduces risk, enhances liquidity, and provides more stable long-term returns compared to relying solely on property investments.
- Retail or household investors should use risk assessment metrics to select financial assets like mutual funds and bonds that align with their risk profile, helping them achieve long-term financial goals more effectively.

6.3. CONCLUSION

The study highlights the prevailing obsession with real estate investment in India, driven by cultural beliefs, financial misconceptions, and historical appreciation trends. While property ownership symbolizes stability and prosperity, real estate investments come with risks such as illiquidity, market fluctuations, and hidden costs like taxation and maintenance. A key issue is the lack of financial literacy, leading investors to overlook alternatives like mutual funds and bonds which offer better liquidity, diversification, and risk management. Unlike real estate, these options provide steady returns without the burden of illiquidity and high maintenance costs. To build sustainable wealth, investors should embrace a diversified portfolio rather than relying solely on real estate. Greater financial awareness and education are essential in shifting investment mindsets and ensuring long-term financial security.

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