Intelligent Investment

India Market Monitor Q4 2023

RETAIL

REPORT

CBRE RESEARCH

January 2024

Economy

The Indian economy continues to demonstrate resilience as it maintains its growth trajectory aided by a narrowing current account deficit and near-record foreign exchange reserves, among other factors. The Reserve Bank of India's (RBI) upward revision of its FY 2023-24 GDP forecast also adds buoyancy to the overall business sentiment. In addition, record inflows are being witnessed in the financial markets by domestic and foreign investors alike. However, government and private expenditure, along with the manufacturing sector, are showing some signs of weakness.

Market Performance in Q4 2023

India Market Monitor

ECONOMY

7.6% India's GDP growth in Q3 2023

Better-than-expected GDP growth in Q3 2023 prompted a few agencies to raise their FY 2023-24 growth forecasts for India, making it an outlier among major economies. Currently, most agencies peg the country's growth in the 6.3-7.0% range.

Growth forecast for 2023-24

7.0% RBI

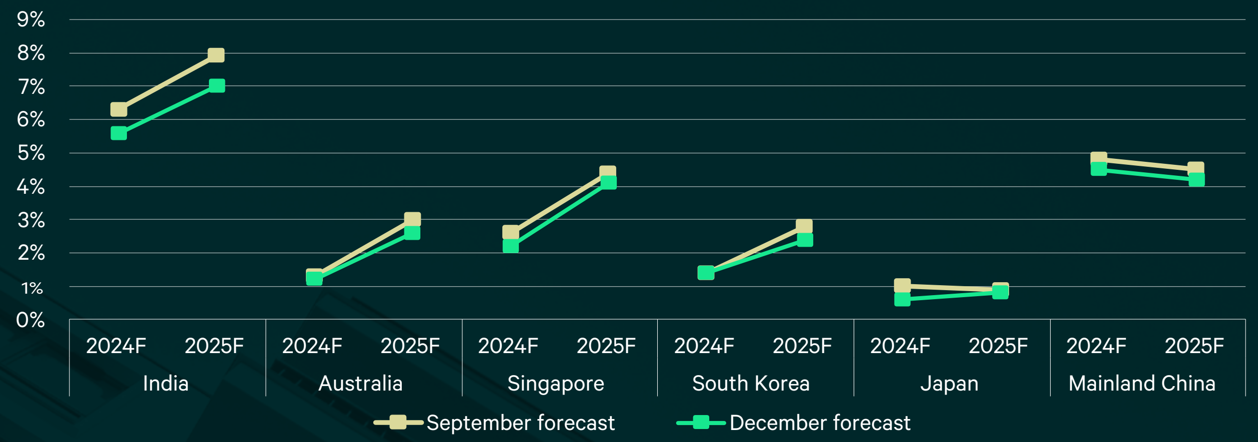
6.3% IMF

6.9% Fitch

6.3% World Bank

7.0% CBRE (CY 2023)

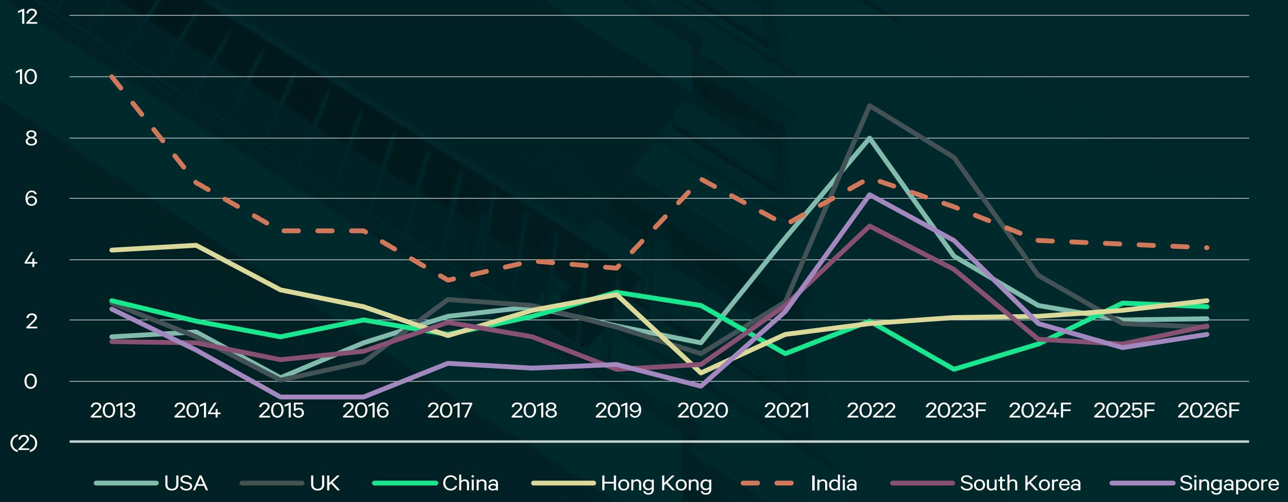
Revised GDP rates for key APAC economies



Source: CBRE House View (September 2023 and December 2023)

5.69% Retail inflation in December 2023, up from 5.55% in November 2023.

Inflation continues to remain on the higher side of RBI's comfort band of 4% (+/-2%) and is expected to stay range-bound in the coming months



Source: CBRE House View December 2023

India Market Monitor

ECONOMY

6.5%

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

Key policy steps in Q4 2023

Through a key amendment to SEZ Rules, 2006, the central government has allowed partial and floor-wise denotification of special economic zones (SEZ) as non-processing areas. The amendments permit the demarcation of parts of an SEZ area into a non-SEZ area after repayment of tax benefits availed to date.[1]

Tamil Nadu unveiled its semiconductor policy, 2024, intending to promote the growth of the semiconductor industry in the state. The policy focuses on providing financial incentives and infrastructure support to attract semiconductor companies, encouraging research and development, and fostering a conducive environment for semiconductor manufacturing.

The Securities and Exchange Board of India (SEBI) issued a standard framework to compute net distributable cash flows (NDCFs) for real estate investment trusts (REITs). The SEBI has given the particulars for the computation of NDCFs at the holding company/special purpose vehicle level and at the trust level. The revised framework will become applicable from April 1, 2024.[2]

The Delhi government has decided to introduce the 'Anywhere Registration' policy, which will allow individuals to register their properties at any of the 22 sub-registrar offices in the city. The new system, aimed at promoting transparency, will enable online appointments and document uploads through the national generic document registration system (NGDRS).

Performance of key high-frequency indicators

Services purchasing managers' index (PMI) averaged 58 in Q4 2023, while the December figure of 59 came in at a three-month high. The manufacturing PMI was also in the expansion territory throughout Q4, albeit the December figure was at an 18-month low of 54.9.[3]

The foreign portfolio investment (FPI) into Indian equities and debt reached a nine-year high of INR 2.37 trillion in 2023.[4] The overall FPI inflows have been boosted by global funds buying Indian government bonds ahead of its inclusion in JP Morgan's bond index in June 2024.

Bank credit deployment was up 20.6% Y-o-Y in November 2023 compared to 17.2% growth in the same period in 2022. Credit deployment in commercial real estate grew by 37.5% Y-o-Y during November 2023 while deployment in NBFCs* (including HFCs**) was also up by 21.5%.[5]

What could work for the Indian economy...

Narrowing current account deficit: India's current account deficit (CAD) moderated to 1% of GDP in H1 2023-24 from 2.9% of GDP in H1 2022-23 on the back of a lower merchandise trade deficit and marginal growth in services export.[6] The CAD for the whole of FY 2023-24 is expected to remain stable unless there is a sharp rally in commodity prices.

Sustained saving and investment: Retail investors' confidence was demonstrated by the rise in inflows through systematic investment plans (SIPs), which increased to INR 17,610 crore in December 2023 from INR 17,073 crore in the previous month. For the first time, net assets under management (AUM) of domestic mutual funds exceeded INR 50 lakh crore in December.[7]

Record forex levels to curb currency volatility: India's foreign exchange reserves stood at a near 22-month high of USD 623.2 billion as of December 2023.[8] The current level of forex reserves is likely to augment well in maintaining the stability of the INR against major currencies.

Financial markets' buoyancy: The positive impact of the US Fed keeping its benchmark rate steady, and the slower increase planned in long-term US Treasuries, have bolstered the financial markets. In the bond market, the inaugural auction of the ultra-long 50-year government security in early November witnessed a heavy over-subscription, which lifted market sentiments all around.

But what might not...

Stubborn inflation and subdued consumption: The private final consumption expenditure (PFCE), which signifies expenditure incurred by households on consumption of goods and services, is expected to grow at 4.4% in FY 2023-24 as against 7.53% in FY 2022-23 and 11.23% in FY 2021-22.[9] With inflation expected to converge to targets only by 2025, fiscal policy may remain modestly restrictive, while government final consumption is likely to stay muted. The repetitive nature of food imbalances may also keep food and overall inflation above acceptable levels.

Geopolitical issues and subdued global demand: Indian exporters may feel some pain in the near term due to the ongoing attacks on commercial vessels in the Red Sea. While some traders may choose longer transit routes (thus, escalating costs), others might be forced to halt shipments and production temporarily. The revival of consumption in the developed economies may also take longer than previously anticipated.

1. Ministry of Commerce
2. SEBI
3. S&P Global and HSBC
4. National Securities Depository Limited
5. Reserve Bank of India
6. Reserve Bank of India
7. Association of Mutual Funds in India
8. Reserve Bank of India
9. National Statistical Office

* Non-Banking Financial Corporation
**Housing Finance Company

Retail

Robust growth witnessed in leasing and supply addition in Q4 2023; space take-up is likely to be guided by the entry of quality supply. Inflationary pressures and caution around the economic environment may have an impact on the discretionary spending of consumers in the short-run.

47%
Y-o-Y growth in leasing in 2023

35%
Y-o-Y growth in leasing in Q4 2023 compared to Q4 2022

5%
Q-o-Q increase in space take-up in Q4 2023

60%
Cumulative share of Bangalore, Delhi-NCR and Mumbai in leasing activity in 2023

54%
Total share of Mumbai and Bangalore in space take-up in Q4 2023

316%
Y-o-Y increase in supply in 2023

200%
Y-o-Y growth in supply in Q4 2023 compared to Q4 2022

59%
Q-o-Q increase in supply in Q4 2023

47%
Share of Bangalore in supply addition in Q4 2023, followed by Mumbai (25%)

Market Performance in Q4 2023

India Market Monitor

7.1 mn sq. ft.
Absorption in 2023

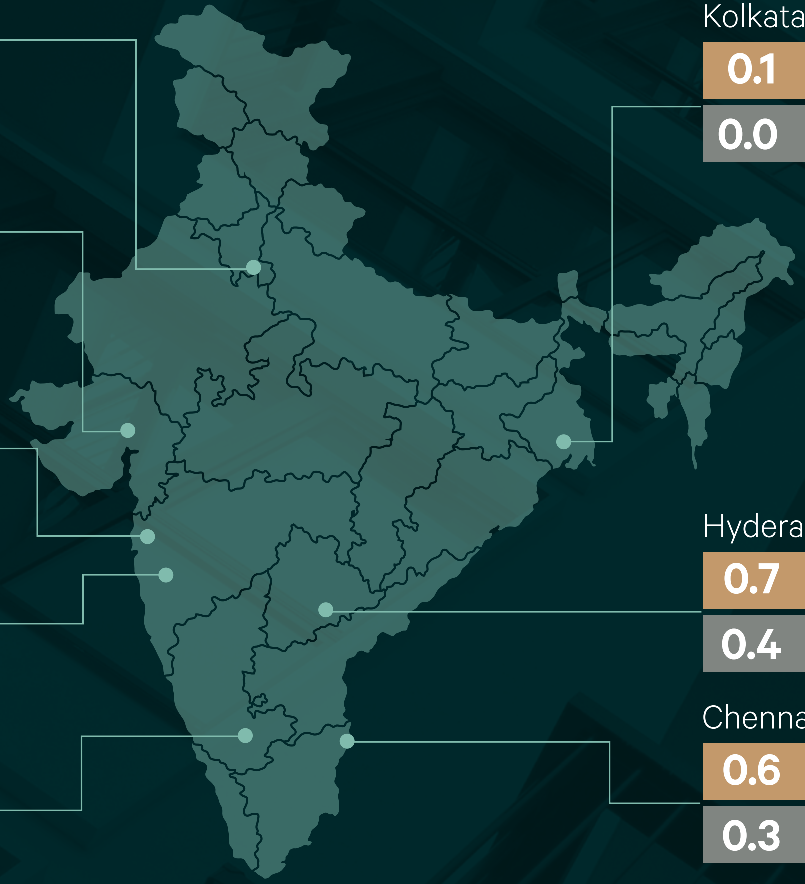
2.1 mn sq. ft.
Absorption in Q4 2023

6.0 mn sq. ft.
Supply in 2023

3.0 mn sq. ft.
Supply in Q4 2023

Absorption in 2023 | Absorption in Q4 2023 | Supply in 2023 | Supply in Q4 2023

Q4 rental indicator arrows (Q-o-Q)
Increase | Stable | Decrease



	Absorption in 2023	Absorption in Q4 2023	Supply in 2023	Supply in Q4 2023	Q4 rental indicator
Delhi-NCR	1.4	0.2	0.6	0.0	Stable
Ahmedabad	0.5	0.1	1.2	0.4	Increase
Mumbai	1.0	0.6	0.8	0.8	Stable
Pune	0.8	0.3	1.4	0.3	Stable
Bangalore	1.9	0.5	1.5	1.4	Increase
Kolkata	0.1	0.05	0.0	0.0	Increase
Hyderabad	0.7	0.2	0.4	0.0	Stable
Chennai	0.6	0.1	0.3	0.2	Stable

Source: CBRE Research, Q4 2023
Please note that the numbers have been rounded off and might not add up to the exact total

RETAIL

Key sectors that drove leasing activity

	Share in Q4 2023	Share in Q3 2023
Fashion & Apparel	30%	33%
Homeware and Department Stores	12%	24%
Luxury	12%	3%
F&B	10%	9%
Hypermarket	10% (share in Q4 2024)	5%

Regional share in leasing activity

	Share in Q4 2023	Share in Q3 2023
Domestic Corporates	70%	64%
APAC Corporates	7%	8%
EMEA Corporates	19%	24%
American Corporates	3%	4%

Cities which led absorption in Q4 2023

29% **Mumbai** | 25% **Bangalore** | 13% **Pune** | 12% **Delhi-NCR**

Quarterly rental movement – Growth witnessed across several pockets of Bangalore, Kolkata and Ahmedabad

Micro-market (Mall)

- 7-9% North Kolkata **Kolkata**
- 1-3% West Zone **Ahmedabad**
- 0-2% North Bangalore **Bangalore**

Micro-market (High Street)

- 3-5% Prahaladnagar **Ahmedabad**
- 1-3% 100 Feet Road, Indiranagar **Bangalore**
- 1-3% Commercial Street **Bangalore**

Outlook

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

Market Performance in Q4 2023

India Market Monitor

Outlook

Office	On the back of an uptick in leasing momentum in H2 2024, demand is anticipated to remain broadly steady in 2024, primarily driven by an improving global macroeconomic situation and an expected resurgence in the technology sector.	Global firms are likely to solidify their leasing decisions by expanding or opening new global capability centres (GCCs). Besides, domestic BFSI and E&M firms are expected to continue their office portfolio expansions, while additional growth is also likely from other sectors such as life sciences and flexible space operators.	The supply pipeline for 2024 remains robust with the completion of quality investment-grade assets across cities. Continuing the trend seen over the last three years, Bangalore and Hyderabad are likely to lead new development completions.	As hybrid work becomes more prevalent, occupiers would prioritise employee experience through better design integration along with health & wellness initiatives in the workplaces.	In line with growing environmental consciousness, top developers would place more emphasis on sustainability with a focus on aspects such as water & waste management, sustainable sourcing, renewable energy usage and green certifications. Leading occupiers are also likely to commit to achieving net-zero targets by 2050, with some already having committed to these goals.
Industrial & Logistics	With sustained leasing activity expected in 2024, I&L leasing momentum is anticipated to remain rangebound of the 2023 absorption levels.	While new supply reached a historic peak in 2023, a marginal slowdown in new warehousing projects is expected in tier-I cities in the upcoming quarters. This is largely due to challenges such as cost and availability of developable land parcels and increasing acquisition timelines.	We foresee that the share of projects completed by larger developers backed by institutional funds would continue to increase in the upcoming quarters.	Rents are likely to grow in select micro-markets, primarily driven by the premium commanded by new investment-grade, tech-enhanced and strategically located assets.	The I&L absorption would continue to be led by the 3PL and E&M sectors due to the continued adoption of 'multipolar' supply chain strategies by occupiers amid the government's pro-investment efforts. We also anticipate a recovery in the e-commerce sector led by a rise in consumer demand, online retail penetration and a fast-growing internet user base, particularly in the tier-II and III markets.
Retail	Primary leasing is expected to remain steady, given the strong supply pipeline; secondary leasing to take cues from the escalating rentals in key malls and the pressure that may mount on consumer spending going forward.	Luxury brands are expected to continue strengthening their footprint across various retail formats, including malls, high streets, and premium standalone developments.	The retail landscape continues to be in a state of constant evolution, driven largely by innovation. Retailers strive to enhance in-store experiences through technological upgrades, consumer engagement, space redistribution, and personalised services. This is particularly evident in the burgeoning luxury market.	Consumer spending and retail sales are expected to stabilize in 2024 in comparison to the previous year. Retailers across categories will need to be realistic around the expected growth in a high inflationary and cautious economic environment.	Several tier-II cities and other cities of significance for spiritual tourism are likely to witness greater traction as retailers look to tap these high-potential markets to build brand awareness, increase customer engagement, and facilitate in-person shopping experiences.
Residential	The positive momentum witnessed over the past couple of years in new launches and sales is likely to continue in 2024.	Projects in the premium / luxury segment would continue to witness healthy traction amidst a spate of new launches; mortgage rates are expected to have a relatively muted impact on demand from this segment.	Growth in capital values is expected to witness divergent trends among specific regions and property categories, primarily governed by unsold inventory and homebuyer appetite.	Affordability is no longer the sole decisive factor for homebuyers as health & safety, sustainability and integration of smart home technologies have also started to emerge as being core to home purchase decisions.	Alternative Investment Funds (AIFs) are poised to play a pivotal role in the ongoing development of the sector by not only exploring new opportunities but also actively fostering growth and facilitating the execution of projects.
Investments	We anticipate that capital flows in 2024 will remain steady, with development sites and the office sector likely leading investment inflows.	Tier-I cities are also expected to continue being the primary recipients of equity inflows; however, we could also witness a rise in investments in the tier-II cities due to a spurt in the real estate development activity backed by healthy demand, particularly in the I&L, hotels, and retail sectors.	We could see the listing of the fourth office real estate investment trust (REIT) and a couple of infrastructure investment trusts (InvITs) in 2024, along with the expansion of existing REIT portfolios and diversification of the institutional investor base across the listed REITs.	Opportunistic bets would continue witnessing a strong momentum in 2024 amidst considerable interest in greenfield developments, especially in the residential and I&L segments.	Investors are likely to continue preferring investment and development platforms in the medium- to long-term, enabling them to diversify their investments and minimize execution risk. This strategy can also result in deeper synergies between top global investors and developers.

Contacts

RESEARCH

Abhinav Joshi
Head of Research, India, Middle East and North Africa
abhinav.joshi@cbre.co.in

Pradeep Nair
Associate Director
pradeep.nair@cbre.com

Rajorshi Sanyal
General Manager
rajorshi.sanyal@cbre.com

Tauseef Ahmad
Senior Manager
tauseef.ahmad@cbre.com

Raghav Sand
Senior Analyst
raghav.sand@cbre.com

Vidhi Dheri
Director, National Operations, Research
vidhi.dheri@cbre.co.in

Uttara Nilawar
Associate Director
uttara.nilawar@cbre.co.in

Vaishnavi Bala
Senior General Manager
vaishnavi.bala@cbre.com

Mohamed Atif Khan
Assistant General Manager
mohamedatif.khan@cbre.com

Mainak Karamakar
Senior Manager
mainak.karmakar@cbre.com

GLOBAL RESEARCH

Richard Barkham, Ph.D., MRICS
Global Chief Economist & Head of Research
richard.barkham@cbre.com

Henry Chin
Global Head of Investor Thought Leadership & Head of Research, APAC
henry.chin@cbre.com.hk

Julie Whelan
Global Head of Occupier Thought Leadership
julie.whelan@cbre.com

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Business Line Contacts

ADVISORY & TRANSACTIONS

Ram Chandnani
Managing Director,
Advisory & Transaction Services, India
ram.chandnani@cbre.co.in

CONSULTING & VALUATIONS

Rami Kaushal
Managing Director,
Consulting & Valuations, India,
Middle East & Africa
rami.kaushal@cbre.co.in

GLOBAL WORKPLACE SOLUTIONS

Rajesh Pandit
Managing Director,
Global Workplace Solutions, India &
Property Management, India,
SE Asia, Middle East & North Africa
rajesh.pandit@cbre.co.in

PROJECT MANAGEMENT

Gurjot Bhatia
Managing Director,
Project Management, India,
SE Asia, Middle East & Africa
gurjot.bhatia@cbre.co.in

CAPITAL MARKETS

Gaurav Kumar
Managing Director & Co-Head,
Capital Markets, India
gaurav.kumar@cbre.co.in

CAPITAL MARKETS

Nikhil Bhatia
Managing Director & Co-Head,
Capital Markets, India
nikhil.bhatia@cbre.co.in

OPERATIONS

Rajat Gupta
Managing Director, Operations, India
rajat.gupta@cbre.com