

Middle East Conflict: Implication For India's Real Estate Sector



Executive Summary

The escalating Middle East conflict is reshaping India's real estate landscape through three key transmission channels: rising input costs, tighter financing conditions, and shifting investor sentiment. Spiking crude prices have inflated steel, cement, logistics, and petrochemical-linked construction costs, threatening developer margins, especially in high-rise and premium housing. Simultaneously, inflationary pressures are nudging the RBI toward rate hikes, pressuring mortgage affordability and mid-to-premium segment demand.

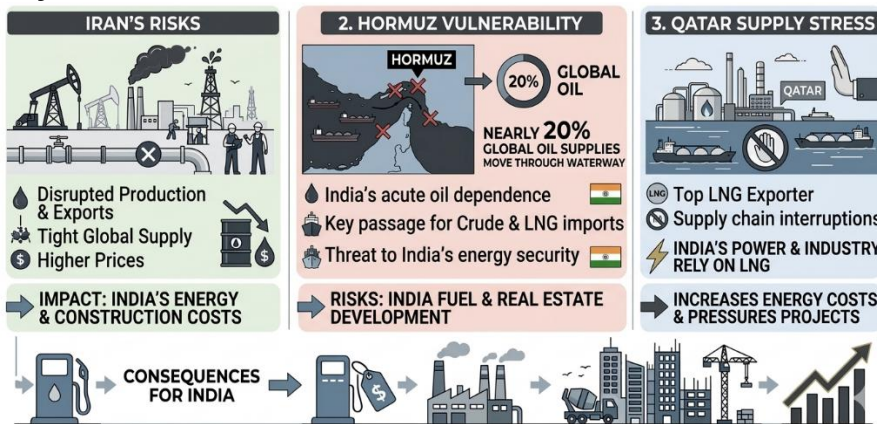
Residential developers are most exposed, relying on NRI presales and retail home loans – both vulnerable to rate hikes and investor caution. Commercial players face softer leasing from global corporates but benefit from stable domestic demand and institutional-grade absorption. Diversified developers are better positioned, using commercial income and stronger balance sheets to offset residential margin pressure while capturing safe haven capital inflows.

Across bull, base, and bear scenarios, India's real estate remains a relatively stable investment destination. However, only financially sound and strategically diversified developers are likely to preserve margins and market share in a prolonged conflict-driven stress environment.

From Tensions to Turmoil in the Middle East

The Middle East conflict has unfolded in phases over the past few years. It began with escalating tensions between Israel and Iran around 2023/2024, marked by proxy clashes in Lebanon, Syria, and Gaza, alongside U.S. military involvement. By 2025, the impact widened regionally, disrupting shipping routes in the Red Sea and Persian Gulf. The war intensified in Late February 2026 with Israel and US operations against Iran, triggering Iran’s attacks on Israel and other Gulf countries. Key issues include Iran's damaged oil infrastructure, closed Strait of Hormuz, and Qatar LNG disruptions.

Key risks from Middle East Conflict



Source: Finesse Knowledge Partners

Iran’s Damaged Oil Infrastructure

The conflict has severely disrupted Iran’s oil production facilities, reducing its export capacity. This damage not only constrains global supply but also contributes to higher crude prices, directly impacting India’s energy security and construction costs.

Closure of the Strait of Hormuz

The Strait of Hormuz, one of the world’s most critical energy chokepoints, has faced closures and blockades. Nearly 20% of global oil supply moves through this narrow passage, making disruptions highly consequential. For India, the dependence is particularly acute: about 43% of its 4.9 million barrels per day of crude imports and 63% of its LNG imports – roughly 2.2 billion cubic feet per day – comes through the waterway. Any prolonged instability here directly threatens India’s energy security, raising costs for fuel, industry, and infrastructure projects such as real estate development.

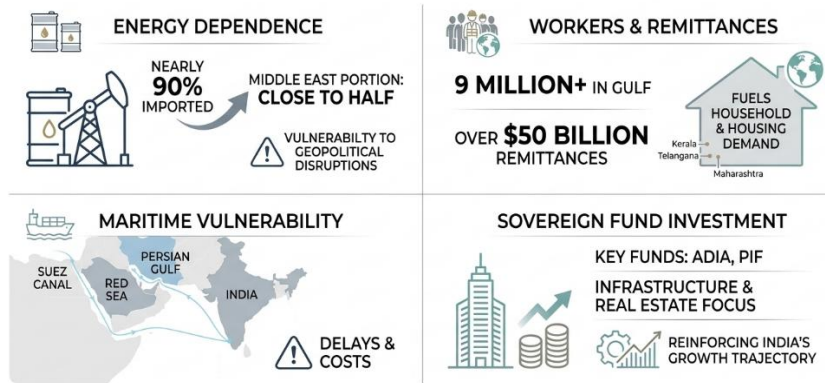
Qatar LNG Disruptions

Qatar, one of the world’s largest LNG exporters, has seen interruptions in supply due to this conflict. For India, which relies on LNG imports for power and industry, these disruptions increase energy costs and pressure infrastructure projects, including real estate development.

India's Exposure to Middle East Volatility

India's strategic and economic ties to the Middle East are deep and multifaceted. India relies on imports for nearly 90% of its crude oil, with close to half typically sourced from the Middle East – making the country's energy security highly vulnerable to geopolitical disruptions in the region. The Gulf also hosts more than 9 million Indian workers whose annual remittances exceed \$50 billion, directly fueling household consumption and housing demand especially in states like Kerala, Telangana, and Maharashtra. In addition, India's trade routes rely heavily on maritime corridors through the Red Sea, Persian Gulf, and Suez Canal, which are vulnerable to conflict-driven delays and cost escalations. Gulf sovereign funds, including ADIA and PIF, have also emerged as significant investors in Indian infrastructure and real estate, reinforcing the region's influence on India's growth trajectory.

Why Middle East Matters for India



India's Energy Shield: Short-Term Relief, Long-Term Vulnerability

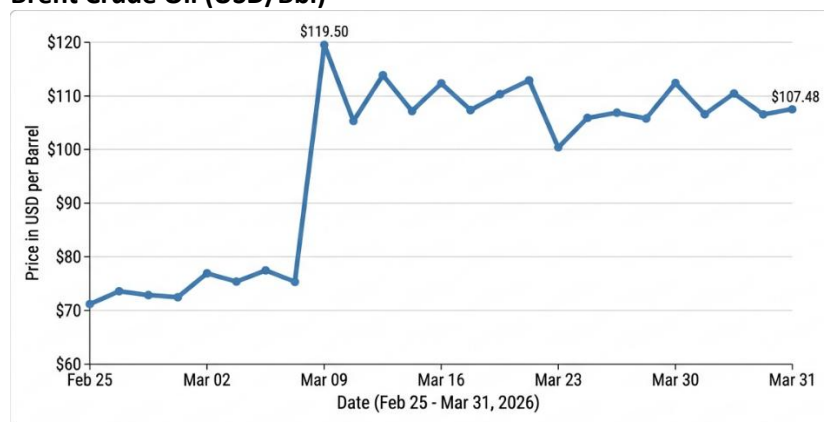
The ongoing conflict in the Middle East has driven oil prices sharply higher. As of March 30, Brent crude – the global benchmark – stood at \$112 per barrel, a surge of more than 55% from \$72 on February 27, just before hostilities began. Goldman Sachs forecasts an average of \$115 in April, with prices expected to ease to around \$80 by the fourth quarter of 2026.

Despite this spike, retail petrol and diesel prices in India have remained stable. On March 26, the government confirmed that the country holds roughly 60 days of crude oil reserves and 30 days of LPG supply, ensuring no immediate shortages. To protect consumers, the total central excise duty on petrol was reduced from ₹21.90 to ₹11.90 per liter, while duty on diesel fell from ₹17.80 to ₹7.80. At the same time, India is diversifying energy sources by strengthening ties with the U.S., Brazil, Russia, and Africa, while accelerating investments in domestic gas infrastructure and renewable energy.

India’s Energy Shield Might Weaken Under Prolonged Middle East Conflict

According to Japanese bank Nomura, every \$10 increase in crude oil prices expands India’s trade deficit by over \$18 billion, equivalent to about 0.5% of GDP. The bank further noted that Indian Oil Marketing Companies (OMCs) are spending a lot more to procure crude for refining and sales, resulting in heavy losses of around ₹48.8 per liter. While India’s excise duty cuts and diversification efforts provide short-term relief, they cannot fully shield the economy from prolonged Middle East instability. If the conflict continues, global supply constraints will keep Brent crude elevated, forcing domestic fuel prices upward despite government interventions.

Brent Crude Oil (USD/Bbl)



Source: Trading Economics

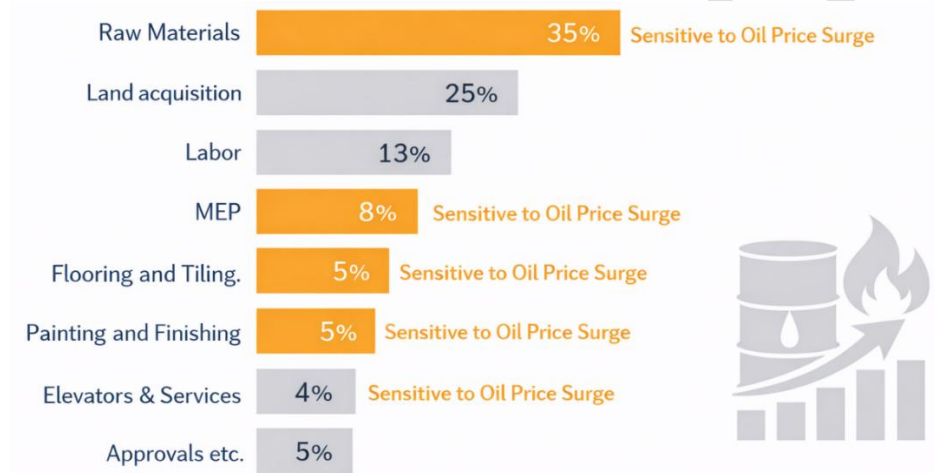
A Rise Input Costs Might Squeeze Developer Margins

In a typical Indian real estate project, costs are distributed across eight major components. Raw materials – such as cement, steel, and aggregates – form the largest share at 35%, reflecting the heavy reliance on commodity inputs. Land acquisition accounts for 25%, though this can vary significantly depending on location, with Tier-1 cities like Mumbai and Delhi commanding much higher premiums. Labor costs make up 13%, while MEP (Mechanical, Electrical, and Plumbing) systems contribute 8%, essential for functional infrastructure. Finishing elements – flooring, tiling, painting, and elevators – collectively add up to 14%, and regulatory approvals and miscellaneous services round out the final 5%. This breakdown highlights how material inflation and land volatility directly impact developer margins, especially in a high-cost environment driven by global energy shocks and supply chain disruptions.

In Indian real estate, 55% to 60% of total project costs are highly exposed to volatile energy prices. This exposure is driven by a heavy reliance on petrochemicals and energy-intensive manufacturing across core construction segments:

- **Petrochemical Dependency:** Finishing materials like paints, coatings, plastics, and PVC rely on oil derivatives for 40% to 50% of their composition. Similarly, plywood and MDF are vulnerable to price hikes in imported resins and diesel.
- **Energy-Intensive Production:** The cost of steel, cement, and MEP systems scales directly with industrial fuel prices. Ceramics and tiling are squeezed by spikes in LNG.
- **Logistics & Infrastructure:** Beyond materials, asphalt and bitumen costs are likely to rise alongside transport expenses in the mid of Middle East conflict.

Typical Real Estate Development Cost Breakdown



Source: Finesse Knowledge Partners

In a bear-case scenario, these cascading costs could go up by high-teen percentages. For developers, this translates to compressed profit margins and a high risk of project delays as input costs for critical infrastructure and services rise.

How Global Uncertainty Is Reshaping India’s Property Market Demand

Gulf-based Non Resident Indians (NRIs), traditionally key buyers in India’s premium housing markets, are now deferring property investments due to Middle East tensions and energy volatility – contributing to a 7% dip in Q1 2026 housing sales as per ANAROCK Group, especially in the luxury segment. This caution is also affecting office leasing, as global firms reassess expansion plans, softening demand in hubs like Gurugram and Bengaluru despite strong domestic activity. Meanwhile, if rising input costs are passed on to buyers, it could further weaken sentiment in a market already facing NRI hesitancy and multinational caution.

Middle East War Dampens Demand



Source: Finesse Knowledge Partners; ANAROCK Group

India’s Office Leasing: Growth Meets Geopolitical Caution

Caution is beginning to surface in India’s office leasing market. Domestic demand from technology firms and BFSI players remains strong, but international corporations are more hesitant. Multinationals that once pursued aggressive expansion are re-evaluating strategies amid war-linked risk aversion and global energy and financial instability. Leasing is likely to soften in hubs like Gurugram and Bengaluru, where global capability centers dominate. Although office leasing rose 15% year-on-year in Q1 2026 to 18.3 million sq ft (Colliers India), sentiment is turning cautious. Flex operators and Indian firms are absorbing some slack, yet the restraint of global players underscores how geopolitical shocks temper growth narratives.

Elevated Prices Risk Buyer Deferral

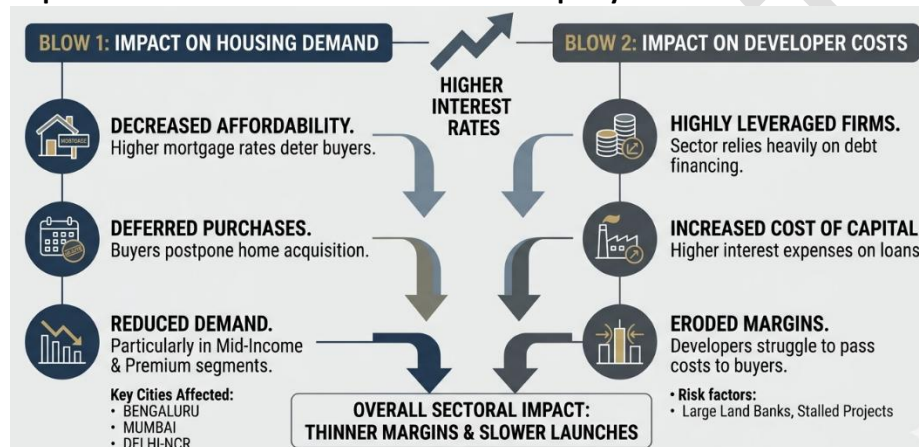
Meanwhile, developers face rising input costs. Their choice is stark: absorb expenses or pass them on. Many are likely to raise prices, which could further cool sentiment in a market already seeing weaker NRI demand and restrained corporate leasing. Fence-sitting buyers may delay decisions.

Inflation Risks Further Threaten Demand and Developer Margins

The Middle East war is already fueling inflationary pressures in India, as rising fuel prices drive up the costs of industrial inputs, fertilizers, and freight. According to The Financial Express, Goldman Sachs has downgraded India’s FY26 GDP growth forecast to 5.9%, down from 7%, citing war-related disruptions and inflation risks.

In this environment, the Reserve Bank of India (RBI) is under pressure. While it has maintained a dovish stance so far, analysts now expect a rate hike in the April 2026 policy meeting. The Economic Times notes that the RBI is weighing inflation risks against growth concerns, and while it may not act immediately, the bias is clearly shifting toward tightening.

Impact of Potential Interest Rate Hike on Property markets



Source: Finesse Knowledge Partners

The Double Blow of Higher Rates

For the real estate sector, this is a double blow. First, higher interest rates directly impact housing demand, especially in the mid-income and premium segments. Mortgage rates have remained relatively stable over the past three years, supporting a housing upcycle. But if rates rise, affordability metrics will worsen, and buyers may defer purchases. This is particularly risky in cities like Bengaluru, Mumbai, and Delhi-NCR, where price appreciation has already stretched affordability.

The second consequence of rising rates is more structural: real estate firms are typically highly leveraged, relying on debt to finance land acquisition, construction, and expansion. According to Grant Thornton Bharat’s FY26 sector report, developers continue to face headwinds from financing costs, even as demand remains uneven.

If policy rates rise, the cost of capital for developers will increase, leading to higher interest expenses. This will erode margins – especially for firms with large land banks or stalled projects. In a market where

price hikes are already constrained by demand softness, developers may not be able to pass on these costs to buyers. The result could be thinner margins and slower launches.

Resilience Amid Turmoil: India’s Real Estate Opportunity

NRI Caution Gives Way to India-Centric Hedging

Although NRI caution remains evident, a clear silver lining is emerging as instability in the Middle East reshapes global investment flows. With geopolitical tensions rising, traditional safe havens such as Dubai and other Gulf markets are facing greater scrutiny, eroding their perception of security. In response, many NRIs are expected to redirect capital toward India – both as a patriotic choice and as a calculated hedge against regional uncertainty. This trend is most visible in premium housing markets like Mumbai, Delhi NCR, and Hyderabad, where developers report stronger interest from Gulf-based investors seeking asset safety and long-term appreciation.

Why Global Capital Might Continue to Tilt Toward India



Source: Finesse Knowledge Partners

Political Stability Reinforces Real Estate Appeal

India’s appeal is also being boosted by its image as a politically stable and economically resilient destination. Amid global uncertainty, the country is increasingly viewed as a safe-haven for real estate investment. Institutional investors and real estate funds are generally turning their attention to Grade A commercial assets in cities in metro cities, attracted by regulatory clarity and reliable returns. India’s neutral stance in global conflicts and its strong legal framework – particularly under RERA – is further reinforcing investor confidence.

Exchange Rate Advantage Strengthens Real Estate Prospects

Currency movement is providing another tailwind for NRI buying. With the dollar trading above ₹90, NRIs earning in foreign currencies find Indian properties notably more affordable, strengthening their

purchasing power. This exchange-rate advantage is making real estate a relatively more attractive asset class compared with volatile equity or commodity markets. According to Industry reports, the NRI share in Indian property purchases reached 18% to 20% in 2025, up from 7% to 10% in 2015. This is likely to continue to grow.

From GCCs to Data Centers: Growth Engines at Work

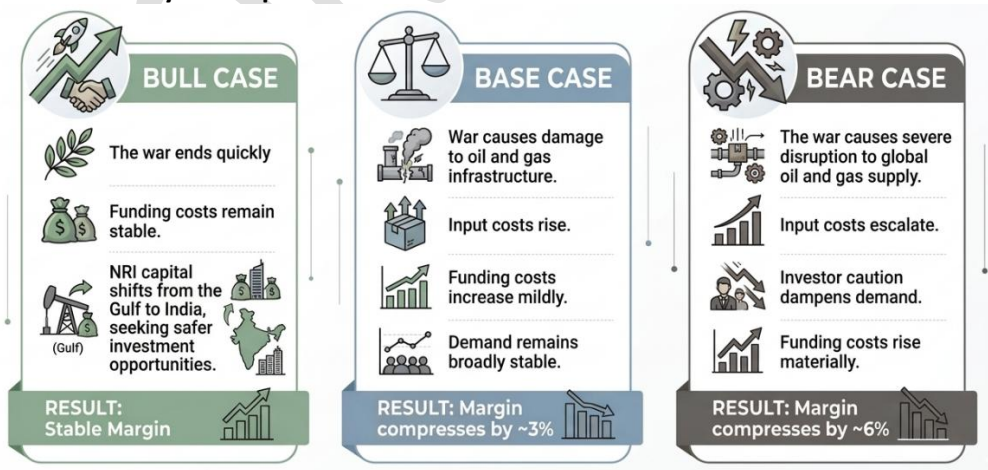
Beyond these macro factors, India’s real estate fundamentals remain solid, although a slower office leasing market is a real risk as already discussed. The GCC (Global Capability Center) ecosystem is expanding quickly, with cities such as Bengaluru and Hyderabad drawing global firms for back-office and technology operations. The data-center boom, driven by AI adoption and government digital-infrastructure policies, is pulling demand for land and commercial space in Tier 1 and Tier 2 cities. Supply remains constrained in key micro-markets, while absorption stays healthy, especially for ready-to-move housing and institutional-grade commercial assets.

Scenario Analysis: Bull, Base, and Bear Cases

The Bull Case – Stable Margin

In the bull case, the conflict in the Middle East ends swiftly, with limited disruption beyond a temporary and modest spike in India’s oil and gas prices. Under this scenario, the cost of funds remains stable, allowing developers to maintain financing discipline. The most significant driver is the redirection of NRI capital from Gulf markets to India, as investors seek both patriotic alignment and a hedge against regional instability. This inflow, combined with India’s reputation as a politically neutral and economically resilient destination, fuels safe-haven demand for real estate. Premium housing markets in Mumbai, Delhi NCR, and Hyderabad, as well as Grade A commercial assets in Bengaluru and Gurugram, benefit from stronger absorption and appreciation.

Scenario Analysis - Impact on Indian Real Estate Sector



Source: Finesse Knowledge Partners

The Base Case – Margin Compresses by ~3%

The base case assumes the war continues for several months or ends with significant damage to oil and gas infrastructure, creating moderate inflationary pressures. Oil and Gas sensitive input costs rise by high-single to low double digits, reflecting higher construction material and energy prices. Financing conditions tighten mildly, with cost of funds inching upward but not destabilizing the sector. Demand remains steady, as domestic buyers and institutional investors continue to view Indian real estate as a credible asset class. Developers face margin pressures but manage to sustain project pipelines, relying on steady absorption in Tier 1 cities. In this scenario, the industry experiences a period of cautious stability – margin is under pressure, but fundamentals remain intact.

The Bear Case – Margin Compresses by ~6%

The bear case envisions a prolonged war with severe devastation of oil and gas supply chains, leading to sharp inflationary shocks. Input costs escalate by high teens, squeezing developer margins and delaying project completions. Investor sentiment turns cautious, dampening demand across both residential and commercial segments. Financing conditions deteriorate materially, with cost of funds rising significantly as lenders price in geopolitical risk and inflationary uncertainties. In this environment, NRI inflows weaken, domestic buyers defer purchases, and institutional investors adopt a wait-and-see approach. The sector faces liquidity stress, slower absorption, and potential consolidation, with only the strongest balance sheets able to withstand prolonged volatility. The bear case underscores the vulnerability of Indian real estate to external shocks.

Navigating Conflict Fallout: Segment-Wise Developer Impact

Residential-Focused Developers: Most Exposed to Conflict Fallout

Residential developers are the most vulnerable to the ongoing Middle East conflict because their fortunes are closely tied to consumer sentiment, input costs, and financing conditions. For builders whose core business lies in apartments and mid-market to premium housing, the war-induced shock is primarily demand and margin-driven, with risks skewed to the downside. Rising construction costs – driven by oil, LNG, and petrochemical inflation – cannot easily be passed on to buyers, who are highly price-sensitive. This is especially true in the mid-income and premium segments, which form the backbone of residential developers. In cities like Bengaluru, Mumbai, and Delhi NCR, where affordability is already stretched, higher prices or interest rates can push hesitant buyers into deferral. As a result, sales momentum slows, margins compress, and liquidity pressures mount. Residential developers therefore face a dual challenge: protecting profitability while sustaining demand in a cautious, cost-sensitive market.

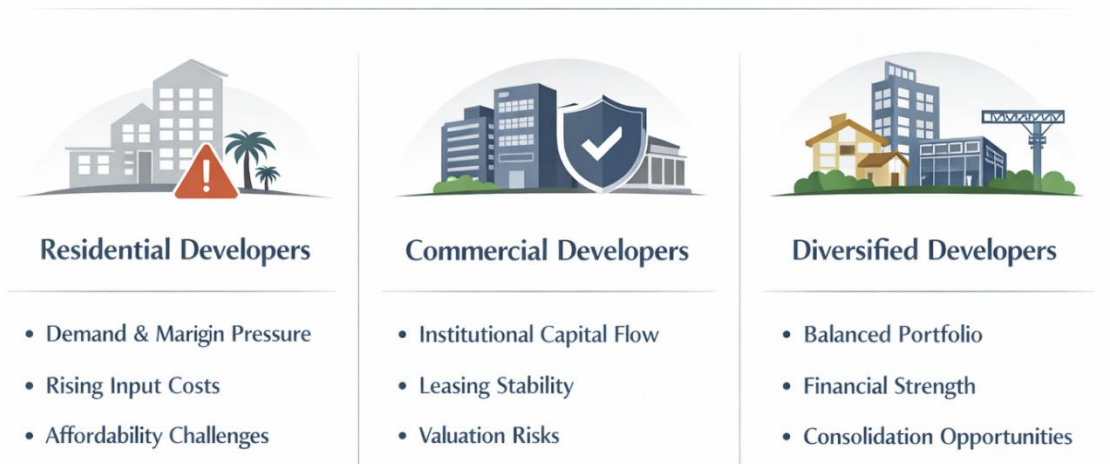
Commercial-Focused Developers: Resilient but Not Immune

Commercial developers – particularly those in office, retail, and data center segments – are influenced more by institutional capital flows and corporate leasing demand than by individual consumer sentiment. India’s GCC and data center expansion story remains robust, providing resilience in both the bull and base case scenarios. Domestic demand from technology and BFSI firms continues to support leasing, while institutional investors view Grade A assets as relatively safe havens. However, in the bear case, prolonged energy shocks and global caution could trigger valuation stress and tighter funding conditions. While outright sales volume collapse is unlikely – given the contractual nature of rental income – developers may face slower absorption, delayed expansion plans by multinationals, and softer valuations. In short, commercial developers are better shielded than residential players, but they remain exposed to financing stress and investor sentiment in a prolonged downturn.

Diversified Developers (Residential + Commercial): Dual Exposure, Dual Advantage

Large, integrated developers with exposure to both residential and commercial segments experience asymmetric impacts. On one hand, their leverage levels make them vulnerable to the “double blow” of rising input costs and higher financing expenses. On the other, diversification provides a natural buffer, allowing them to balance risks across segments. For example, weaker residential demand can be offset by steady commercial leasing, while institutional inflows into Grade A assets can provide liquidity to support housing pipelines. Their stronger financial capacity also enables them to withstand shocks better than smaller, single-segment players. In fact, during periods of stress, diversified developers may even gain market share by acquiring distressed projects or consolidating weaker competitors. Thus, while they face complexity and margin compression, their scale, diversified portfolio, and financial resilience position them to emerge stronger in the medium term.

Developer Landscape: Stress vs. Strength



Source: Finesse Knowledge Partners

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