

The New Urban Pulse: Tier 2 and 3 Cities on the Move



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The contrast between metropolitan hubs and smaller cities has evolved rapidly. Where metros showcased modern high-rises and corporate parks, while tier 2 and tier 3 cities were characterised by bustling bazaars and heritage homes nestled within narrow lanes. This distinction, however, is gradually fading. What's unfolding is remarkable - Tier 2 and Tier 3 cities are steadily evolving into dynamic economic hubs, attracting skilled talent across sectors and

contributing meaningfully to both the industrial and services sectors in ways many of us hadn't fully anticipated.

Cities such as Lucknow, Surat, Bhubaneswar, Ahmedabad, and others emerge as India's next big consumption centres. Notably, one of India's largest malls, Lulu Mall, is in Thiruvananthapuram and not in a metro. Global giants like Amazon have taken note of this growth. The company has leased 6.1 lakh cubic ft of space for a fulfilment centre in Lucknow, making it one of its largest centers, thus indicating the potential of these markets.

Living patterns are changing too. Tier 2 and Tier 3 city residents are shedding their love for individual homes and actively seeking out apartments and embracing community culture. In this sense, the market is not just expanding due to rising economic growth, but also altering and moving away from an unorganized to an organized market.

According to the Liases Foras- Credai report, as much as 44% of the 3,294 acres of land acquired by developers in 2024 were concentrated in tier 2 and tier 3 cities, which are now being recognised as 'emerging hubs'. The post-pandemic real estate boom, wherein younger homebuyers are looking for amenity-rich communities, has spread much beyond the top tier and metro cities. Housing sales in the top 30 tier 2 cities rise by 11% to nearly 2.08 lakhs units in FY 2023-24. This is a clear indication that buyers are looking beyond the metros.

The Growth Drivers of Smaller Cities

When interacting with Gen Zs and later millennials, it's clear they are a class apart from the generations before. Not only are they bolder with their choices, but they are believed to be among the first of the generation who do not want to go to a city looking for work. However, some of India's best talent across manufacturing and services comes from smaller cities.

The pandemic shifted work location dynamics, giving rise to work-from-home culture. IT majors and other companies set up shops beyond top cities, which led

to the organic growth of small cities and also led to improved jobs as well as opportunities in smaller towns. State governments, too, have realised the importance of decentralising economic growth. For example, Tamil Nadu is looking to mould Coimbatore as the new GCC hub beyond Chennai. Lucknow, too, is attracting various sectors from technology. Even Bhopal has attracted a few top-tier data centre players.

Recent developments like Vijayawada as well as Visakhapatnam are being projected as knowledge cities, with the former being part of the Hyderabad-Vijayawada IT corridor. Gandhinagar has also been attracting financial majors within and beyond India, thanks to the GIFT City being developed as an alternate financial centre.

These new opportunities are added on top of the already bustling cities. Surat is a diamond trading hub, Bhopal an industrial hub, Coimbatore a textile hub. A lot of Indian cities like Jaipur, Amritsar, Kanchipuram and more have historic buildings, apart from spiritual tourism opportunities. Several cities are now honing these options, creating an infrastructure around them, and attracting tourists, which is adding to their economic growth.

Tier 2 and Tier 3 cities with top-notch educational institutions are ensuring a supply of highly trained professionals. These developmental activities are helping cities retain the young workforce and attract new migrants. The overall impact on the real estate of these cities has been transformative.

The improved employment opportunities and rising disposable incomes encourage aspirational young Indians to become home buyers. According to Prop Equity, in 2024, there has been a 20% price appreciation across the top 15 tier 2 cities like Lucknow, Jaipur, etc..

The Great Indian Infra Push

Apart from economic growth, smaller cities are seeing a surge in infrastructure, which in turn is bringing them on par with top-tier cities. The central government's Smart Cities Mission aims to transform urban living. In that regard, as of 2024, it has completed 91% of the projects it intended. Across 100 cities, as many as 7,380 out of 8,075 projects have been completed with an investment of ₹1.47 lakh crore, the government said in a press release.

Add to that the government also operationalised 625 routes under the UDAN scheme for regional airports across tier 2 and tier 3 cities, connecting 90 airports, as of April 2025. This is apart from PM's Gati Shakti scheme, which aims to enhance connectivity between satellite towns and major metropolitan centres. Increased allocation to the urban infrastructure development fund (UIDF) continues to have an impact.

Infrastructure development in the form of roads, bridges and metros helps uplift a city's real estate, creating new suburbs, boosting economic activity, and improving wealth metrics. It also boosts tax collections, which in turn improves civic infrastructure. Consequently, it results in infrastructure improvement and faster redevelopment of old buildings.

Tier 2, 3 Cities & Housing Finance Companies

As per an EY report, roughly 36% of India's 1.4 billion people reside in urban centres; by 2030, this figure is expected to reach 40%, according to the Economic Survey 2023–24. Much of this growth will occur in Tier II and Tier III cities as migrants from rural and semi-rural regions seek better economic opportunities, creating a pressing demand for affordable, well-located housing.

As per ICRA, Affordable Housing Finance Companies grew by 14% in 9M FY25 and crossed 1,27,000 Cr book as of December'2024. ICRA expects the book growth for Affordable Housing Finance Companies to improve to 20-22% in FY26. And, as per Care Edge ratings report, HFCs have also begun to strengthen their presence in the affordable housing segment to protect spreads, which is positively impacting NIMs.

The NHB Refinance initiative provides funds to housing finance companies at reduced interest rates for affordable housing, significantly boosting the housing sector's

growth by lowering the cost of funds and extending credit to Priority Sector Lending segments. Also, the PM Awas Yojana was extended beyond FY24 with financial assistance to be provided for two crores more homes with around ₹3 lakh crore till FY29. This scheme unlocks the potential for home ownership amongst women, which is also a game-changer for affordable home ownership as well as for HFCs.

Affordable housing is the need of the hour, driven by demand across India. Notably, a significant share of this growth is unfolding in tier 2 and tier 3 markets, where lower costs make home ownership more accessible.

Reduced borrowing costs are drawing more buyers into the market and unlocking new demand. As unsold inventories are cleared, developers are eager to launch fresh projects, accelerating the real estate cycle in the country's most dynamic hubs. The growth in smaller cities is not just a trend, it is a testament to the potential of growth the cities hold.