

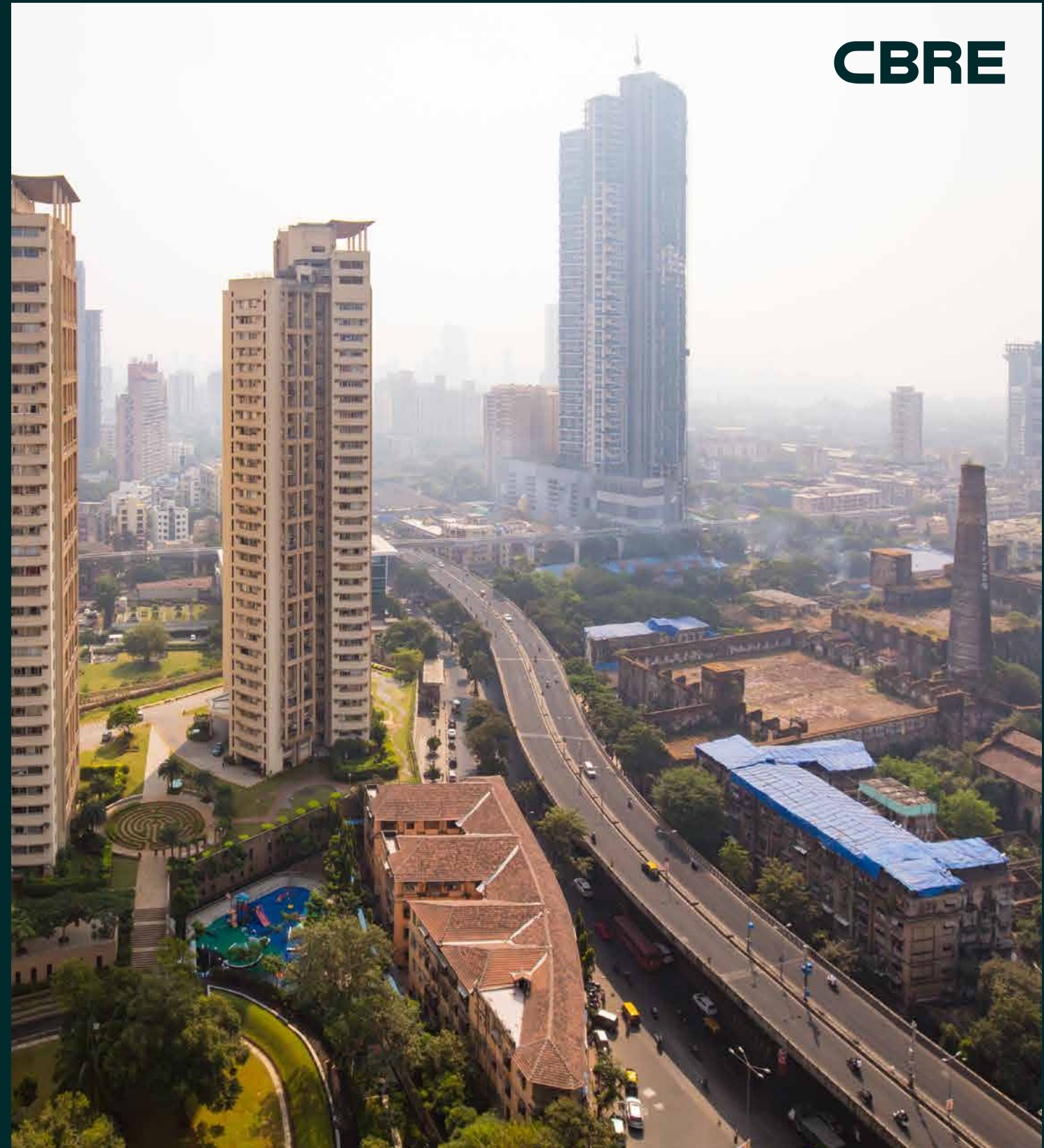
Intelligent Investment

India Market Monitor Q1 2023

REPORT

CBRE RESEARCH

APRIL 2023





Economy

Despite global slowdown, India's growing manufacturing prowess and continued strength of the office sector would ensure that the country sails smoothly in turbulent waters.



India Market Monitor

4.4%

India's GDP growth in Q4 2022

7%

Indian govt's projected GDP growth for FY 2022-23

Continued macro-economic headwinds across the globe have led most agencies to maintain their growth forecasts for India largely in the

5-7% range.

Revised GDP rates for key APAC economies



Source: CBRE House View (December 2022 and March 2023)



5.7%

Retail inflation in March 2023, down from 6.4% in February 2023

Growth forecast for 2023-24

6.4% RBI

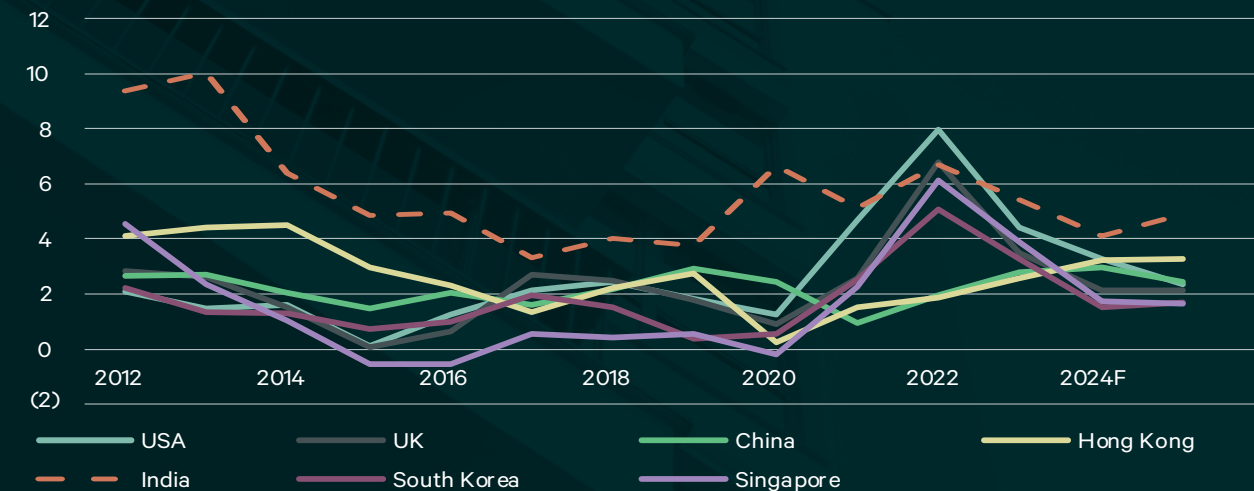
5.9% IMF

5.5% Moody's

6.3% World Bank

4.6% CBRE

Inflation remains sticky but expected to ease going forward








Source: CBRE House View (March 2023)

India Market Monitor

6.5%

Current repo rate which has remained steady since the last hike of 25 bps in February 2023




Key policy steps in Q1 2023

 <p>Government amends Budget proposal to tax distribution of 'debt repayment' for REIT unitholders; now tax would be calculated after deducting unit acquisition cost</p>	 <p>Foreign Trade Policy 2023 unveiled</p>	 <p>Budget 2023-24 raised the outlay for PM Awas Yojana by 66% to INR 79,000 crore</p>	 <p>SEBI approved BRSR (Business Responsibility and Sustainability Report) Core as regulatory framework for ESG disclosures by top listed companies</p>	 <p>Indian Space Policy 2023 approved</p>
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Performance of key high-frequency indicators

 <p>Both PMI manufacturing and services remained in expansion zone through 2022 and Q1 2023. PMI manufacturing climbed to a three-month high of 56.4 in March.</p>	 <p>India's exports rose by 6% to USD 447 billion in FY 2022-23</p>	 <p>Bank credit deployment up 15.5% Y-o-Y in February 2023, compared to 9.1% growth in the same period in 2022. Credit deployment in commercial real estate grew by 8.5% Y-o-Y during February; deployment in NBFCs (including HFCs) also up by 32.4%, with that to HFCs growing by 12.6%.</p>
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What could work for the Indian economy...

 <p>Easing inflationary pressures: Moderating global oil prices and declining input costs could contain inflationary pressures in 2023, although a continued rise in food prices could weigh on core inflation.</p>	 <p>Strengthening manufacturing sector: Despite global headwinds, India's manufacturing indicators have displayed resilience amidst realigning supply chains; this could be attributed to low labour costs, infrastructure improvement and its growing manufacturing prowess.</p>	 <p>Sustained interest in the Indian office sector: Growing corporate focus on operational efficiencies notwithstanding, India's cost and scale advantages would ensure that the country remains the 'office of the world'.</p>
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...But what might not

 <p>Slowing global economy: Monetary tightening in developed economies and the continuing geopolitical crisis in Ukraine has caused global economy to slow down, which could put downward pressure on the Indian growth story.</p>	 <p>Climate change: This could have a substantial bearing on the Indian economy this year. Unseasonal rains across North India are likely to have impacted winter crop yields, which could send inflation spiraling up in the near future. The possibility of severe heat waves could also impact economic growth.</p>
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Office

Sustained absorption activity witnessed at the start of the year; current macro-economic uncertainty might impact corporate decisions in the short term but sound market fundamentals to ensure swift recovery in second half of the year.



LEASING ACTIVITY

9%
Y-o-Y growth in leasing in Q1 2023

20%
Q-o-Q decline in space take-up in Q1 2023

62%
Cumulative share of Bangalore, Delhi-NCR and Chennai in leasing activity in Q1 2023

SUPPLY

31%
Y-o-Y jump in supply in Q1 2023

24%
Q-o-Q drop in building completions in Q1 2023

82%
Combined share of Bangalore, Delhi-NCR, Pune and Hyderabad in supply addition in Q1 2023

Rental recovery continued across select micro-markets in a few cities due to sustained leasing activity and persistent demand for investment-grade assets. Quoted rentals grew by 1-10% in E-PBD, PBD, Sub CBD and CBD in Kolkata, by 1-8% on MPH Road, Off CBD, CBD, OMR 1 and OMR 3 in Chennai; by 1-4% on Noida-Greater Noida Expressway, Golf Course Road and Old Gurgaon in Delhi-NCR; and by 1-2% in PBD-W in Bangalore, on a Q-o-Q basis.

Market Performance in Q1 2023

India Market Monitor

12.6 mn sq. ft.
Absorption in Q1 2023

11.6 mn sq. ft.
Supply in Q1 2023

■ Absorption in Q1 2023
■ Supply in Q1 2023

Rental indicator arrows (Q-o-Q)
▲ Increase ⇕ Stable ▼ Decrease

Delhi-NCR



Ahmedabad



Mumbai



Pune



Bangalore



Kolkata



Hyderabad



Chennai

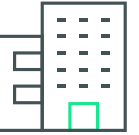


Kochi



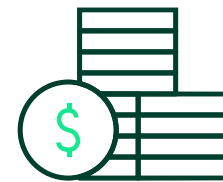
Source: CBRE Research, Q1 2023

OFFICE



Key sectors that drove leasing activity

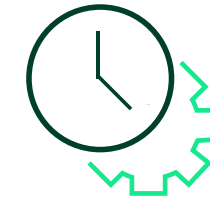
Banking, Financial Services & Insurance



22%

share in Q1 2023

Flexible Space Operators



22%

share in Q1 2023

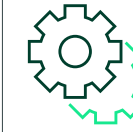
Technology



20%

share in Q1 2023

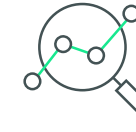
Engineering & Manufacturing



11%

share in Q1 2023

Research, Consulting & Analytics



10%

share in Q1 2023

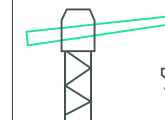
Life Sciences



4%

share in Q1 2023

Infrastructure, Real Estate & Logistics



3%

share in Q1 2023

Regional share in leasing activity

Domestic Corporates

48% | share in Q1 2023

American Corporates

33% | share in Q1 2023

EMEA Corporates

13% | share in Q1 2023

APAC Corporates

6% | share in Q1 2023



Industrial & Logistics

3PL continued to drive leasing momentum and e-commerce space take-up improved in Q1; I&L sector likely to remain resilient to macro-economic uncertainty, with entry of quality supply driving space take-up in 2023.



LEASING ACTIVITY

26%
Y-o-Y growth in leasing in Q1 2023

18%
Q-o-Q drop in space take-up in Q1 2023

54%
Cumulative share of Delhi-NCR, Hyderabad and Ahmedabad in leasing activity in Q1 2023

SUPPLY

28%
Y-o-Y increase in supply in Q1 2023

6%
Q-o-Q rise in warehouse completions in Q1 2023

59%
Combined share of Chennai, Kolkata and Hyderabad in supply addition in Q1 2023

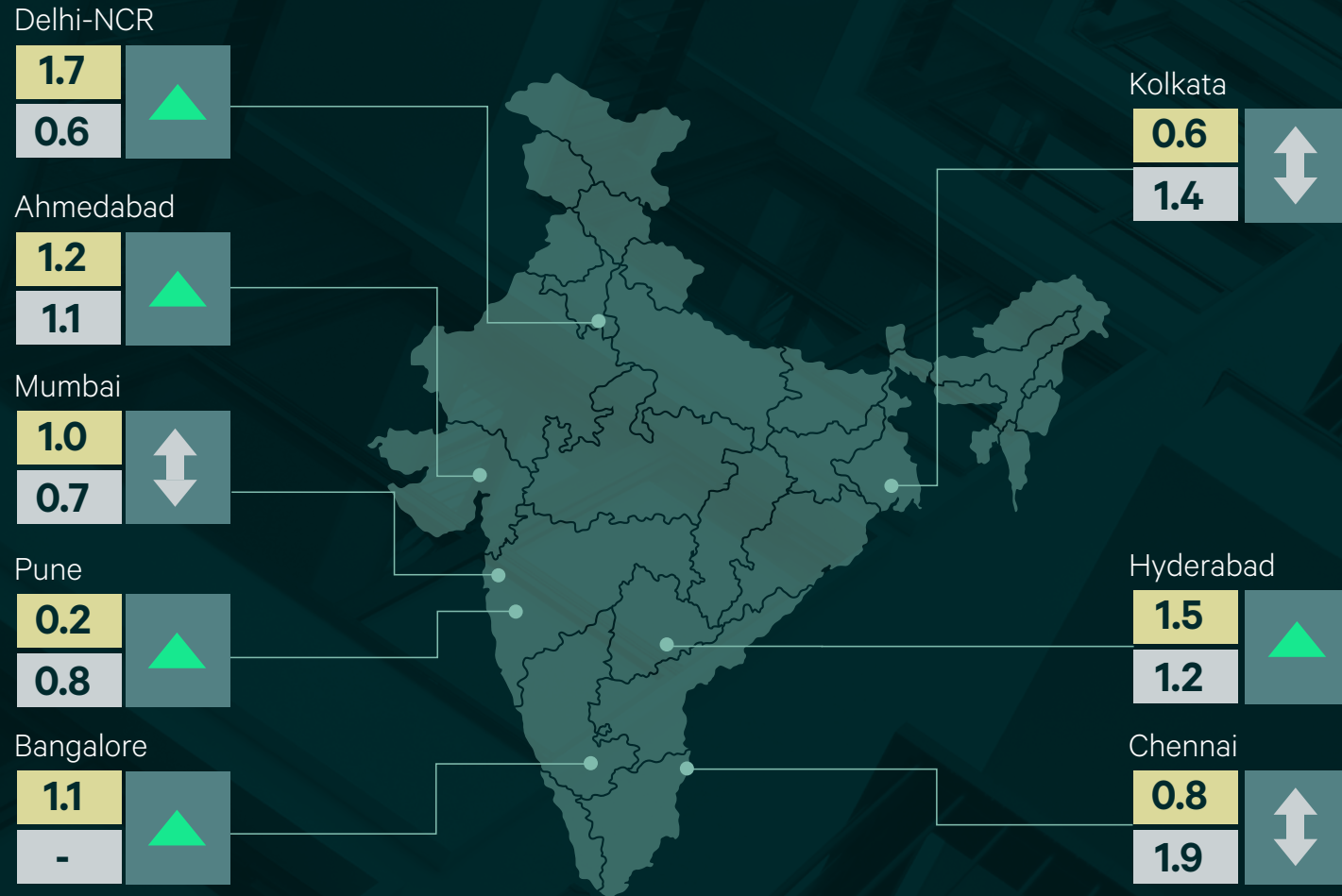
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8.0 mn sq. ft.
Absorption in Q1 2023

7.6 mn sq. ft.
Supply in Q1 2023

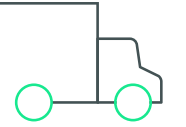
Absorption in Q1 2023
Supply in Q1 2023

Rental indicator arrows (Q-o-Q)
▲ Increase ⇄ Stable ▼ Decrease

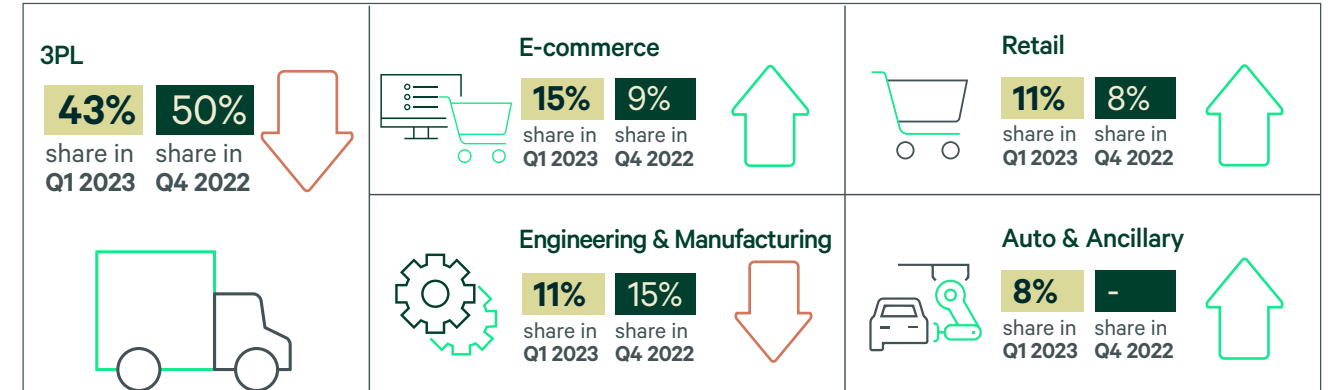


Source: CBRE Research, Q1 2023
Please note that the numbers have been rounded off and might not add up to the exact total

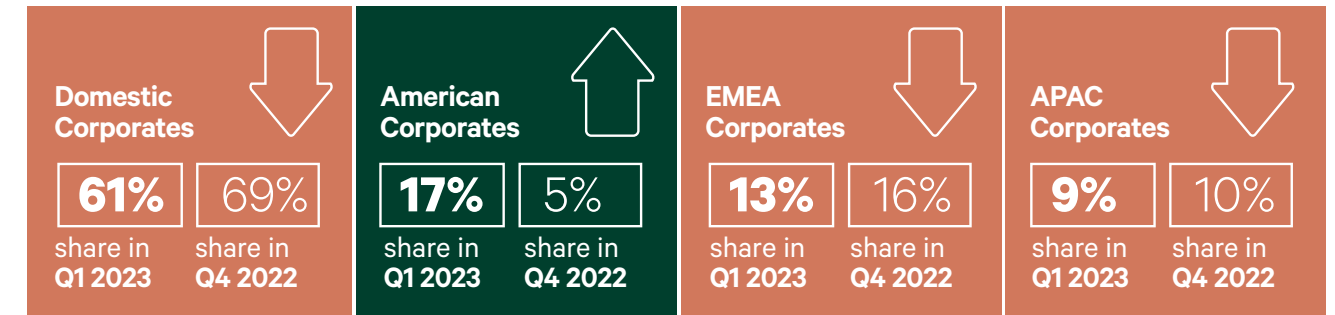
INDUSTRIAL & LOGISTICS



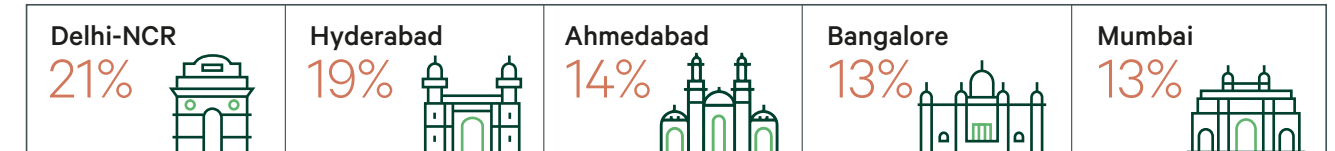
Key sectors that dominated leasing



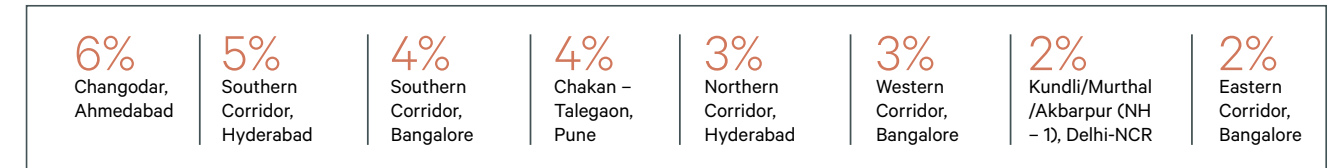
Regional share in leasing activity



Cities which led absorption in Q1



Quarterly rental movement – Growth witnessed mainly in Ahmedabad, Hyderabad, Bangalore, Pune and Delhi-NCR



Retail

Strong space take-up witnessed in Q1 2023; further strengthening anticipated despite the possibility of global headwinds impacting discretionary spending.



LEASING ACTIVITY

130%
Y-o-Y rise in leasing in Q1 2023

4%
Q-o-Q fall in space take-up in Q1 2023

81%
Cumulative share of Ahmedabad, Delhi-NCR, Bangalore and Chennai in leasing activity in Q1 2023

SUPPLY

474%
Y-o-Y growth in supply in Q1 2023

8%
Q-o-Q increase in mall completions in Q1 2023

73%
Share of Ahmedabad in supply addition in Q1 2023, followed by Delhi-NCR (20%)

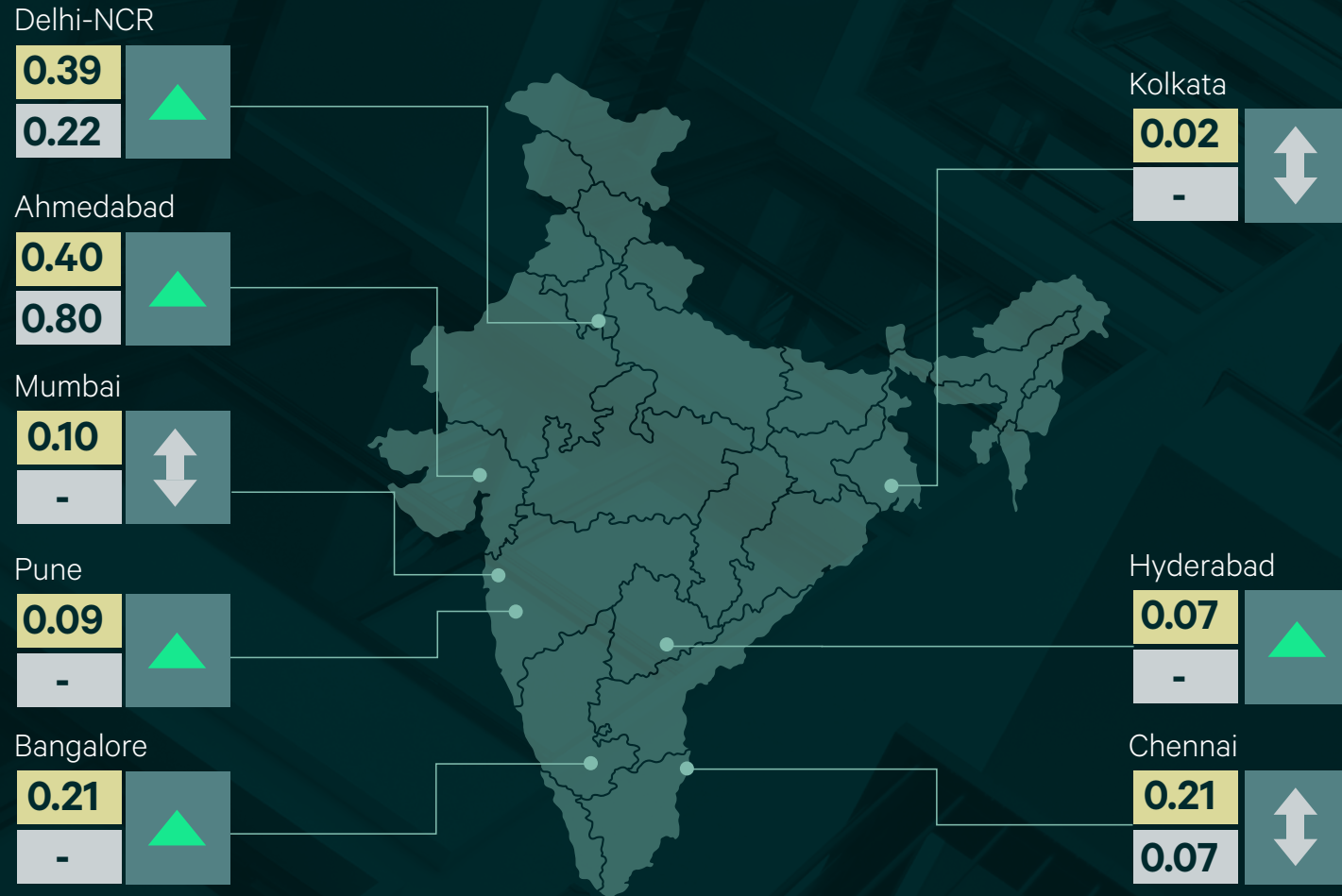
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1.5 mn sq. ft.
Absorption in Q1 2023

1.1 mn sq. ft.
Supply in Q1 2023

Absorption in Q1 2023
Supply in Q1 2023

Rental indicator arrows (Q-o-Q)
▲ Increase ⇕ Stable ▼ Decrease

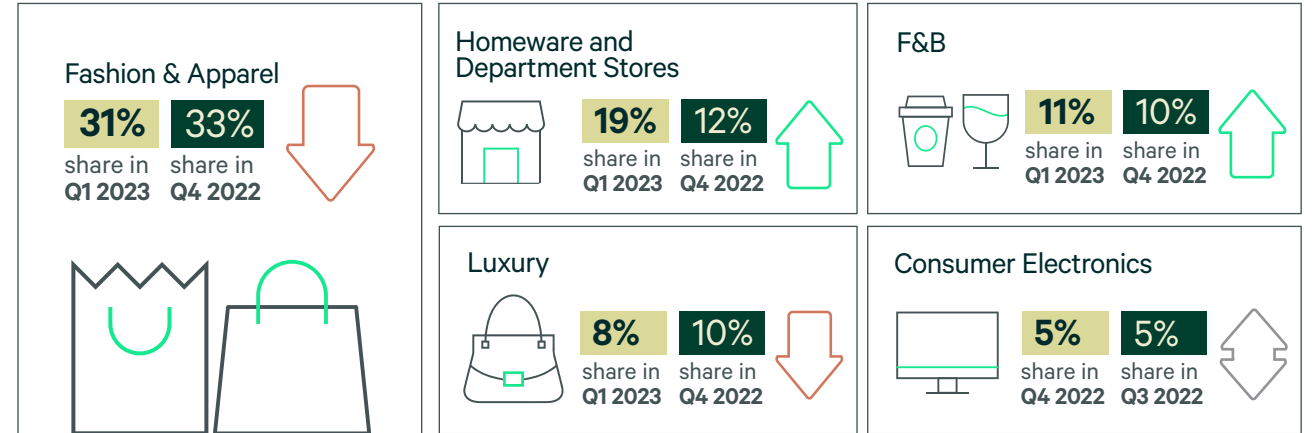


Source: CBRE Research, Q1 2023
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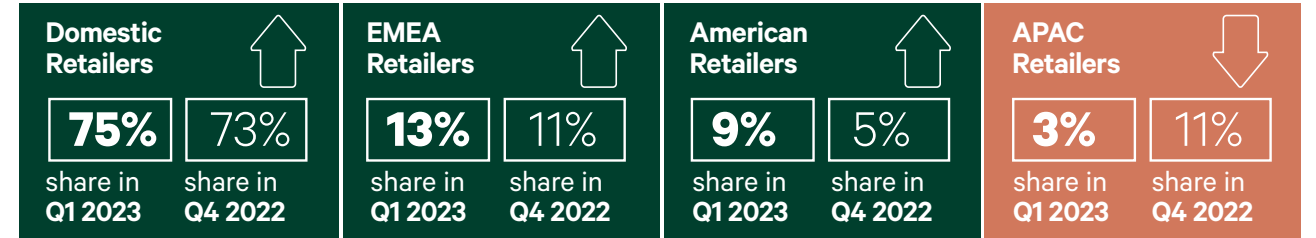
RETAIL



Key sectors that drove leasing activity



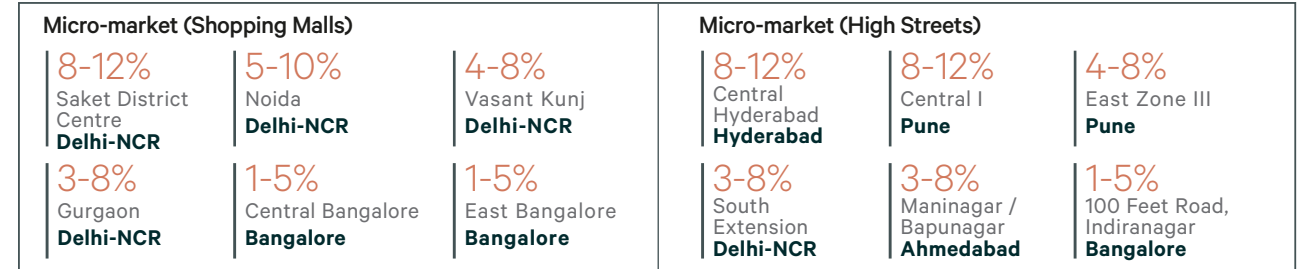
Regional share in leasing activity



Cities which led absorption in Q1



Quarterly rental movement – Growth witnessed in select pockets of Delhi-NCR, Hyderabad, Pune, Ahmedabad and Bangalore



Residential

After posting a strong performance in 2022, the residential sector is likely to witness continued momentum in sales and launch activity; however, caution could pervade in the market due to ongoing macro-economic uncertainty.



SALES ACTIVITY

12%
Y-o-Y growth in sales in Q1 2023

12%
Q-o-Q rise in sales activity in Q1 2023

49%
Share of mid-end category in number of units sold in Q1 2023, followed by affordable / budget projects

62%
Cumulative share of Mumbai, Pune and Delhi-NCR in sales in Q1 2023

UNIT LAUNCHES

35%
Y-o-Y rise in unit launches in Q1 2023

7%
Q-o-Q increase in unit launches in Q1 2023

64%
Cumulative share of Mumbai, Pune and Delhi-NCR in apartment launches in Q1 2023

India Market Monitor

~78,000

Sales in Q1 2023

~81,000

Unit launches in Q1 2023

■ Sales in Q1 2023 (no. of units)
 ■ Unit launches in Q1 2023 (no. of units)

CV* indicator arrows (Q-o-Q)

▲ Increase ⇄ Stable ▼ Decrease

Delhi-NCR

~11,200

~11,600

Mumbai

~19,000

~25,300

Pune

~18,000

~16,000

Bangalore

~11,500

~8,400

Kolkata

~5,500

~4,000

Hyderabad

~8,500

~10,400

Chennai

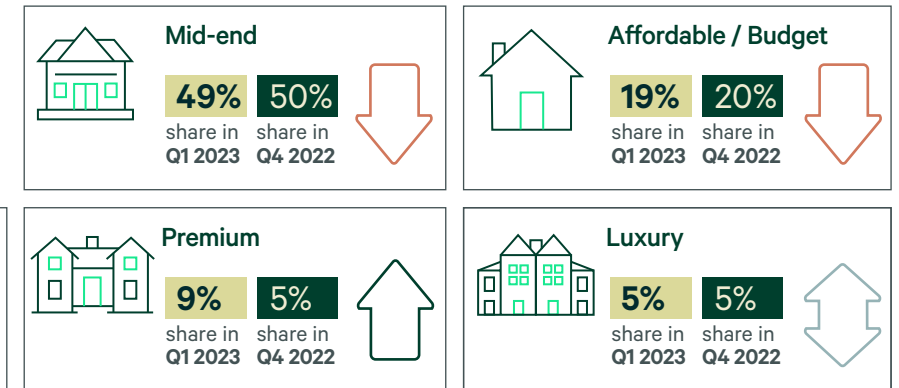
~4,500

~6,100

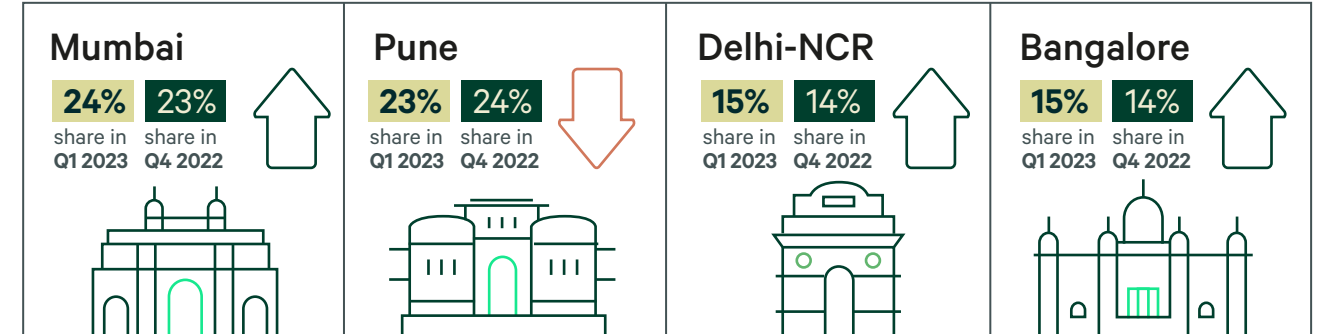
RESIDENTIAL



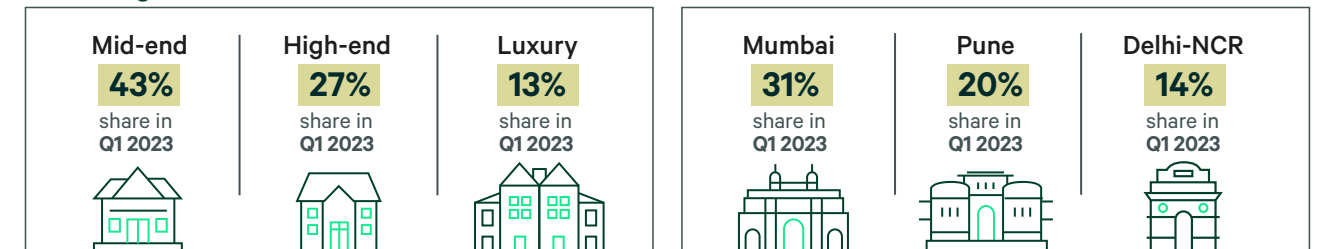
Key sales drivers



Cities that drove sales



Prevailing trends in unit launches in Q1



*Capital value
 Source: CBRE Research, Q1 2023
 Please note that the numbers have been rounded off and might not add up to the exact total



Investments

Steady investment activity witnessed in Q1 2023; sustained inflows expected in the sector in 2023, although recessionary forces in key developed economies might slow the pace of decision-making.



India Market Monitor

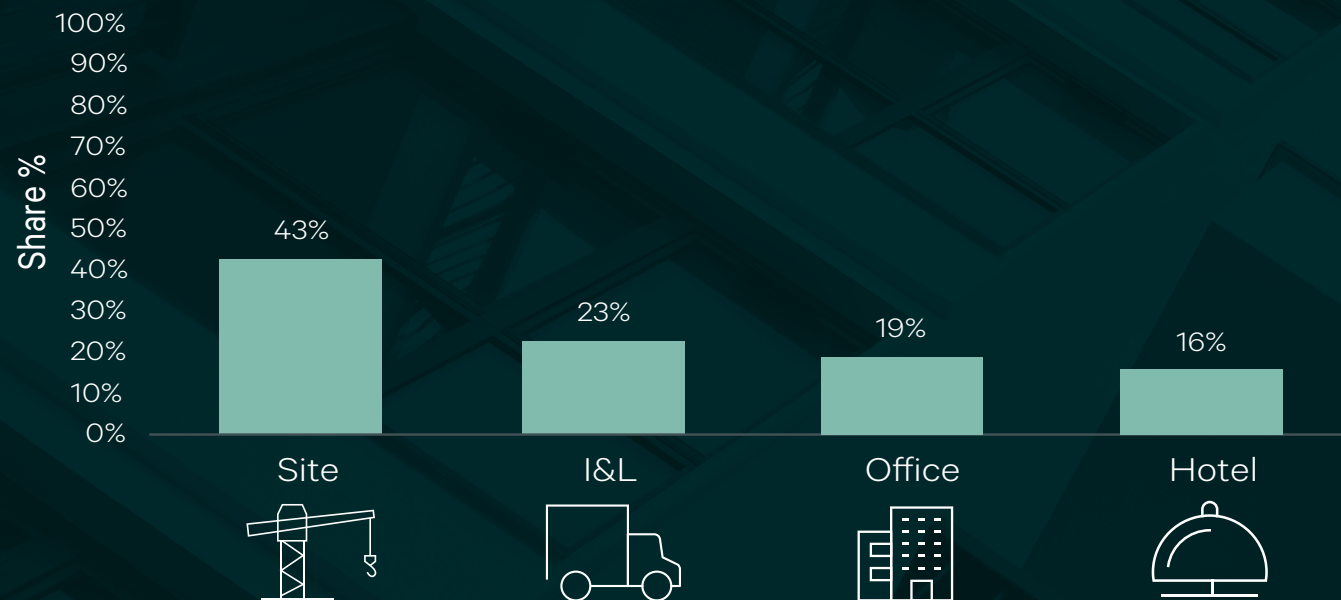
USD
0.96 billion

Overall capital flows
in Q1 2023

43%

Share of land/development sites,
which dominated investments in
Q1 2023; followed by the I&L
sector (23%)

Asset-wise share of investments in Q1 2023



Source: CBRE Research, Q1 2023
Please note that capital inflows / investments during the quarter refer to only equity investments.

INVESTMENTS



Mumbai, followed by
Delhi-NCR and Bangalore,
accounted for a cumulative
share of nearly

30%

in investment
inflows in Q1 2023



Developers
accounted
for a nearly

65%

share, followed by
institutional investors
(17%)



Institutional investors infused capital in brownfield assets, whereas
developers remained focused towards greenfield investments



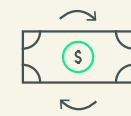
~80%

Share of **domestic investors**
(predominantly developers)
in capital inflows in Q1 2023



20%

Share of foreign investors in the total investment during
the quarter; investors from the **US** accounted for **86%** of
foreign capital inflows



70%

of the total capital inflows in site / land acquisitions were
deployed for **residential developments**, while ~12% were
committed for **mixed-use developments**



Outlook

A CBRE take on how the real estate dynamics can pan out in the future.



India Market Monitor



Office

Current short-term macro-economic uncertainty might put downward pressure on absorption although we believe space take-up would pick up pace in the second half of the year as India remains an attractive cost-effective destination and source of highly skilled talent.

While technology corporates would remain a driver of leasing activity, sectoral drivers to become more broad-based due to sustained leasing by BFSI firms, flexible space operators, and engineering & manufacturing companies; moreover, GCCs would also continue to contribute to growth in the medium to long term.

Robust pipeline of quality assets to ensure steady pace of building completions; yet, vacancy rates to remain range bound due to sustained leasing activity.

Flight-to-quality leasing sentiments of occupiers would ensure continued interest in investment-grade buildings by leading developers and institutional owners in core locations.

The intense focus on RTO planning and hybrid working would continue to lead to growing significance of workplace strategies in corporate agendas; the need for productive interactions with relevant co-workers could cause occupiers to revisit workplace design standards.



Industrial & Logistics

Sustained demand for I&L spaces likely in 2023; leasing activity to range between 32-35 million sq. ft. with an annual growth rate of about 1-5%; supply to grow by 15-24% Y-o-Y to touch 24-26 million sq. ft. owing to completion of pent-up supply.

3PL and engineering & manufacturing companies to continue to drive I&L space take-up; heightened interest from FMCG, retail and electronics & electricals firms likely; e-commerce leasing to improve gradually over the year.

Rising requirements of occupiers to enhance warehousing spaces and improve storage efficiencies likely to boost the need for quality warehousing facilities.

Occupiers' quest to achieve operational efficiencies and rationalize costs in a multi-user facility likely to give a spurt to the take-up of large-sized spaces (more than 100,000 sq. ft.).

Occupiers to prioritise prime locations but lack of ready-to-move-in supply would cause a shift in focus towards secondary locations, enabling them to leverage comparatively low rentals.



Retail

Retail supply to surpass 2022 levels owing to pent-up supply addition; several investment-grade projects launched in the past 1.5-2 years also set to become operational in 2023.

This would give a fillip to primary leasing, which is likely to be the main demand driver for retail space demand in 2023.

Retailers to look beyond traditional malls and high streets to diversify their location strategies which will facilitate supply chain transformation so that consumers are able to shop for any product, any time.

Use of metaverse (to enhance customer experience) and social commerce (involves leveraging social media sentiments) to emerge as key omnichannel strategies.

Retailers likely to continue to 'rightsize' stores not only to engage customers but also to provide a wide range of choices in stores.



Residential

Strong sales and launch momentum expected in the first half of 2023; a minor tapering in activity likely in the middle of the year but its impact could be cushioned by the festive season.

Capital value appreciation trends would vary basis the segment, city / micro-market, unsold inventory levels and even project attributes; at the same time, developers likely to be cautious about raising prices lest it impacts homebuyers' purchasing power.

Projects in the higher ticket range (INR 1.5 crore and above) would continue to see traction in sales as the market has witnessed a spate of new launches in this bracket of late; moreover, the impact of rising home mortgage rates would be limited on this segment.

Projects with better amenities, focus on health and safety and clean surroundings to further gain an edge amidst evolving consumer preferences.

As large developers foray into tier-II cities, we expect to see a higher number of joint ventures and joint development initiatives as they strike partnerships with local players with an aim to manage regulatory hurdles and understand consumer preferences.



Investments

Capital inflows in 2023 to remain steady; some tapering expected in the first half owing to recessionary fears in the US and Europe.

The year 2023 could see the listing of India's first retail REIT and fourth office REIT, which would widen investment avenues for investors.

Opportunistic bets would continue to witness strong momentum in 2023 amidst considerable interest in greenfield developments across core assets.

Partnership models could gain prominence as investors look to mitigate risk and navigate operational challenges, especially amidst external uncertainties.

Higher financing cost amidst tighter monetary policy rates due to sticky inflation could impact investor sentiments in the short term.

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