

2023

India Mid-Year Market Outlook



Infographic Summary

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CBRE



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Foreword

I'm thrilled to present the India Mid-Year Market Outlook 2023: Decoding The Growth Prospects report, where we have essentially revisited our forecasts made at the beginning of the year ([CBRE 2023 India Market Outlook, March 2023](#)) on India's economic and real estate growth landscape, evaluated the progress made till now and recalibrated the projections based on recent developments for the remaining months of the year.

Despite global headwinds, we expect the Indian economy to hold ground on the back of strong domestic indicators such as expansion in bank credit, infrastructure spending and capital expenditure. However, inflation continues to remain a challenge and is expected to remain elevated for most of 2023, and it is only post-October that we expect it to start tapering.

The office market in 2023 has displayed resilience so far, with the absorption of 26.4 million sq. ft. recorded in the first half of the year. While we expect that the global economic backdrop will put corporates in a cautious mode in the short- to medium-term, the long-term view on their India expansion plans remains positive. As far as return to office (RTO) is concerned, the multiple interactions that we have had with occupiers and employees in 2023 indicate a strong preference for an office-first approach, which imbibes elements of hybrid working, as it enhances their productivity and engagement levels. Flight-to-quality has also been an overriding theme across cities and we feel that it is in many ways linked to the growing importance of Environmental, Social and Governance (ESG) goals. As the green-certified stock across cities grew to about 342 million sq. ft. by the middle of this year, we expect occupiers to increasingly lease in ESG-compliant and green-rated next-generation office spaces.

On the Industrial and Logistics (I&L) front, as space optimization and portfolio realignment come into sharper focus, we expect demand levels to largely remain steady and stay in the range of 36 - 38 million sq. ft.-mark by the end of 2023. As anticipated, the supply pipeline for 2023 has been stronger than 2022 and most of this supply is being led by larger developers backed by institutional funds. As this quality supply enters the market, we

expect some realignment in the rental expectations, thereby providing more room for appreciation in the coming months.

Despite the concerns around inflation and a subdued growth momentum, retail space take-up has remained strong with 2.9 million sq. ft. of absorption registered in the first half of 2023. Numerous retailers across categories have entered / expanded in the country, thereby reinforcing the importance of India as a retail market. This strong performance is also attributable to the efforts by retailers to enhance the shopping experiences for consumers by adding a layer of "experience" to the store. While tier-I cities continue to serve as frontier markets, tier-II cities have also started to see greater interest as quality supply enters these markets, thereby attracting marquee retailers to these new hotspots.

The residential sector witnessed strong activity in 2022, and we have seen this growth continuing into the first half of 2023. Despite a lagged impact of monetary tightening, 2023 could well be the year with sales crossing the 300,000 units-mark by the year-end. While the usually popular categories such as affordable and mid-end segments continue to drive sales, the premium and luxury segments have also displayed strong growth in sales and capital values across cities. Interestingly, amid transforming preferences, affordability is no longer the sole decisive factor for homebuyers as amenities, infrastructure, sustainability, and integration of smart home technologies have also started emerging as being core to home purchase decisions.

Besides these core sectors, alternate sectors such as data centres, life sciences, flexible spaces and the hospitality sector continue to display interesting trends – all of which spell positive news for the real estate sector and its diversifying pie in the years to come.

We have captured all this and more in the below infographic summary. I sincerely hope you find this report highly insightful and engaging!

Economy

On Track Nearly There Divergent

Forecasts in March 2023	<p>Global headwinds to pressure the Indian economy, leading to slower manufacturing and export activity; however, sustained growth is expected in the medium term.</p>	<p>Headline inflation to stay within Reserve Bank of India's (RBI) target but surging food prices may impact core inflation. At least one or two more rounds of monetary tightening are expected.</p>	<p>The impact of any slowdown on retail sales growth and private consumption is likely to get diluted with the festive season overlap of H2 2023.</p>	<p>India's position as a preferred alternative supply source in the headwinds-hit global supply chain ecosystem to strengthen.</p>	<p>India to remain the 'office of the world' with sustained technology spending; corporates to set up more global capability centres (GCCs) across various sectors.</p>
Quick Views	<p>India's GDP grew by 7.8% in the April - June quarter, the highest in the past four quarters. Going forward, we expect expansion in bank credit, infrastructure spending and capital expenditure to support India's growth during FY2023-24.</p>	<p>India's inflation rate is expected to remain above the RBI's upper tolerance band of 6% at least until October, post which it is expected to start tapering. In terms of interest rates, we expect the RBI to maintain a stable stance until mid of next year, with a monetary easing policy kickstarting towards Apr - June 2024.</p>	<p>While global headwinds, a lagged impact of monetary tightening and inflationary pressures may cause domestic demand to temper, the upcoming festive season is expected to offset most of the slowdown in consumption.</p>	<p>Backed by the government's pro-infrastructure measures, India is likely to stand out in offering comparable skill and cost advantages for global companies to set up / expand their manufacturing facilities in the country.</p>	<p>India's engineering talent pool and proactive policy measures could be key to making it a top GCC destination.</p>

Office

On Track Nearly There Divergent

	On Track	Nearly There	Divergent
<p>Forecasts in March 2023</p> <p>Global headwinds may impact occupiers' expansion plans and decision-making in 2023, and absorption may face downward pressures.</p> <p>About 51 - 53 million sq. ft. of delivered space expected in 2023; Bangalore, Hyderabad, and Delhi-NCR to dominate completions.</p> <p>Vacancy rates are expected to remain rangebound in 2023; select prominent micro-markets across most cities are likely to witness moderate rental growth.</p> <p>Hybrid working to continue being the norm in India; however, emphasis on office-based working is also expected to be sustained.</p> <p>Sustainable building features to be among occupiers' most sought-after building attributes amidst tightening ESG regulations.</p> <p>Return to office (RTO) planning and flexible working would place workplace strategies at the top of corporates' agendas in 2023.</p>			
<p>Quick Views</p> <p>The global economic backdrop and evolving hybrid workplace models would keep select corporates cautious in the short- to medium-term regarding their office expansion plans.</p> <p>With 24.2 million sq. ft. of new completions already in the first half, an annual supply of 51 – 53 million sq. ft. is expected for the entire year. Bangalore, Hyderabad, and Delhi-NCR are expected to continue dominating completions.</p> <p>During H1 2023, pan-India vacancy rates have remained mostly stable and select assets / micro-markets with low vacancy levels have been able to command rental premiums. We expect this scenario to continue till the end of the year.</p> <p>With hybrid working here to stay, the real estate focus is shifting to purpose driven; multiple CBRE interactions with occupiers and employees in 2023 indicate a preference for at least three days a week in office as it positively enhances their productivity and engagement levels.</p> <p>As flight-to-quality gains steam and the green-certified office stock grows to about 342 million sq. ft. by the middle of this year, occupiers are expected to continue leasing in ESG-compliant and green-rated next-generation office spaces.</p> <p>RTO planning remains on top of the occupiers' agendas; office occupancies and utilization rates are expected to improve further as preference grows for working more days from office.</p>			

On Track Nearly There Divergent

Industrial & Logistics

Forecasts in March 2023

<p>Demand for I&L spaces to stay resilient in 2023 but growth rates could stagnate; absorption to range between 32 - 35 million sq. ft. (growing by 1 - 5% Y-o-Y) driven by third-party logistics (3PL) and engineering and manufacturing (E&M) occupiers.</p>	<p>I&L supply is expected to breach 2022 figures and reach 24 - 26 million sq. ft. in 2023 with an over 40% share of project completions by prominent developers.</p>	<p>Increasing demand from occupiers to lead to upward rental movements in select micro-markets across cities.</p>	<p>3PL players' dominant share in leasing is set to grow in 2023 while E&M firms would also likely continue with their prominent position.</p>
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Quick Views

<p>On the back of 19.1 million sq. ft. I&L space take-up in H1 2023, we expect annual leasing of 36 - 38 million sq. ft. in 2023, marginally surpassing the 2022 levels, led by 3PL and E&M firms.</p>	<p>Supply addition is expected to reach about 28 - 30 million sq. ft. by the end of 2023; projects by larger developers backed by institutional funds are expected to constitute 40% of the completions.</p>	<p>Quoted rentals increased on a half-yearly basis in key micro-markets across cities in H1 2023. Mumbai, Chennai, Bangalore, Pune, Hyderabad and Ahmedabad could see 2 - 6% Y-o-Y growth in rents by the year-end.</p>	<p>3PL players continued to drive leasing activity in H1 2023, albeit with a marginal dip in share on a half-yearly basis. E&M firms followed at 16%.</p>
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Retail

On Track

Nearly There

Divergent

Forecasts in March 2023

Retailers are expected to make efforts to further enhance their physical shopping experiences by embracing technology, re-engineering store layouts, etc.

Retailers will continue to diversify in terms of location beyond investment-grade malls and marquee high streets to enhance their visibility.

Overall consumer sentiments in terms of spending are expected to remain positive, although cautious; any slowdown impact on retail sales growth and private consumption could get diluted in H2 2023.

Retailers and prominent developers alike to continue exploring emerging untapped markets such as tier-II, III and IV cities.

Quick Views

With the expected rise in footfalls in the upcoming festive season, retailers are likely to continue upgrading their stores in terms of technology, consumer engagement, redistribution of space and personalised services.

As Indian cities expand towards suburban locations witnessing the emergence of newer retail hotspots, retailers are likely to continue diversifying across asset types, including decentralised neighbourhood malls and transit hubs.

'Pent-up' demand-driven surge in consumer spending and retail sales in 2022 is expected to rationalise to a 2% and 3% Y-o-Y growth, respectively, by the end of 2023.

Despite negligible operational supply in H1 2023, 1 - 1.5 million sq. ft. of supply is anticipated to come on stream in tier-II cities (Chandigarh, Indore, Kochi) in 2023 in line with the demand trends.

Residential

	On Track	Nearly There	Divergent
<p>Forecasts in March 2023</p> <p>Strong momentum in sales and new launches is expected to continue in H1 2023; developer incentives in H2 2023 could offset any tapering of activity in the middle of the year.</p> <p>The residential sector is likely to witness divergent trends in asset prices in 2023 varying as per the city, micro-market or even project attributes.</p> <p>Demand for mid-end and affordable projects to remain strong in 2023; premium and luxury segments are also expected to exhibit sharp growth.</p> <p>The new housing demand will be centred around areas with good physical as well as social infrastructure, in addition to the property's quality.</p> <p>A greater inclination towards tier-I developers is likely to continue in 2023.</p> <p>A higher number of joint ventures / joint developments involving large developers looking to foray outside their home turfs and in tier-II cities is expected in 2023.</p>			
<p>Quick Views</p> <p>Residential sales in H1 2023 surpassed H1 2022 and H2 2022 levels, while new launches witnessed an 11% Y-o-Y growth. We estimate that both sales and new launches could reach a ten-year high in 2023 and may exceed the 300,000-unit mark.</p> <p>The capital value growth, on the back of consistent real estate price upswings in the last two years, is expected to see divergent trends among specific regions and property categories. This is also likely to be governed by unsold inventory levels and inventory overhang.</p> <p>H1 2023 saw sustained interest, particularly for properties belonging to the mid-end segment, followed by affordable and high-end segments. The trend is expected to continue in H2 2023. The premium and luxury segments are also expected to emerge as a sought-after investment avenue, particularly among high net-worth individuals (HNIs) and non-resident Indians (NRIs).</p> <p>Amid transforming preferences, affordability is no longer the sole decisive factor for homebuyers as amenities, infrastructure, sustainability and integration of smart home technologies have also started emerging as being core to home purchase decisions.</p> <p>The confidence of homebuyers in tier-I developers was evident in H1 2023 as they accounted for almost half of the total sales. We expect this trend to continue gaining momentum as tier-1 developers are expected to go strong with the launch pipeline.</p> <p>Reputed residential developers are expected to continue exploring newer cities, in a bid to expand their portfolio and capitalise on their brand value.</p>			

Investments

Forecasts in March 2023

	On Track	Nearly There	Divergent
Overall investments are anticipated to remain steady in 2023; however, recessionary fears in developed economies might lead to delays in deal closures.	Delhi-NCR, Bangalore and Mumbai to continue leading investment activity in 2023.	Capital flows to continue to be led by development sites / land and office assets in 2023, whereas the I&L and residential sectors could also see higher equity inflows.	Core and core-plus assets would continue to be preferred by major foreign investors in 2023 while greater activity via the opportunistic route is also expected.
	The year 2023 could see the listing of India's first retail real estate investment trust (REIT), adding more depth to the REIT market in India.		The growing trend of commitments in investment and development platforms is likely to continue in 2023, with major commitments in the office and I&L sectors.

Quick Views

While transaction closures were slow in H1 2023, we expect the investment activity to pick up pace in H2 2023 due to a strong deal pipeline. However, overall capital inflows could still dip in 2023, to be in the range of USD 6 - 6.5 bn. This would largely be due to delays in decision-making and a general sentiment of caution around capital deployment.	The top three cities are likely to continue driving investments, with sustained demand in sectors such as office, residential and logistics.	The office sector and site deals (land acquisitions) are expected to continue dominating the capital flows. Going forward, some investment activity in the I&L and retail sectors could also be expected in H2 2023.	While institutional money has continued to chase core / core-plus assets, opportunistic bets have mainly been the territory of real estate developers, largely in the residential sector. We expect investor interest to remain focused around completed assets, especially in the office sector. However, opportunistic bets for I&L and residential sectors are expected to continue.
			India saw the listing of its first retail REIT in H1 2023 adding to market diversity; the country's fourth office-sector REIT could also be listed in the upcoming quarters along with 1 - 2 infrastructure investment trusts (InvITs) in the warehousing space.
			In H1 2023, we have seen the creation of investment and development platform totalling ~ USD 4.4 bn. As per historical trends, we expect investors to continue preferring such platforms in the medium-to long-term, as it allows them to spread the investment and execution risk while maximizing returns potential.

Data Centres

Quick Views

With continued demand from Banking, Financial Services and Insurance (BFSI) firms, cloud service providers, social media and content streaming companies, DC occupancy levels stood at 75 - 80% in H1 2023. These are expected to improve further towards the end of the year.

By the end of 2023, the total DC stock in India is expected to increase by about 35% annually to touch ~1,048 MW, with a planned supply of about 170 MW lined up for the second half of the year.

Forecasts in March 2023

DC occupancy levels of 80 - 85% (end of 2022) are expected to improve in 2023.

The total DC stock is expected to increase by about 50% annually to touch ~1,020 MW, with a planned supply addition of about ~340 MW, in 2023.

Flexible Spaces

The total flexible spaces' stock in India, as of Q2 2023, stands at 59 million sq. ft. We could see further expansion in H2 2023, as appetite remains strong from both enterprise clients and start-ups.

The flexible space stock is expected to grow from 51 million sq. ft. in 2022 to over 60 million sq. ft. by the end of 2023.

Life Sciences

Buoyed by the increasing government healthcare expenditure and talent availability, global corporates are expected to continue investing in India for their research & development centres.

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

The sector is expected to continue its growth trajectory in upcoming years with an increase in cluster developments.

More cluster developments like life sciences / pharma cities, bulk drug parks, medical devices parks, etc. are expected to develop in the future.

On Track

Nearly There

Divergent

Top Trends for the Hospitality Sector

Demand expected to remain strong

While demand patterns stabilise in 2023 with revenge travel being on the decline, the demand for leisure travel continues to remain strong. The corporate travel segment has continued to grow despite high airfares and average room rates. Bleisure travel and workcations as concepts will continue to remain relevant and as international business travel picks pace, we expect the trends to only strengthen.

Expansion spree by hotels to continue

Post COVID, there has been significant interest from international hotel chains looking to tap into the growing demand for hospitality services. Indian companies are also participating actively in this segment by way of investing or expanding their presence. Hotel chains such as ITC, Hyatt, Accor, Hilton, Raddison, etc. have announced major expansion plans in 2023.

Sustainability to gain sharper focus

As regulations become stringent and country-level sustainability development goals come into focus, we expect hospitality players to accelerate their ESG journeys. While most leading players are already taking steps such as removing single-use plastic, recyclable packaging, LED lighting and reducing water usage, we expect these steps to get more defined going forward.

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