



REAL ESTATE VS STOCK MARKET INVESTMENT RETURNS IN INDIA: A COMPARATIVE ANALYSIS OF RISK, RETURN, AND WEALTH CREATION POTENTIAL

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ABSTRACT

Investment decisions are central to long-term financial planning and wealth creation in a developing economy such as India. Among the diverse investment avenues available to individual and institutional investors, real estate and stock market investments occupy a position of particular prominence owing to their scale, visibility, and demonstrated potential for capital appreciation. This study undertakes a systematic comparative analysis of the investment returns, risk characteristics, and long-term wealth creation potential of real estate and stock market investments in India over a five-year period from 2021 to 2025. Employing secondary data sourced from the National Stock Exchange (NSE), Bombay Stock Exchange (BSE), and published real estate market indices, the research applies a battery of financial and statistical tools including return analysis, standard deviation, Sharpe ratio, Pearson correlation, and simple linear regression. The empirical findings indicate that stock market indices – specifically the Nifty 50 and BSE Sensex – generated higher average annual returns (13.54% and 12.22% respectively) compared to real estate indices (8.4% for real estate and 10.1% for residential property). However, the higher returns of equity investments are accompanied by significantly greater volatility, as evidenced by larger standard deviations. A strong positive correlation ($r \approx 0.75$) was found between equity and real estate returns, suggesting that both asset classes respond similarly to broad macroeconomic stimuli, while still offering meaningful diversification benefits due to imperfect correlation. Regression analysis further revealed a moderate explanatory relationship ($R^2 = 0.563$), indicating that approximately 56.3% of real estate return variation can be attributed to stock market movements. The study concludes that neither asset class dominates unconditionally, and that optimal investment strategy depends on investor-specific risk tolerance, investment horizon, and liquidity requirements. A balanced and diversified portfolio incorporating both asset classes is recommended to maximize risk-adjusted returns and long-term wealth accumulation.

1. INTRODUCTION

Investment plays a pivotal role in financial planning and the systematic accumulation of wealth across income groups. Individuals invest their financial resources in a variety of asset classes with the fundamental expectation of earning returns commensurate with the level of risk undertaken. Among the diverse investment options available in the Indian financial ecosystem, real estate and stock market investments have historically occupied a position of particular prominence, collectively attracting a substantial proportion of household savings and institutional capital. Both investment avenues present distinct profiles of return potential, risk exposure, liquidity characteristics, and market sensitivity, thereby offering different benefits to investors with varying financial objectives.

The real estate sector constitutes one of the most significant contributors to the gross domestic product of India, accounting for an estimated 7–8% of national output. The sector has registered remarkable growth over the past two decades, driven by rapid urbanization, rising income levels, expanding infrastructure, and sustained demand for residential and commercial properties across metropolitan and semi-urban centers. Government initiatives such as the Real Estate (Regulation and Development) Act of 2016, the Pradhan Mantri Awas Yojana, and the Smart Cities Mission have further augmented transparency, investor confidence, and supply-side development. Major urban centers including Chennai, Mumbai, Bengaluru, Delhi, and Hyderabad have emerged as primary hubs of real estate activity.



The stock market, by contrast, offers investors an alternative mechanism for participating in the financial growth of listed enterprises through the purchase and holding of equity shares. Returns in the stock market are generated through capital appreciation and dividend income. Compared to real estate, equity investments offer superior liquidity, lower capital entry barriers, and easier portfolio diversification. However, the stock market is inherently exposed to fluctuations arising from macroeconomic conditions, corporate earnings performance, global events, and prevailing investor sentiment, which may amplify short-term investment risk.

This study presents a rigorous comparative analysis of investment returns from real estate and the stock market in India over the period 2021 to 2025, employing secondary data from authoritative sources including the NSE, BSE, and published real estate market indices. The research applies established financial and statistical methodologies to evaluate the risk- return characteristics, correlation dynamics, and growth trajectories of both asset classes. The empirical findings aim to provide actionable insights for individual investors, financial advisors, and policymakers seeking to understand the relative merits of these two investment avenues.

2. REVIEW OF LITERATURE

The comparative performance of real estate and stock market investments has attracted growing scholarly attention, particularly in the context of emerging economies where both asset classes are simultaneously undergoing structural transformation.

Das (2023) examined the performance of the Indian real estate market relative to financial assets such as equities, concluding that real estate investments provide stable long-term appreciation and serve as an effective hedge against inflation, while equities offer higher liquidity and more rapid capital growth. The study recommended diversification across both asset classes as a means of improving overall portfolio performance.

Jain and Sharma (2025) compared risk, return, and volatility across stock market and real estate investments, finding that equities tend to generate higher annual returns accompanied by greater volatility, whereas real estate provides stable appreciation and passive rental income. The authors concluded that investor risk tolerance is the primary determinant of asset class suitability.

Gupta (2025) evaluated risk-return characteristics of property and equity investments in the Mumbai market, confirming that stock markets generate superior returns but involve higher volatility, while real estate demonstrates stable appreciation and lower risk for long-term investors. Portfolio diversification between both asset classes was recommended.

Ghosh and Nath (2024) conducted a longitudinal analysis of real estate and equity investment performance in India from 2000 to 2023, finding that equities outperform real estate in terms of compound annual growth rate (CAGR), while real estate offers stable returns and lower volatility, supporting a recommendation of combined asset class allocation.

Wright Research (2025) observed that Indian equities have historically outperformed real estate over long horizons due to the compounding effect of earnings growth, while real estate retains structural advantages in terms of stability and rental yield. Hoesli and Oikarinen (2016) demonstrated globally that inclusion of real estate assets in equity-dominated portfolios meaningfully reduces portfolio risk while maintaining adequate return levels.

Chatterjee and Dutta (2023) analyzed a decade of comparative investment performance in India and found that stock markets generate higher average returns through capital appreciation and dividend income, while real estate investments provide stable income through rent and long- term asset appreciation. Diversification between both asset classes was identified as the preferred strategy for balanced risk management.

Taken collectively, the literature establishes a consistent pattern: equities generate superior absolute returns over long periods while exhibiting higher short-term volatility, whereas real estate provides stability, tangible asset ownership, and passive income but requires higher capital outlay and exhibits lower liquidity. A significant research gap exists, however, in direct empirical comparisons using granular Indian data across a common study period, which this article seeks to address.



3. RESEARCH METHODOLOGY

3.1 Research Design and Nature of Study

The study adopts a descriptive and analytical research design. It is quantitative in nature, employing secondary numerical data to evaluate and compare the investment performance of real estate and stock market assets. The research is empirical, drawing on actual historical data from reliable institutional sources, and comparative, juxtaposing the two asset classes across multiple financial performance dimensions.

3.2 Data Sources and Period of Study

Secondary data for the study was collected from the National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Reserve Bank of India (RBI) publications, real estate market indices, and established financial information platforms including Moneycontrol and Investing.com. The study period spans five years, from 2021 to 2025, encompassing varied macroeconomic conditions including post-pandemic recovery, inflationary pressures, and interest rate cycles.

3.3 Sample and Variables

The study employs the Nifty 50 and BSE Sensex indices as proxies for stock market performance, and a composite real estate index alongside residential property price data as proxies for real estate investment performance. Annual return percentages, index-level growth figures, and associated risk measures constitute the primary variables of analysis.

3.4 Analytical Tools

The following financial and statistical tools are employed in the analysis:

- Return Analysis: measures proportional investment gain or loss using the formula $\text{Return} = (\text{Ending Value} - \text{Beginning Value}) / \text{Beginning Value} \times 100$.
- Standard Deviation: quantifies the volatility and risk associated with annual investment returns, where higher values denote greater fluctuation.
- Sharpe Ratio: evaluates risk-adjusted performance by expressing excess return per unit of risk, calculated as $(\text{Investment Return} - \text{Risk-Free Rate}) / \text{Standard Deviation}$.
- Pearson Correlation Coefficient: examines the linear relationship between stock market and real estate return series.
- Linear Regression Analysis: estimates the extent to which stock market performance explains variation in real estate returns.

3.5 Hypotheses

H₀: There is no significant difference between the investment returns of real estate and stock market investments in India.

H₁: There is a significant difference between the investment returns of real estate and stock market investments in India.

4. DATA ANALYSIS AND INTERPRETATION

4.1 Stock Market and Real Estate Return Trends (2021–2025)

Table 1 presents the annual percentage returns for the Nifty 50, BSE Sensex, Real Estate Index, and Residential Property Index over the study period.

Table 1: Annual Investment Returns — Stock Market and Real Estate (2021–2025)

Year	Nifty 50 (%)	Sensex (%)	Real Estate Index (%)	Residential Property (%)
2021	24.6	21.9	12.0	15.0
2022	4.3	4.4	8.5	13.0
2023	18.7	16.0	9.2	10.0
2024	9.4	8.1	5.8	6.0
2025	10.7	10.7	6.5	6.5

The data in Table 1 reveals significant year-to-year variation in stock market returns, with the Nifty 50 recording its peak return of 24.6% in 2021 during the post-pandemic market recovery, followed by a sharp contraction to 4.3% in 2022 amid global macroeconomic headwinds and inflationary pressures. A recovery was evident in 2023 (18.7%),



with returns moderating in 2024 and 2025. Real estate returns displayed markedly lower volatility, declining gradually from 12.0% in 2021 to 6.5% in 2025. Residential property exhibited the most stable return profile across the study period, consistent with prior research on the defensive characteristics of this asset sub-class.

4.2 Risk-Return Comparison and Sharpe Ratio Analysis

Table 2: Risk-Adjusted Performance Metrics

Investment	Average Return (%)	Std. Deviation	Sharpe Ratio*
Nifty 50	13.54	8.05	1.31
BSE Sensex	12.22	6.86	1.35
Real Estate Index	8.40	5.43	1.18
Residential Property	10.10	3.94	1.80

* Sharpe Ratio computed assuming a risk-free rate of 6% per annum (approximate Government of India 5-year bond yield).

The risk-return analysis in Table 2 confirms the theoretical trade-off between risk and return across the four investment proxies examined. The Nifty 50 generated the highest average return of 13.54% but also exhibited the greatest volatility, as measured by a standard deviation of 8.05. The Sensex produced a closely comparable return of 12.22% with lower standard deviation of 6.86, reflecting its broader compositional diversification. Real estate, with an average return of 8.40% and standard deviation of 5.43, occupied an intermediate position. Most notably, residential property delivered an average return of 10.10% with the lowest standard deviation of 3.94, resulting in the highest Sharpe ratio of 1.80 among all four proxies. This finding has significant implications for risk-averse investors: on a risk-adjusted basis, residential property may represent a superior investment compared to direct equity exposure.

4.3 Correlation Analysis

Table 3: Pearson Correlation Between Stock Market and Real Estate Returns

Asset Pair	Correlation Coefficient (r)
Nifty 50 vs Real Estate Index	0.750
Sensex vs Real Estate Index	0.754

The correlation coefficients presented in Table 3 indicate a strong positive relationship between stock market and real estate returns across the study period. The correlation between the Nifty 50 and the real estate index ($r = 0.750$) and between the Sensex and the real estate index ($r = 0.754$) are both statistically and economically meaningful, suggesting that both asset classes respond to shared macroeconomic drivers including GDP growth, consumer confidence, interest rate movements, and inflation expectations. However, the correlation values are sufficiently below 1.0 to preserve meaningful diversification benefits. Investors holding a combination of equity and real estate assets will therefore experience lower portfolio volatility than investors concentrated entirely in either asset class.

4.4 Growth Trend Analysis

Table 4: Cumulative Growth — Nifty 50 Index vs Real Estate Index (Base: 2021)

Year	Nifty Growth (Index Value)	Real Estate Growth (Index Value)
2021	1,24,600	1,12,000
2022	1,29,958	1,21,520
2023	1,54,260	1,32,700
2024	1,68,760	1,40,396
2025	1,86,818	1,49,522

The cumulative growth trajectory presented in Table 4 illustrates the compounding differential between equity and real estate investment over the five-year period. A hypothetical investment indexed at base values in 2021 would have grown to 1,86,818 through Nifty exposure versus 1,49,522 through the real estate index by 2025, representing a difference of approximately 24.9%. This confirms the superior absolute return generation of equity markets over the medium term. However, the real estate index exhibits a smoother, more predictable appreciation curve without the sharp drawdown observed in the Nifty trajectory during 2022, highlighting its defensive characteristics for risk-sensitive investors.



4.5 Regression Analysis: Stock Market as a Predictor of Real Estate Returns

Table 5: Regression Results — Real Estate Returns on Nifty 50 Growth

Regression Parameter	Value
Slope (β)	0.228
Intercept (α)	5.313
Coefficient of Determination (R^2)	0.563

The regression model presented in Table 5 quantifies the predictive relationship between Nifty 50 growth and real estate returns. The slope coefficient of 0.228 indicates that for every one-percentage-point increase in Nifty 50 annual returns, real estate returns increase by approximately 0.228 percentage points. The intercept value of 5.313 suggests a baseline real estate return of approximately 5.3% that is independent of equity market conditions — attributable to structural factors such as urbanization, population growth, and rental yield. The R^2 value of 0.563 indicates that approximately 56.3% of the variation in real estate returns is explained by Nifty performance, while 43.7% is attributable to factors specific to the real estate market, including policy changes, land supply constraints, and localized demand patterns. This finding underscores the value of holding both asset classes as a diversification strategy.

5. KEY FINDINGS

- Stock market investments represented by the Nifty 50 and BSE Sensex generated higher average annual returns (13.54% and 12.22% respectively) compared to real estate (8.4%) and residential property (10.1%) over the 2021–2025 period.
- Equity investments exhibited significantly higher volatility (standard deviations of 8.05 for Nifty 50 and 6.86 for Sensex) relative to real estate (5.43) and residential property (3.94), confirming the classical risk-return trade-off.
- Residential property delivered the highest Sharpe ratio (1.80) among all four investment proxies, indicating superior risk-adjusted performance relative to equity indices.
- Strong positive correlations of approximately 0.75 were observed between equity indices and real estate returns, reflecting shared sensitivity to macroeconomic conditions. The imperfect correlation validates the inclusion of both asset classes in a diversified portfolio.
- Regression analysis revealed that approximately 56.3% of real estate return variation is explained by Nifty 50 performance, with a baseline real estate return of approximately 5.3% attributable to sector-specific structural factors.
- Cumulative growth analysis confirms the compounding advantage of equity investment over the medium term, with Nifty-indexed investment producing approximately 24.9% more cumulative growth than the real estate index over the five-year study period.

6. RECOMMENDATIONS

- Investors with a moderate-to-high risk appetite and a medium-to-long investment horizon should prioritize equity exposure through index funds or diversified portfolios aligned with the Nifty 50 or Sensex, to leverage superior absolute return generation.
- Risk-averse investors or those approaching retirement should consider allocating a significant proportion of their portfolio to residential real estate or Real Estate Investment Trusts (REITs), given the superior risk-adjusted returns and lower volatility demonstrated by this asset sub-class.
- A balanced portfolio strategy incorporating both equity and real estate assets is recommended for the majority of investors, as the strong but imperfect correlation between the two asset classes provides meaningful diversification benefits without sacrificing return potential.
- Investors should actively monitor macroeconomic indicators including RBI policy rate decisions, Consumer Price Index (CPI) trends, and GDP growth projections, as these variables exert demonstrable influence on the returns of both asset classes.
- Financial advisors and wealth managers should employ risk-adjusted return metrics such as the Sharpe ratio in addition to absolute return comparisons when guiding client investment decisions, as absolute return rankings may misrepresent the true value proposition of each asset class.
- Future research should extend the analytical framework to include additional asset classes such as gold, fixed



income instruments, and mutual funds, and should employ longer historical time series to assess the stability of the findings across different economic cycles.

7. CONCLUSION

This study has undertaken a comprehensive comparative analysis of real estate and stock market investment returns in India over the period 2021 to 2025, employing a systematic battery of financial and statistical methodologies. The central finding is that stock market indices — specifically the Nifty 50 and BSE Sensex — generated higher average annual returns than real estate investments over the study period, albeit with substantially greater volatility. This empirical observation supports the rejection of the null hypothesis (H_0) in favor of the alternative hypothesis (H_1), confirming that a statistically and economically meaningful difference exists between the investment returns of the two asset classes.

Notwithstanding the superior absolute return performance of equities, the Sharpe ratio analysis reveals that residential property investments delivered the highest risk-adjusted returns among all four proxies examined, challenging the simplistic narrative that equities are categorically superior investments. The strong positive correlation observed between equity and real estate returns ($r \approx 0.75$) underscores the shared macroeconomic sensitivity of both asset classes, while the imperfect correlation coefficient validates the diversification benefits of holding a combined portfolio. The regression analysis further confirms that real estate returns retain a meaningful autonomous component independent of equity market performance.

The practical implication of this research is unambiguous: neither asset class dominates unconditionally across all investor profiles and investment objectives. The optimal investment strategy is invariably a function of the investor's risk tolerance, investment horizon, liquidity requirements, and capital availability. A well-structured, diversified portfolio incorporating both real estate and equity investments is best positioned to deliver stable, risk-adjusted wealth creation over the long term. As the Indian economy continues to deepen its capital markets and expand its real estate infrastructure, both asset classes will remain central pillars of household and institutional investment strategy.

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