Redevelopment Boom Is Increasing Rental Income for Homeowners: Kotak

Rising redevelopment activity is pushing up rents and improving residential real estate returns

Mumbai's redevelopment wave is doing more than replacing ageing buildings with new towers. It is also creating a steady stream of rental demand across the city, helping push up rents and improve rental yields for homeowners and investors.

Redevelopment activity has accelerated sharply in recent years. Project count has grown at an estimated CAGR of nearly 66% over the past five years, reflecting the scale at which older buildings are being redeveloped across Mumbai. As more societies move into redevelopment, residents are increasingly looking for rental homes close to their existing neighbourhoods, schools, workplaces and social circles. This is adding pressure to local rental markets, particularly in established residential locations where available inventory is limited.

What makes Mumbai's redevelopment story unique is that much of this rental demand is supported by developers themselves. In many projects, builders provide transit rent to displaced residents until redevelopment is completed. This ensures that families remain active participants in the rental market for extended periods, often for several years.

The trend gained further momentum after the pandemic, when housing preferences changed significantly. Larger homes, better construction quality, improved amenities and overall better living experience became more important for many families. Residents living in older buildings increasingly became willing to opt for redevelopment if it meant moving into a newer and better home in the same neighbourhood. During the transition period, many preferred renting relatively newer homes which are typically expensive relative to older construction.

"As Mumbai replaces ageing buildings with newer ones, redevelopment is influencing both rental and ownership markets," said Nakul Saxena, Head – Home Loans, Kotak Mahindra Bank. "Beyond improving housing quality, it is also improving the economics of residential real estate. Rising rents and better rental yields are making housing attractive not only for end-users but also for investors looking at stable, long-term returns."

Mumbai's rental market has traditionally been driven by migration and employment growth. Redevelopment is now emerging as another meaningful driver. Unlike many migrant tenants who may move frequently, redevelopment-affected families often rent for several years until their new homes are ready. This creates sustained demand and reduces available rental inventory in some pockets.

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The result has been stronger rental demand across several parts of Mumbai. In some locations, rents have risen well above normal inflation levels as redevelopment activity and limited supply come together.

Higher rents have improved rental yields for homeowners and investors, making residential real estate a more attractive income-generating asset than it was a few years ago. In several micro-markets, rental income is becoming a more meaningful component of overall residential returns, alongside capital appreciation.

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