

Intelligent Investment

India Retail Outlook 2024

REPORT

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CBRE





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Foreword

We are delighted to present the 2024 edition of our flagship India Market Outlook series. As we commence a new fiscal year, this comprehensive report delves into the intricacies of the current market landscape and unveils the projected course of the Indian real estate sector. Leveraging the latest market data, expert insights, and rigorous research, these reports aim to empower our valued clientele and readers with the knowledge to navigate the dynamic economic environment and make informed investment decisions.

India's robust economy, underpinned by a narrowing current account deficit, record foreign exchange reserves, and a healthy fiscal position, creates a fertile ground for real estate growth. The government's commitment to fiscal prudence and the central bank's measured monetary policy have built a strong foundation for sustained expansion. Additionally, targeted government initiatives are expected to catalyse a new capex cycle, further bolstering the market.

Following the resilience displayed in 2023, we anticipate India's office sector activity to remain upbeat in 2024, attracting firms looking for skilled talent. Leading occupiers continue to prioritize quality spaces for growth, potentially fuelled by an encouraging return-to-office trend. Economic growth and strategic policies propel a growing diversity in office space demand beyond technology firms. At the same time, GCCs, a burgeoning force, continue their significant expansion, solidifying India's position as a key growth market.

Driven by the increasing adoption of multi-polar strategies, India's Industrial and Logistics (I&L) sector is poised for sustained growth in the coming quarters. Demand is anticipated to be dominated by 3PL firms owing to occupiers' continued reliance on their distribution networks, followed by E&M companies. E-commerce demand for small-sized requirements will also likely pick up pace. Besides, occupiers seek to upgrade to core and quality-compliant assets that offer improved storage facilities, meet EHS requirements, and provide optimized rental options.

India's retail sector also builds on 2023's momentum, driven by strong consumption demand and new shopping mall completions across major cities. With cautious optimism from both retailers and consumers expected in 2024, tier-I cities will likely continue witnessing expansion, while several tier-II markets might become attractive destinations for retail development. Interestingly, malls are evolving into experiential hubs, shaping the industry's future with entertainment, dining, and dynamic shopping experiences.

The country's residential sector is poised to thrive in 2024, backed by robust underlying market fundamentals. We anticipate sales and new property launches to sustain the sector's buoyancy despite the potential challenges. While the sector is expected to observe divergent asset pricing trends across different markets, the premium and luxury residential segments, priced at INR 2 crore and above, will likely continue flourishing as discerning buyers prioritise spacious homes offering convenient access to essential support infrastructure.

Investment activity is expected to accelerate in H2 2024, driven by ample investor capital following strong exits in 2023. While core sectors such as development sites, office, I&L, and retail will expectedly remain attractive, capital flows will likely expand to data centres, student housing, senior living, flexible workspaces, healthcare, and education. Tier-I cities are anticipated to see the bulk of inflows, but tier-II cities, particularly in retail and I&L, are also poised to rise.

Beyond core sectors, data centres, life sciences, flexible spaces, hospitality, and healthcare exhibit promising trends, further diversifying the real estate landscape in 2024. This report explores these areas in greater detail, along with other relevant considerations, and we sincerely hope you find it highly engaging and helpful.

Retail





India's retail sector experienced remarkable growth in 2023, driven by robust demand and new shopping mall completions across some of the major cities. This positive trend is anticipated to continue in 2024, with both retailers and consumers expressing cautious optimism. While tier-I cities would continue to witness expansion, several tier-II markets have also demonstrated significant potential and are becoming attractive destinations for retail development.

Moreover, shopping malls are transforming into experiential hubs, offering a diverse range of entertainment, dining options, and dynamic shopping experiences. This evolution in the retail landscape is anticipated to shape the industry's trajectory in the coming year.

The year that was

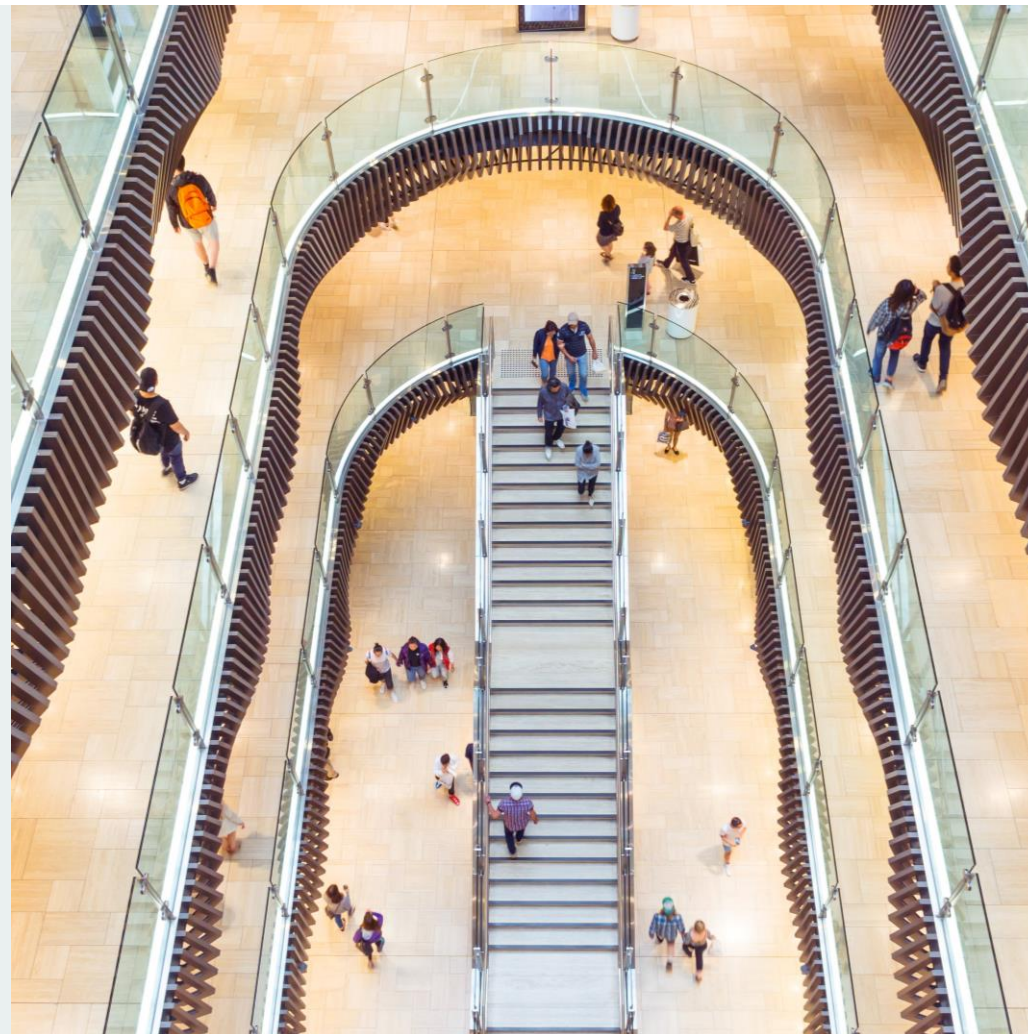
01

RETAIL PERFORMANCE CONTINUED TO STRENGTHEN DURING 2023; FASHION & APPAREL PLAYERS LED LEASING

With a historic peak, the year 2023 reported space take-up of nearly 7.1 million sq. ft., registering a Y-o-Y growth of 47% in tier-I cities^{1.1}. Leasing activity was primarily driven by Bangalore, Delhi-NCR, and Mumbai, with the three cities together accounting for a nearly 61% share.

On similar lines, supply addition increased exponentially by 3X Y-o-Y in 2023 as a significant amount of pent-up supply entered the market. Close to 13 malls totalling about 6 million sq. ft. became operational across the country. The overall supply scenario is anticipated to remain steady as a number of investment-grade projects are lined up for completion during 2024.

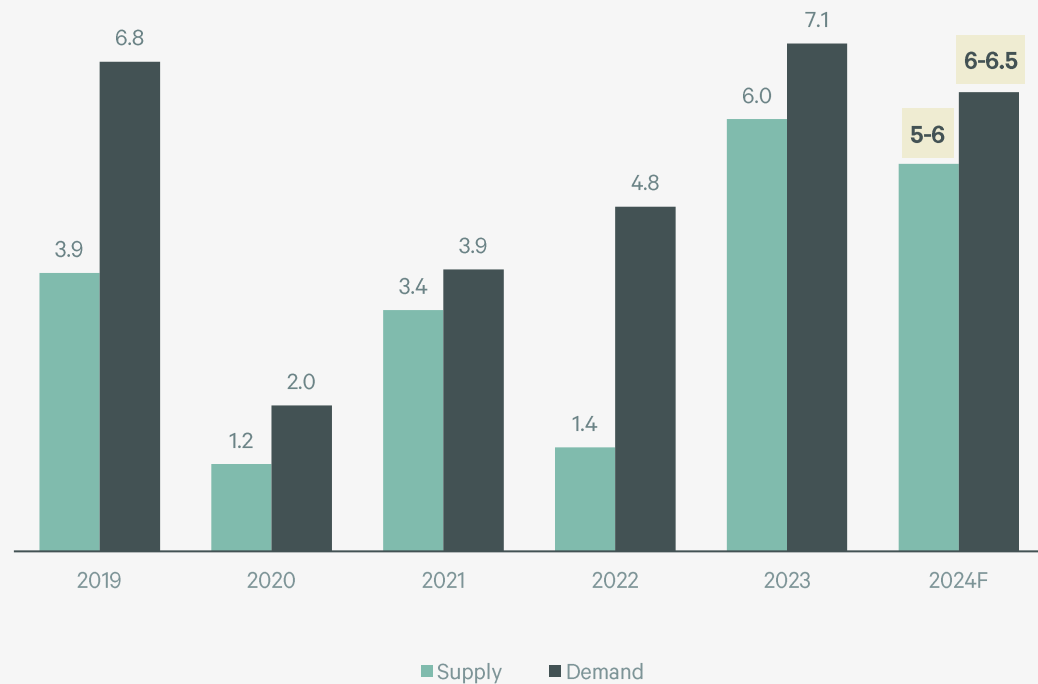
Tier-II cities^{1.2} in India also witnessed sustained growth in 2023, with a total space take-up of 1.2 million sq. ft. Kochi emerged as the frontrunner in terms of leasing activity, driven primarily by the inauguration of a new investment-grade mall exceeding 1 million sq. ft. Notably, Kochi and Indore together accounted for nearly 70% of the total space absorption witnessed in tier-II cities during the year.



1.1 Tier-I cities include Delhi-NCR, Bangalore, Mumbai, Hyderabad, Chennai, Pune, Kolkata, and Ahmedabad

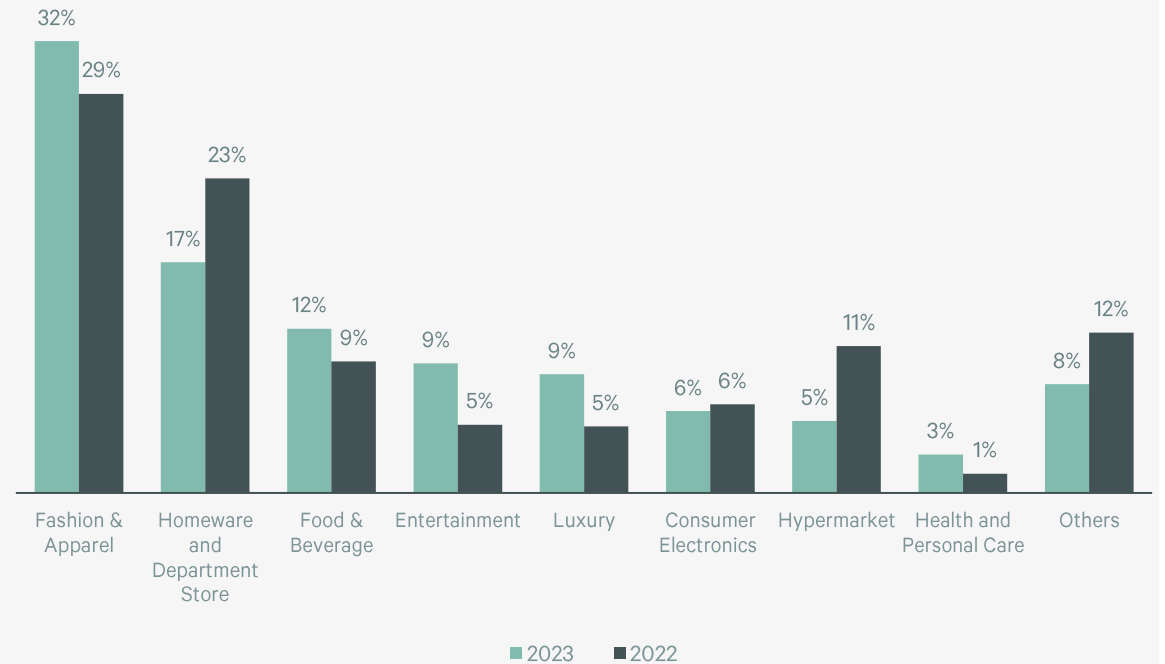
1.2 Tier-II cities include Chandigarh, Jaipur, Lucknow, Indore, and Kochi

Figure 1.1: Retail supply-demand trends (2019 – 2024F^{1.3})



Source: CBRE Research, Q1 2024

Figure 1.2: Demand across key retail categories (% share)



Source: CBRE Research, Q1 2024

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

02

COMING INTO FOCUS: LUXURY RETAIL

Retail categories such as fashion & apparel, homeware & department stores, and luxury retail played a significant role in driving leasing activity. These categories accounted for more than 50% of transaction activity in India in 2023. Along with other categories, the luxury segment has experienced a notable resurgence in recent years. Retailers in this sector capitalised on a combination of factors - rising income levels, pent-up demand, and growing consumption across various retail categories. The year witnessed the entry and expansion of numerous international luxury fashion, watch, and accessories brands, alongside the opening of several jewellery stores by domestic retailers peppered across the country. This growth of the luxury retail market has been multifaceted, with various factors converging to contribute to its expansion:

Quality supply in the right locations: The recent inauguration of the Jio World Plaza in Mumbai, and the Mall of Asia in Bangalore, exemplify the growing demand for high-end shopping experiences in India. These developments underscore the evolving preferences of Indian consumers, who are increasingly seeking out luxury brands and experiences. They are actively looking for expansion opportunities in metro cities, taking up larger spaces in existing locations to cater to the growing demand for their products. This expansion goes beyond the traditional luxury hubs of Delhi and Mumbai, with brands targeting new cities such as Hyderabad and Ahmedabad.

More international players join the fray: Recognising the potential of the Indian market, newer foreign luxury retailers are entering the market through strategic partnerships with domestic players. This trend is evident in the recent arrivals of brands such as Rimowa, Bugatti Fashion, West Elm, and Victoria's Secret, all of which have established a presence through local partnerships. The anticipated launches by Brioni, Roberto Cavalli, Dunhill, Sandro, Maje, and Galeries Lafayette, Paris would further solidify this trend.

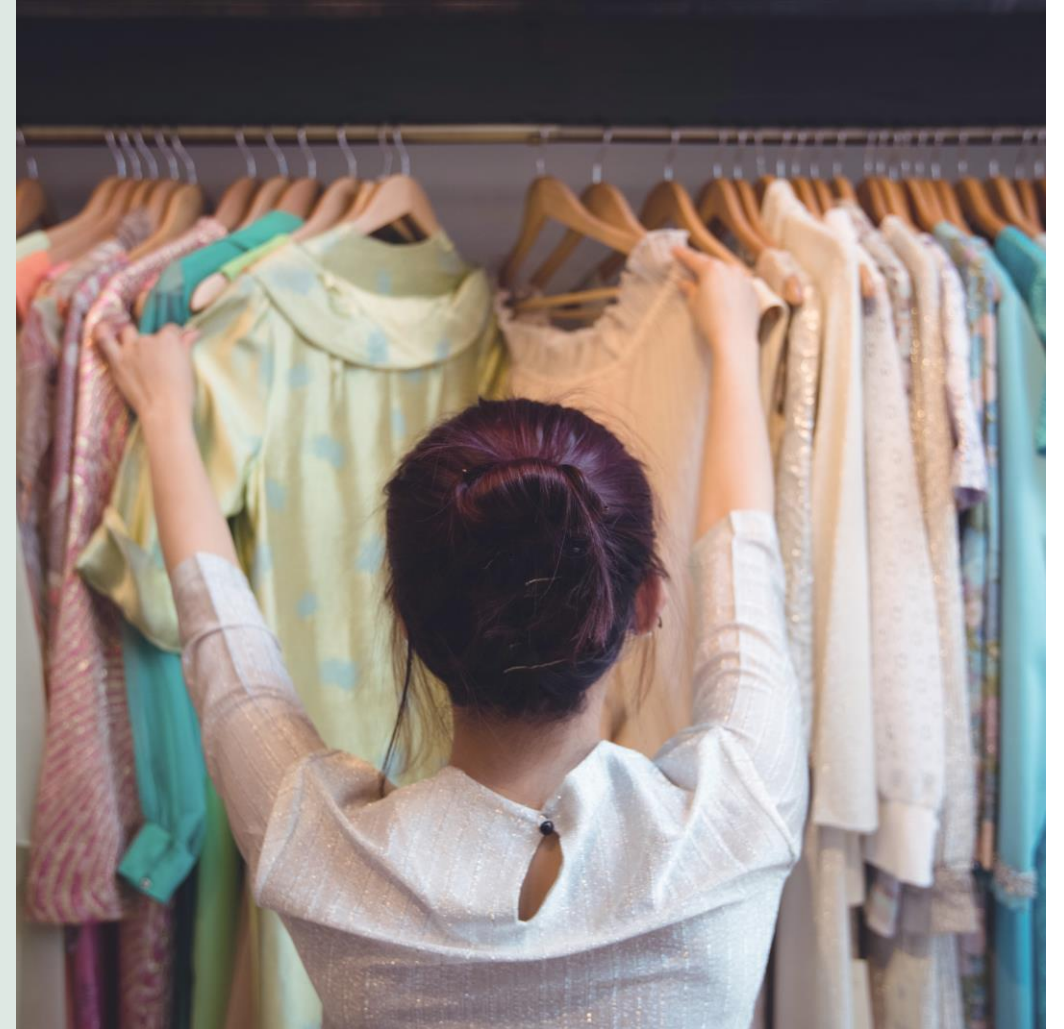
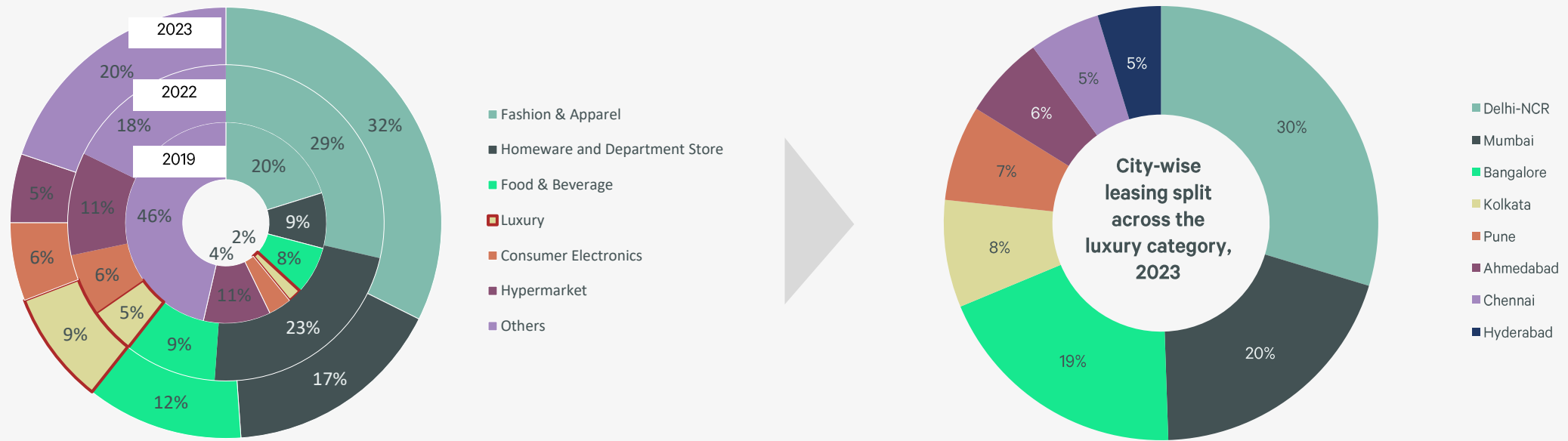


Figure 1.3: Leasing activity in the luxury category



Source: CBRE Research, Q1 2024

Figure 1.4: Retail categories: Expansion, growth, and shifting trends



Source: CBRE Research, Q1 2024

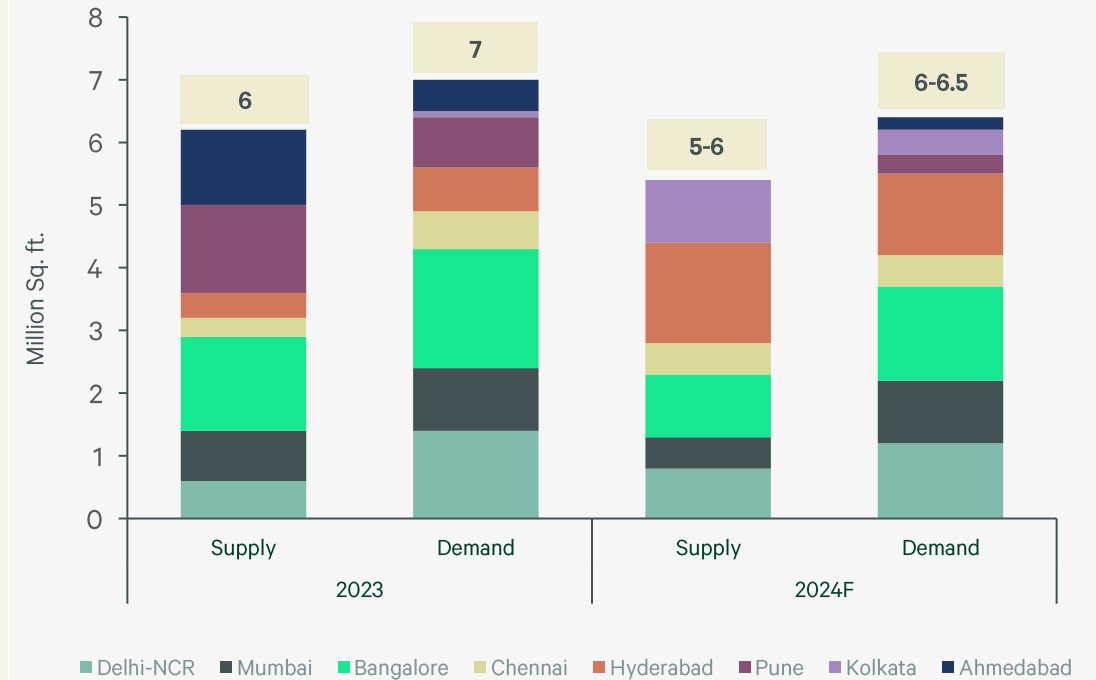
Top trends expected to shape the retail sector in 2024

01 STEADY SUPPLY WITH CAUTIOUS DEMAND

With the anticipated completion of several investment-grade malls, the retail supply scenario in India is expected to remain stable in 2024. We expect 5-6 million sq. ft. of investment-grade malls to become operational in tier-I cities by 2024. However, in comparison to other Asian / global retail markets, India is still underpenetrated when it comes to organised retail spaces. Malls and other retail formats are largely restricted to top-tier cities (and select tier-II cities), which means that high streets and unorganised retail still play a major role in overall demand, a trend that we expect would continue in the near future.

Infusion of quality supply shaped retail leasing trends in 2023 as primary transactions accounted for nearly 30% of the overall space take-up. We expect this trend to continue as several investment-grade, large-scale malls are slated for completion in 2024, which would drive up primary leasing. As a result, leasing in tier-I cities for 2024 is projected to be around 6-6.5 million sq. ft. However, retailers may maintain a cautious approach with their expansion plans as pent-up demand wanes and potential inflation squeezes consumer spending. Rental growth is expected to rationalise across secondary locations; however, key locations are likely to continue commanding rental premiums.

Figure 1.5: City-wise future supply and demand scenario



Source: CBRE Research, Q1 2024

02 RETAIL INVESTMENT LANDSCAPE: CONSOLIDATION AND EMERGENCE OF NEW PLAYERS

After a period of limited retail sector investments in the recent past, the tide is now turning. Notable players such as ADIA (Abu Dhabi Investment Authority) are planning to expand in the Indian market, while established entities such as the Lulu Group are actively pursuing opportunities, particularly in tier-II cities.

Supply to be led by key developers: Leading developers such as Phoenix, Prestige, Brigade, DLF, etc., are focusing on expansion in major cities such as Hyderabad, Chennai, Bangalore, and Delhi-NCR, due to the higher trading densities and strong leasing performance witnessed in the past year.

Expansion strategies: Institutional players and major developers are setting their sights on investment-grade malls in tier-I cities, employing a multi-city strategy to spread risk and ensure project viability. This trend towards consolidation is reshaping the retail investment landscape. Established players are not only targeting major markets, but new entrants and small-scale developers are also capitalising on opportunities in tier-II cities and beyond. The focus for such players is towards establishing catchment-driven neighbourhood malls to cater to the specific dynamics of these cities / catchment areas.



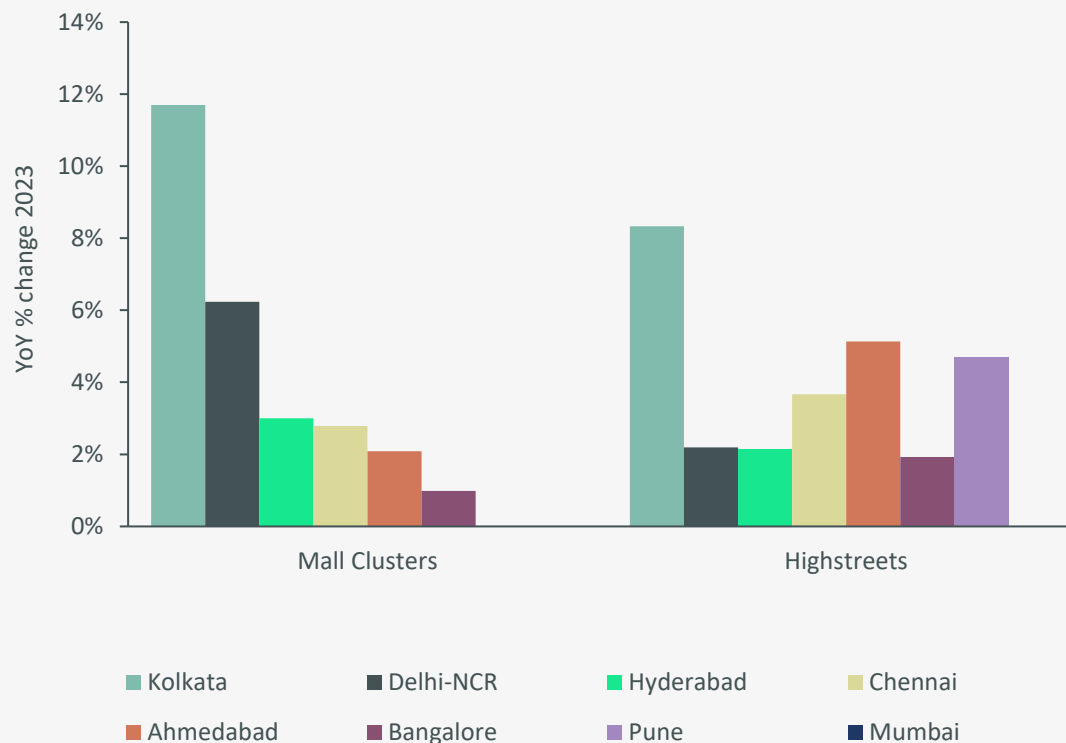
03

**NEGOTIATIONS TAKE CENTER STAGE:
RETAIL RENTAL GROWTH EXPECTED TO
TEMPER IN 2024**

While rental values witnessed sustained growth in 2023, the growth is anticipated to temper in 2024. This can be attributed to cautious demand amidst a steady supply of high-quality retail spaces. In tier-I cities, where rents have already reached their peak, limited growth is expected. While certain cities face a shortage of retail spaces to accommodate additional demand by retailers, upcoming mall completions are projected to meet the demand. However, prominent developments may still be able to command a premium, but escalations are expected to be more restrained compared to the previous year.

Developers may offer more flexibility during lease renewals for existing tenants, particularly for high-draw retailers. Figure 1.6 illustrates the average rental changes in top metros in 2023.

Figure 1.6: Rental trends across cities



Source: CBRE Research, Q1 2024

In select saturated markets, particularly prime high streets, rents may have already reached a peak due to the increments witnessed over the course of 2023. To provide a fair balance between tenant and landlord expectations, landlords in these areas may need to adopt a more flexible approach. This could mean offering incentives or concessions such as shorter lease terms to provide comfort to new tenants / retain existing ones.

04

THE FUTURE OF RETAIL SPACE DEVELOPMENT: A MULTIFACETED EXPERIENCE

Experience-driven retail has been a widely accepted trend – however, that experience is now witnessing the addition of many layers to it. A couple of years ago, experience meant adding a unique F&B store or an entertainment centre, but today experience transcends across all retail touchpoints. The experience layers start right from the interactive parking options to immersive flagship stores, custom / appointment-based luxury shopping, and curated F&B experiences. Malls are transforming into vibrant hubs offering a myriad of entertainment options, such as cinemas, immersive gaming zones, cultural events, and even live performances.

BEYOND SHOPPING

A culinary revolution: Malls and high streets are moving beyond a limited selection of “quality” food options to curate a diverse culinary landscape. This focus includes unique dining experiences, authentic cuisines, themed restaurants, and even hosting food festivals. Innovative food court layouts / zoning and design elements further enhance the appeal, drawing customers in to explore new dining experiences.

ADAPTABILITY

The new design mantra: Modern mall developers recognise the importance of flexible design. Creating adaptable spaces within malls allows for repurposing based on current trends and events. This adaptability caters to the dynamic needs of both consumers and brands. Pop-up shops, product launches, community gatherings, and art exhibitions are just a few examples of the versatility these spaces can offer.

TECHNOLOGY INTEGRATION

Enhancing the shopping journey: The integration of technology is another key driver of retail space evolution. Smart parking solutions streamline the arrival process, while mobile apps offer personalised recommendations and navigation assistance. Augmented reality (AR) is also making its way into the shopping experience, with interactive displays that enhance product engagement. By leveraging these technologies, mall developers and brands can facilitate best-in-class services and create a more immersive experience, while at the same time leveraging customer-centric data to provide a more personal experience for the customer.

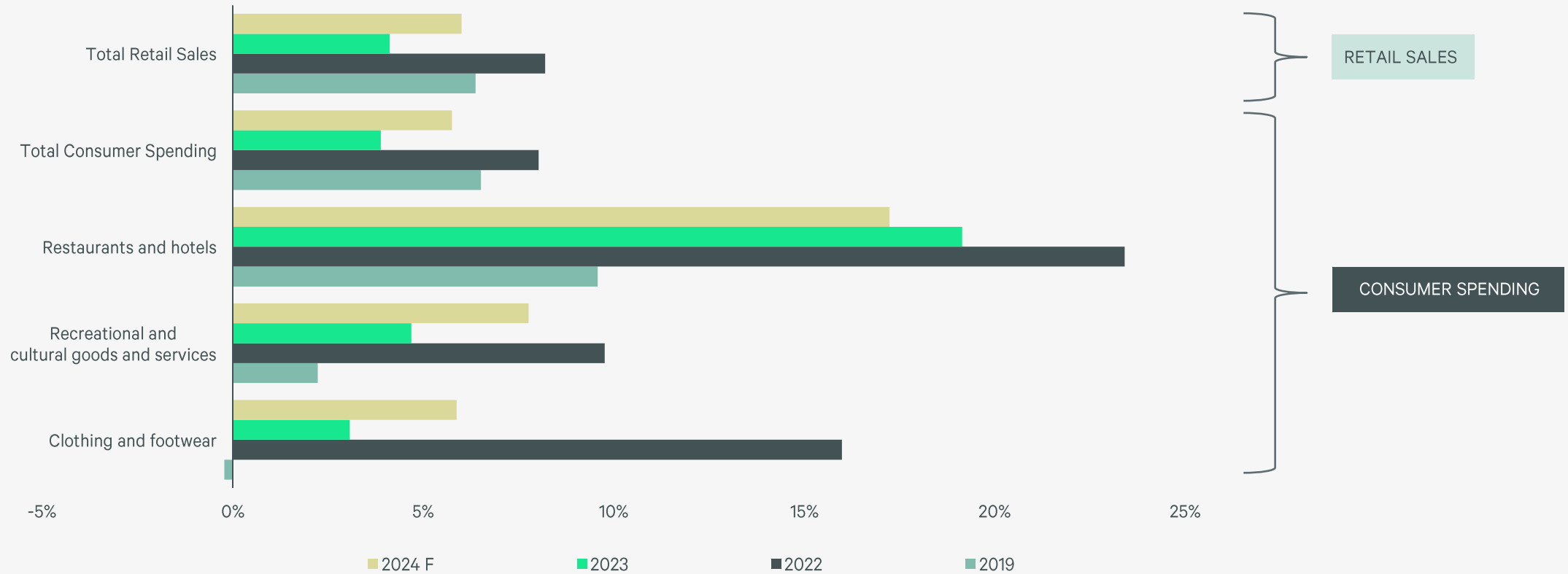
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INDIAN CONSUMER SPENDING: A CAUTIOUSLY OPTIMISTIC OUTLOOK

Despite persistent inflation, Indian consumers are expected to maintain a cautiously optimistic outlook on spending, particularly towards non-essential items. While a potential economic slowdown could dampen retail sales growth, the festive season in the latter half of 2024 is likely to mitigate this effect. Even though household spending has remained steady so far, consumers are likely to closely monitor inflation's impact on the prices of products and services. On the whole, we expect the overall retail scenario to remain vibrant, with minor impediments that may slacken, but would not derail its growth trajectory in 2024.

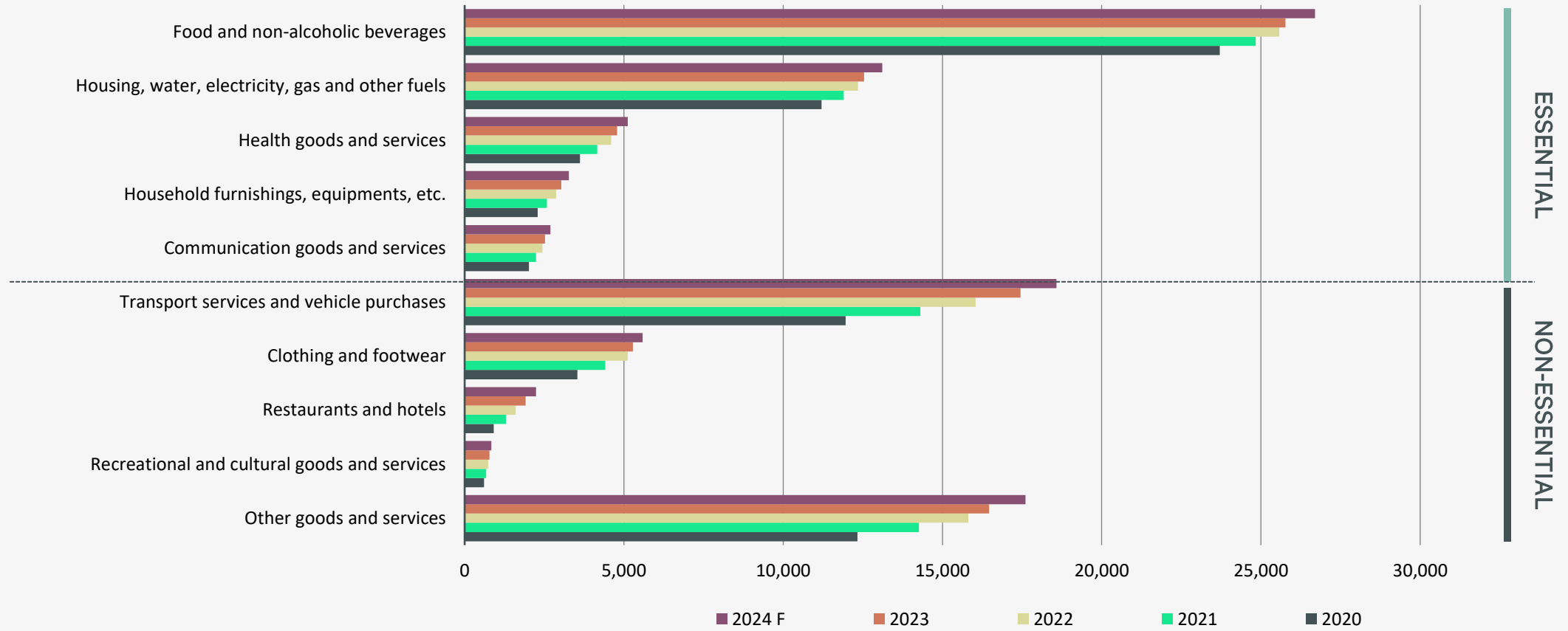


Figure 1.7: Growth in consumer spending across non-essential categories set to temper in 2024



Source: CBRE India Research, Q2 2024

Figure 1.8: India - Consumer spending across categories in INR billion



Source: CBRE Research, Q1 2024

Watch out for

Generative AI: Powering the retail revolution

The Indian retail market is undergoing a significant transformation driven by Generative AI. This technology is allowing retailers to meet the diverse needs of their customers by enhancing both online and in-store experiences. It is automating tasks such as product descriptions and cataloguing while even acting as virtual customer assistants.

Hyper-personalisation to take centre stage

Retailers are embracing a data-driven strategy called hyper-personalisation, tailoring product offerings and experiences to individual customers. This approach optimises inventory management and boosts customer satisfaction, loyalty, and sales. Retailers are increasingly leveraging technologies and using predictive analytics to anticipate customer needs and foster a sense of connection and loyalty.

Optimising supply chains in a hyperconnected world

As retail sales tend to have periods of volatility, Indian businesses would need to adopt a strategic approach to effectively manage their supply chains, minimising the impact on costs and ensuring timely product delivery. Efficient inventory management is expected to play a crucial role in tracking stocks effectively and optimising inventory levels. This need is particularly pronounced in retail categories such as supermarkets and department stores, where demand levels quickly respond to economic activity and resource scarcity. Proactive strategies are required to navigate this sector and ensure seamless operations.



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