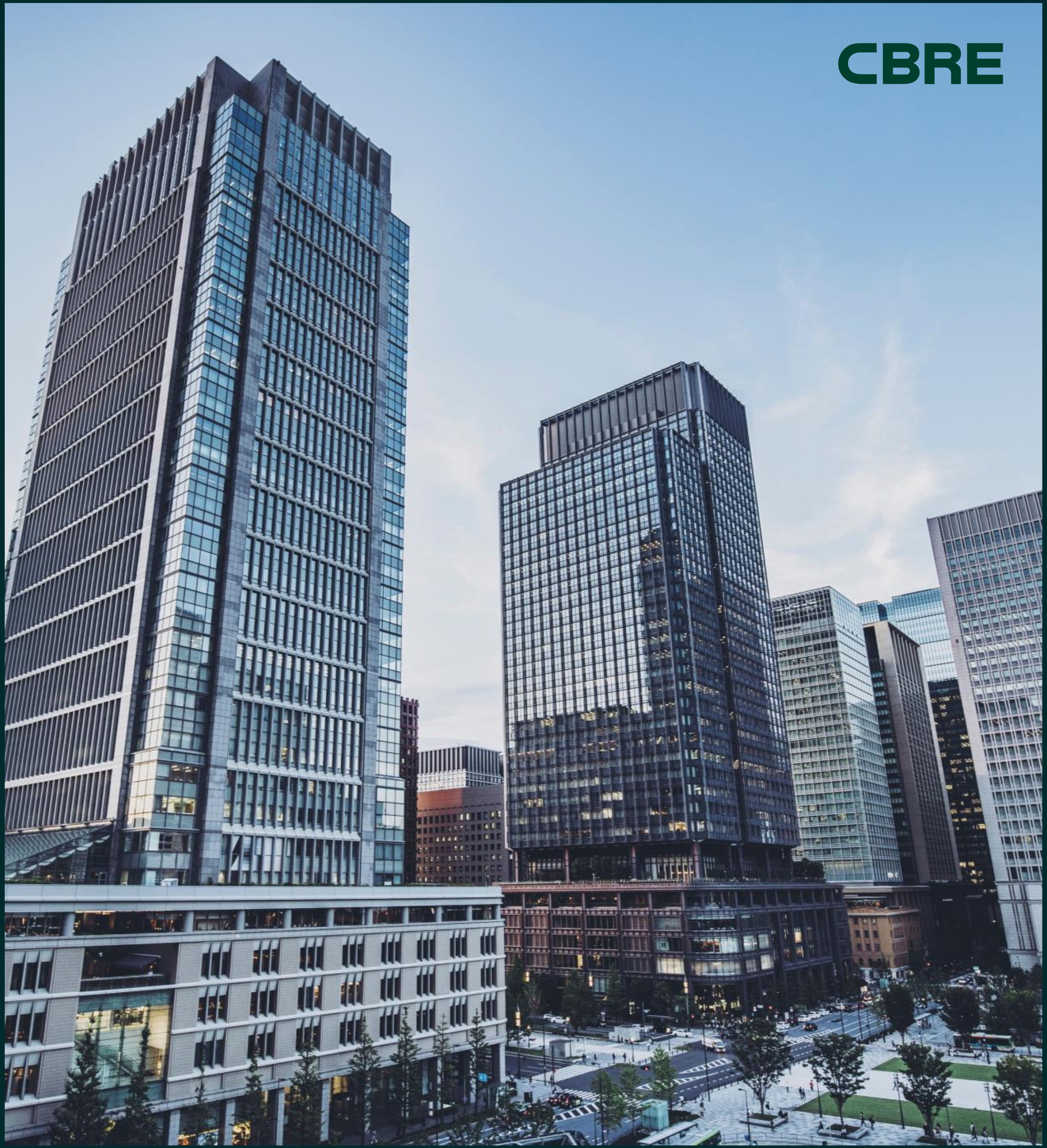
Intelligent Investment

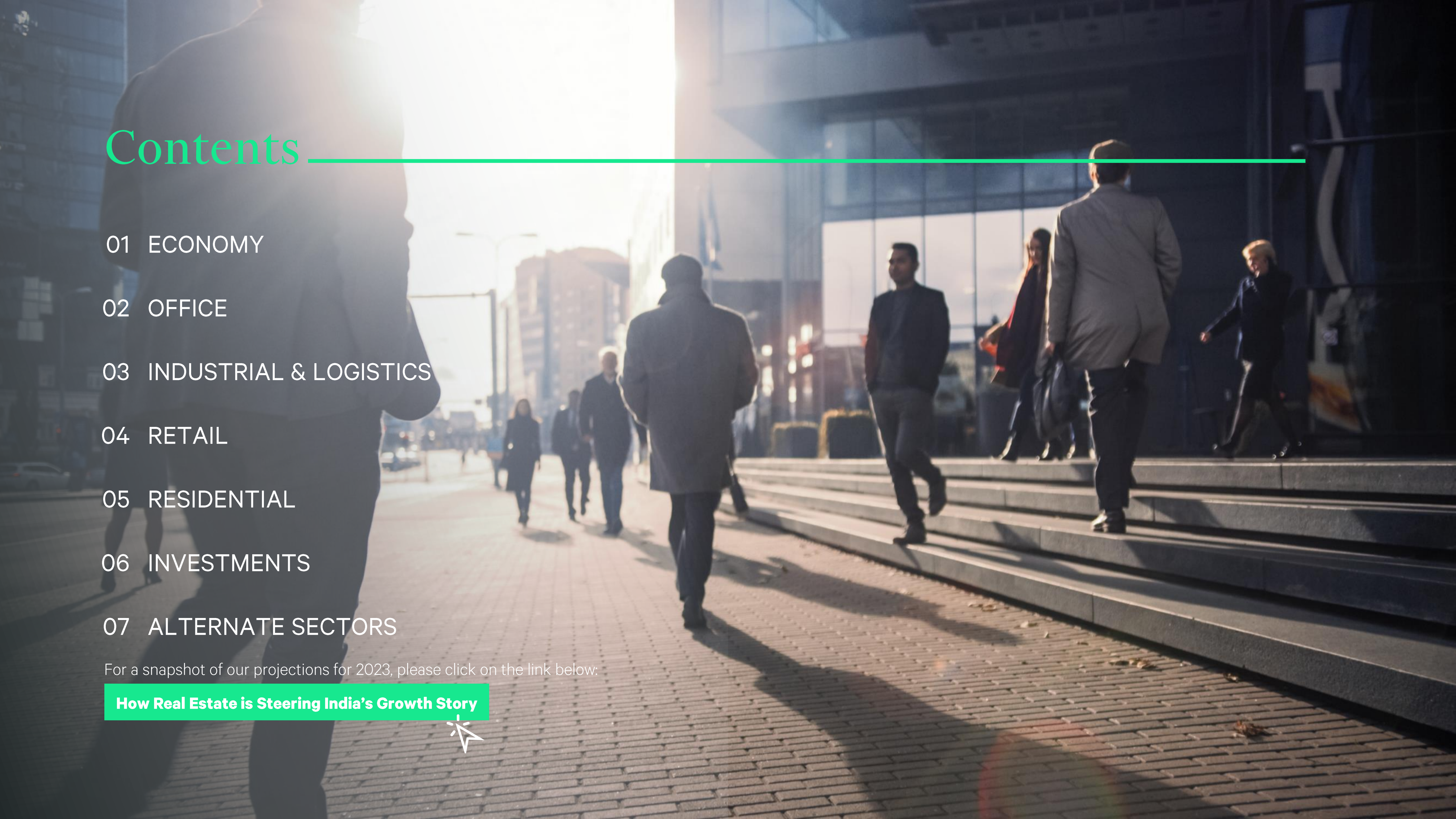
2023 India Market Outlook

REPORT

HOW REAL ESTATE IS STEERING INDIA'S GROWTH STORY

CBRE INDIA RESEARCH
MARCH 2023





Contents

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How Real Estate is Steering India's Growth Story

SECTION 1

Economy

As global growth slows down, India could see an impact on its manufacturing and export activity in the short run. However, its strong macro-economic fundamentals and domestic consumption would ensure a sustained growth trajectory in the medium term.

The year that was

Slowdown in growth witnessed across the world

A combination of shocks, including geopolitical tensions, high inflation, supply chain disruptions, climatic disasters and COVID-19-related upheavals in the factory of the world (China), impacted global growth in 2022. In our last year's edition, we had predicted that the pace of economic recovery will slow down, and that India would be one of the key drivers of the global economy – both the predictions materialized, with India slated to grow by 6.8% according to the RBI. However, the Indian economy too showed signs of slowing down as it recorded GDP growth of 4.4% in the October-December quarter of FY2022-23, on account of declining manufacturing output and slowdown in government and private spending. This caused most organisations, including the RBI and us, to rationalize the growth outlook for the country for both 2022 and 2023.

Upswing in inflationary trends leads to global monetary tightening

Inflationary pressures across countries peaked in 2022, owing to rising energy and food prices, supply chain disruptions and rebounding global demand. As a result, central banks world over began raising interest rates with a synchronicity not seen in recent past. In India, headline inflation (CPI) largely stayed above the RBI's comfort level of 4% (+/-2%) through 2022, although a slight tempering was observed in the last two months of the year wherein the inflation climbed down to the aforementioned range. As a result, the central bank began to withdraw its accommodative stance in May 2022 and started steadily raising interest rates. Between May 2022 and February 2023, the repo rate was raised six times. The interest rate thus went up from 4% at the start of the monetary tightening cycle to 6.5% as of date, which is its highest level since August 2018.

Top five trends expected to shape the Indian economy in 2023

1. Recessionary forces at work

World economic activity proved more resilient than expected in H2 2022, leading to a slightly rosier growth picture for the year. However, the global economic outlook for 2023 has deteriorated – reflecting the impact of monetary tightening, especially in advanced economies, and the continuing geopolitical crisis in Ukraine. CBRE expects global growth of 1.5% in 2023 and 2.7% in 2024, with the US economy likely to grow by 0.2% and 1.3%, respectively.

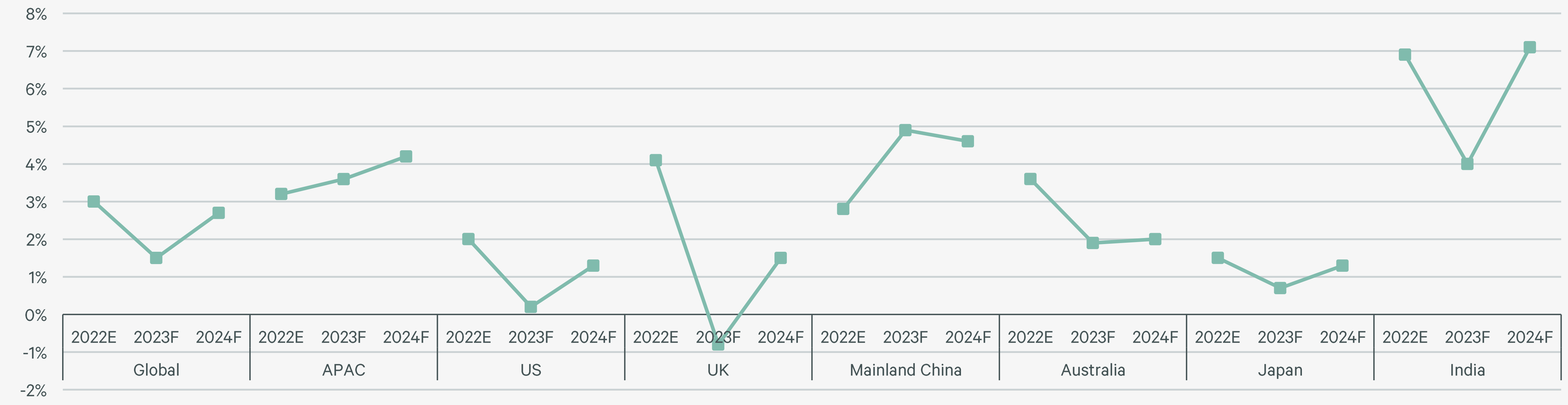
As a result, GDP growth in Asia-Pacific, and by extension, India could come under pressure as the US enters what is expected to be a moderate albeit short-lived recession even as economic activity weakens in Europe. India could be impacted this year due to slower manufacturing and export activity, although its strong macro-economic fundamentals and domestic consumption would ensure a sustained growth trajectory in the medium term.

2. Inflationary pressures to ease in 2023

We believe global inflationary pressures have already peaked in early 2023, and weaker demand could continue to lead to further deceleration. In India as well, we expect headline inflation to stay in the upper reaches of the RBI's targeted range.

Moderating global oil prices and declining input costs could contain inflationary pressures, although rising food prices could weigh on core inflation, causing it to remain sticky. As a result, we expect the

Figure 1.1: GDP forecasts for major economies



Source: CBRE House View (January 2023)

monetary tightening cycle to see at least one-two more rounds, if not more.

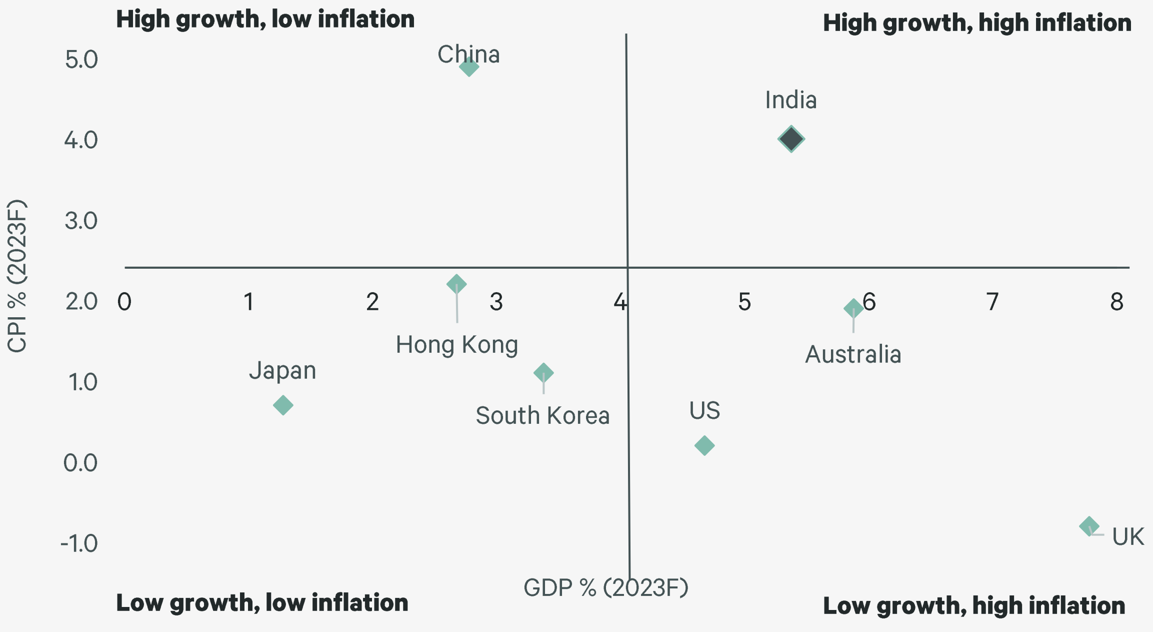
Meanwhile, the reverse repo rate has remained steady at 3.35% despite the continued repo rate hikes, thereby leading to a growing gap between the two rates. It was done with the intention of making it less attractive for banks to park their funds at the RBI, thereby encouraging loan activity and by extension consumption.

3. Domestic demand to moderate but remain in positive territory

Indian consumers have remained optimistic about their personal economic situation, especially when compared with other developed economies. This was reflected in CBRE's India Live-Work-Shop survey, conducted in 2022, wherein 77% of respondents revealed their confidence about their personal economic situation in 2023. The bimonthly RBI Consumer Confidence Survey also corroborated this (refer to figures 1.4 and 1.5) – the January edition revealed a persistent increase in the current situation index as well as future expectations index (one year from now).

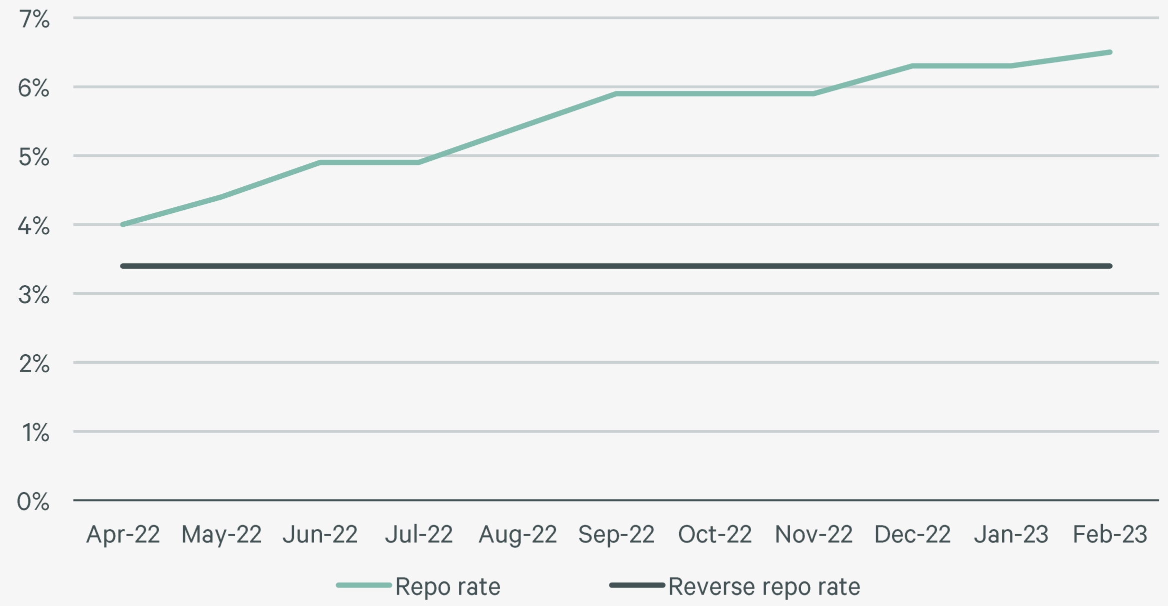
We also believe that the impact of any slowdown on retail sales growth and private consumption is likely to be diluted by an overlap with the festive season in H2 2023, thereby driving the Indian economy forward. However, at the same time, it seems imminent that consumers would remain watchful of the slowing economic

Figure 1.2: Potential global inflation-GDP scenario for 2023



Source: CBRE House View (January 2023)

Figure 1.3: Repo vs reverse repo rate over the past year



Source: RBI

growth. The RBI survey indicates as much, with the current perception and future expectation on growth in spending declining (especially non-essentials) over time in terms of respondent share. Overall, while consumer spending could moderate owing to pressures from inflation and higher borrowing rates; investments (primarily driven by the government spending on infrastructure) could still be a dominant growth driver for the economy in 2023.

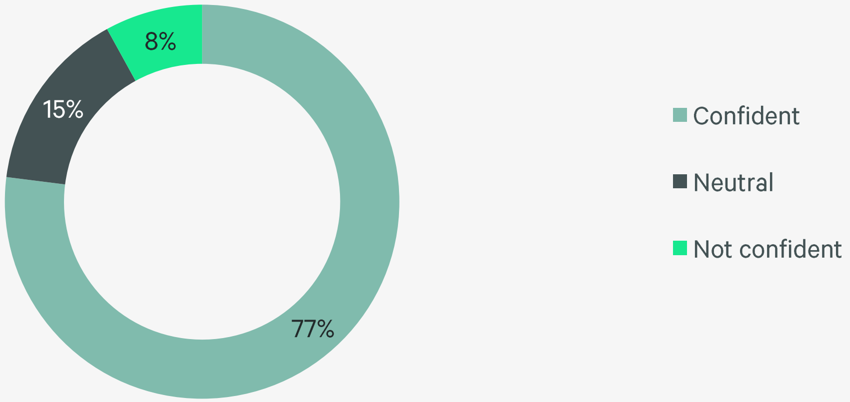
4. Global supply chain realignment could be to India's advantage

World over, the COVID-19 pandemic and subsequent geopolitical and climatic events have exposed the soft underbelly of global supply chains, causing corporates to take a sharp look at their procurement and manufacturing strategies. As a result, corporates are now looking at smarter strategies to keep inventory costs under control which include dual sourcing of raw materials and regionalising supply chains. The disruption of traditional supply routes has also caused corporates to recognize the importance of activating alternative sources of supply. India is fast emerging as this alternative supply source, given its low labour costs, mounting focus on transport and logistics infrastructure improvement, and growing manufacturing prowess.

Further, India's aim to increase the share of manufacturing in the GDP to 25% by 2025 from 17% in 2022 would drive investments into the sector[1]. The sector has already witnessed

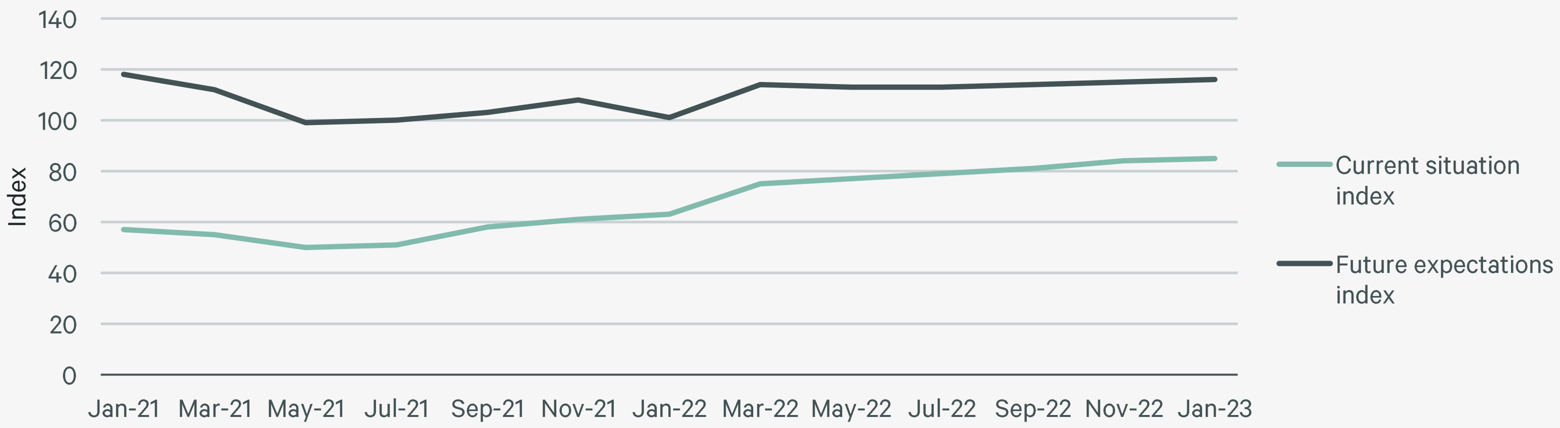
[1] Budget 2022-23; National Manufacturing Policy

Figure 1.4: Confidence about personal economic situation



Source: CBRE's India Live-Work-Shop Survey, 2022

Figure 1.5: Consumer Confidence Indices



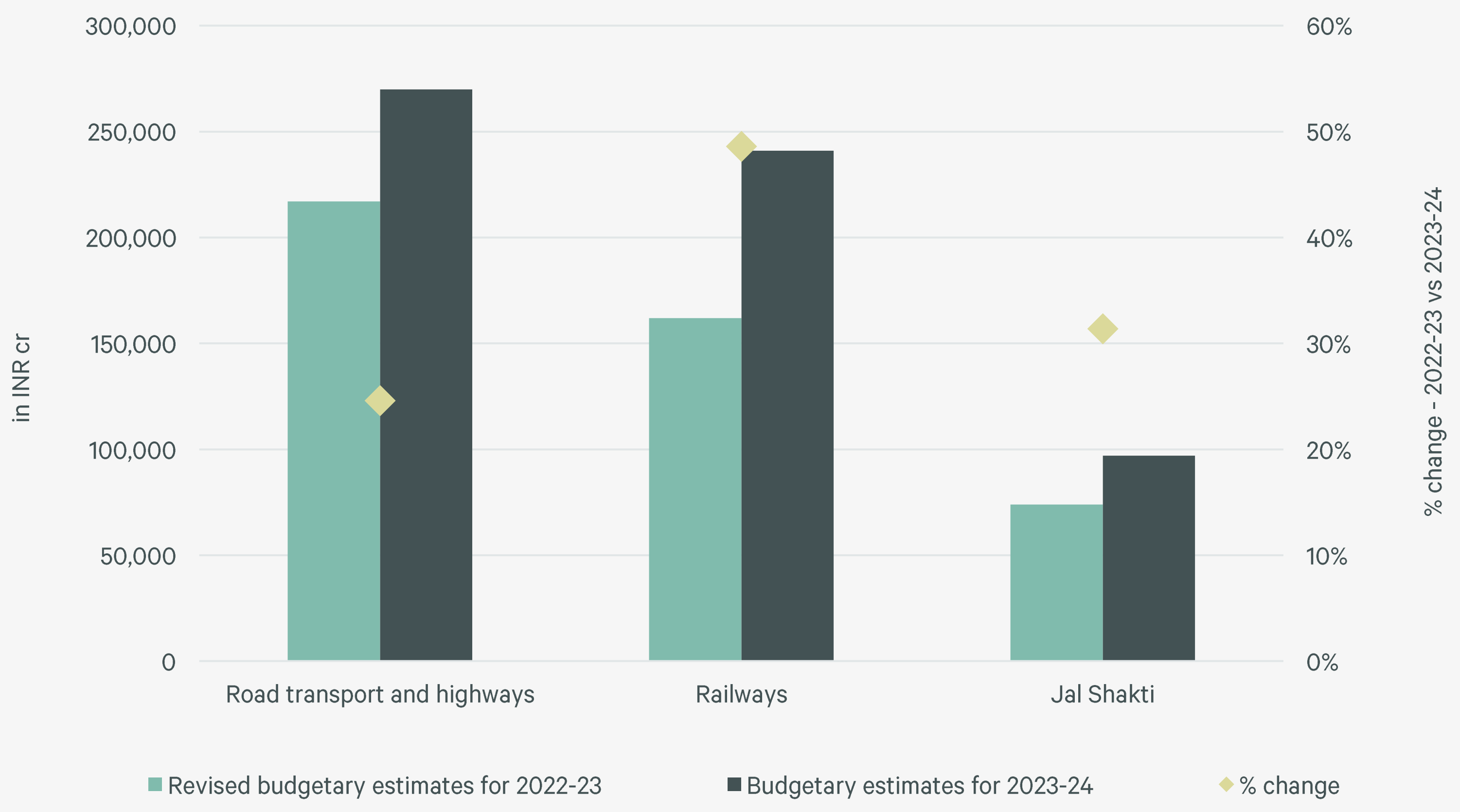
Source: RBI

investments of about USD 33 billion spread across 14 industries since the launch of the Production-Linked Incentive (PLI) scheme in 2020[2]. Further, the government has upped the ante on infrastructure improvement by significantly increasing budgetary allocation to key ministries this year. These initiatives would significantly boost the prospects of the manufacturing sector from a global standpoint, leading to a flurry of investments in this space in 2023.

5. Sustained policy push likely

The Indian government has a strong capex program, consisting of roads, railways, power sector, housing, and urban infrastructure development – all aimed at driving investment. Budget 2023-24 has already set the ball rolling in terms of reforms by focusing on manufacturing, ease of doing business, green economy, and social development. It focused on enhancing urban infrastructure in tier-II and III cities by way of a INR 10,000 crore / annum Urban Infrastructure Development Fund (UIDF) – which would go a long way in making them high-growth nodes. The customs duty relief on components across sectors would give impetus to the manufacturing sector. Furthermore, the infusion of INR 9,000 crore in the credit guarantee scheme for MSMEs and enhancing their taxation limits from INR 2 crore to INR 3 crore would reinvigorate the sector as it was significantly impacted due to the COVID-19 pandemic. We now expect the government to focus on supply chain improvements to control inflation and incentivizing the services sector to enable job creation.

Figure 1.6: Growing budgetary allocation to infrastructure development



Source: Budget 2023-24

[2] Media articles; Ministry of Commerce

Watch out for

01

Lens on sustainability

Globally, including in India, ESG norms are being tightened against the backdrop of climate change and associated events. As a result, corporates across the board are redrawing their sustainability strategies and setting their net-zero targets. We expect a spur in this activity in India in 2023 as the government ups the ante on meeting its Sustainability Development Goals (SDGs).

02

Continued investment inflows in tech sector likely

We expect India to remain the 'office of the world', with sustained technology spending likely on the corporates' part despite the strong current focus on operational efficiencies amidst business uncertainty. India's cost and scale advantages would ensure continued commitment from global corporates, causing a spurt in the setting up of Global Capability Centres (GCCs) across various sectors, including technology, BFSI and Engineering/ Manufacturing. More than 500 GCCs are expected to be set up in India by 2026, adding to the over 1,500 GCCs already present in the country[3].

[3] NASSCOM, February 2023

SECTION 2

Office

Continued macroeconomic uncertainty may impact occupiers' expansion plans and decision-making in 2023. However, India would remain an attractive cost-effective destination and a source of abundant high-skilled talent for these firms.

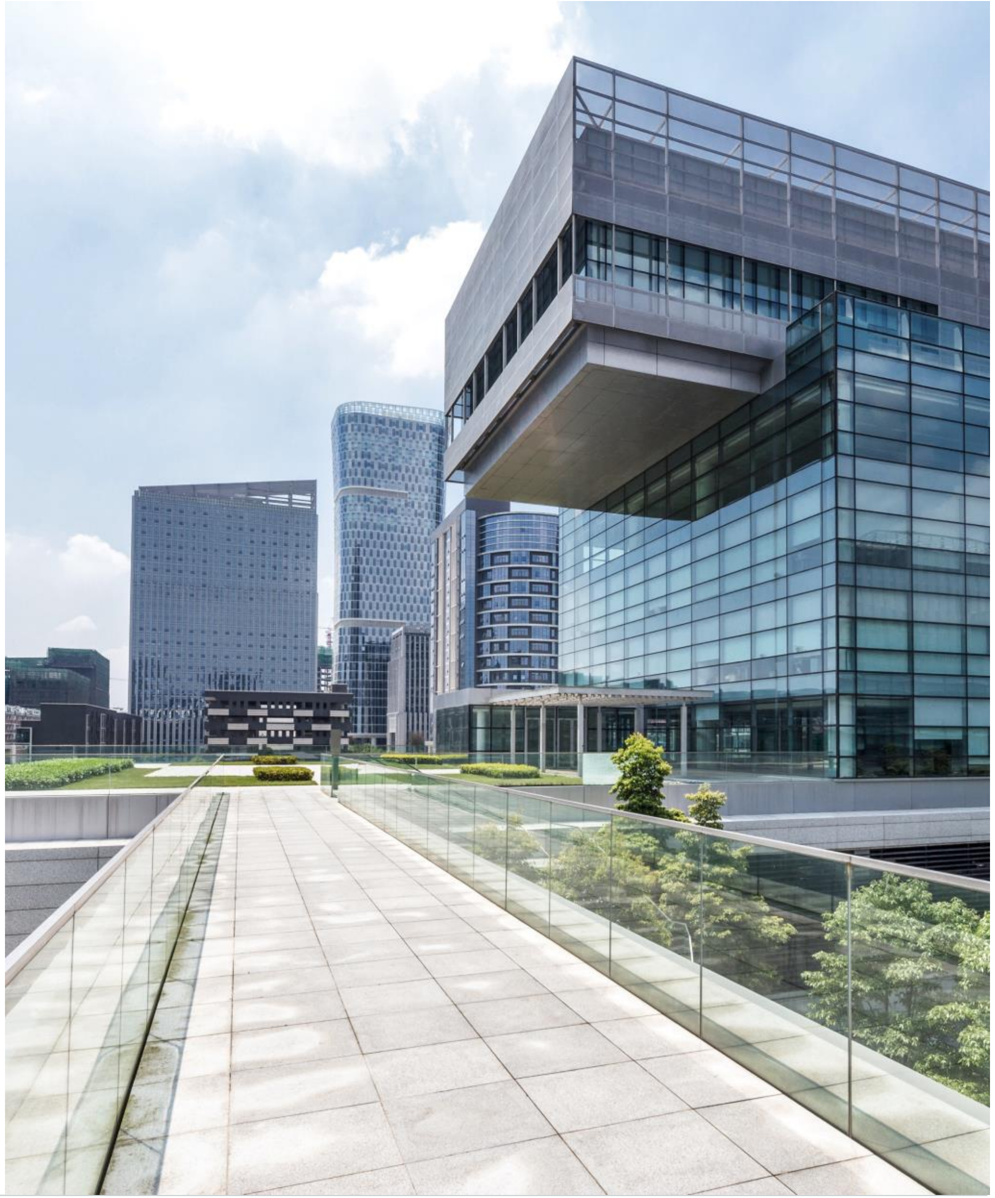
The year that was

Spectacular post-pandemic recovery in leasing activity

The resumption of economic activity in 2022 post pandemic relaxations led to the release of pent-up demand and a gradual acceleration of return-to-office (RTO) plans by occupiers, which in turn propelled leasing momentum. The office sector in India thus witnessed a remarkable recovery in 2022 from pandemic lows, even as the focus shifted from the pandemic's retraction and vaccination coverage to new macroeconomic and geopolitical challenges. Office absorption in India touched 56.5 million sq. ft. in 2022, surpassing the 40.5 million sq. ft. leasing levels observed in 2021 by about 40%. The leasing activity in 2022 was led by Bangalore, Delhi-NCR, Mumbai and Hyderabad, with a cumulative share of almost 75%. Technology corporates drove leasing followed by flexible space operators, engineering & manufacturing companies, BFSI firms and research, consulting & analytics organizations. In a first, domestic firms overtook American firms in terms of the share of annual leasing, accounting for nearly half of the leasing activity in 2022, mainly led by flexible space operators, technology and BFSI corporates.

Annual leasing outpaced completions with steady supply addition

Supply marginally increased from 49.7 million sq. ft. in 2021 to touch 50.6 million sq. ft. in 2022. Thus, gross absorption surpassed development completions during the year, leading to improving vacancy levels across most major cities. Hyderabad, Bangalore and Delhi-NCR drove supply during the year with a cumulative share of about 67%. On an annual basis, Hyderabad, Chennai, Kolkata and Ahmedabad witnessed an increase in supply. With sustained leasing recovery, moderating vacancy levels and persistent demand for investment-grade assets, rental recovery continued across cities throughout 2022. Several micro-markets in Delhi-NCR, Bangalore, Mumbai, Chennai, Hyderabad and Pune witnessed a quoted rental growth of 1–9% Y-o-Y[#].



[#] The trend for transacted rentals may be in line with or diverge from quoted rentals for different assets depending on various factors such as asset quality, location, accessibility, age of the asset, space availability, etc.

Top five trends expected to shape the Indian office sector in 2023

1. Medium- to long-term drivers to endure despite short-term uncertainty

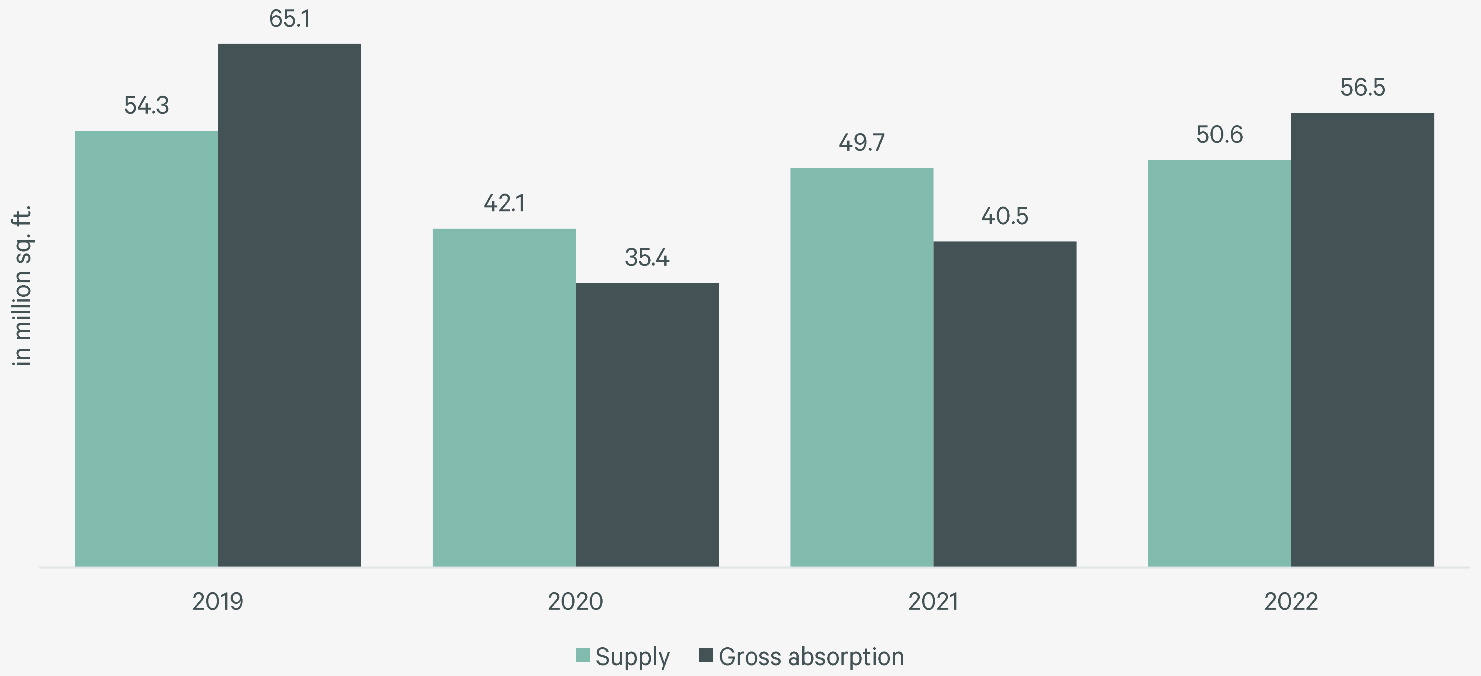
POST-PANDEMIC RESURGENCE IN LEASING ACTIVITY TO STABILIZE

Continued macroeconomic uncertainty due to monetary tightening, inflation, potential downturns in developed economies and geopolitical challenges may impact occupiers' expansion plans and decision-making in 2023. Even though the full impact of these challenges on global corporates' leasing decisions is yet undetermined, absorption may face downward pressures during the year. Moreover, the aggregate office-based employment across the top six Indian cities is expected to continue to grow by 5–7% in the coming year – which is a slightly slower pace in comparison to 2022[4]. The aforementioned challenges might indicate a slower pace in activity initially, but it would continue to pick up, especially during the second half of 2023. However, India would remain an attractive cost-effective destination and a source of abundant high-skilled talent.

Bangalore, Delhi-NCR and Hyderabad would remain the biggest demand drivers, while sustained leasing activity is also expected in Chennai, Mumbai, Pune and Kolkata. Select tier-II markets would also continue to attract attention from corporates preferring to locate closer to their talent pool.

After a period of rapid growth in 2022, macro pressures would prompt technology corporates to focus on operational efficiencies

Figure 2.1: Office supply and gross absorption in India (2019–22)



Source: CBRE India Research, Q1 2023

[4] Oxford Economics, February 2023; CBRE India Research, Q1 2023

in the short term. However, sustained technology spending by corporates and increasing digitization of business operations would cause tech corporates to continue to drive leasing activity in 2023. Further, sectoral drivers in India are likely to become more broad-based as leasing by BFSI firms, flexible space operators, and engineering & manufacturing corporates is also expected to sustain on an annual basis. (refer to figure 2.2)

Attracted by its cost & scale advantages and talent pool, corporates are expected to increasingly consider India to set up their GCCs across sectors — more than 500 GCCs are expected to be set up in India by 2026, adding to the over 1,500 GCCs already present as of Q4 2022.[5] Over the same period, the GCC market size is estimated to grow from USD 35.9 billion to USD 60–85 billion[5].

STEADY SUPPLY PIPELINE EXPECTED IN 2023

A steady supply pipeline of quality assets is expected to result in around 51–53 million sq. ft.[#] of space getting delivered in 2023—a marginal increase of 3–4%. In line with past trends, Bangalore, Hyderabad and Delhi-NCR would continue to dominate completions, followed by Chennai, Pune, Mumbai and Kolkata. Also, the share of large-sized buildings (more than 1 million sq. ft.) is expected to grow in the coming year, driven by upcoming completions in Hyderabad, Bangalore, Chennai and Mumbai.

[5] NASSCOM, February 2023; CBRE India Research, Q1 2023

[#] These forecasts may vary based on factors such as pace of construction, developer profile / execution capability, macroeconomic uncertainty, current geopolitical climate, global headwinds, etc.

Figure 2.2: Sectoral office leasing drivers in India

Sector	Projections	2022 absorption surpassed pre-COVID leasing quantum of	2022 vs 2021 (% change): Transaction volume	2022 vs 2021 (% change): Number of transactions	2022 vs 2021 (% change): Average deal size
Technology	**USD 300–350 bn** Revenue from Indian tech sector by 2025, from USD 190 bn in 2020[i]	2018	25-50%	50-75%	0 to -25%
BFSI	**USD 150 bn;** Size of fintech industry by 2025[ii] / **6th largest** Insurance market in the world by 2032[iii]	2018	25-50%	50-75%	0 to -25%
Engineering & manufacturing	**USD 1 tn** Manufacturing sector's potential by 2025[ii]	2019	25-50%	50-75%	0 to -25%
Flexible space operators	**60+ mn sq. ft.** Flexible space stock In India in 2023—an increase of 15-20% from 2022	2018	25-50%	75-100%	0 to -25%
Research, consulting & analytics	**5-7%** Employment growth in professional, scientific & technical services in 2023[iv]	2018	>100%	>100%	50-75%
E-commerce	**USD 75 bn to USD 111 bn** Market size growth from 2022 to 2024[ii]	2019*	>100%	>100%	-25 to -50%
Infrastructure, real estate & logistics	**USD 1 tn** Real estate sector size by 2030[ii]	2019	>100%	50-75%	25-50%
Life sciences	**USD 65 bn** Domestic pharmaceutical market by 2024[v]	2019	0-25%	50-75%	-25 to -50%

Y-o-Y % change: -25 to -50% | 0 to -25% | 0% | 0-25% | 25-50% | 50-75% | 75-100% | >100%

* Close to 2019 levels

Source: [i] NASSCOM, February 2021; [ii] IBEF; [iii] SwissRe; [iv] Oxford Economics, December 2022; [v] Economic Survey 2022-23; CBRE India Research, Q1 2023

The possibility of de-notification of SEZs may lead to more non-SEZ supply entering the market in the coming years. Additionally, out of the overall expected supply in 2023, the share of premium assets by top developers / institutional owners is estimated to be 30-35%.

Meanwhile, as pressure rises on occupiers to comply with the upcoming ESG regulations and meet ambitious net-zero targets, they are anticipated to exhibit stronger demand for efficient and green-certified buildings in the medium to long term. Thus, flight-to-quality leasing sentiments of occupiers would ensure continued interest in investment-grade buildings by leading developers and institutional owners (accounted for 40-45% of leasing activity in 2022) in core locations.

RENTAL GROWTH TO CONTINUE

Demand outstripped supply in 2022, causing vacancy rates to marginally dip across a few cities by the end of the year. Vacancy rates are thus anticipated to be largely range-bound in 2023. Further, occupiers' appetite for high-quality assets with a perfect blend of technology, wellness and sustainability features is expected to remain strong. As a result, select prominent micro-markets across most cities are expected to witness a moderate rental growth in 2023#.

Global macro-economic uncertainty may have an impact on these forecasts, and it is tough to accurately estimate the extent of this impact. Considering this inherent risk factor, forecasts are likely to change with periodic reviews given the evolving situation.

> "Occupiers' desire to make the office an attractive destination and improve employee experience would continue to drive the demand for high-quality spaces."

Figure 2.3: Select examples of initiatives by developers in India for enhancing employee experience

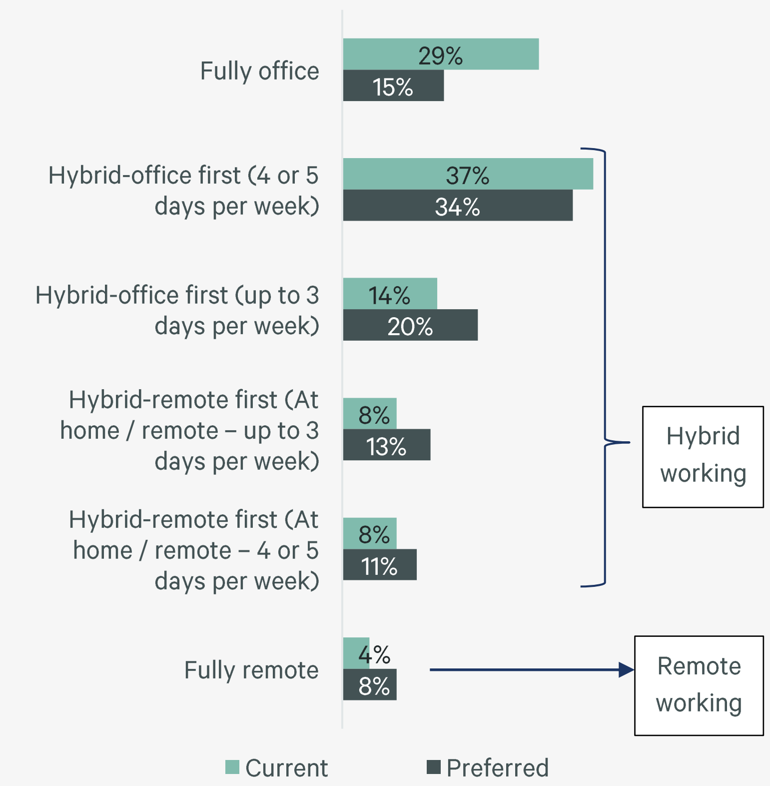
Refurbishing lobby areas	Adding new / enhancing existing F&B amenities, e.g., coffee shops, food courts, fine dining options, etc.	Enhancing daycare & play areas, getting leading operators on board	Adopting customized fragrance solutions in the building
Customer relationship management initiatives such as recruiting front office staff from the hospitality industry	Improving parking spaces; parking automation using RFID	Installing turnstiles with facial recognition	Upgrading amenities blocks
Adding auditoriums	Offering a premium members' lounge	Providing / enhancing open areas wherever possible	Implementing building apps

Source: CBRE India Research, Q1 2023

2. Hybrid working to continue with an emphasis on the office; occupancies to attain a new equilibrium as occupiers ramp up RTO plans

In line with global and APAC trends, hybrid working would continue to be the norm going forward in India. Occupiers would continue to offer flexibility to their employees as holistic hybrid working strategies are key to attracting and retaining talent. Further, as noted in CBRE's 2022 India Office Occupier Survey, the emphasis on office-based working—either full-time or office-first hybrid arrangements—is expected to continue as 91% of the respondents would prefer their staff to spend at least three days a week in the office. Employees would also continue to prefer office-based hybrid working as revealed by CBRE's India Live-Work-Shop Survey. The frequency of working at least three days a week in office in the future was chosen by 82% of the survey respondents. As shown in figure 2.5, employees in India are relatively aligned with their employers on the frequency of office-based working.

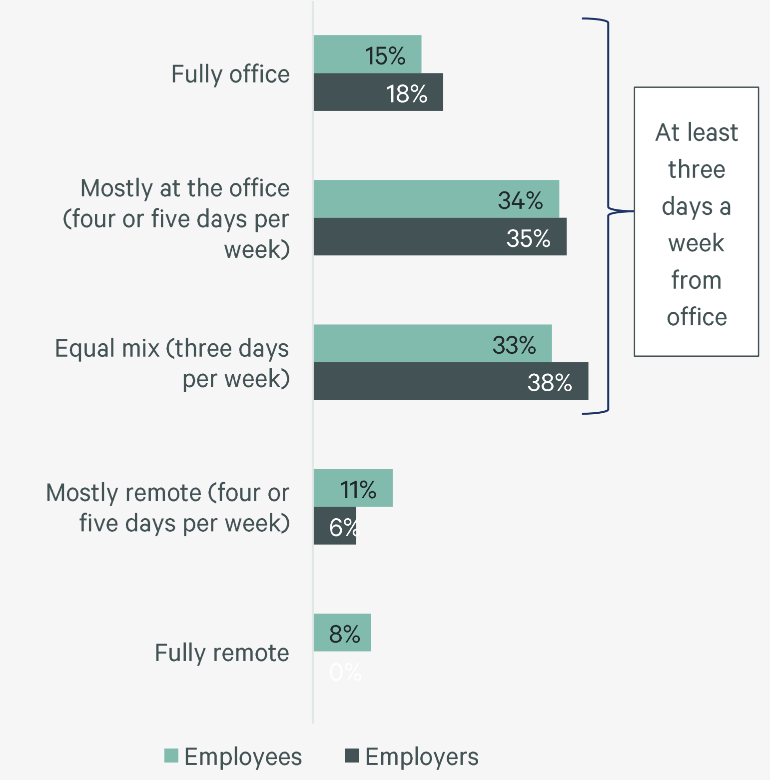
Figure 2.4: Current and preferred split between office & remote working for employees in India



Source: CBRE's India Live-Work-Shop Survey, 2022; CBRE India Research, Q1 2023

Note: Hybrid working excludes both 'fully office' and 'fully remote' categories.

Figure 2.5: Employees and employers largely aligned on frequency of office-based working

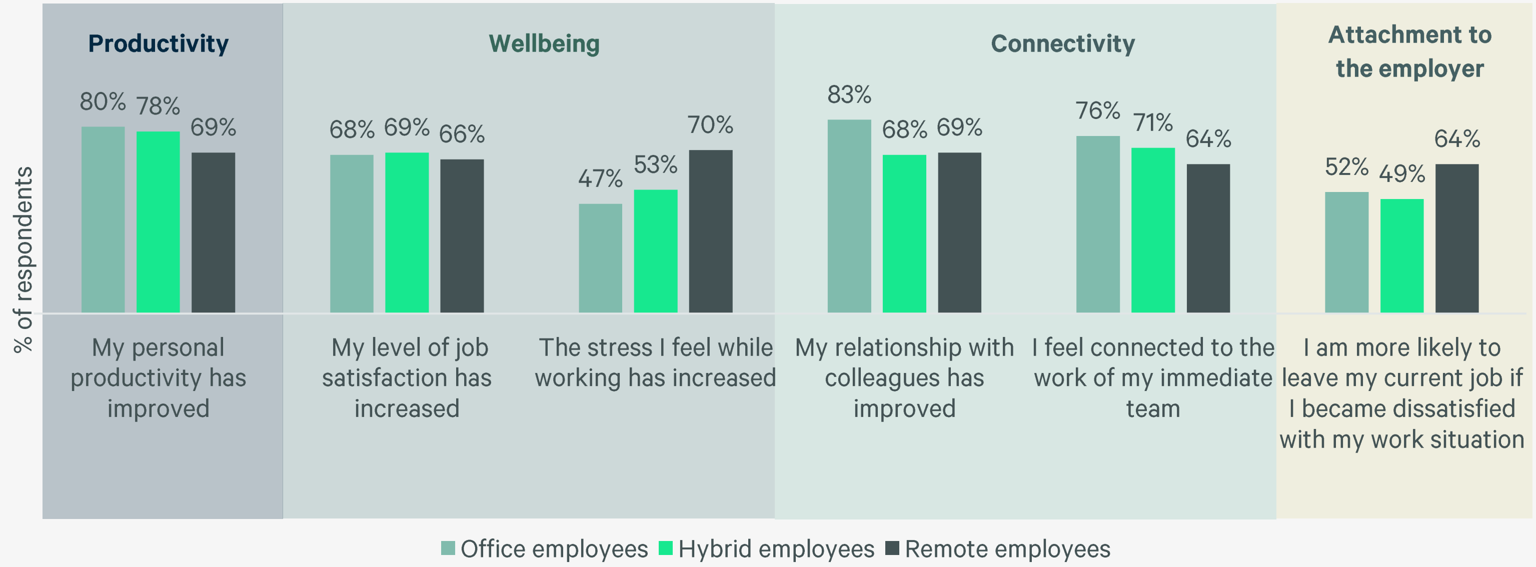


Source: CBRE's India Live-Work-Shop Survey, 2022; CBRE's 2022 India Office Occupier Survey, July 2022; CBRE India Research, Q1 2023

Employees would thus be more likely to strike a balance by preferring hybrid arrangements instead of fully remote working for better collaboration, connectedness, engagement, culture, compliance, innovation and learning & career development opportunities. Both office and hybrid workers indicated improvements in various work-related aspects with respect to productivity, wellbeing, connectivity and attachment to the employer post the pandemic as compared to remote workers (refer to figure 2.6)

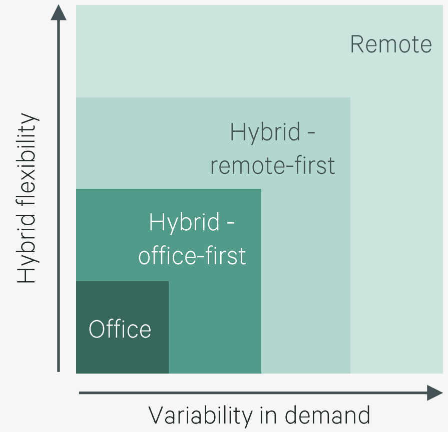
In light of these shifts in working arrangements, occupiers would strive to make long-term leasing decisions while navigating the uncertainties of hybrid work's impact on future space requirements. A higher degree of flexibility offered to employees would entail a higher level of variability in office utilization and space demand (refer to figure 2.7).

Figure 2.6: Statements by employees in India on work-related aspects post the pandemic



Source: CBRE's India Live-Work-Shop Survey, 2022; CBRE India Research, Q1 2023

Figure 2.7: Three possible approaches to understanding the impact of hybrid working on space demand



Flexibility	Variability in demand	
High	High	Calculating demand based on utilization patterns Based on actual measured space demand over time
Moderate	Moderate	Estimating demand based on benchmarking data Derived from space-sharing ratios based on employee personas*, workplace guidelines and hybrid working policies
Low	Low	Forecasting demand based on business growth Based on projected headcount growth, distribution of dedicated and shared spaces, time on site

Source: 2022-2023 Global Workplace & Occupancy Insights, November 2022; CBRE India Research, Q1 2023

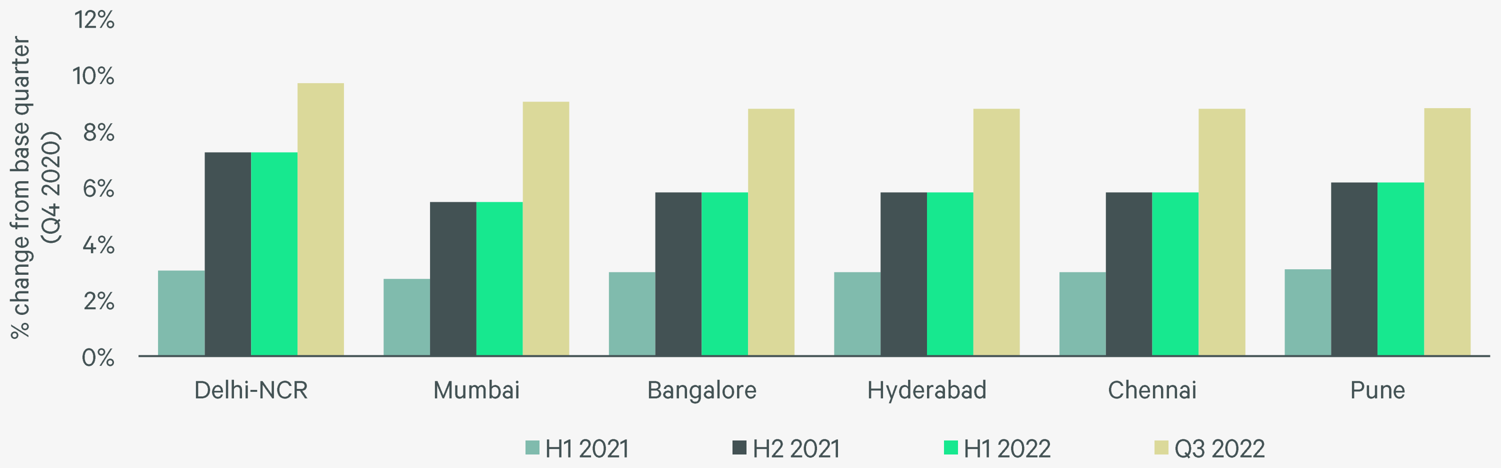
*A profile that represents characteristics of employees with common job functions and work habits

3. Construction and fit-out cost escalations to ease in 2023

The upswing in economic activity in 2022 amidst continuing supply chain disruptions, China's zero-COVID-19 policies and fuel price rise led to an inflationary environment across major global economies, including India. Thus, the costs of key input materials and furniture, fixtures & equipment (FF&E) rose rapidly, leading to a spike in construction and fit-out costs across major Indian cities (refer to figure 2.8). Further contributing to this cost escalation were tight labour markets—average skilled, semi-skilled and unskilled labour hiring costs in India increased by 8–10%[6] Y-o-Y by the end of Q3 2022. An increase of about 9–10%[6] in the cost of office asset construction was observed by Q3 2022 over 2020 levels. Similarly, office fit-out costs also grew by about 5–6%[6] Y- o-Y by Q3 2022.

In response to elevated price levels, possible strategies for occupiers could include adjusting fit-out budgets for cost escalation, requesting additional fit-out periods from landlords, renewing leases in currently occupied spaces, seeking fully fitted spaces or considering flexible space options.

Figure 2.8: Indicative greenfield construction cost growth for a 20-storied high-rise office asset in India



Note: Fluctuation is reflected as a change in costs when compared to Q4 2020.

Source: CBRE's India Construction Cost Trends, December 2022; CBRE India Research, Q1 2023

4. Tightening regulations to drive demand for ESG-compliant spaces

Regional, national and local governments are implementing or proposing regulatory changes to require regular ESG reporting by occupiers. In India, SEBI issued a notification in May 2021, requiring the filing of standardized ESG disclosures in the form of Business Responsibility and Sustainability Reports (BRSRs) by the top 1,000 listed companies by market capitalization from FY 2022–23[7]. Globally, major regulatory actions include the EU's recent adoption of the Corporate Sustainability Reporting Directive (CSRD)[8] and the US SEC's proposed 'Enhancement and Standardization of Climate-Related Disclosures'[9]. Considering the substantial share of leasing by global occupiers in India, any ESG reporting requirements across global value chains would also extend to their operations in India as these norms get implemented.

Occupiers are thus expected to continue to display a flight-to-quality wave towards modern, premium and sustainable spaces in the medium to long term. Sustainable building features & operations would be among their most sought-after building attributes—as noted by 68% of the respondents in CBRE's 2022 India Office Occupier Survey.

In order to manage regulation and upfront costs, clear strategies across operations, leasing and capital expenditure would be critical for occupiers to achieve their decarbonization plans in line with long-term performance targets (refer to figure 2.10). We believe that occupiers' top ESG priorities currently being implemented or

[6] CBRE's India Construction Cost Trends, December 2022; CBRE India Research, Q1 2023; [7] Securities and Exchange Board of India, May 2021 ; [8] European Parliament, November 2022; [9] U.S. Securities and Exchange Commission, March 2022

considered in the future are certified spaces to improve employees' health & wellbeing, sustainability benchmarking of all assets, resource usage or waste reduction programs, preparation of BRSRs, use of local suppliers / sustainable procurement and including green-certified buildings in their portfolios. Developers and investors would continue to undertake sustainability initiatives and certifications in their assets to partner with occupiers in meeting their sustainability targets and meet the growing demand for ESG-compliant spaces (refer to figure 2.9).

Figure 2.9: Key ESG initiatives by landlords

E	S	G
Water conservation: Zero liquid discharge / water reuse; aerators in taps; water meters	Social activities such as adopting the local area around the building	Supplier code of conduct
Waste management: Recycling; composting; lower waste to landfill; Net Zero Waste certifications	OHSE* initiatives (e.g., British Safety Council certification)	ESG reporting in line with the GRI#, GRESB## or other standardized reporting frameworks
Green energy: Off-site solar plants; rooftop solar panels; use of renewable energy	HVAC: Indoor air quality testing (e.g., particulate matter, VOCs**, harmful gases, etc.); real-time air quality displays for occupants' wellness	
Energy-efficient chiller plants and generators	DE&I*** initiatives: Audits for barrier-free access for people with disabilities	
Provision of EV-charging stations		
Sustainable procurement: Use of green-rated products in O&M		

*Occupational Health, Safety and Environment; **Volatile Organic Compounds; ***Diversity, Equity & Inclusion;

#Global Reporting Initiative, ##Global Real Estate Sustainability Benchmark

Source: Websites of various landlords in India; CBRE India Research, Q1 2023

Figure 2.10: Decarbonization strategies for occupiers

1	Build a team	Align with all stakeholders including CRE and C-suite
2	Understand carbon footprint & associated risks	Adopt technology for financial-grade, auditable data; conduct decarbonization audits & evaluate space utilization in the portfolio; analyze risks of missing decarbonization targets vs the investment to mitigate them; review portfolio strategy & its alignment with climate goals
3	Set targets and develop strategies & tactics	Set objectives aligned with the firm's vision & external frameworks; develop tactics such as waste reduction programs, leasing in green-certified buildings, improving energy efficiency, renewable energy use, sustainable procurement, adopting green leases, among others
4	Publish targets & strategy; monitor & report progress	Participate in the various available sustainability regimes such as CDP Global*, TCFD**, GRI***, SBTi#, GRESB##, TNFD### among others by voluntarily disclosing targets; report & monitor in line with local, national and / or regional legislation

* Carbon Disclosure Project, ** Task Force on Climate-related Financial Disclosures, *** Global Reporting Initiative, # Science Based Targets initiative, ## Global Real Estate Sustainability Benchmark, ### Task Force on Nature-related Financial Disclosures

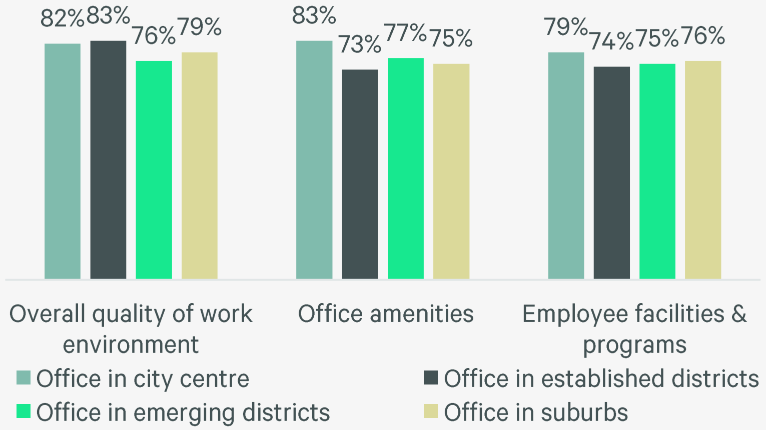
Source: Decarbonizing Commercial Real Estate: A Guide to Making your Carbon-reduction Strategy a Reality, CBRE, November 2022; CBRE India Research, Q1 2023

5. Workplace strategies to support purpose-driven flexibility

The intense focus on RTO planning and flexible working would place workplace strategies at the top of corporates' agendas. Productive interactions with relevant coworkers would require a 'new normal' to be established for the workplace with the right spaces, tools, services and experiences that can't be easily recreated outside the office. CBRE's India Live-Work-Shop Survey reported high employee satisfaction facilitated by the overall work environment, office amenities and employee facilities & programs across locations (refer to figure 2.11).

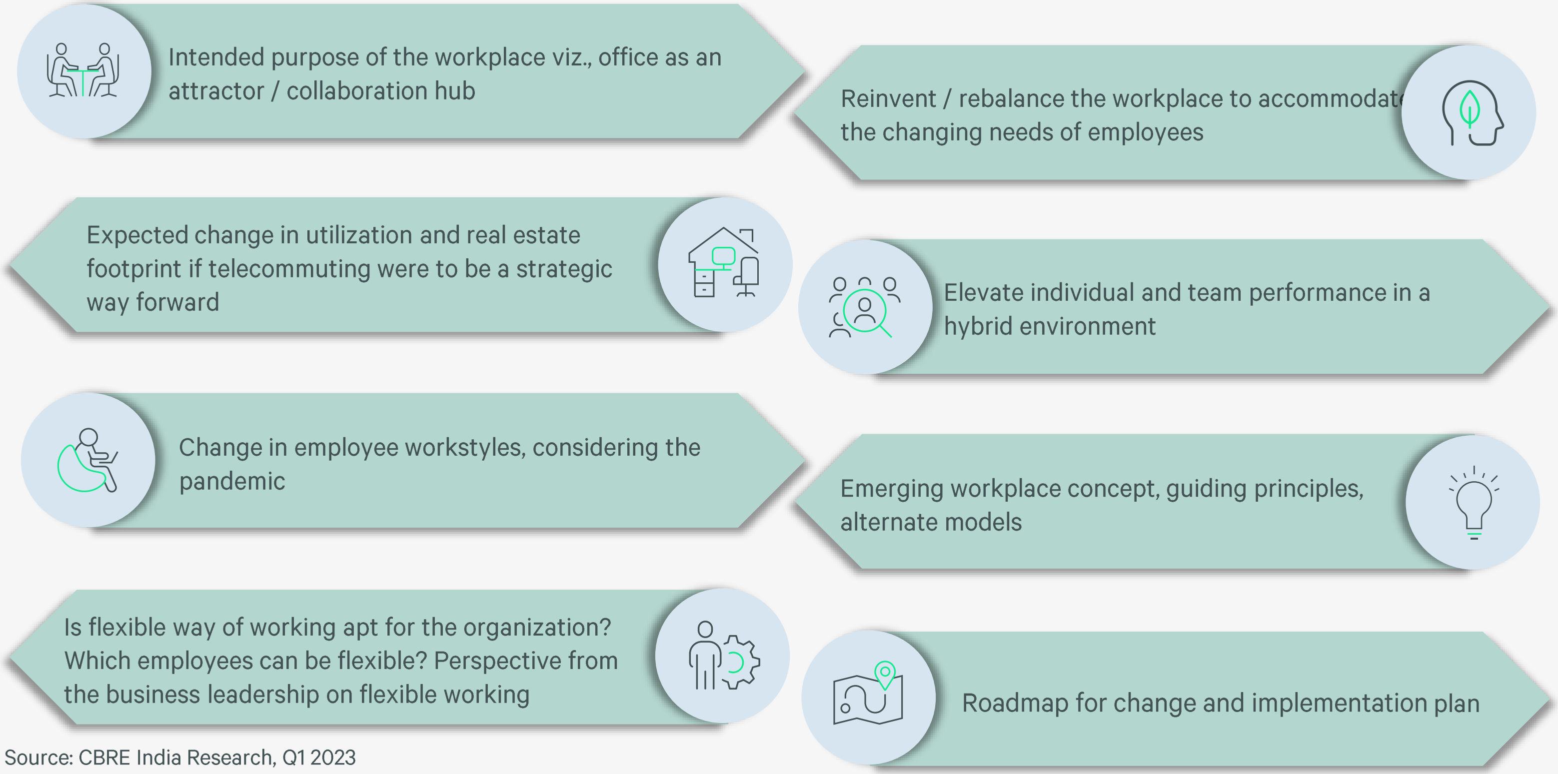
To match new work styles, occupiers may revisit workplace design standards including the rebalancing of heads-down 'me' vs collaborative 'we' spaces and open vs enclosed collaboration spaces, additions / changes to amenity spaces, changes to workstations, etc. Spaces earmarked for large-scale collaboration events could be designed as multipurpose spaces which could otherwise serve as work areas and small collaboration spaces. Further, the adoption of technology supporting flexible working such as incorporating VC systems in meeting rooms would also continue to pick up as RTO and utilization rates rise. Another emerging priority for occupiers would be Diversity, Equity & Inclusion (DE&I) initiatives in the workplace. These changes are likely to differ based on the chosen hybrid working strategy, i.e., office-first, hybrid or remote-first (refer to figure 2.12)

Figure 2.11: Overall satisfaction of employees with office attributes in India



Source: CBRE's India Live-Work-Shop Survey; CBRE India Research, Q1 2023

Figure 2.12: Workplace facets to be considered for the future



Source: CBRE India Research, Q1 2023

Watch out for

01

Workplace technologies

Technologies that integrate the built environment with work productivity tools would grow in prominence to create holistic work experiences, connect employees and enable hybrid working.

02

Easing employee commute

Occupiers are likely to prioritize accessibility, proximity to public transport and adequate parking facilities to better enable RTO, while developers would explore opportunities to build closer to transit stations or enhance connectivity services.

SECTION 3

Industrial & Logistics

Demand for I&L spaces is anticipated to be resilient in 2023 on the back of occupiers adopting a ‘multipolar’ supply chain strategy and the continued government impetus to improve infrastructure and investments. However, growth rates might stagnate as occupiers also align their portfolio strategies with global headwinds.

The year that was

Leasing activity continued to inch up while supply lagged in 2022

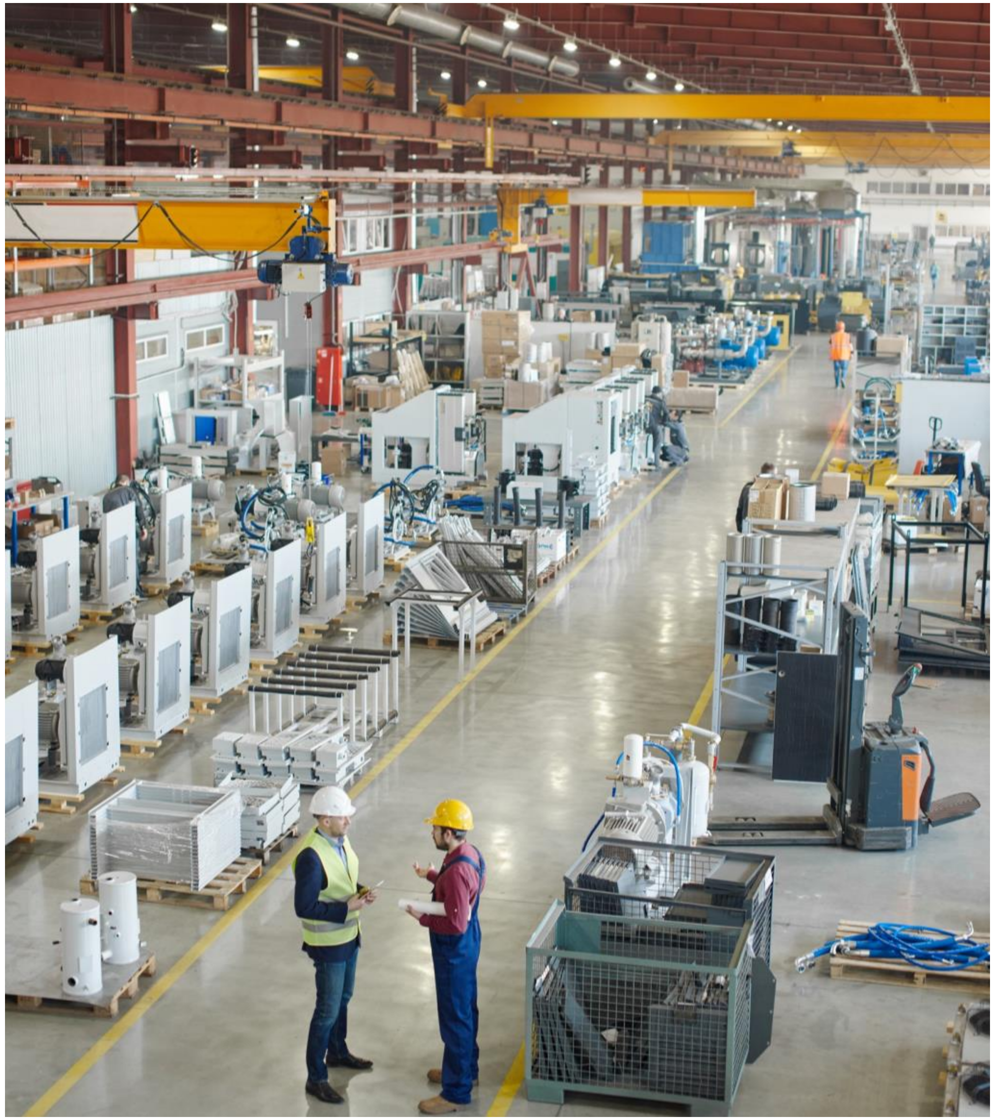
Industrial & Logistics (I&L) leasing activity grew by about 8% Y-o-Y to touch 31.6 million sq. ft. during 2022. It almost reached the pre-COVID-19 peak of 32 million sq. ft. recorded in 2019. The uptick in space take-up was despite global headwinds, slowdown in e-commerce demand and dissipation of the post-pandemic need to hold additional inventories. Delhi-NCR, Mumbai and Bangalore accounted for almost 60% of the leasing activity during the year. Except Bangalore and Pune, all cities reported stable or increased annual space take-up.

On the contrary, a decline in supply from 25.6 million sq. ft. in 2021 to 20.9 million sq. ft. in 2022 was witnessed due to deferment of space take-up by e-commerce firms coupled with administrative delays. Mumbai, Chennai, Kolkata and Bangalore drove supply addition during 2022, accounting for a cumulative share of about 64%.

About two-third of leasing in 2022 was driven by 3PL and engineering & manufacturing firms

3PL players accounted for about half of the annual space take-up, driven by heightened demand from interlinked stakeholders across the supply chain (wholesalers, retailers and e-commerce players) and the need to shore up distribution capabilities. Space take-up by engineering & manufacturing (E&M) firms picked up pace during 2022 with a share of about 16% in total leasing as compared to 10% in 2021. Policy enablers by the government particularly the PLI scheme acted as a growth catalyst for the sector.

Improvement in leasing sentiments, sustained demand for investment-grade assets and rise in input costs caused quoted rental values to increase on an annual basis in most micro-markets across all cities in 2022, with the exception of Chennai and Pune.



Geopolitical tensions led to continued supply chain disruptions in 2022

Supply chain disruptions were prevalent even before COVID-19, but the impact was either on demand or supply. Due to this, most corporates could continue implementing 'just-in-time' supply chain models to tide over any fluctuations. But COVID-19 exposed supply chain vulnerability by inflicting simultaneous shocks to both supply and demand – such as trade curtailment on account of widespread lockdown measures and adverse impact on consumer sentiments for the latter. In addition to the COVID-19 disruptions, the geopolitical crisis in Europe in 2022 drove up energy prices which further compounded concerns regarding supply chain.

In order to navigate the challenges exerted on supply chains, corporates started to adopt agile and resilient strategies to fulfil end-user requirements. Some of the strategies are highlighted in figure 3.1.

Figure. 3.1: A roadmap for navigating future challenges

- Redrawing inventory strategies
- Technological enhancement
- Nearshoring / 'friend'-shoring
- Multisourcing strategies

Source: CBRE India's 'Shoring up Indian Supply Chains: Are We Prepared for the Future', December 2022

Top five trends expected to shape the Indian I&L sector in 2023

1. Resilient occupier demand to drive leasing in 2023

Demand for I&L spaces is anticipated to be resilient in 2023 on the back of occupiers adopting a 'multipolar' supply chain strategy and the continued government impetus to improve infrastructure and investments. However, growth rates might stagnate as occupiers align their portfolio strategies with global headwinds. This would cause absorption to range between 32-35 million sq. ft. with a growth rate of about 1-5% in 2023#.

The demand is expected to be predominantly driven by 3PL and engineering & manufacturing occupiers. We also anticipate heightened interest from FMCG, retail and electronics & electrical firms. Further, we anticipate that the short-term lull in leasing by e-commerce players would end soon, and their leasing activity would resume in H2 2023, backed by increased consumer demand / omnichannel retailing.

In addition, occupiers' quest to achieve operational efficiencies and rationalise costs in a multi-user facility is likely to increase the take-up of large-sized spaces (more than 100,000 sq. ft.). During 2019, the share of large-sized spaces in overall leasing was about 29% which increased to 31% in 2022. Going forward, we anticipate this trend will continue, with the share of large-sized deals ranging between 32 - 35% in 2023#.

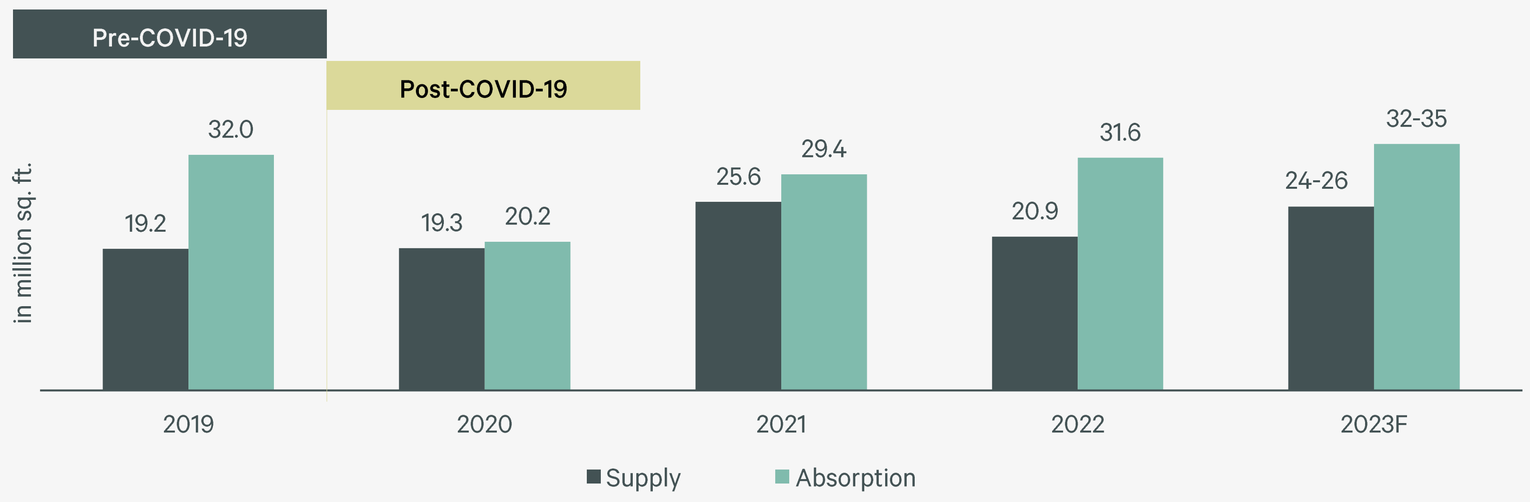
Global macro-economic uncertainty may have an impact on these forecasts, and it is tough to accurately estimate the extent of this impact. Considering this inherent risk factor, forecasts are likely to change with periodic reviews given the evolving situation.

Table 3.1: Drivers of I&L demand

Operational efficiencies	Supply chain resilience	Sector growth	Cities
• Upgradation of modern facilities to enhance storage efficiencies • Development of facilities near consumption hubs / transportation nodes • Installation of tech to further improve operational throughput	• Continued focus on deploying multi-sourcing and nearshoring / friend-shoring strategies • Diversification of transport networks and increasing reliance on multi-modal transport	• Increasing costs and longer lead time to drive demand for 3PL players • Policy-backed investments to continue to drive E&M leasing • Omnichannel retail along with the need for urban fulfilment centres to drive leasing for retail and FMCG firms	• Occupiers to continue to upgrade / expand in tier-I cities • Increasing urbanisation and demand from tier-II and III cities to further prompt occupiers to expand in these cities

Source: CBRE India Research, Q1 2023

Figure 3.2: I&L supply-demand trends (2019-2023F#)



Source: CBRE India Research, Q1 2023

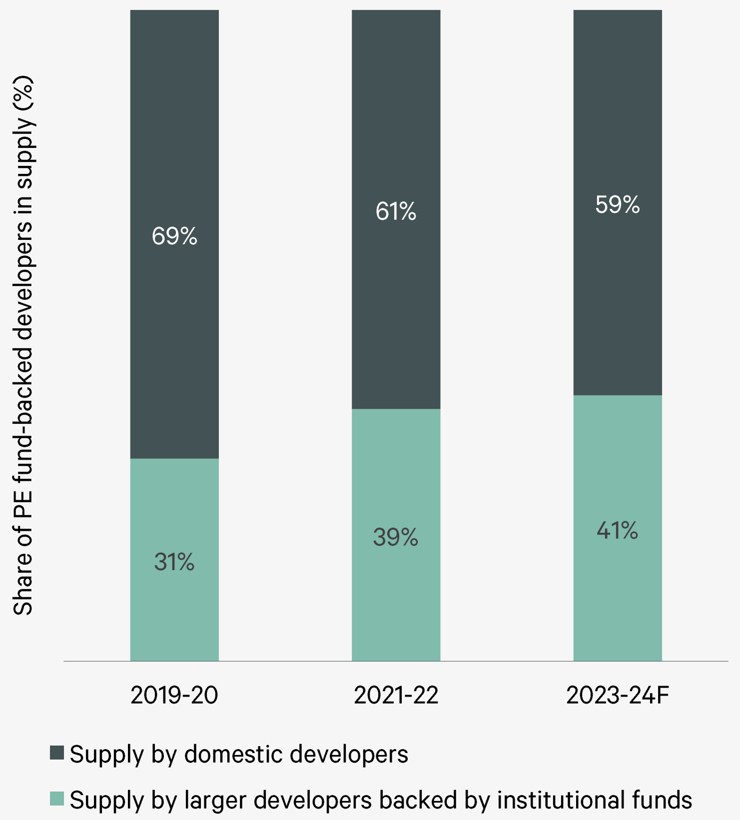
2. More institutional investor-backed supply to come onboard

The I&L supply is forecasted to exceed 2022 levels and rise to 24-26 million sq. ft. in 2023#. The stronger pipeline is attributable to the completion of pent-up supply. Last year, several projects were delayed due to rising costs and deferment of space take-up by e-commerce players. We also anticipate the share of project completions by prominent global / domestic developers to rise from 37% during 2021-2022 to more than 40% in 2023-2024. Cities such as Chennai, Delhi-NCR and Bangalore are likely to see a higher share (>40%) of development completions by organised developers.

Supply addition is expected to be dominated by Mumbai, followed by Delhi-NCR, Bangalore, Chennai and Pune, in 2023. These cities together would drive more than 70% of completions during the year. Developers are also likely to consider emerging logistics hubs by investing in land banks closer to new infrastructure initiatives and tier-II and III cities.

Global macro-economic uncertainty may have an impact on these forecasts, and it is tough to accurately estimate the extent of this impact. Considering this inherent risk factor, forecasts are likely to change with periodic reviews given the evolving situation.

Figure 3.3: Share of domestic developers vs larger developers backed by institutional funds in supply



Source: CBRE India Research, Q1 2023

VERTICAL STORAGE, SAFETY STANDARDS OF INCOMING SUPPLY TO PLAY CRITICAL ROLE IN OCCUPIERS' DECISION-MAKING PROCESS

The changing requirements of occupiers to enhance storage efficiencies of I&L space led developers to increase the 'clear height' of developments in their upcoming parks. Forthcoming I&L parks are also expected to feature standard specifications, including sufficient loading / unloading bays, power back-ups, ridge ventilators, thermal insulations and fire sprinklers as per FM II regulations. Further, developers would also support occupiers looking for Built-to-Suit (BTS) facilities / long-term leases with capital investments for creating stacking systems and dock levellers. In addition, the Department of Promotion of Industries and Internal Trade (DPIIT) has released detailed guidelines on Warehousing Standards in 2022, which aim to reduce cost, improve efficiencies and ensure global competitiveness of upcoming I&L assets in the country.

Table 3.2: Evolution of clear heights in I&L assets

	2017-2018	2019	2020 onwards
Clear height (in meters)	9.0 – 10.5	11.5 – 13.0	11.5 – 14.0

Source: CBRE India Research, Q1 2023

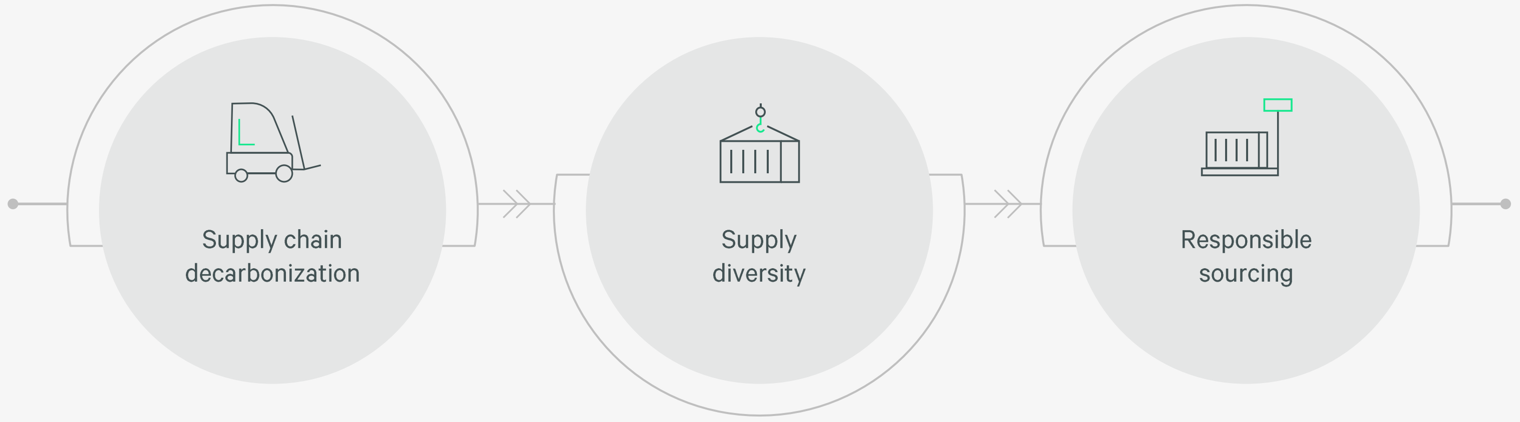
SUSTAINABILITY GAINING TRACTION IN UPCOMING SUPPLY

Similar to other asset types, ESG plays a significant role in the I&L sector, with more corporates committing themselves to decarbonisation and $C0_2$ neutrality. As a result, ESG is no longer an additional feature; instead, it has become a necessity, marking the competitiveness of a new project amongst potential tenants.

Hence, we recommend developers work with occupiers who have net-zero targets as well as ensure intertwined decarbonisation strategies. Currently, a majority of upcoming projects feature steel structures which can hold solar panels, Sewage Treatment Plants (STP) / Water Treatment Plant (WTP), daytime light / ridge ventilation, greening of facilities, etc. As we move forward, developers and occupiers should evaluate the entire supply chain with respect to ESG standards to achieve overall goals. We have listed some of the specifics that could be adopted in this regard in figure 3.4.

> "ESG compliance is no longer an additional feature but a necessity, marking the competitiveness of a new project among potential tenants."

Figure 3.4: Steps to be adopted to evaluate the supply chain



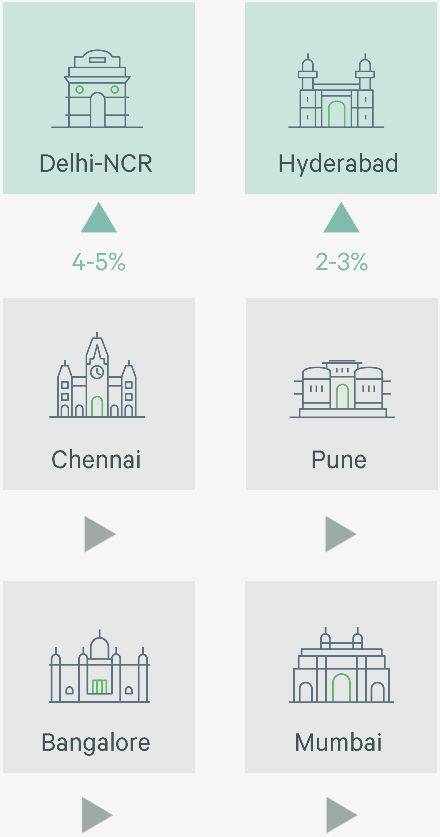
Source: CBRE India Research, Q1 2023

3. Further rental growth anticipated

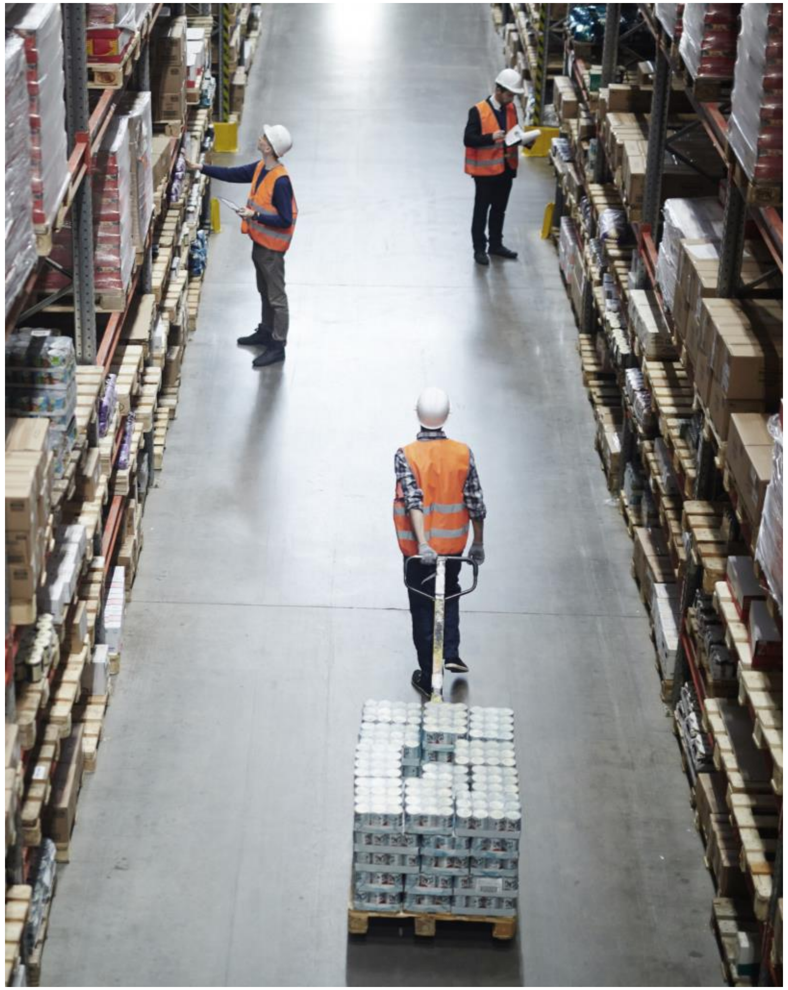
The year 2022 saw I&L-focused players investing in platforms worth about USD 1.8 billion[10], which are anticipated to convert to supply in the coming years. Despite this supply infusion, increasing demand from occupiers is expected to keep the overall vacancy levels in check. In turn, this would lead to an upward rental movement in select micro-markets.

We thus anticipate that occupiers would prioritise prime locations for expansion, but non-availability of ready-to-move-in supply would shift their focus towards secondary locations which would enable them to leverage comparatively low rentals. Further, occupiers would also be keen to expand their supply chain linkages to tier-II and III locations where the growth of e-commerce is higher than established tier-I cities.

Figure 3.5: Annual rental growth forecast for key Indian cities in 2023#



Source: CBRE India Research, Q1 2023



Global macro-economic uncertainty may have an impact on these forecasts, and it is tough to accurately estimate the extent of this impact. Considering this inherent risk factor, forecasts are likely to change with periodic reviews given the evolving situation.

[10] Media articles, CBRE India Research, Q1 2023

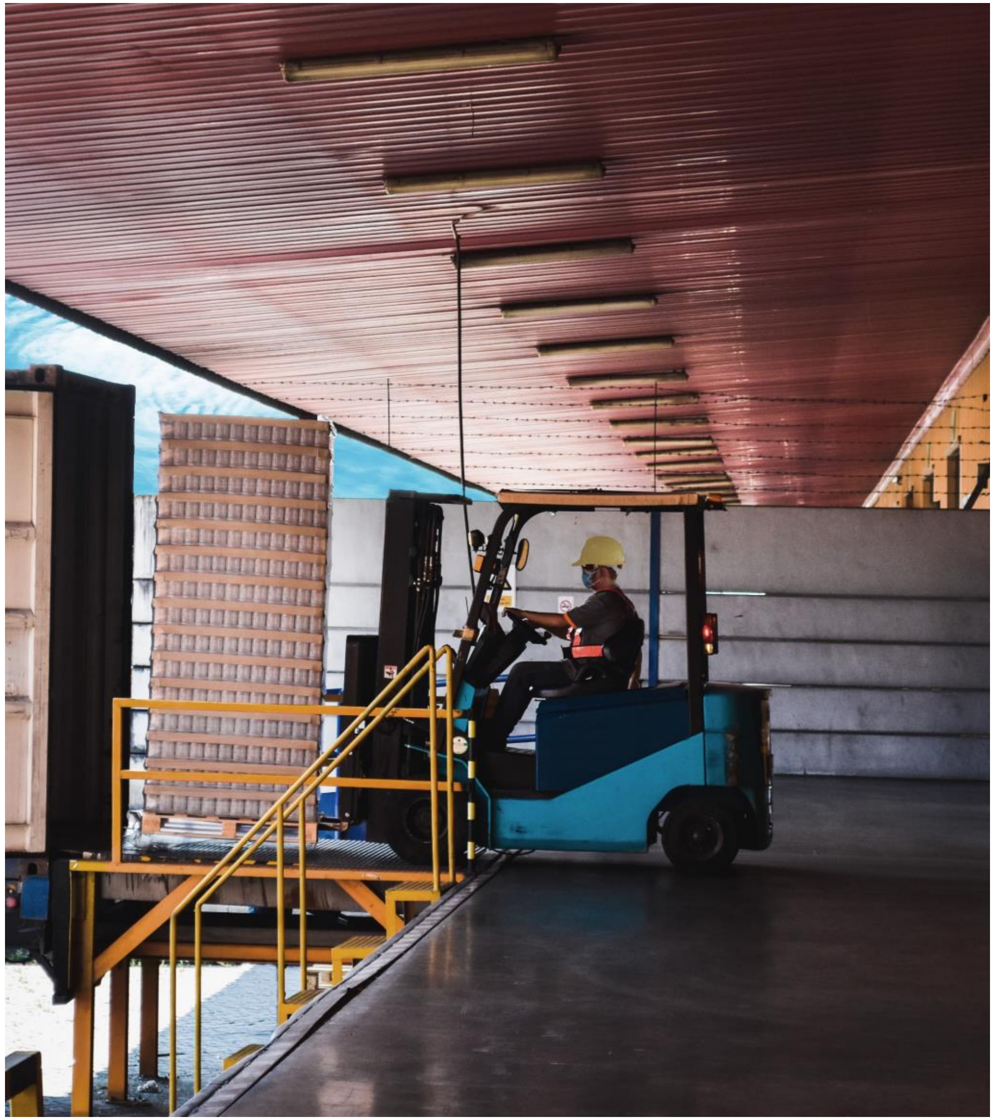
4. 3PL and E&M continue to lead the leasing, while e-commerce is anticipated to recover

The share of 3PL players in overall leasing increased from 41% in 2021 to about 48% in 2022. This increase was attributed to various factors, including occupiers outsourcing their supply chain processes to achieve greater flexibility, increasing transportation costs and difficulties in sourcing labour.

Further, ongoing supply chain and shipping disruptions also resulted in longer lead times, which drove occupiers across e-commerce, retail and manufacturing sectors to expand their buffer stock. As a result, occupiers with insufficient infrastructure are turning to 3PL providers to fulfil their storage needs. Further, taking up space in a multi-user 3PL facility would provide cost advantages via consolidating transport, distribution and shared warehouse costs. We anticipate this trend to continue in 2023, with more occupiers looking to capitalise on 3PL capabilities.

India's aim to increase the share of manufacturing in the GDP to 25% by 2025 from 17% in 2022[11] (refer to figure 3.6), along with the country's growing clout as an emerging alternate manufacturing destination, would drive investments into the sector.

Since the introduction of the PLI scheme, the sector has attracted investments of about USD 33 billion[12] spread across 14 industries. As of December 2022, about 650 applications were approved under the PLI scheme, including those of more than 100 Micro, Small and Medium Enterprises (MSMEs). These approvals have translated into on-ground project implementation of USD 5.6 billion[12] with a production output value of goods equivalent to USD 45 billion[12]. Further, in 2022, the government launched a sector-focused scheme to promote telecom manufacturing. In addition, a USD 2.5 billion PLI scheme for high-efficiency solar PV modules was launched with an outlay of USD 2.5 billion[12]. As described previously, these investments are already showing results, but their actual impact across all manufacturing segments is expected to magnify further this year, which would trickle down to the I&L sector as demand for quality storage spaces grows from the E&M sector.

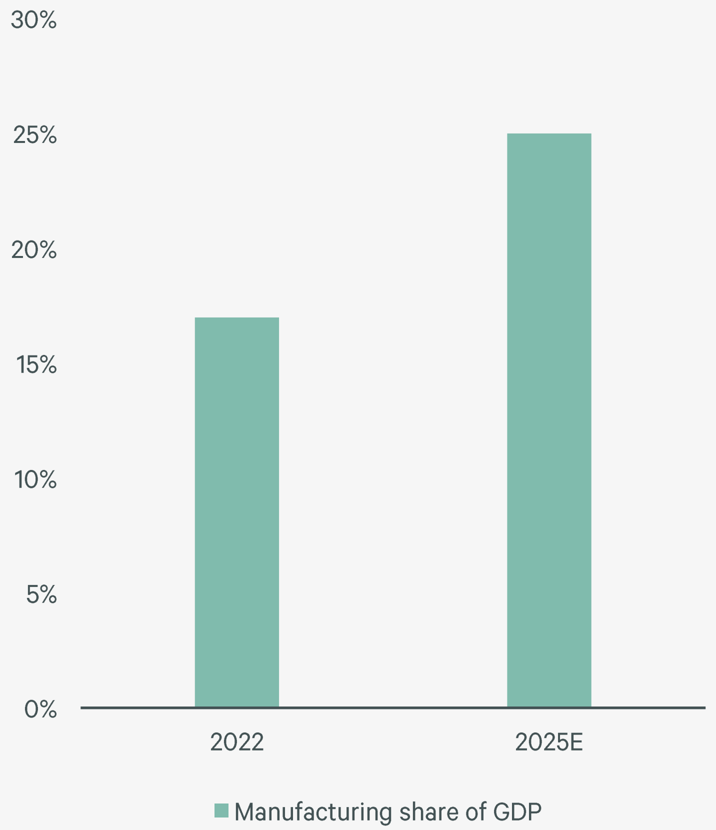


[11] Budget 2022-2023, GoI, National Manufacturing Policy

[12] Media articles, Ministry of Commerce

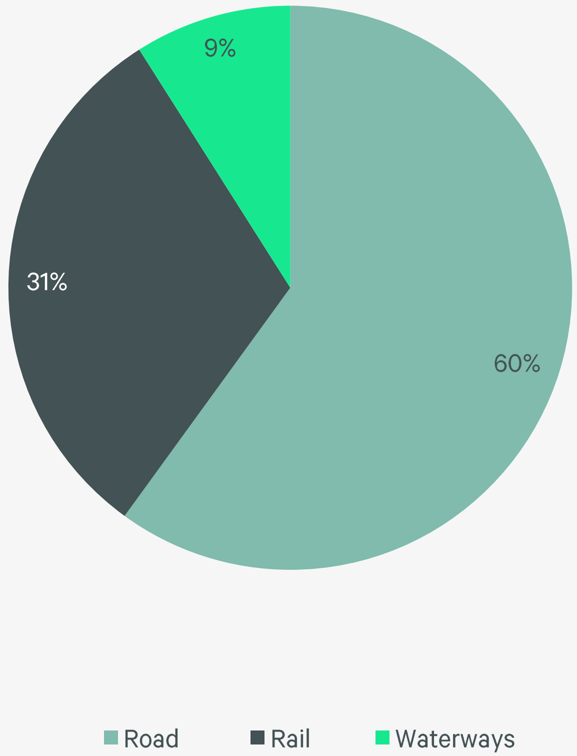
Moreover, an infrastructure boost by the government through the PM GatiShakti Master Plan, National Logistics Policy, National Infrastructure Pipeline, Multimodal Logistics Park, etc. is expected to diversify the modal share of logistics and drive down logistics costs to match global standards. At present, roadways is the dominant mode of freight transport in India (60%) (refer to figure 3.7), and the government continues to improve road network efficiencies while simultaneously concentrating on increasing the share of rail and waterways. We believe that these initiatives would boost the prospects of the 3PL and E&M sectors, thereby driving up demand for quality I&L assets going forward.

Figure 3.6: Share of manufacturing sector in GDP



Source: Budget 2022-2023, GoI, National Manufacturing Policy, CBRE India Research, Q1 2023

Figure 3.7: Modal share of total freight (as of 2019)

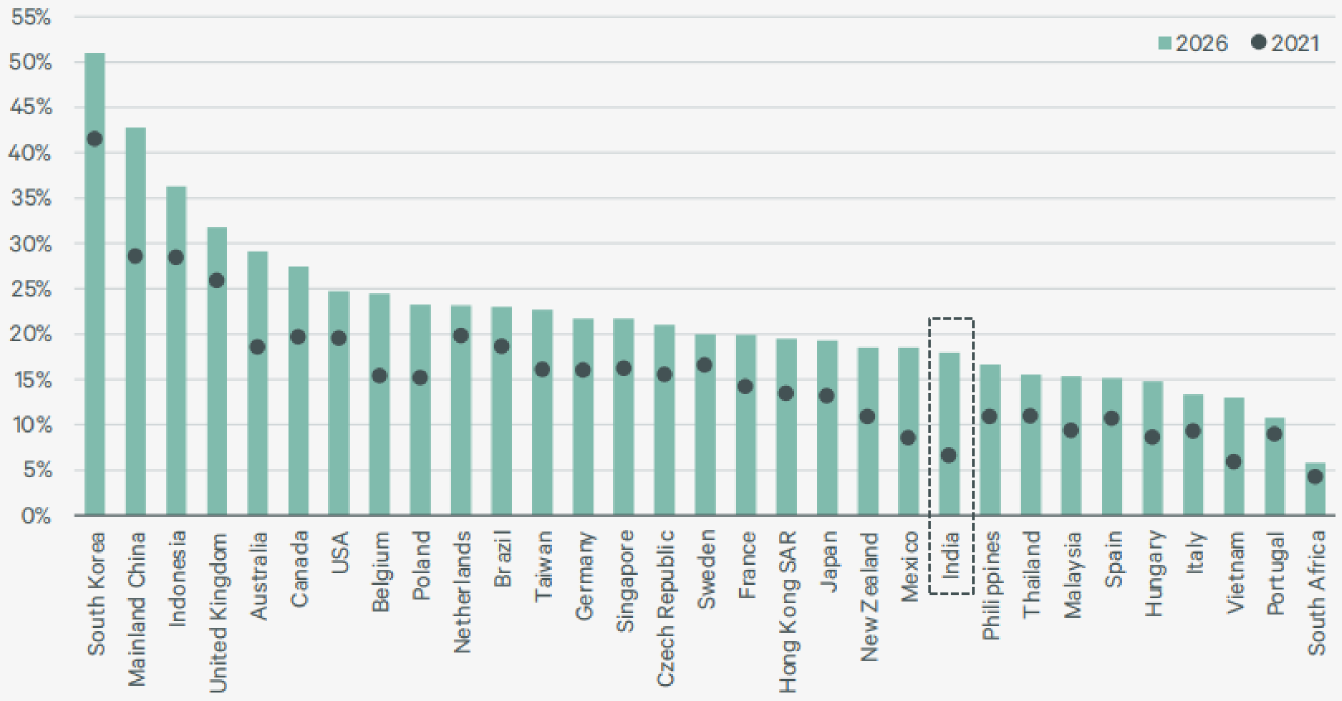


Source: Draft National Logistics Policy, Department of Logistics, Ministry of Commerce and Industry, GoI (2019), CBRE India Research, Q1 2023

While leasing by e-commerce players moderated in 2022 compared to 2021, we anticipate that e-tailer focus on space rationalisation and increasing the efficiency of existing portfolio will last only till the second half of this year.

In addition, the e-commerce sector of India is also backed by strong fundamentals, such as increasing internet penetration and robust demand from tier-II and III centres. We thus expect the expansion of this sector to spur additional space requirements by the end of 2023 (refer to figures 3.9 and 3.10).

Figure 3.8: E-commerce penetration rate across global markets - Internet sales as a % of total retail sales



Source: CBRE Global E-commerce Outlook, 2022

Figure 3.9: E-commerce growth in India basis city tiers (2022 vs 2021)

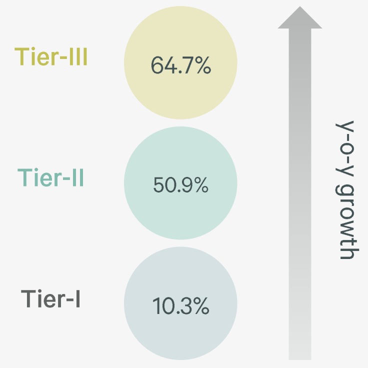
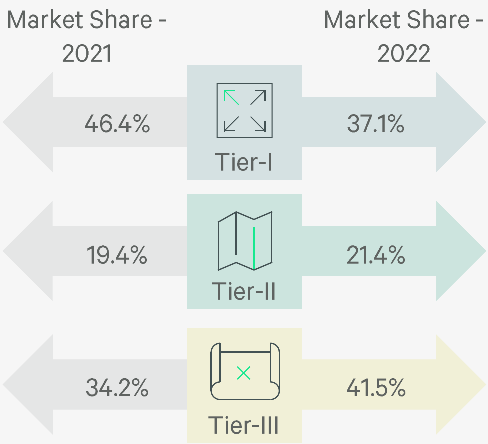


Figure 3.10: Market share in India (basis city tiers)



Source: India E-commerce Trends Report by Unicommerce, 2022; CBRE India Research, Q1 2023

5. Occupiers continue to invest in tech to improve flexibility

Smart warehouse tech has seen rapid uptake in recent years, allowing occupiers to improve efficiencies, augment order-handling capacities and resolve labour shortages. Furthermore, given the quality developments coming up across major cities, it has become accessible for occupiers to implement tech across I&L facilities. These include integrating warehouse management systems, item picking and stacking, robots to operate storage shelves, product identification scanners to improve allocation / documentation, sortation scanners to determine loading dock and destination of products, etc. In addition, several emerging technologies such as Artificial Intelligence (AI), Blockchain, Big Data and the Internet of Things (IoT) are already being implemented across the supply chain to enhance its resilience and improve throughput.

"Smart warehouse tech has seen rapid uptake in recent years, allowing occupiers to improve efficiencies, augment order-handling capacities and resolve labour shortages."

Watch out for

01

The NLP and the 'grand plan' of the logistics division

The government's holistic approach to transform the logistics sector and bring it on par with global standards through a comprehensive logistics action plan, supply-side interventions (such as a unified policy framework, interconnected infrastructure, digital transformation and a skilled ecosystem) and a detailed policy on warehousing standards are expected to reduce the logistics costs to a single digit of the GDP. This would enable India to figure among the top 25 countries on the Logistics Performance Index by 2030.

02

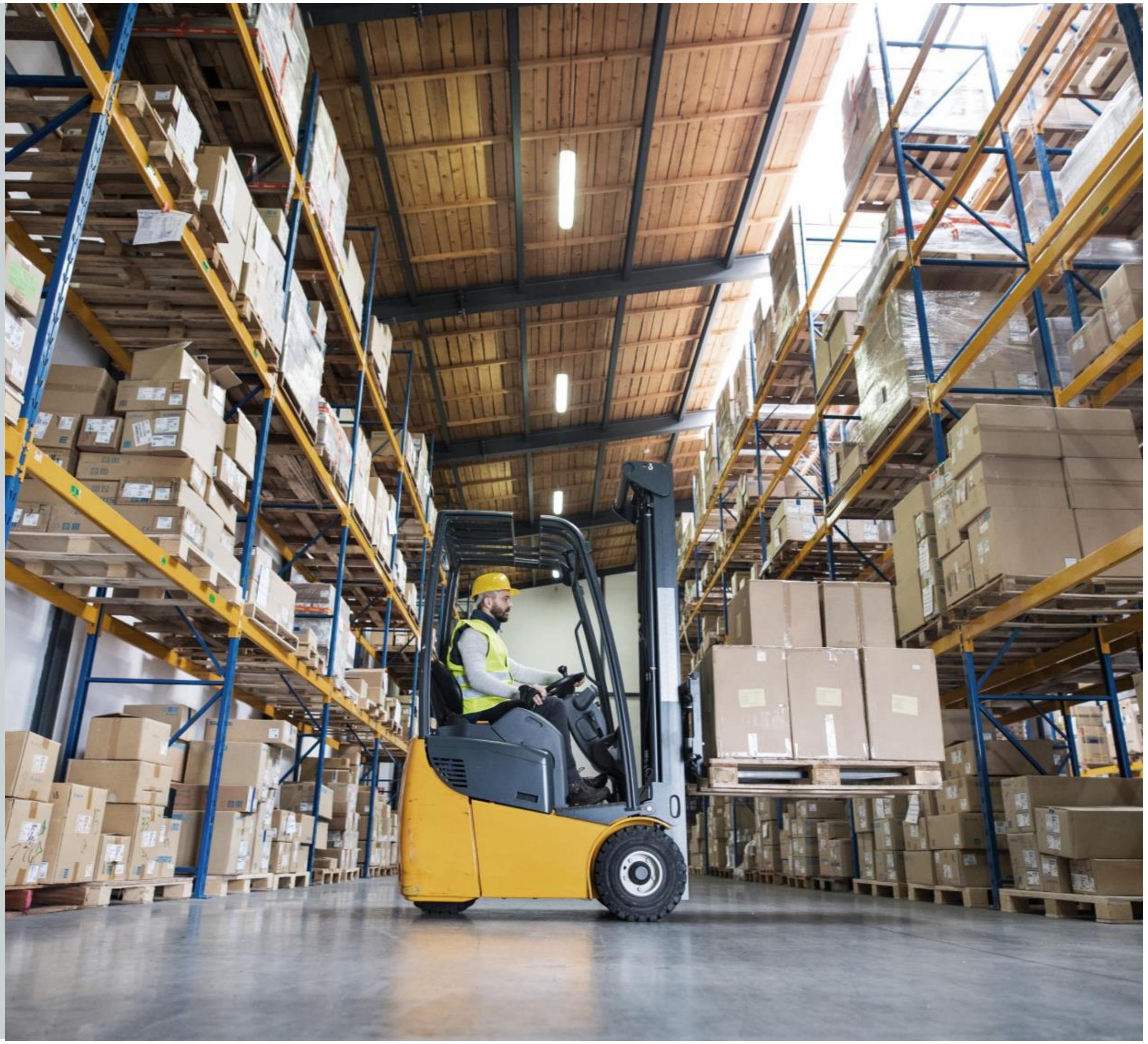
Supply chain diversification to impact leasing activity

There would be a continued focus on 'just-in-case' buffer stocks to drive warehousing activity. Demand centres would see more robust leasing as several occupiers prefer to locate their warehouses closer to consumption hubs to reduce transport costs.

03

Need for speedy deliveries to heighten in-city warehousing demand

Focus on faster deliveries and moving close to end-users have increased the need for smaller I&L spaces within the city. This trend is expected to fuel the growth of multilevel warehouses in the suburbs of tier-I locations, which would help solve the urban logistics (last-mile logistics) puzzle.



SECTION 4

Retail

While global headwinds could impact discretionary retail spending, cautious optimism among consumers along with diversified location and omnichannel sales strategies of retailers are likely to help the sector navigate the next normal.

The year that was

Indian consumption story - sustained growth despite inflationary pressures

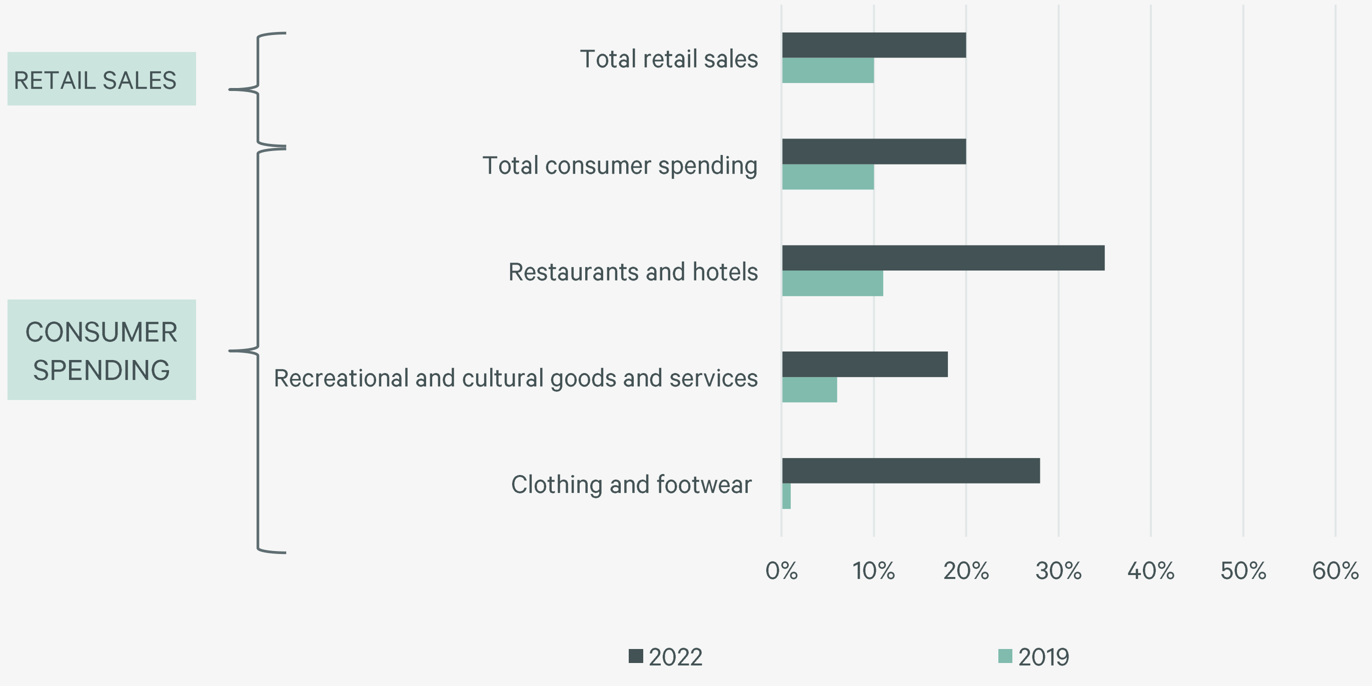
Backed by sustained discretionary spend and a rebound in brick-and-mortar sales after the pandemic, retail consumption and recovery strengthened during 2022. As stated in our economy section previously, looming recessionary pressures have not dampened consumer optimism about their personal finances, as demonstrated by CBRE's India Live-Work-Shop Survey. It was, therefore, unsurprising that total retail sales, overall consumer spending as well as that on discretionary categories such as clothing & footwear, restaurant and hotels, recreation and cultural goods and services witnessed an annual increase of 18-35% in 2022[13].

This strengthened recovery led to expansionary space take-up by domestic and international retailers. CBRE's APAC Retail Flash Survey 2023 has tracked stronger expansionary sentiment among retailers since mid-2022. In this survey, nearly 71% of retailers stated that they planned to expand in 2023 but would remain prudent in extending their presence in new markets. They also revealed that they would adopt a highly disciplined approach to portfolio planning as they seek to navigate economic uncertainty.

Retail performance strengthened during 2022; key categories such as fashion and apparel, homeware, and department stores on a growth trajectory

Retail demand across investment-grade malls, prominent high streets and standalone developments has grown consistently since 2020. The year 2022 reported take-up of nearly 4.7 million sq. ft., a Y-o-Y growth of 21%. Leasing activity was primarily driven by Bangalore and Delhi-NCR, with the two cities together accounting for a 60% share.

Figure 4.1: Improvement across prominent economic indicators (Y-o-Y % change)



Source: Oxford Economics, January 2023

[13] Oxford Economics

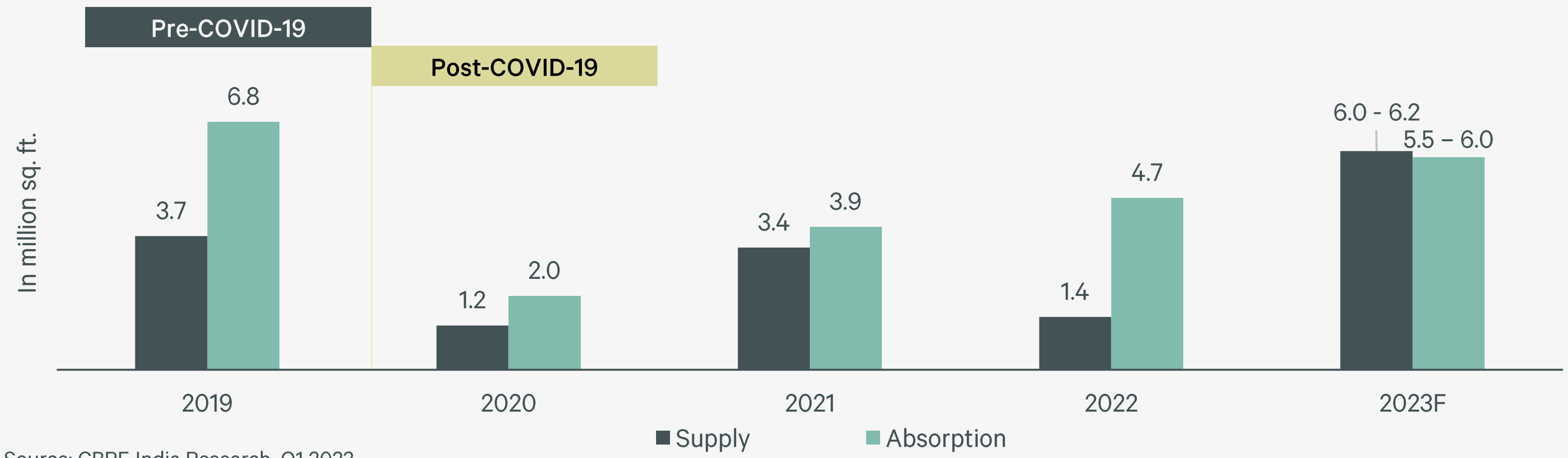
During 2022, retail space take-up in Bangalore was led by primary leasing in newly completed malls. We expect primary leasing in new malls to remain the chief driver of retail space demand going forward as well.

On the other hand, supply addition declined by 59% Y-o-Y in 2022, with only four malls spanning about 1.4 million sq. ft. becoming operational in Bangalore and Pune during the year. However, the supply scenario is set to improve as not only is there a significant amount of pent-up supply lined up for completion during 2023, but we also expect several investment-grade projects launched by reputed players in the past 1.5-2 years to become operational during the year#.

According to CBRE's APAC Retail Flash Survey 2023, there was a distinct variation across different retail categories and expansionary sentiment was driven by the fashion and entertainment categories. Fashion & apparel, homeware and department store, hypermarket and F&B categories accounted for more than 70% of the transaction activity in India in 2022. CBRE expects the trend to continue going forward.

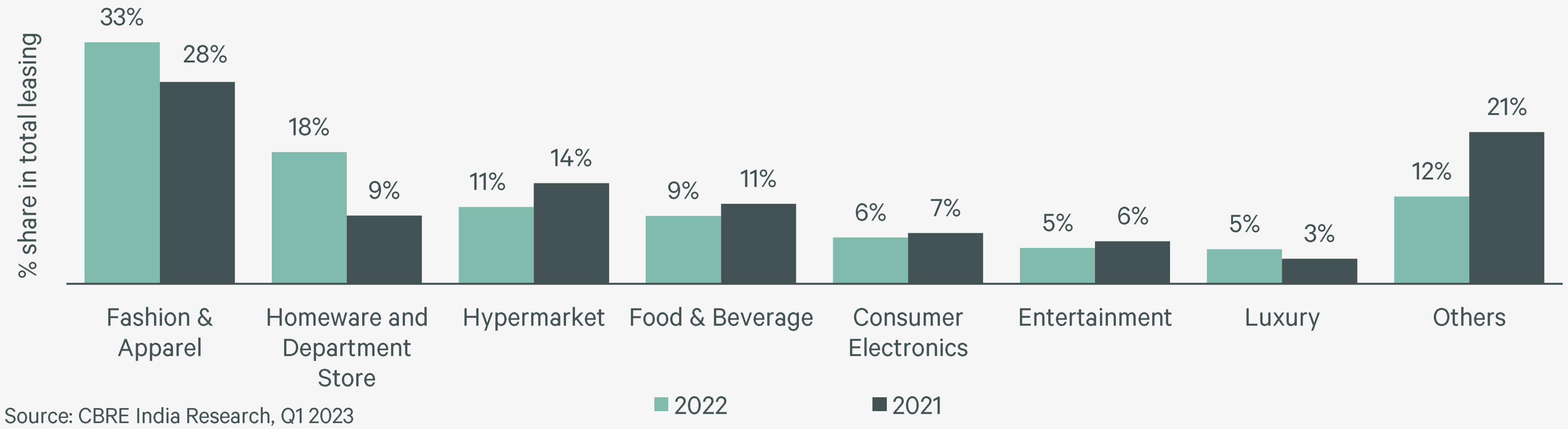
These forecasts may vary based on factors such as pace of construction, developer profile / execution capability, macroeconomic uncertainty, current geopolitical climate, global headwinds, etc.

Figure 4.2: Retail supply-demand trends (2019-2023F#)



Source: CBRE India Research, Q1 2023

Figure 4.3: Sectoral trends in retail leasing in India



Source: CBRE India Research, Q1 2023

Top five trends expected to shape the Indian retail sector in 2023

1. Store will remain at the heart of business operations

CBRE's India Live-Work-Shop Survey highlighted that consumer preference to shop in-store varies across product categories. Examining the products, support provided by a salesperson, real-time purchase and a layer of experience offered by brick-and-mortar stores remain some of the top reasons for engaging in an in-store shopping experience.

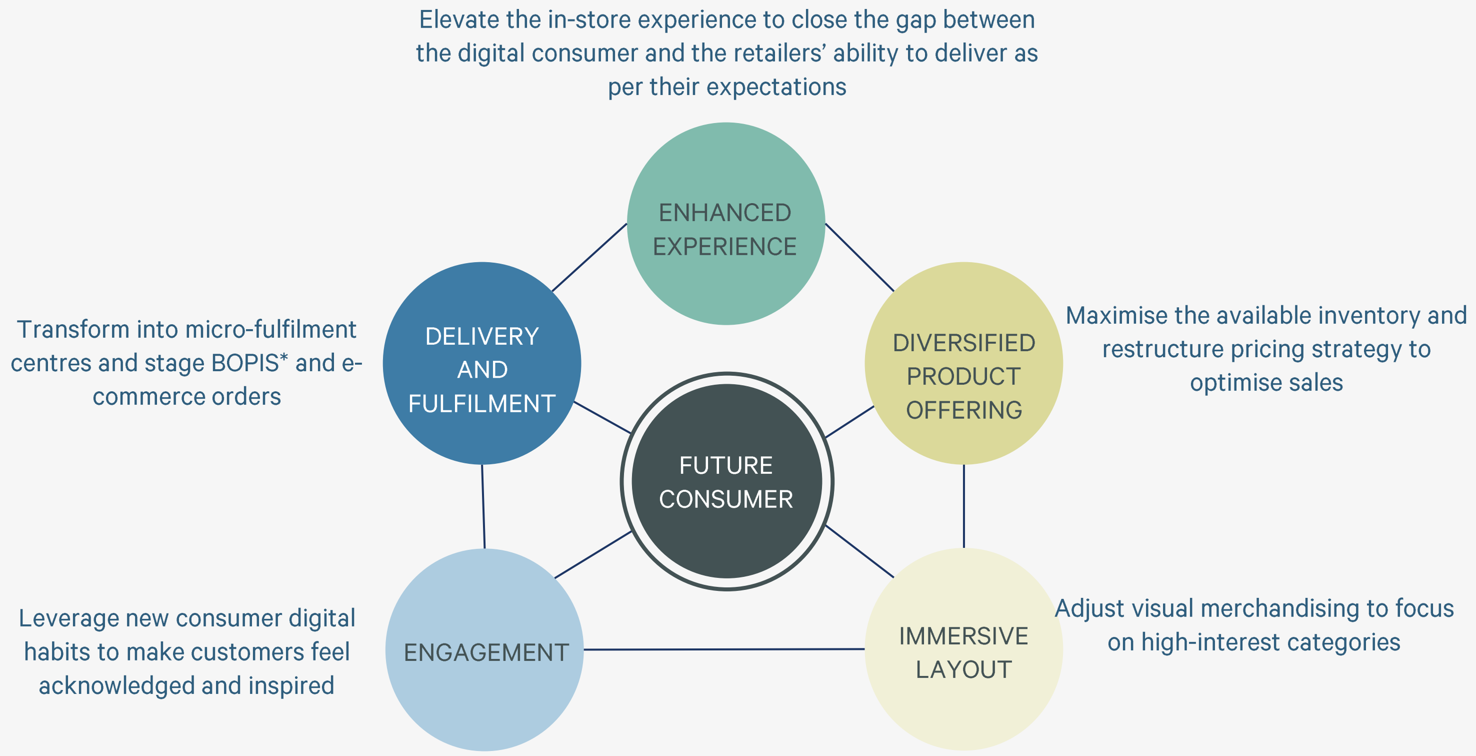
We thus believe that retailers will make efforts towards further enhancing this physical shopping experience. They can do so by:

- Embracing technology to create an immersive experience
- Re-engineering store layouts to facilitate clear and thoughtful communication with the customer
- Leveraging high-interest products that represent their brand
- Moving towards frictionless supply chain methods to accelerate the fulfilment needs of their customers.

2. Retailers will continue to carve out success in diverse locations

The challenges faced during the pandemic led many retailers to diversify in terms of location and enabled them to look beyond investment-grade malls and marquee high streets to enhance their visibility. The trend has continued to evolve since then and retailers are now creating mini retail micro-markets within small retail centres, metro stations, etc. These micro-markets house only a

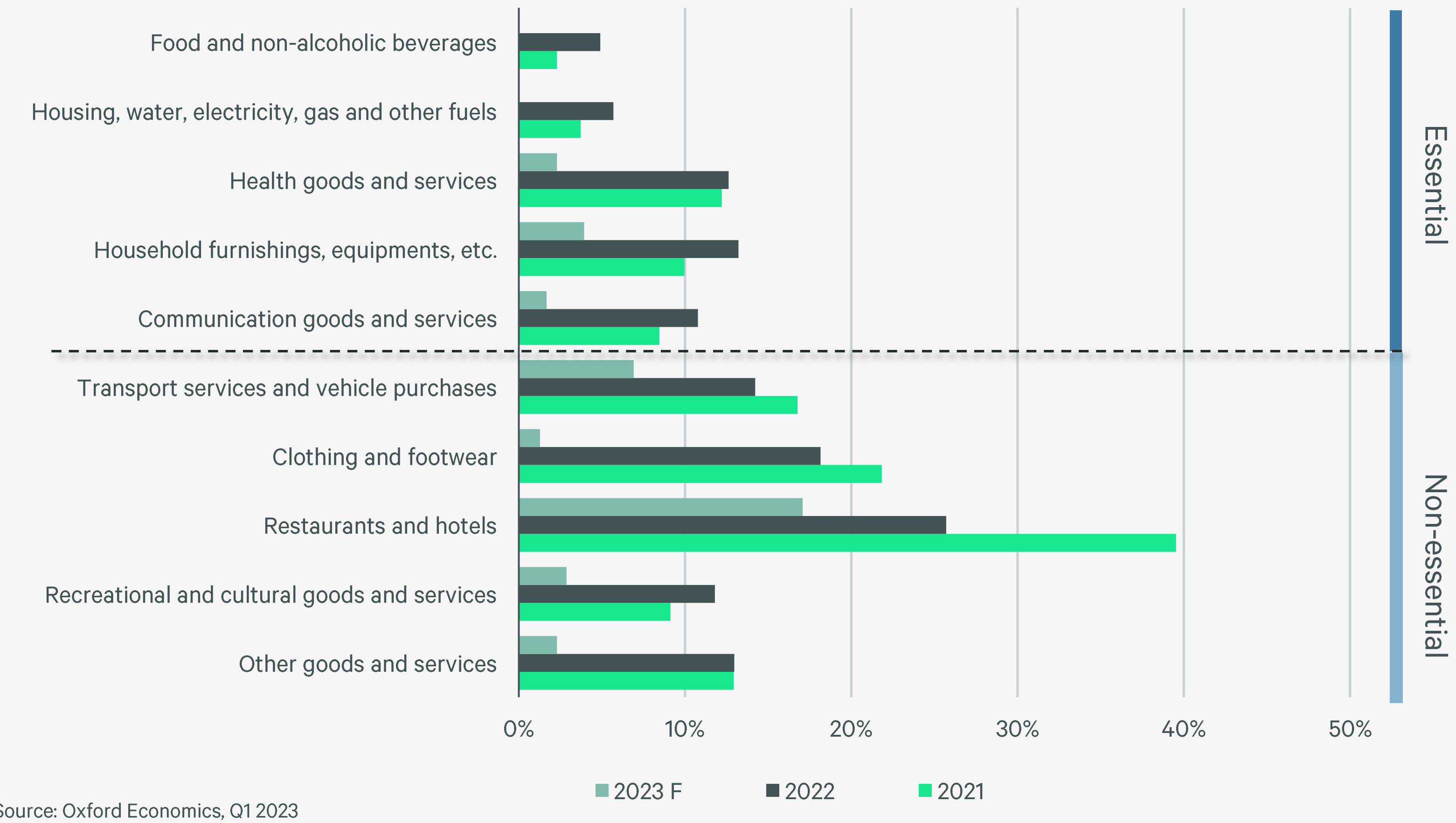
Figure 4.4: New-age store network



Source: CBRE India Research, Q1 2023

* Buy online, pick up in-store

Figure 4.5: Slowdown in consumer spending (Y-o-Y % change)



Source: Oxford Economics, Q1 2023

handful of leading brands – usually in the F&B space – and are marketed aggressively through several social media channels. Most of these brands have an existing customer base which is willing to explore locations where retailers have used innovative concepts to draw a crowd. Currently, this trend is mostly prevalent among F&B retailers, but other categories are also likely to adopt this approach to expand their footprint and existing customer base.

In a bid to diversify their location strategies further, several international brands in the F&B and apparel segments are also opening stores along expressways or highways.

3. Leisure spend may be constrained

Despite sticky inflation, overall consumer sentiments in terms of spending is expected to remain positive, although cautious, particularly on non-essential items. Further, the impact of any slowdown on retail sales growth and private consumption is most likely to be diluted by the festive season in H2 2023. Therefore, compared to other developed economies, Indian consumers remain confident about their personal economic situation despite the current global outlook. Although household spending has held up so far, consumers are likely to keep a close eye on the inflationary pressures and their impact on the prices of commodities going forward.

4. Retailers will become more active in untapped markets

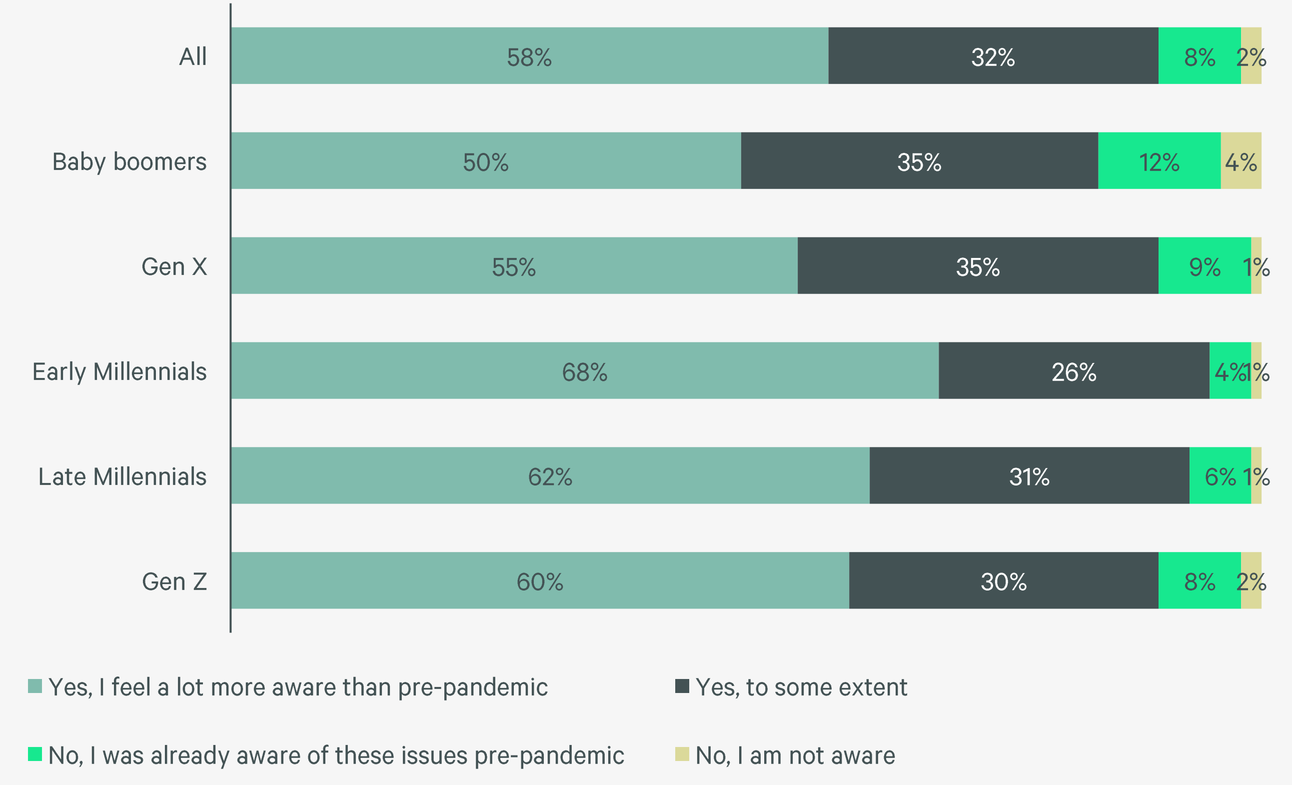
Rising urban population, increase in per capita income, supply chain revamp after the pandemic and successful brand launches in tier-II, III and IV markets have led retailers and prominent developers alike to explore these emerging untapped markets. India's transition into an organized retail market would be driven by the continued growth in these cities. It would, thus, become vital for retail stakeholders to harness the economic and development potential of these cities.

5. Increased awareness towards sustainability

CBRE's India Live-Work-Shop Survey stated heightened environmental consciousness among several respondents - nearly 68% of early millennials and more than 60% of late millennials and Gen Z respondents expressed that their awareness regarding environmental and social issues has increased since the pandemic. However, Indian shoppers have indicated their preference for green products not only in a bid to be sustainable but also frugal as several locally sourced products from smaller / independent brands are relatively inexpensive.

CBRE believes that such sustainable practices are increasingly influencing real estate decisions of developers, investors and retailers alike, significantly affecting pricing dynamics and shaping the future of the built environment. Developers are not only promoting sustainable initiatives (recycling, waste management, etc.) across their assets but also sustainable brands. In a bid to become more sustainable, many retailers are re-evaluating sustainability credentials of their product / brand and directing their strategies towards investing in sustainable and responsible growth.

Figure 4.6: Awareness about environmental and social issues



Source: CBRE's India Live-Work-Shop Survey, 2022; CBRE India Research, Q1 2023

Watch out for

01

The social media flavour

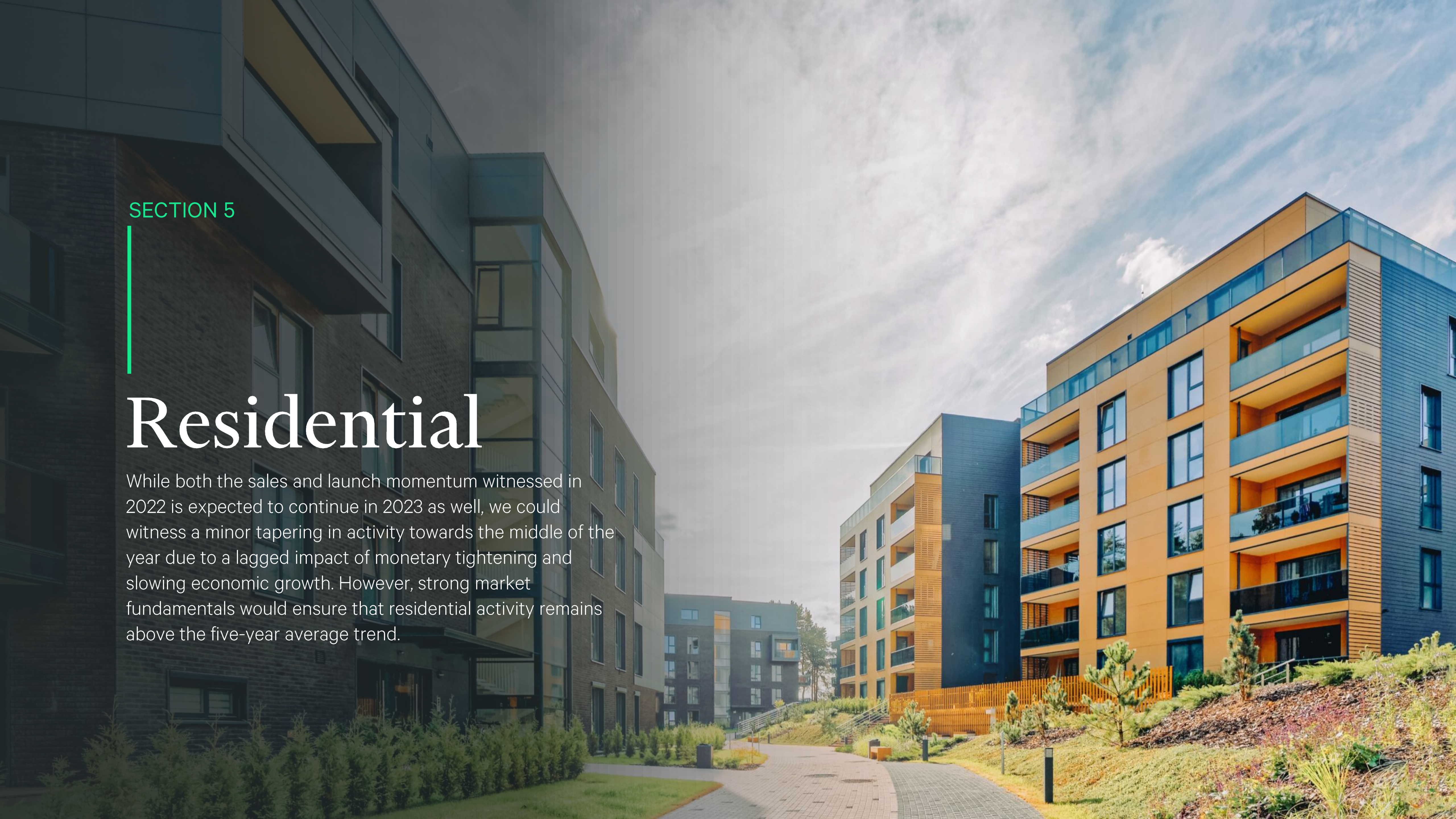
The growing popularity of locally produced products and smaller / independent brands can be traced to their social media presence, which has captivated young shoppers, especially late millennials. Most of these brands engage young audiences and broaden their reach through influencer marketing. According to CBRE's India Live-Work-Shop Survey, 70% respondents stated they were increasingly purchasing products from these brands. The impact of their social media outreach is such that these brands are now competing not only with big domestic names but also international ones.

02

Omnichannel retail strategies to evolve due to high cost of reverse logistics

Typically, brick-and-mortar return rates average between 8-10% of the total sales throughout the year[14]. However, data from the US National Retail Federation shows that the return rate for online orders was 16.5% in 2022. Online returns cause enormous stress on distribution networks, and reverse logistics cost for an average return can go up to 66% of the original sales price of the item[15]. Over a period of time, online shopping penetrated deeper into the Indian retail story, with most e-commerce channels and online platforms of notable brands adopting a free returns policy. Fast forward to today, since the cost to returning items is significant for retailers, many brands and e-commerce channels now have a reverse logistics fee and / or they penalize customers for high return rates. However, the demand for online shopping will continue to grow and therefore retailers are likely to leverage store networks and adopt innovative omnichannel strategies to offset the high cost of reverse logistics.

[14] CBRE's Reverse Logistics Stress Test: Holiday e-commerce spike will lead to record returns, December 2020
[15] Three Magic Moments for Creating Loyal Customers, Optoro, 2020



SECTION 5

Residential

While both the sales and launch momentum witnessed in 2022 is expected to continue in 2023 as well, we could witness a minor tapering in activity towards the middle of the year due to a lagged impact of monetary tightening and slowing economic growth. However, strong market fundamentals would ensure that residential activity remains above the five-year average trend.

The year that was

The pandemic augmented the need for owning a house as homebuyers sought security amidst uncertain times

The residential sector charted new highs in terms of both sales and new launch activity despite a rise in construction costs (owing to growing input and labour costs) and the RBI's monetary tightening measures. The year 2022 ended on a strong note, with sales climbing to an all-time high and unit launches touching a decadal peak. The continued strength of the sector was attributable to the increased need for home ownership, especially in the affordable and mid-end categories which have been key drivers of sales and launch activity in the sector. The premium and high-end categories also had a good run, thereby playing a significant role in the high sales activity recorded during the year.

Capital values on an upward trajectory

Asset prices witnessed an uptick on account of strong momentum in sales, low inventory levels across major cities as well as the developers' decision to pass on the rising construction costs to buyers. The uptick slowed towards the end of the year as developers – with a view to keep the sales momentum going – exercised caution amidst an inflationary scenario and continued repo rate hikes.

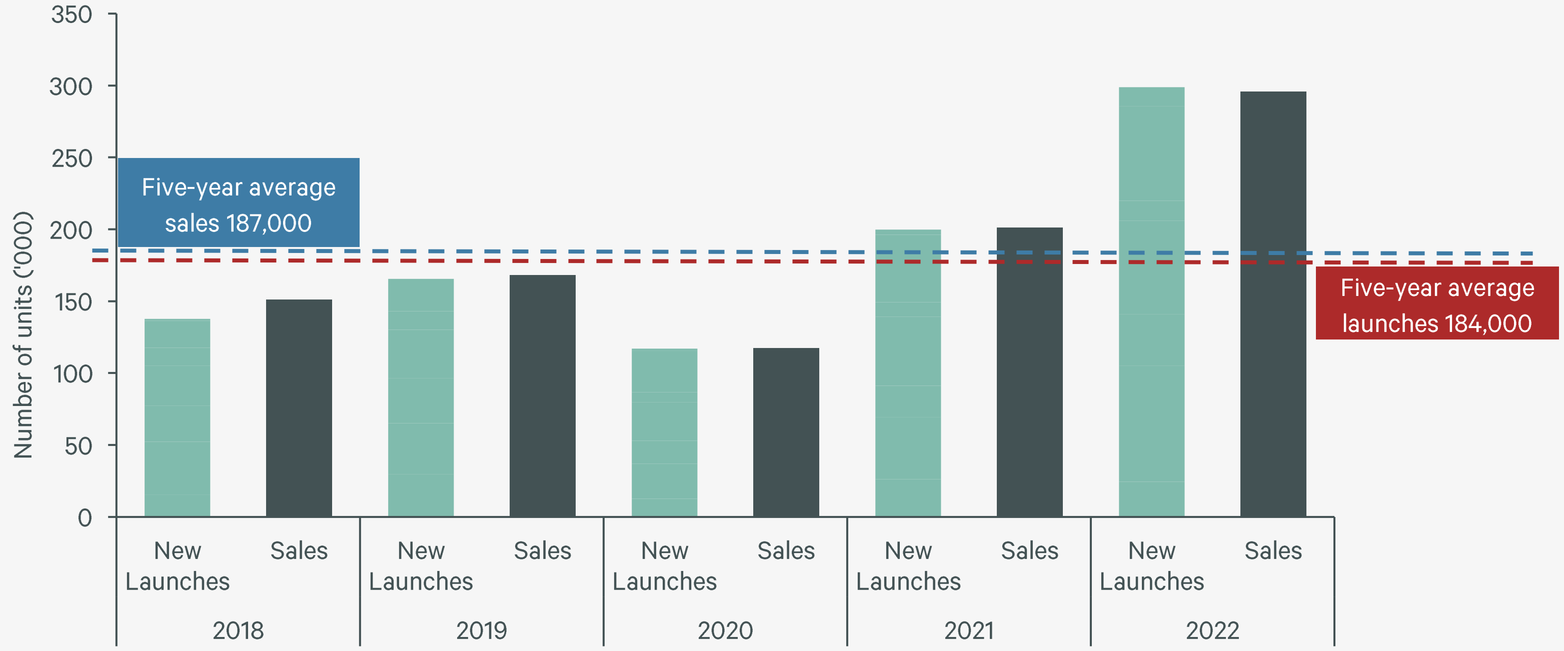
Top five trends expected to shape the Indian residential sector in 2023

1. Sales and new launch activity to remain steady

Heading into 2023, we anticipate that the strong momentum seen in 2022 in both sales and new launches is expected to continue in the first half of the year. We could, however, see a minor tapering in activity towards the middle of the year due to a lagged impact of monetary tightening and an anticipated softening in economic growth#. This impact could, however, be cushioned by the festive season when consumers could return to the market, buoyed by developer incentives and schemes. As in 2022, we expect apartment launches to remain robust this year as well, with Mumbai, Hyderabad, Pune, and Delhi-NCR driving supply infusion in 2023.

Moreover, we can also draw strength from the confidence displayed by homebuyers in our India Live-Work-Shop Survey, wherein Indian consumers displayed the strongest preference to buy homes than rent, when compared to their global counterparts.

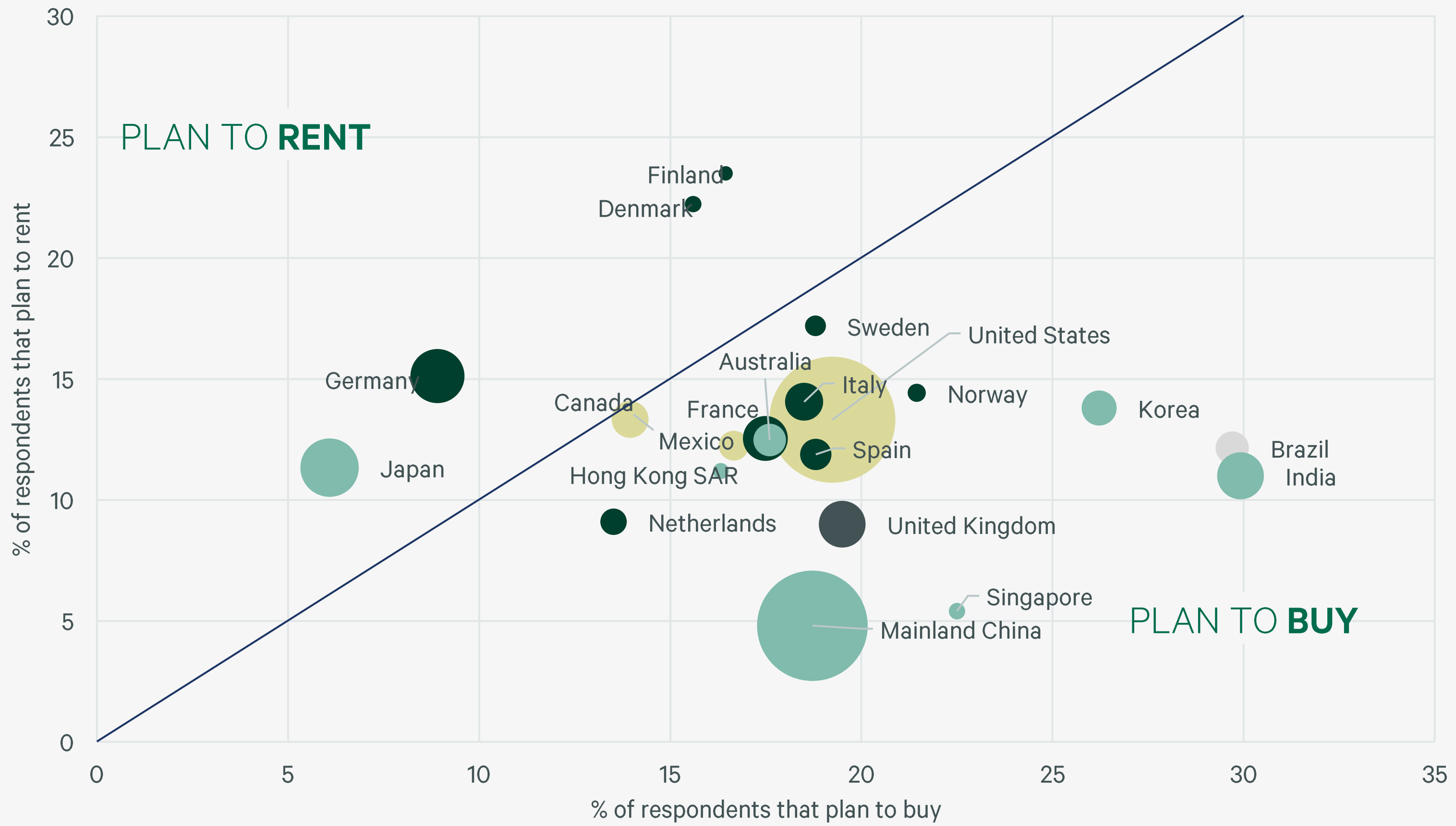
Figure 5.1: Sales-launch dynamics over the years in India (2018-2022)



Source: CBRE India Research, Q1 2023; across top seven cities

Global macro-economic uncertainty may have an impact on these forecasts, and it is tough to accurately estimate the extent of this impact. Considering this inherent risk factor, forecasts are likely to change with periodic reviews given the evolving situation.

Figure 5.2: Buy versus rent sentiment among those planning to relocate, by market

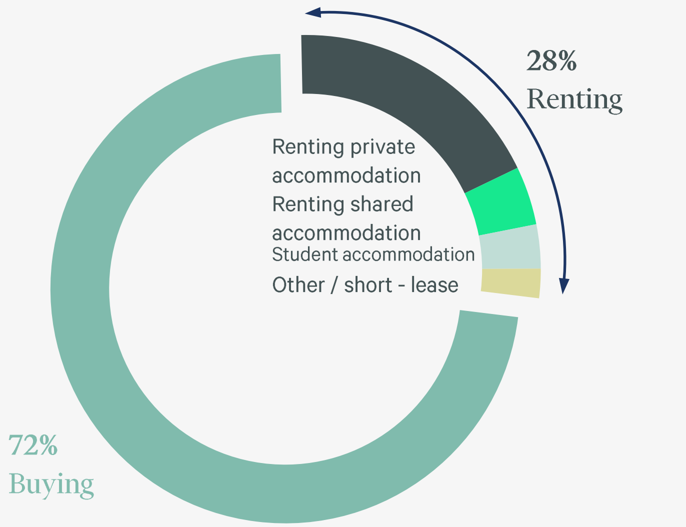


Bubble size represents the GDP of each country

Source: CBRE's India Live-Work-Shop Survey, 2022; CBRE India Research, Q1 2023

According to the survey, nearly 72% of the respondents who were planning to move to a new accommodation in the next two years preferred to purchase a house. Among all age groups, Gen X respondents displayed the highest preference (84%) towards home purchase. Besides, there has been a shift in perception in the 'generation rent' as nearly 70% of the millennials now prefer to buy over rent – a complete reversal of the trend visible in our 2016 India Millennial survey. This infers that credible housing demand will persist in the medium term, which may not get significantly impacted by monetary tightening and external economic shocks.

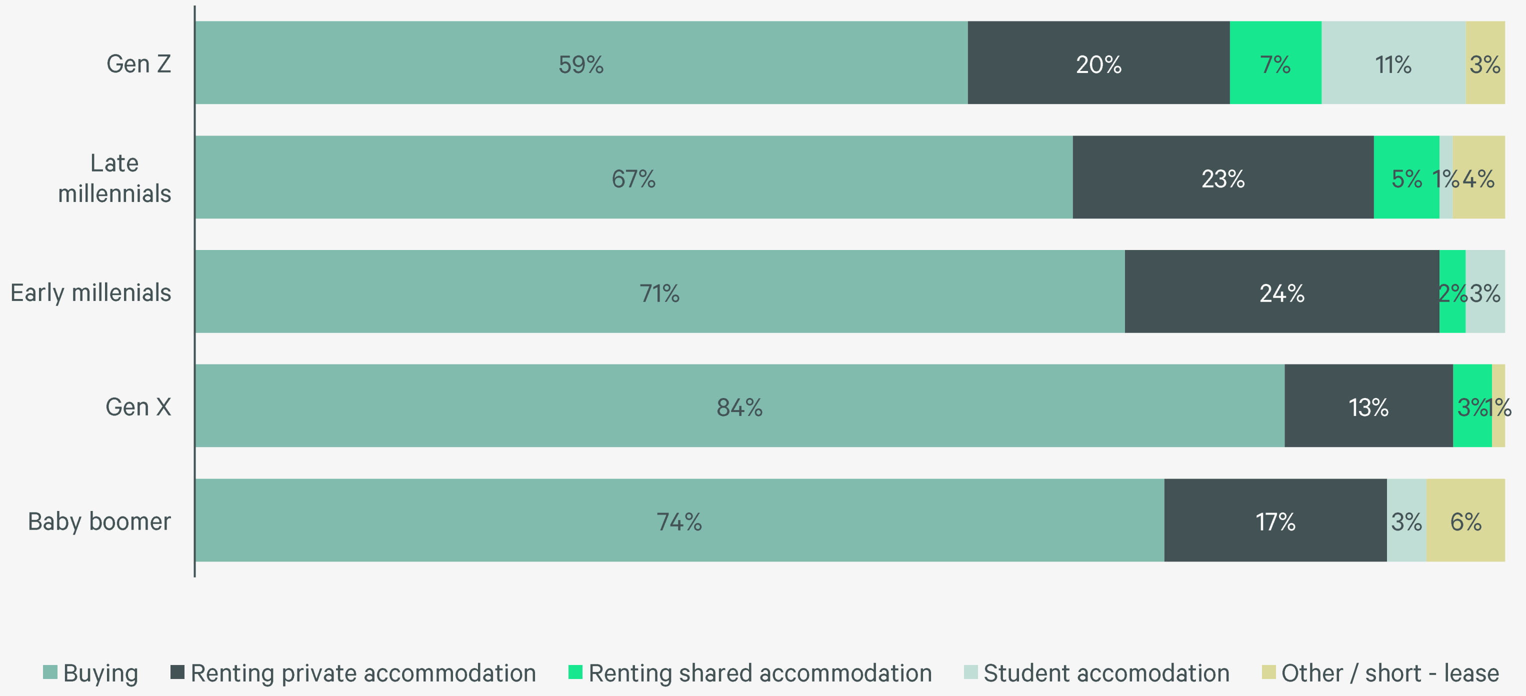
Figure 5.3: Buy vs rent sentiment for those planning to relocate



Source: CBRE's India Live-Work-Shop Survey, 2022; CBRE India Research, Q1 2023

Out of the total India Live-Work-Shop Survey respondents planning to purchase a house, about 61% planned to use mortgage. We at CBRE have closely observed the residential cycle over the past several years and how the pandemic and the resultant shift in home ownership dynamics have moulded it. While external factors might have caused turbulence and played a part in hindering sales, we believe that in the foreseeable future, the tilt towards home ownership is likely to result in genuine end-users driving housing demand.

Figure 5.4: Buy vs rent sentiment for those planning to relocate, by age group

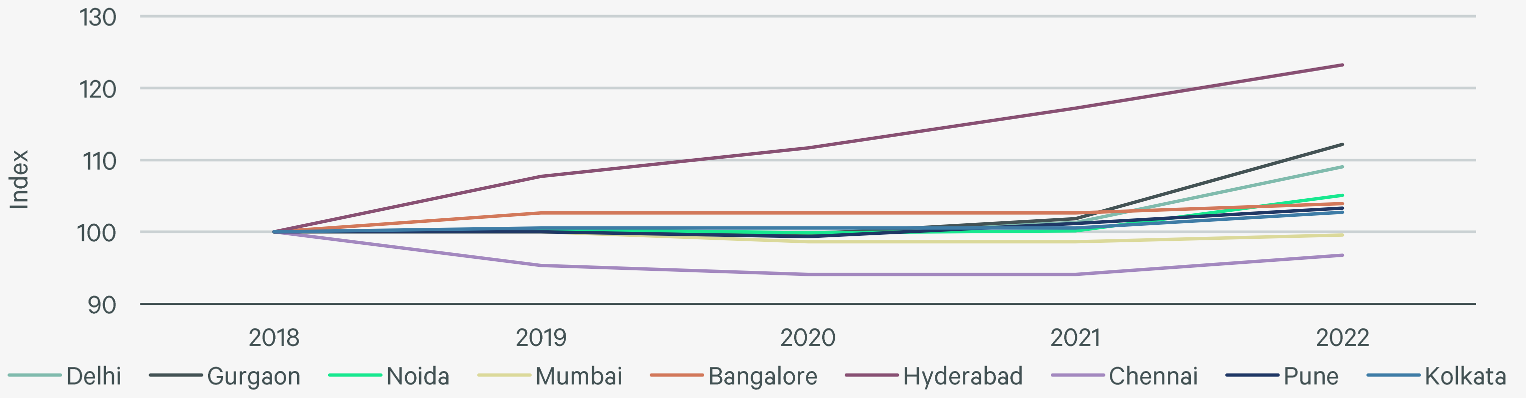


Source: CBRE's India Live-Work-Shop Survey, 2022; CBRE India Research, Q1 2023

2. Capital value growth to be selective than broad-based

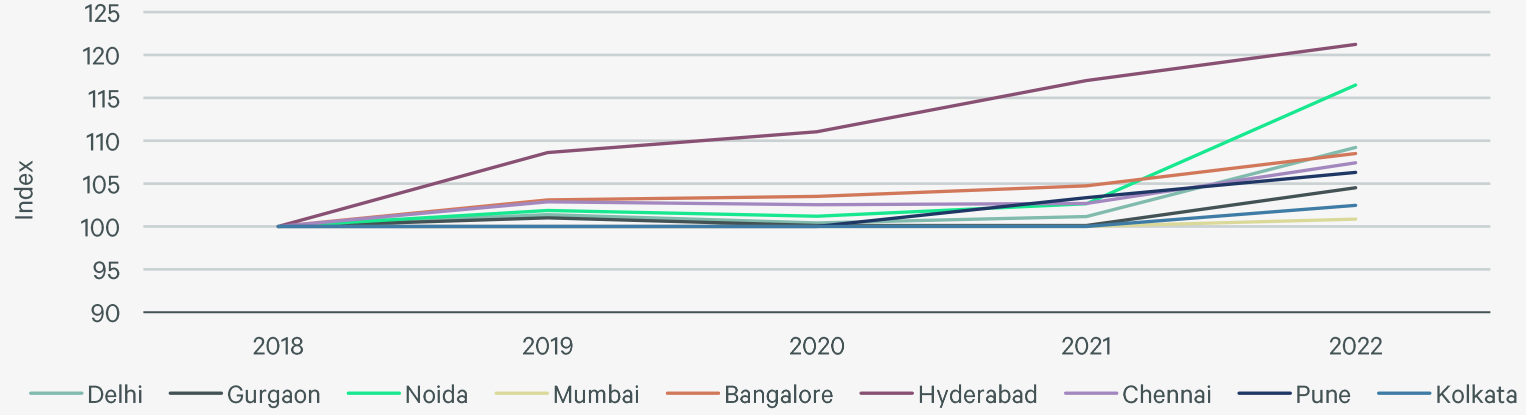
The sector saw strong appreciation in capital values in most cities in the past two years, backed by a strong momentum in sales. Going forward, we anticipate that the sector is likely to see divergent trends in asset prices in 2023, which could vary as per the segment and city / micro-market or even project attributes#. The appreciation could also be governed by unsold inventory levels and inventory overhang, which have seen a sharp decline, especially post the pandemic. Although homeownership sentiments remain strong, developers would also need to be cautious about upward revisions in capital values as it could impact homebuyers' purchasing power (in a scenario of limited developer and government incentives coupled with a sharp hike in home loan rates), leading them to defer their purchase plans.

Figure 5.5: Capital value trends – high-end segment (2018- 2022)



Source: CBRE India Research, Q1 2023

Figure 5.6: Capital value trends – mid-end segment (2018- 2022)



Source: CBRE India Research, Q1 2023

Global macro-economic uncertainty may have an impact on these forecasts, and it is tough to accurately estimate the extent of this impact. Considering this inherent risk factor, forecasts are likely to change with periodic reviews given the evolving situation.

3. Mid-end, followed by affordable and high-end segments to drive momentum; investor sentiments to remain positive

In the past two years, the uncertainty around the pandemic had accelerated the need for homeownership and security. Projects categorized under two buckets (INR 45 lakh – 1 crore and INR 1 – 1.5 crore) have remained the preferred choice of buyers, with multiple first–time buyers / end-users entering the market. Going forward as well, we expect demand for such projects to remain strong.

However, the affordable segment could see some rationalization on the supply front as most government incentives for developers of affordable housing have been discontinued. This could be especially true in a scenario where construction costs remain elevated and the upper cap on the selling price for such projects remains unchanged.

As illustrated in figure 5.7, sales – particularly in the premium and luxury segments (projects with quoted capital values of INR 2 – 4 crore and above INR 4 crore) – exhibited a sharp growth in 2022, increasing by over 2x in comparison to the pre-pandemic levels. This is a trend that we expect will continue in 2023, against the backdrop of a depreciating rupee and significant wealth creation at the upper end of the income pyramid. In addition, capital value appreciation in the residential sector over the past two years is likely to attract increased activity from HNIs and NRIs.

Figure 5.7: Segment-wise new launches and sales (2018-22)

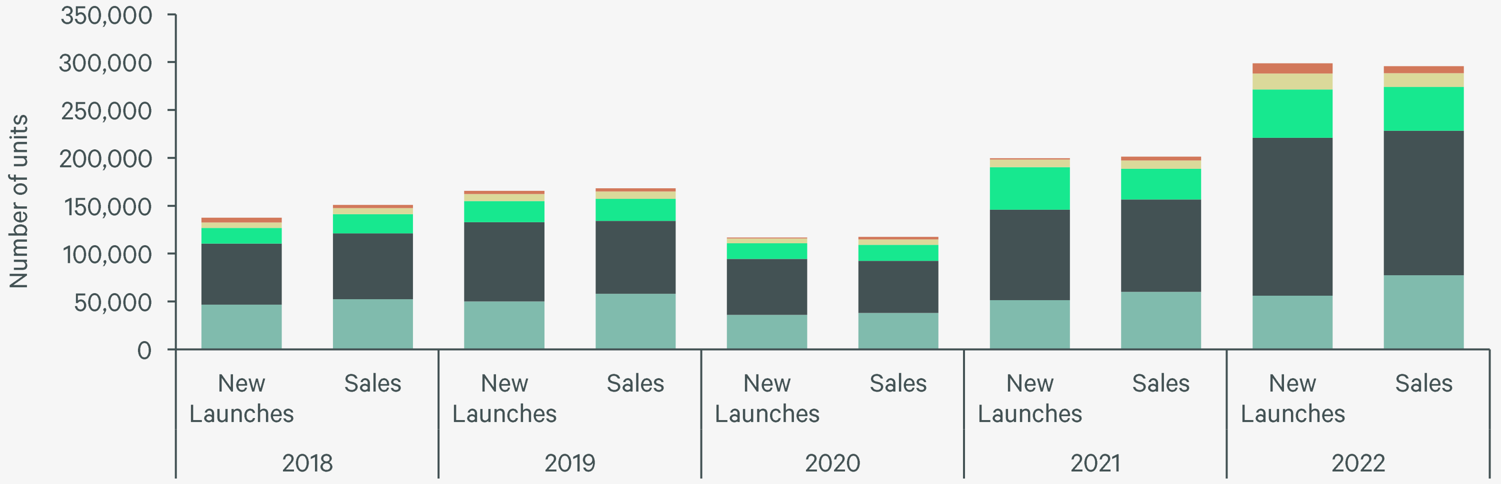
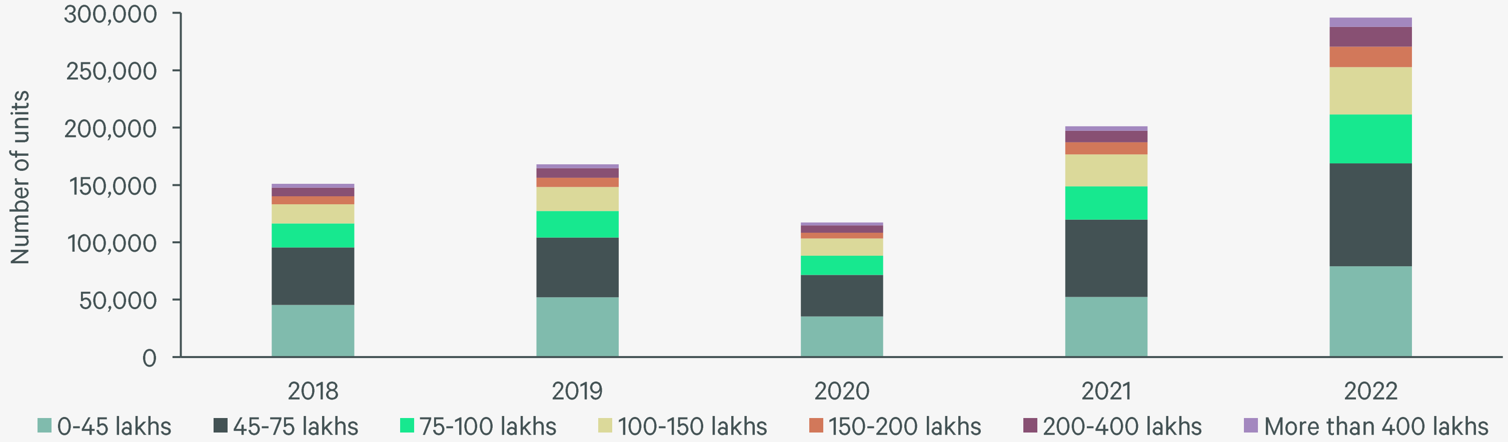


Figure 5.8: Sales across ticket sizes (INR, 2018-22)



Source: CBRE India Research, Q1 2023

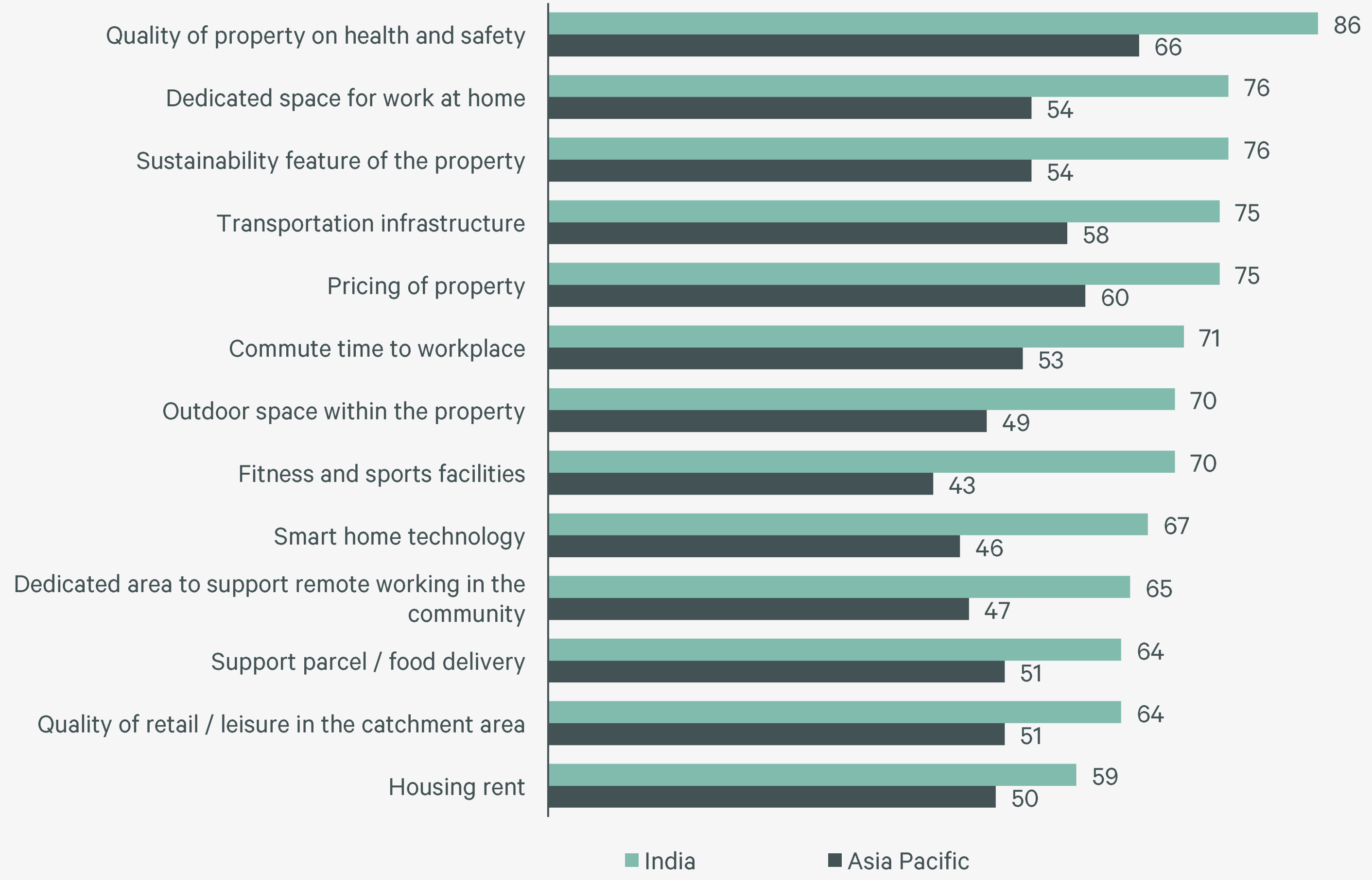
4. Focus on upgrading the quality of property and surroundings; emphasis on physical and social infrastructure

The Indian house hunters' priorities have changed since the pandemic – in addition to affordability, better quality property and surroundings have emerged as important reasons for relocation. Families are now laying equal emphasis on a property's quality and surroundings as on the unit itself. Therefore, attractive interior designs and well-planned outdoors must now be accompanied by remote working infrastructure.

Furthermore, working from home has significantly reduced the average commute time, a habit that has stayed among most employees despite the abatement of the pandemic. This is evident from the results of our India Live-Work-Shop Survey wherein more than 70% of our respondents stated that they preferred a shorter commute with good transport infrastructure. CBRE thus believes that the new housing demand will be centred around areas with good physical as well as social infrastructure.

As homebuyers become more informed, we are witnessing a re-alignment in the decision-making matrix. Significant importance is now being laid on house layout / optimal designs – a trend that has been acknowledged by the developer community which is now increasingly seeking consumer feedback during project planning stages. As a result, we now expect a transformation in the project planning approach traditionally adopted by developers.

Figure 5.9: More important home selection criteria since the pandemic's onset



Source: CBRE's India Live-Work-Shop Survey, 2022; CBRE India Research, Q1 2023

5. Increased formalization and consolidation with large established players to capture higher share

As homebuyers have become more informed, developer reputation, execution capability and financial position are likely to play on their minds when making a purchase decision. We witnessed a greater inclination towards established players among buyers. Tier-I developers have, thus, garnered a majority share in both new launches and sales throughout 2019-2022 – a trend likely to continue in 2023. In addition, large credible players with proven track record have access to comparatively cheaper cost of funding and have higher credit ratings, thereby giving them a competitive edge over smaller players.

SHIFT IN PORTFOLIO EXPANSION STRATEGIES AMONG REPUTED DEVELOPERS

After riding the strong momentum in sales and with an aim to tap the potential that lies ahead, several large developers have forayed not just outside their home turfs but also in tier-II cities. Furthermore, the announcement of the creation of an Urban Infrastructure Development Fund in Budget 2023-24 was proof of the government's intention to upgrade the infrastructure in tier-II and III cities, a move that would further enhance the attraction of these centres. However, each market / state may pose its own set of challenges due to the varied nature of regulatory hurdles and customer preferences. To overcome this aspect and with a view to mitigating risks, we expect to see a higher number of joint venture (JVs) / joint development (JDs) instances in the residential space.

Watch out for

01

Product alignment with changing consumer demands; strengthen wellness and safety features with focus on sustainability

Parameters that were not integral to the homebuyer decision-making matrix are now increasingly becoming important. In a bid to appeal to prospective homebuyers, developers have started to align products as per the ever evolving nature of demand. The projects are now differentiated basis various strategies / themes adopted by the developer. These include low-density plotted developments, green living amidst the hustle and bustle of a city, offering a fixed interest rate schemes for the next two to three years, amongst others. New focus areas also include wellness & safety as well as sustainability. Residential projects with a healthcare element are also increasingly becoming more popular due to heightened importance of health & wellness.

02

Policy thrust and support from central and state governments

The residential sector, especially the affordable / budget and mid-end categories which have been key drivers of demand, would continue to remain on the central government's policy radar. The government in Budget 2023-24 announced an outlay of about INR 79,000 crores under Pradhan Mantri Awas Yojna (PMAY), an increase of about 66% from the previous budget – which is expected to boost investor and developer sentiments in this segment.

Watch out for

03

Younger generation to have a say in homebuying decisions; demand for rental housing could strengthen in the right environment

While millennials were earlier considered 'generation rent', the pandemic prompted a shift in their preference from renting spaces to buying a house. While older generations are more likely to garner the majority of the demand for residential spaces, we expect the younger generation – Gen Z and late millennials (aged 33 years or less) – to become more active as they slowly venture into the housing market. Corroborating this, the India Live-Work-Shop survey revealed that almost 60% of Gen Z and more than 70% of late millennials displayed a greater appetite for owning a house.

While a majority of the respondents intended to purchase a house, we should not discount the remaining cohort looking for rental accommodation – 40% of Gen Z would prefer to rent rather than purchase. While 20% of Gen Z would prefer a private rental accommodation, 18% also look at student housing and shared accommodation as an option. Since this is the age group that will drive rental accommodation, developers must outline strategies to understand and tap demand well in time.

Watch out for

04

Monetary tightening to have limited impact on residential sales

Homeownership in India remains one of the most basic, yet aspirational needs. However, due to lower disposable incomes coupled with high capital values, a majority of homebuyers opt for a mortgage. According to the RBI, home loan disbursal witnessed a growth of almost 20% Y-o-Y[16] in November 2022, a year that saw five repo rate hikes by the central bank. Despite that, sales remained elevated during the year – a trend that is expected to sustain in 2023. Therefore, we believe that the latest 25 bps hike in repo rate would have a limited impact on mortgages, as home loan is a long-term commitment, which may see varying interest rate regime over the entire 15-20 years home loan cycle. However, a further extension of the tightening cycle in Q2 2023 could put pressure on categories whose buyers are more sensitive to changes in disposable incomes (mainly the affordable / budget segments).

05

Adoption of technology to continue

With the ever-evolving technology, the definitions of comfort and luxury have changed over the years. We believe that homes of the future will be 'smart' with a greater adoption of tech tools such as voice-enabled devices, sustained smart homes, and matter-compliant devices. Moreover, developers are likely to continue to incentivize technologies such as IOT, AR / VR AI, in addition to construction technology as they have far-reaching implications on experience, delivery timelines and costs, and product quality.

[16] RBI: Sectoral deployment of Bank credit – November 2022

SECTION 6

Investments

Overall investments are anticipated to remain steady in 2023 on the back of a strong acquisition pipeline. However, global headwinds could lead to slower decision-making, leading to delay in deal closures.

The year that was

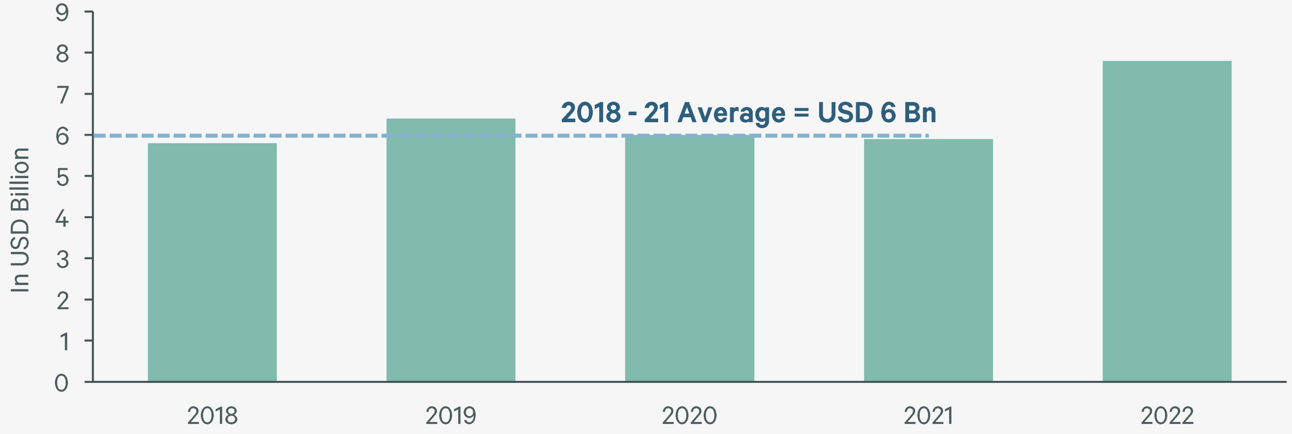
Upbeat investment activity witnessed

Buoyed by the broad-based recovery across the real estate sector in India, equity investments grew by over 32% Y-o-Y in 2022 to attain a new peak of USD 7.8 billion. Mid-sized deals (ranging between USD 10-50 million) accounted for a major chunk (57%) of the total investments recorded in 2022. Delhi-NCR, followed by Mumbai and Bangalore, dominated capital flows, accounting for a share of over 67% in investments in 2022.

The rise of retail

Development sites / land (48%) and built-up offices (35%) together accounted for a majority of the investment inflows in 2022. However, the performance of the retail sector was what caught our eye. The retail sector's share in investments shot up to nearly 13% from almost negligible in the previous year. This was on the back of the strong recovery in offline retail sales, especially in the premium / luxury segments, owing to a bounce back of consumer mobility. This also had a positive impact on retail space take-up, especially in prime malls. Upside to growth in this sector is immense as India has a large consumer base that still remains underpenetrated from an organized retail standpoint.

Figure 6.1: India investment activity (in %, Y-o-Y)



Source: RCA, CBRE India Research, Q1 2023

Top five trends expected to shape investment activity in 2023

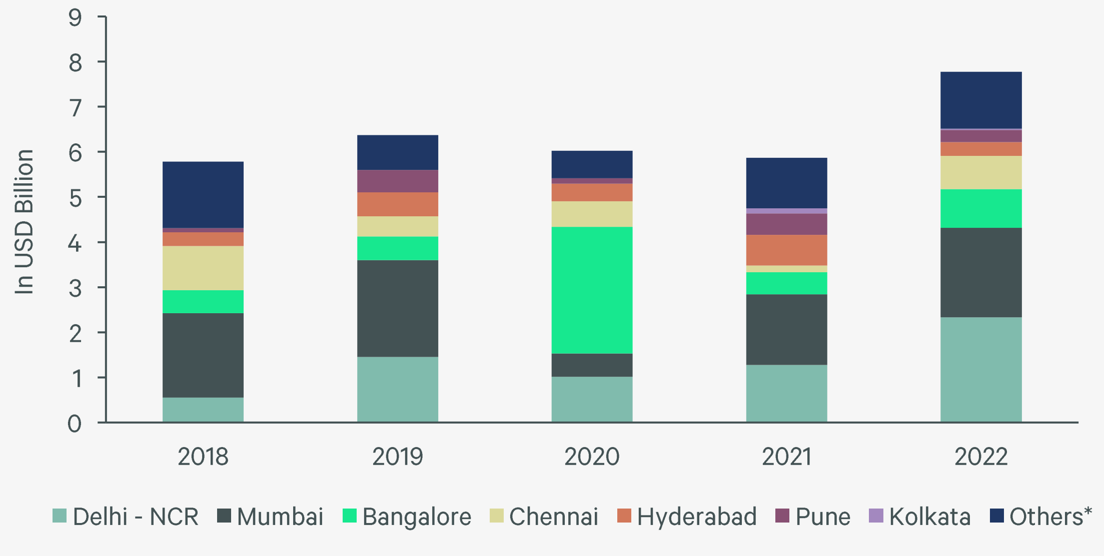
1. Investment inflows to remain steady

Overall investments are anticipated to remain steady in 2023 on the back of a strong acquisition pipeline. In addition, according to CBRE's 2023 APAC Investor Intentions Survey, the dry power targeting APAC real estate has reached a new threshold of USD 65.8 billion – which gives us more comfort. India could garner a good share of the pie, given that it would continue to be among the fastest growing large economies of the world. However, owing to the expected recessionary fears in the developed economies (particularly Europe and the US), decision-making may take time, leading to a delay in deal closures.

GATEWAY CITIES TO LEAD INVESTMENT ACTIVITY; FURTHER TRACTION LIKELY IN TIER-II CITIES

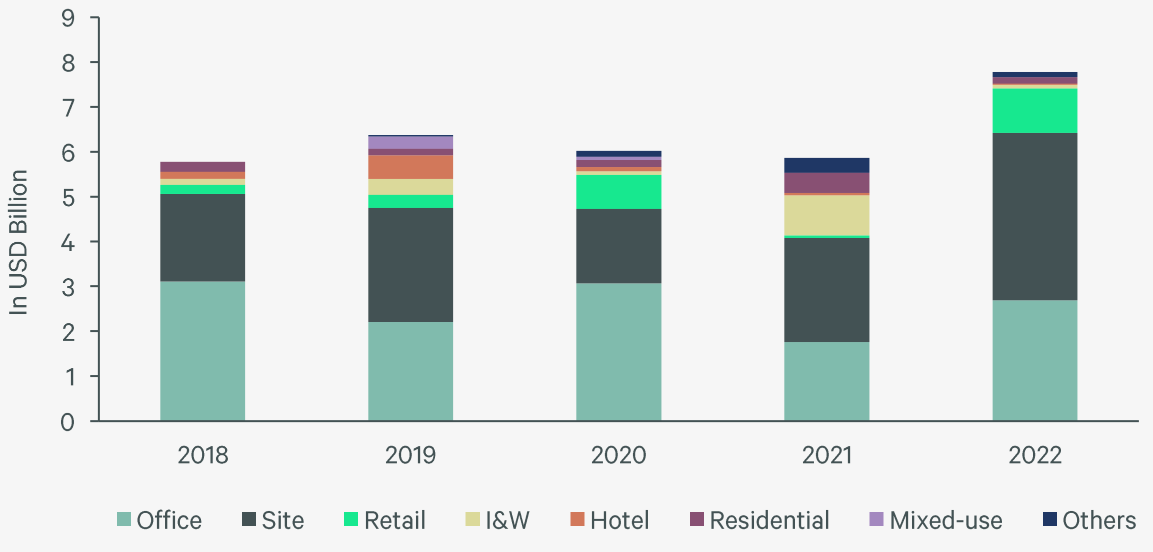
Delhi-NCR, Bangalore and Mumbai are expected to experience similar traction in 2023 as well, with major focus expected on office, development sites and I&L assets. We foresee select tier-II cities to gain further traction in 2023 specifically in the I&L and retail sectors. Growing e-commerce penetration, steady income growth and strong revival in consumption are some of the key factors driving interest in tier-II cities. Furthermore, the government's move to create an Urban Infrastructure Development Fund (as announced in Union Budget 2022-2023) to develop urban infrastructure in tier-II and III cities could add more sparkle to these cities.

Figure 6.2: Investment activity across cities



*Others include investments in cities other than the top seven cities. It also includes investments which are spread across multiple cities but where the individual share of each city is not disclosed either by the buyer or the seller.
Source: RCA, CBRE India Research, Q1 2023

Figure 6.3: Capital deployment across sectors



Source: RCA, CBRE India Research, Q1 2023

DEVELOPMENT SITES, OFFICE AND I&L SECTORS TO GARNER MAJOR INVESTMENTS

Capital flows are expected to continue to be led by development sites / land and office assets, whereas the I&L and residential sectors could also see higher equity inflows. According to CBRE's 2023 APAC Investor Intentions Survey, nearly ~38% of the investors polled from India preferred to invest in the residential sector (through site acquisitions & funding development). Nearly one-third of them preferred to deploy capital in I&L assets, while nearly 25% opted for the office sector.

2. Heightened activity through opportunistic bets

While core and core-plus investment strategies would continue to be preferred by major foreign investors, we could see greater activity via the opportunistic route amidst limited availability of investment-grade assets that are up for sale. In addition, we are witnessing a considerable interest in greenfield developments across all core sectors. The fact that 2022 was a landmark year in terms of land activity is indicative of the long-term bets that investors are willing to take on real estate development in India.

3. Partnership models to gain further traction

The year 2022 recorded the second highest (USD 5 billion) commitments in investment and development platforms. We anticipate the trend to continue this year as well, with major commitments to be made in the office and I&L sectors. We could also see higher traction in the data centre (DC) and residential segments, with strong demand and policy thrust lifting the overall sentiments. In fact, Indian real estate is going through a rapid institutionalization phase, wherein even the newer set of institutional investors are backing developers to ride the growth momentum being witnessed across sectors.

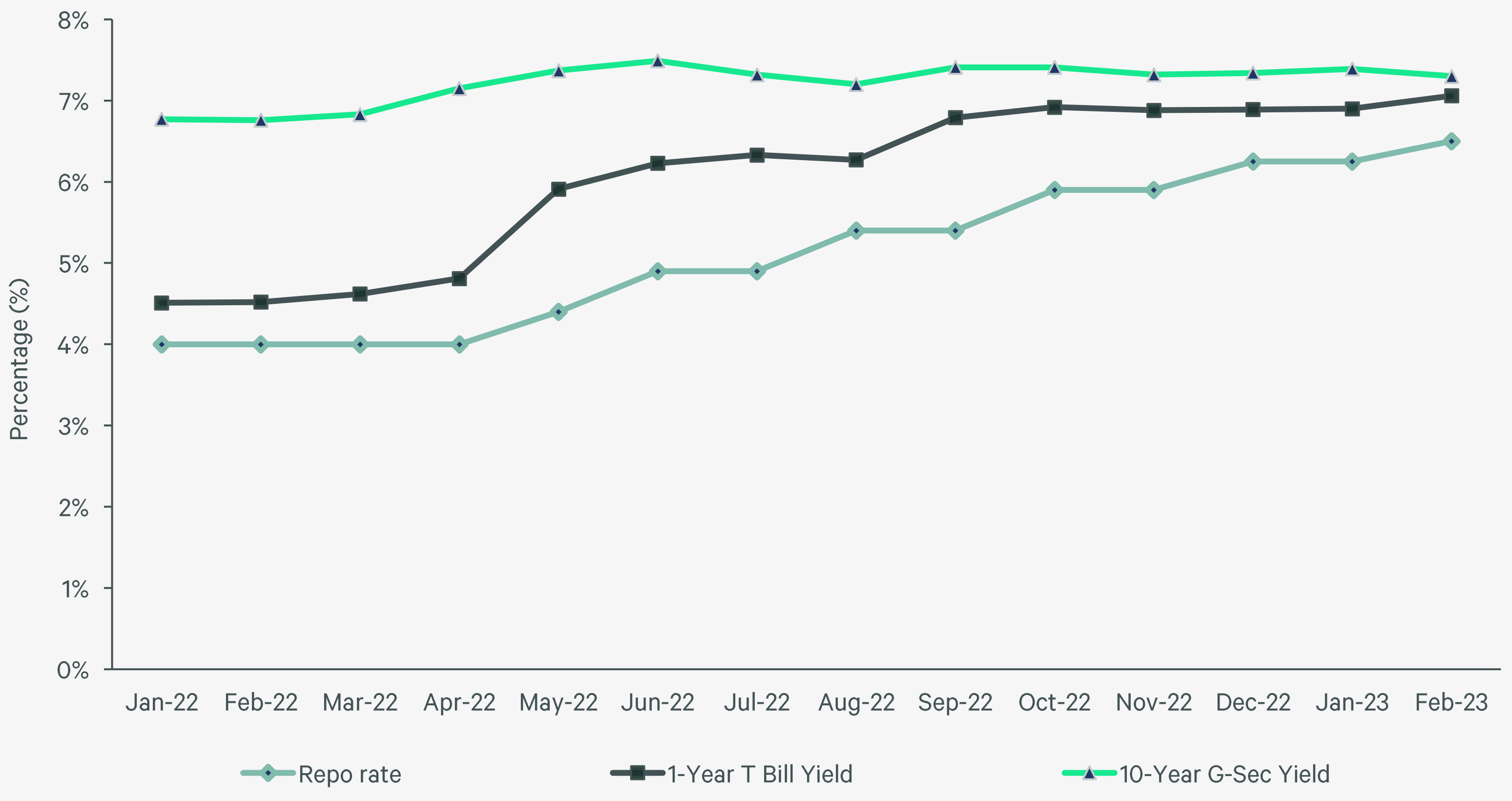
4. REIT landscape to get more diverse

The year 2023 could see the listing of India's first retail REIT, which could add more depth to the REIT market in India. This would widen the investment avenues for investors. In addition, churn in investor base in listed office REITs could continue as select foreign investors look to pare their stake. Furthermore, the government's recent move to amend its original proposal to tax distribution of 'repayment of debt' in the hands of unitholders is likely to ensure that REITs remain an attractive investment instrument. After the amendment, the debt repayment component that would attract a tax will be calculated only after deducting the cost of acquisition of units. Thus, only a small portion would attract capital gains tax at the time of sale of units.

5. Expansion in yields can't be ruled out; financing cost to go northwards

There is a mismatch in buyer and seller expectations in yields across core sectors. In addition, the nearly 240 bps increase in repo rate has narrowed down the spread between 10-year G-Sec and rental yields from real estate assets.. We anticipate that a temporary expansion in yields (25-50 bps) can't be ruled out amidst the prevalent macro-economic setup. Besides, with the increase in policy rates, the cost of financing has gone up considerably in the past one year. This might push investors and developers to re-evaluate their project viability and deal structures. Some investors could also become indecisive and opt for a wait-and-watch approach until the policy stance reverses.

Figure 6.4: Trends in policy rates and fixed-income instruments



Source: RBI

Watch out for

01

Sustainability factor to become more pronounced

As per the 2023 APAC Investor Intentions Survey, about 60% (up from 44% in 2022) of the respondents intended to adopt ESG criteria in their decision-making, depicting a growing awareness and preference for sustainable projects. Hence, 2023 could see a stronger emphasis on ESG practices, so much so that it would eventually become an integral part of the key decision-making process. Sustainability is high on the central government's agenda too, with green growth being one of the seven priorities announced by the Finance Minster in Union Budget 2023.

02

DCs high on investors' radar

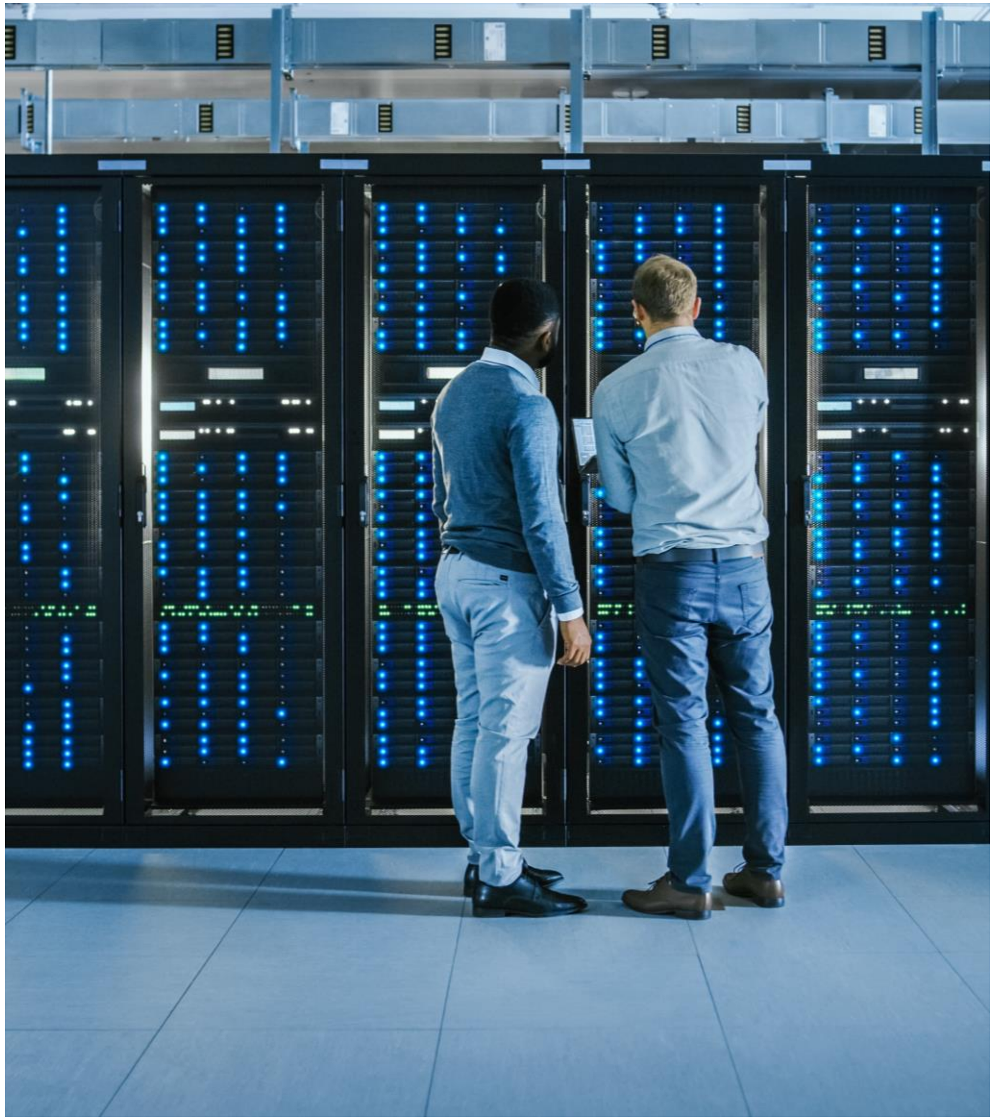
India saw mega announcements and significant capital deployment in DCs over the past two years. Nearly 500 acres of land have been acquired during this period, pegging the acquisition cost alone at over USD 1 billion. In addition, investment and development platforms for developing DCs have been set up, entailing an investment of over USD 3 billion. With the accelerated adoption of digitization post the pandemic and strong policy thrust from the government, we anticipate the investment momentum in DCs to continue in 2023.

SECTION 7

Alternate Sectors

- DATA CENTRES
- FLEXIBLE SPACES
- LIFE SCIENCES

Data Centres



The rollout of the 5G network, increasing internet penetration and continued growth in digitization are expected to further boost the DC segment during 2023. We anticipate sustained demand from various sectors, including technology, telecom, BFSI, media and Over-The-Top (OTT) services. Moreover, demand from public sector organizations, led by an increasing focus on e-governance, is likely to emerge as a key demand driver in 2023. Further, sustained occupier demand and rising investments are likely to improve supply addition across the country. However, on the flip side, regulatory hurdles in terms of sourcing land and delay in approvals are expected be a challenge in select cities.

Occupiers are likely to take the hybrid route to reduce costs

DC occupancy levels in India stood at about 80-85% by the end of 2022, which are likely to improve further during 2023. We expect large tech occupiers to continue their expansion / consolidation plans, albeit at a slow pace, owing to global headwinds and recessionary concerns. In addition, sectors such as BFSI, media and OTT services are expected to continue DC space take-up during the year. Further, public sector undertakings and other key government enterprises are also likely to move to third-party colocation DCs due to an increased focus on digitization and e-governance to ease operations.

In order to rationalize costs, we anticipate that certain cloud occupiers would consider taking a hybrid digital infrastructure approach (mix of colocation and cloud services). This approach would result in occupiers considering 'reverse migration' of certain functions to colocation services..

DC supply to continue to rise with increased focus on sustainability

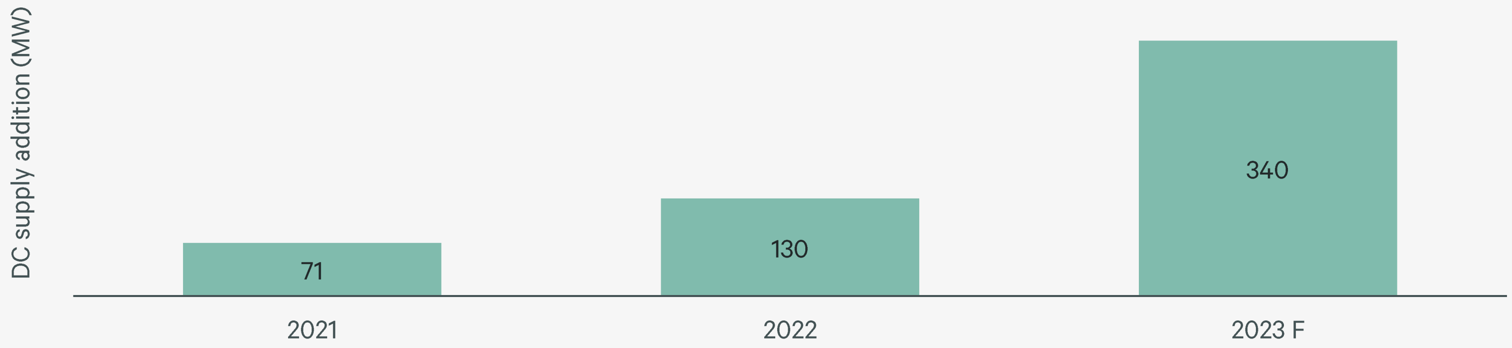
DC supply addition during 2022 stood at 130 MW as compared to 71 MW in 2021. As a result, the total DC stock in India touched ~680 MW by the end of 2022. During 2023, the total stock is expected to further increase by about 50% annually to touch ~1,020 MW, with planned supply addition of about ~340 MW during the year#. We expect a majority of the supply addition in 2023 to be concentrated in Mumbai, Noida, Chennai, Hyderabad, Pune and Bangalore. These cities together are expected to account for more than 95% of the development completions. However, the expected supply is anticipated to be deployed in a phase-wise manner based on occupier demand. While speed-to-market would continue to be the key focus of operators in 2023, regulatory delays (especially environmental clearances) are likely to remain a challenge.

As some of the upcoming supply is already pre-committed, DC rents are anticipated to rise marginally across cities during 2023. However, rents in Mumbai are likely to be under pressure owing to speculative supply addition.

Led by increasing supply, DCs' power requirements are expected to grow further in 2023. This in turn could exert pressure on power grids in key cities that have a higher share of DC stock. To address concerns about power consumption and meet occupiers' ESG targets, DC operators would continue to seek ways to reduce their carbon emissions. These would include reducing their reliance on traditional, carbon-intensive fossil fuels and infusing more clean and affordable energy. Operators are also expected to rethink how every DC is designed and managed, right until the end-of-life disposal of buildings and equipment (refer to figure 7.2).

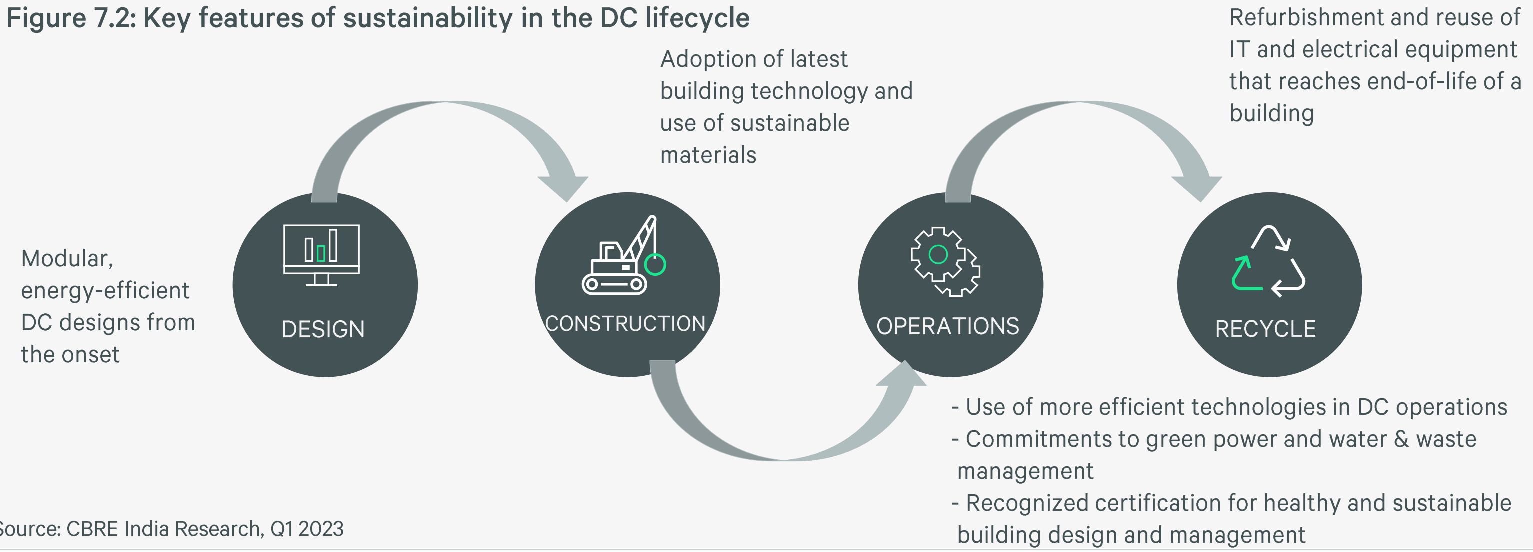
Global macro-economic uncertainty may have an impact on these forecasts, and it is tough to accurately estimate the extent of this impact. Considering this inherent risk factor, forecasts are likely to change with periodic reviews given the evolving situation.

Figure 7.1: DC supply in India (2021-23F#)



Source: CBRE India Research, Q1 2023

Figure 7.2: Key features of sustainability in the DC lifecycle



Source: CBRE India Research, Q1 2023

Flexible Spaces

The flexible space segment has evolved significantly since the onset of the COVID-19 pandemic. Innovations in pricing models, deal structures, space design and technology further enhanced the demand for these spaces, in sync with the demand for a better office experience by occupiers. The leasing of flexible spaces has now become popular across occupiers of varied operational scales such as start-ups, MSMEs and large enterprise occupiers as part of their 'core+flex' portfolio strategies. The past year continued to witness broad-based demand for both managed offices and enterprise coworking spaces from occupiers across varied sectors. Demand-backed flex deals also became more common owing to the appetite for privatized and fully customized flexible offices.

Flex demand drivers to remain intact

The need to support hybrid and distributed working would continue to drive demand for flexible spaces. Offering multiple location options and on-demand meeting & collaboration spaces to a dispersed workforce would thus be key motivators for occupiers choosing flexible spaces. Given the elevated fit-out costs and supply chain bottlenecks witnessed in 2022, capex savings and shorter turnaround times (TATs) for handover would also continue to attract occupiers' interest in flexible spaces. These spaces would also offer the flexibility to swiftly expand and contract when needed to accommodate business needs and as a tool to attract and retain talent. Companies are thus likely to view flex spaces as a hedge against headcount uncertainty as they would offer shorter lease durations and more flexible lease terms. We thus anticipate the flexible space stock in India to grow from 51 million sq. ft. in 2022 to more than 60 million sq. ft. by the end of 2023.[#]

Companies that continue to adopt flexible spaces would thus be better positioned to embrace hybrid working arrangements, support their employees and remain agile in their real estate strategies.

[#] Global macro-economic uncertainty may have an impact on these forecasts, and it is tough to accurately estimate the extent of this impact. Considering this inherent risk factor, forecasts are likely to change with periodic reviews given the evolving situation.

CBRE expects firms in the technology sector to be the main users of flexible spaces. Companies from sectors such as BFSI, engineering & manufacturing, life sciences, infrastructure, real estate & logistics, research, consulting & analytics and e-commerce are also expected to include flex components in their portfolios to a greater extent than ever before. Further, both managed offices and coworking spaces would continue to attract demand from occupiers. Given the sustained demand for flex spaces, major developers and investors are likely to continue to include flexible spaces as a part of their assets — either managed by flex operators or self-operated.

Location networks, technology, services & amenities to drive differentiation

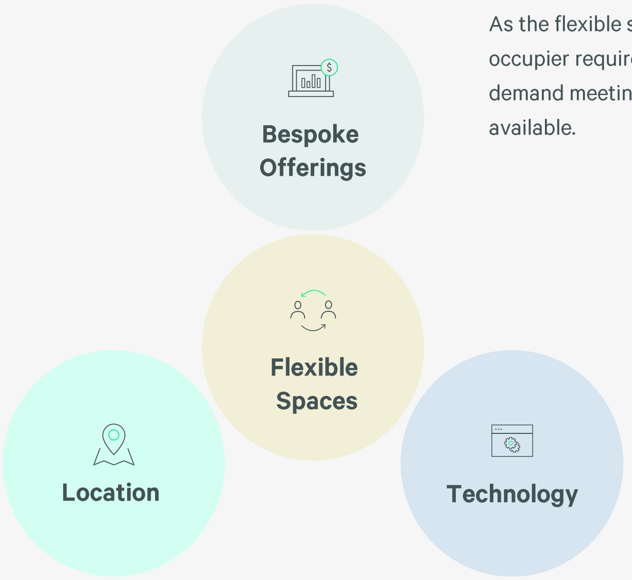
Occupiers entering new markets and testing alternate workspaces or designs would also opt for flex spaces. Flex is one of the preferred routes for occupiers entering tier-II & III markets. These factors would be especially important for large occupiers seeking flex spaces as a part of their hub-and-spoke models and agile networks. Therefore, operators would continue to focus on enhancing their portfolios and location networks.

Operators would also offer broader portfolio-level solutions to larger organizations, seeking end-to-end customization in terms of branding, guidelines, furniture, etc.

For more efficient space utilization, occupiers may prefer flex centres, reconfigurable spaces and flexible features such as event spaces which can be used as meeting rooms, workstations, phone booths with wheels and completely Wi-Fi-enabled offices to reduce cable connections.

As occupiers strive to make the office an attractive destination for their employees, premium services, technologies and amenities provided by operators would also continue to be a differentiating factor. Some of these include reservable workstations, automated parking, pleasing aesthetic designs, provision of retail stores inside the centres, on-call medical services, laundry collection and distribution, fitness and sports facilities, ergonomic and compliant furniture, among others.

Figure 7.3: New trends in product innovation



As the flexible space segment continues to evolve to meet occupier requirements, a **broader offering** ranging from on-demand meeting spaces to **fully customized** private offices is available.

Although providing interim space solutions for a dispersed workforce and CapEx savings are key motivators for choosing flexible spaces, another driver is the need to support hybrid working. Most companies are now using flexible spaces to enter a new market, offer on-demand meeting and collaboration spaces for employees and test alternate workspaces or designs. Therefore, operators are now focusing on **enhancing their portfolios and location networks**.

Flexible space operators and landlord-backed brands are also **differentiating themselves** by providing premium service offerings. They lean towards occupier safety **featuring advanced technologies** focusing on experience and design for enterprise clients.

Source: CBRE's The Era of Flexibility in India, September 2022; CBRE India Research, Q1 2023

Life Sciences

The three major subsectors of the life sciences industry—pharmaceuticals, biotechnology and medical devices—are expected to continue on their growth trajectory in the coming years. This growth would be led by various factors such as favourable central and state government policies, demographic factors, strong industrial base, infrastructure development, improving manufacturing capabilities, cost-effective skilled talent pool and FDI inflows. The sector witnessed sustained leasing activity over the past two years, crossing pre-pandemic levels in both 2021 and 2022.

Steady office absorption by life sciences firms

The outlook for the sector would continue to be positive as office leasing activity by life sciences firms is expected to sustain going forward in 2023. A majority of the absorption by life sciences firms over the past four years was attributable to expansionary demand followed by new setups – both the trends are likely to continue. Select companies would also consider leasing flexible spaces as part of their 'core+flex' strategies. BTS developments with plug-and-play features are expected to witness a higher preference, for which investors and developers may consider partnering with occupiers. As ESG rises on occupiers' agendas, they would strive to reduce carbon emissions across their value chains. Office and lab spaces conforming to ESG guidelines would thus become vital to life sciences occupiers' ESG strategies in the medium to long term.

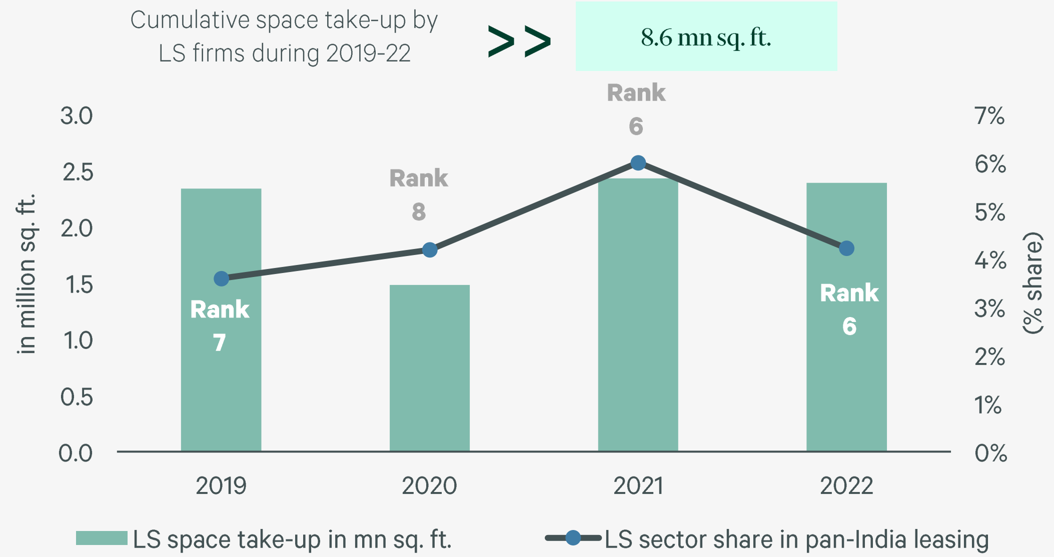
Life sciences real estate supply in India to evolve in the future

As life sciences real estate is still at a nascent stage in India, going forward, more cluster developments such as life sciences / pharma cities, bulk drug parks, medical devices parks, etc. are expected to develop. Such clusters offering economies of scale and best-in-class facilities tailored to the needs of life sciences firms are likely to attract occupiers and provide a boost to the sector as a whole.

The entry and expansion of domestic and global developers would continue to serve the growing needs of these firms. Sustained demand along with the impact of elevated fit-out costs are expected to drive rental growth for this subsector. 'Flight-to-quality' leasing by occupiers in new-age upcoming and existing life sciences parks are likely to result in vacancies dipping in the medium to long term.

> "The outlook for the sector would continue to be positive as office leasing activity by life sciences firms is expected to sustain in 2023."

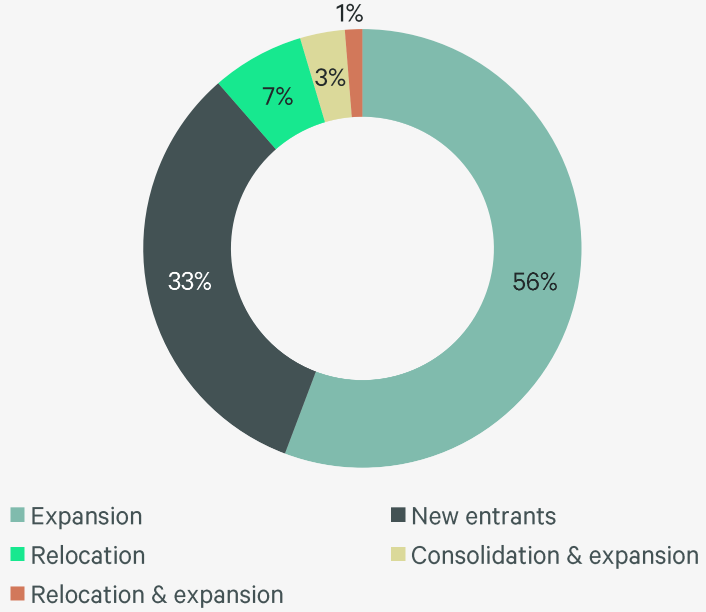
Figure 7.4: Annual space take-up by life sciences companies in India (2019–22)



Rank indicates the LS sector position in overall pan-India leasing as compared to other sectors

Source: CBRE India's Life Sciences in India: The Sector of Tomorrow, March 2023; CBRE India Research, Q1 2023

Figure 7.5: Life sciences space take-up in India as per deal type (2019–22)



Source: CBRE India's Life Sciences in India: The Sector of Tomorrow, March 2023; CBRE India Research, Q1 2023

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