CBRE RESEARCH

ASIA PACIFIC REAL ESTATE MARKET OUTLOOK

2017

India

TABLE OF CONTENT

TABLE OF CONTENT

2017 ASIA PACIFIC
REAL ESTATE MARKET OUTLOOK

India

OPPORTUNITIES IN THE NEW NORMAL

Occupier focus to remain on core locations

Core markets will continue to lead office space demand; share of smaller cities likely to increase

Regulations to spur growth

RERA to be a landmark initiative for the residential real estate segment; affordable housing will be a key growth driver

Southern markets to dominate retail supply

Upcoming retail supply expected to be dominated by Hyderabad and Bangalore; growth expected beyond the traditional epicenters of Delhi NCR and Mumbai

GST to allow operational efficiencies

GST to spur consolidation in warehousing, leading to emergence of larger, better quality warehouses; likely to spur inflow of institutional capital

Institutional funding to gain further traction

Increase in interest of patient capital from large sovereign and foreign institutional players; quality of assets to remain as the overriding theme

Source: CBRE Research, Q1 2017.

CBRE RESEARCH
This report was prepared by the CBRE India Research Team, which forms part of CBRE Research – a network of preeminent researchers who collaborate to provide real estate market research and econometric forecasting to real estate investors and occupiers around the globe.

CBRE

EXECUTIVE SUMMARY

REAL ESTATE SECTOR: HOW WAS 2016 AND WHAT TO EXPECT IN 2017

India continues to hold its position as the world's fastest growing G-20 economy. On the back of improved investor confidence and better policy reforms, India's economic growth stood at 7.6% in the year ending March 2016, an uptick from the previous year (7.1%). However, after the demonetization drive undertaken by the Indian Government in November 2016, growth projections were lowered. The impact of demonetization was expected to be catastrophic for the economy, however, actual figures released for the initial months of 2017 have been encouraging; indicative that the economy is already on its way to fully absorb the impact of the policy.

The year 2017 is expected to be a year of fructification – with the results of all policy initiatives taken in 2016 beginning to take shape. Most of the steps, including Real Estate Regulatory Act (RERA), Goods and Services Tax (GST) and Real Estate Investment Trusts (REITs), are aimed at improving transparency and enhancing the overall investor sentiment.

Steady lease rentals, high absorption levels and global investor interest continue to bring life into India's commercial real estate sector. 2016 was a landmark year for the sector, with record absorption levels of over 43 million sq. ft. In 2017, the office sector is likely to maintain its momentum with an anticipated absorption of 40 million sq. ft. Occupiers, while expanding their footprint across the country, are likely to keep a strong check on space utilization ratios and innovations in workplace strategies, while implementing their expansion plans. Supply across the seven cities is expected to marginally rise, completion delays likely to abate; with the supply pipeline dominated by the top three cities, followed by smaller cities like Hyderabad and Pune.

Residential activity in India dipped in 2016. Both housing sales and new project launches saw a decline by over 18% - 22% y-o-y, with overall market sentiment varying across cities. Housing supply in India during H1 2017 is expected to rationalize on account of cautious developer sentiment; largely due to the demonetization drive and the anticipated implementation of RERA. Housing sales are expected to remain dormant in H1 2017 both in the primary and secondary markets, likely to be followed by a period of relative stability in H2 2017, as homebuyer enquiries are expected to rise due to a favorable lending and policy environment.

The Indian retail real estate market witnessed continuous foray of international brands, completion of retail developments and robust demand during 2016. The year 2017 is also likely to be positive for retail, with an addition of almost 7 million sq. ft. of Grade A supply (to be led by the Southern cities). Even though we see a strong supply pipeline, the demand for organized retail space will continue to exceed supply. Consumption patterns are likely to mature due to increasing urbanization and policy initiatives by the government, with upcoming retail developments to allow entry points for global retailers beyond the traditional epicenters of Delhi NCR and Mumbai.

Sustained economic growth over the past few years has led to a healthy demand for warehousing and industrial space in India. Demand in 2016 was slightly more than 10 million sq. ft., with relatively smaller cities such as Hyderabad, Chennai, Kolkata and Pune accounting for almost half of the leasing activity. Demand for warehousing space is anticipated to remain robust throughout 2017, with consolidation (as a result of the implementation of the GST) being amongst the biggest drivers. In line with an increased demand, the supply of modern warehousing and industrial parks is also expected to increase over the next few years.

The year 2016 witnessed a majority of real estate investment concentrated towards well leased/well organized office developments, followed by residential and alternate sectors such as retail, logistics and hospitality. Retail assets witnessed a particular interest in the past year with players such as Blackstone, GIC etc. acquiring assets in Mumbai, Pune and Chennai. In 2017, proactive government policies are likely to provide a more secure environment for investors. While office and residential are expected to remain traditional drivers; however, alternate sectors such as retail and warehousing will also come to the forefront.

Economic Outlook

KEY GLOBAL FLASHPOINTS FOR INDIA IN 2017

2016 GLOBAL ECONOMIC OVERVIEW

The global economy continued to face headwinds in 2016, particularly from landmark global events such as BREXIT and the US elections, to the rise of protectionism in the West. The global GDP growth stood at 3% in 2016 and is expected to increase slightly to 3.3% for the year 2017. The Asia Pacific GDP growth stood at 4.3% in 2016 and is expected to ease slightly to 4.2% in 2017.

The emerging giants – China and India are expected to lead regional growth – accounting for over 75% of the overall share in the APAC region. Southeast Asia is also expected to see robust growth backed by positive demographic trends. In China, the GDP growth is expected to decelerate to 6.5% or even less, owing to the shift in export-led economy to domestic demand driven growth. However, the recent signs of stabilization in Industrial Production and fixed asset investments confirm that a hard landing remains unlikely.

BREXIT

UK's exit from the European Union (EU) in 2016 and a series of elections in Europe – in Netherlands, France and Germany, may pose concerns for the economic integration within the region. The elections may produce governments that might be protectionist, advocating exit from the EU. As EU happens to be a key trading partner for India and various economies globally, any political development that impacts trade and economic integration / opportunities in the region will have an impact on the global economy.

US RATE HIKES

In the past twelve months, the Federal Open Market Committee (FOMC) has raised the rate for federal funds twice by 50 basis points, and also indicated the likelihood of two further rate hikes in 2017.
As these rate hikes were widely-expected, their impact on Asia-Pacific and India has been limited. In fact, the Reserve Bank of India (RBI) remains more focused on

spurring the country's domestic economic performance and reigning in core inflation. The bank has indicated moving away from an accommodative to a neutral stance, thereby leaving limited room for any more rate cuts. However, the impact of the Fed hike on capital flows on emerging markets such as India, coupled with the strengthening of the US Dollar might pose some challenges.

NEW US GOVERNMENT POLICIES

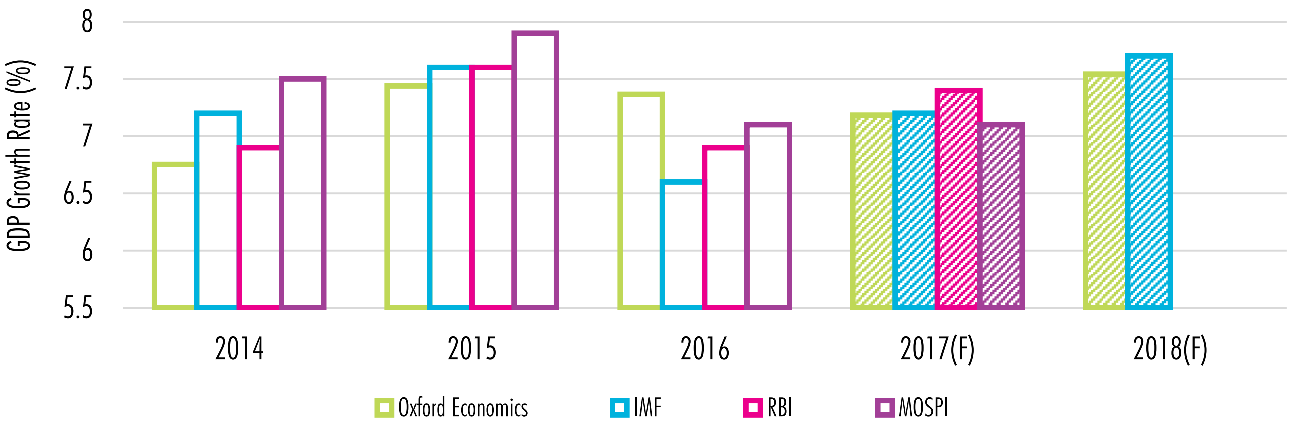
The new US Government has indicated that its policy approach towards trade and investments might be protectionist; an approach that could impact trade with emerging economies such as India and China. A decrease in trade is likely to affect the growth rates in China, which in turn will impact other emerging markets as well. For India the impact is more from the anti-outsourcing approach that the new administration might adopt. As outsourcing continues to be a key demand driver for commercial real estate in India, the entire technology sector in the country is looking for more clarity on this subject. India, recently coming back from its demonetization program, along with Hong Kong and Singapore are exposed to tighter monetary conditions – which will be some of the major risks in the year 2017.

However, there are also opportunities in 2017 that will have a positive bearing on the global economy. A major opportunity for the global economy and India will be the unveiling of US President Donald Trump's economic program. Key policies and enhanced government spending in the US is expected to spur its economic growth in 2017. The GDP growth in US in the last 5 years has averaged about 2.1%; we expect it to pick up to 2.5% in 2017-18. In Europe, lower unemployment coupled with monetary easing – are expected to drive the recovery in monetary conditions. Despite the BREXIT, the UK economy will continue to surge despite high levels of uncertainty. The APAC region is also expected to do well on the back of fiscal stimulus in China and Japan in the midst of major fiscal expansion. The overall domestic demand in the Asian countries is expected to go up, owing to the reduced interest rates in majority of the countries – which is expected to further boost domestic demand.

INDIAN ECONOMIC OVERVIEW IN 2016

India continues to hold its position as the world's fastest growing G-20 economy. On the back of improved investor confidence, lower food prices and better policy reforms, India's economic growth stood at 7.6% in the year ending March 2016, an uptick of 50 basis points from the previous year (7.1%). According to the IMF World Economic Outlook Update and the Moody's Investors Service, the economy was expected to grow at 7-7.75% during FY 2016-17 and the subsequent year. However, after the demonetization drive undertaken by the government in November 2016, growth projections were lowered. The RBI lowered its earlier estimate of 7.6% GDP growth to 6.9%, while several other agencies lowered their growth estimates from 7-7.5 to 6-6.5% for the year ending March 2017.

Figure 1: India GDP Growth Trend (2014-18)



Source: Oxford Economics, IMF, RBI, MOSPI, Q1 2017

Although, domestic demand is expected to grow by 5.2% in the coming year, CPI inflation lately (for January 2017) has fallen down to 3.17%, owing to lack of transaction activity throughout the country. However, as the government focuses on remonetizing the economy, the inflation levels are expected to bounce back to 5-7%. In February 2017, the wholesale price index-based inflation increase to a 30-month high of 6.55%, from 5.25% in January.

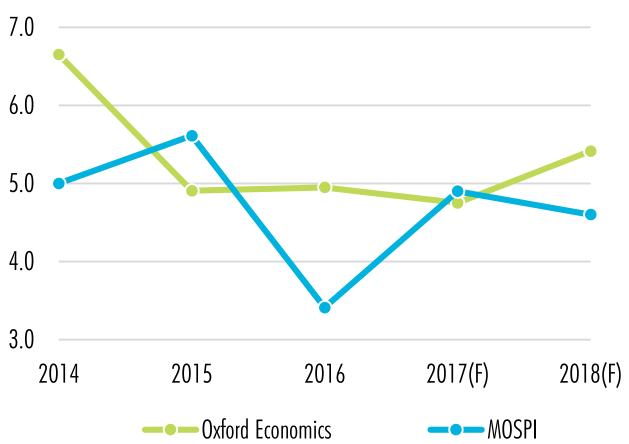
The Central Bank has reduced the repo rates six times since January 2015, bringing the repo rate to a six-year low of 6.25%. This monetary easing was largely done on the back of a softening inflation target amidst slightly slower, but steady economic growth. However, in the February policy review, the Central Bank has moved away from an accommodative to a neutral stance, which indicates that the RBI feels that from a policy perspective, the correct interest rates have already been achieved. Despite the monetary easing measures undertaken by the RBI since 2015, banks have still not passed on the complete benefit of reduced interest rates to end-customers. The RBI governor has indicated towards scope for the lending rates to come down, as the policy rate has come down by 175 basis points (bps), while the weighted average lending rates have only come down by 85-90 bps. The RBI in its next two bi-monthly policies is likely to keep the interest rates unchanged and may also revise them upwards, keeping in mind the interest of small saving schemes as well as inflationary pressures.

THE DEMONETIZATION CONUNDRUM

In November last year, the Indian Government decided to discontinue the currency notes of INR 500 and 1000 denomination to address the long pending issue of circulation of unaccounted for cash in the economy. While the exercise did result in a short term disruption across various sectors such as agriculture, Fast Moving Consumer Goods (FMCG), consumer durables, jewelry and real estate; however, the government carried out the remonetization drive quite aggressively and has successfully managed to remove the restrictions on cash withdrawals from banks within four months of the move.

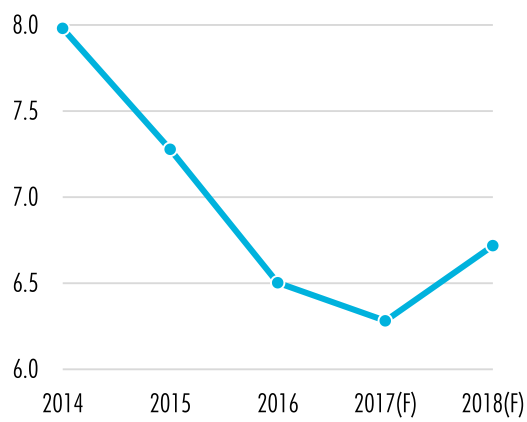
The impact of demonetization was expected to be catastrophic for the economy, however, the actual figures released for the months of January and February 2017 have been quite encouraging; indicative of the fact that the economy is already on its way to fully absorb the impact of the policy. The recent GDP figures are a testimony to the strength of the Indian economy, with GDP growth for the quarter ending December at a resilient 7%, as against the slashed expectations of 6-7%. India topped Nielsen's Consumer Confidence Index in Q4 2016 with a score of 136, as compared to the global average score of 101 – reflective of a sustained positive consumer outlook. On similar lines, Purchasing Managers' Index (PMI) which witnessed a slight dip in December 2016, has again started to gain in January and February 2017 indicating better health of the manufacturing sector. Another precursor to the recovery in consumption

Figure 2: Headline Inflation (CPI) (%)



Source: Oxford Economics, MOSPI, Q1 2017

Figure 3: Lending Rates (%)



Source: RBI, Q1 2017

sentiment has been the growth in domestic passenger vehicles which rose 9.5% in February from the last year, marking the second successive month of recovery after a 14.4% increase in January.

An unprecedented move such as demonetization has a far reaching impact; with the real estate sector also witnessing some impact. The below table highlights the impact that the move had on various segments:

Table 1: Short term Impact of Demonetization on Various RE Segments

RE sector	Short-term impact due to demonetization
Residential	Demonetization will infuse transparency in pricing and increase affordability across cities. With banks being flush with cash, a rationalization in mortgage rates has also been witnessed; thereby catalyzing end-user demand. Developers are topping this up with attractive schemes/payment plans to offload their unsold inventory.
Retail	While sales of luxury goods witnessed a short term dip; however, the long term consumption story remains intact. The various indicators on consumer confidence, consumer good sales, auto sales indicate positive consumption patterns.
Office	No immediate impact seen on transaction activity and new supply. Supply slippages anticipated in the short term, owing to regulatory / infrastructure delays. Increased participation likely to be seen from institutional players, as the operating environment becomes more transparent.
Industrial/ Warehousing	Supply slippages expected; as landlords are witnessing difficulties in completing under-construction supply. With most of the supply in the segment being unorganized, the elimination of the cash component is making deal structuring difficult. With limited availability of quality supply and GST in the offing, the timing is opportune for organized players to enter the segment.
Investment Markets	While residential remains the mainstay, other asset classes such as commercial, retail, etc. are also coming to the fore. The flavor of debt financing has been changing with lending rates and terms becoming more rational/flexible. The policy thrust of the government in 2016 to ease the funding and operating environment is expected to work in favor of spurring organized sources of capital into real estate.

Source: CBRE Research, Q1 2017

POLICY OVERVIEW AND IMPACT ON INDIAN REAL ESTATE IN 2017

The year 2017 is expected to be a year of fructification – with the results of the all the policy initiatives taken in 2016 beginning to take some shape. Most of the steps, including Real Estate Regulatory Act (RERA) and the Goods and Services Tax (GST) to Real Estate Investment Trusts (REITs), are aimed at improving transparency and enhancing the overall investor sentiment towards real estate.

These changes will catalyze ease of doing business in the country, while supporting corporate entities entering or expanding their footprint across leading cities.

Table 2: India Policy Overview

Policy initiative	Key highlights	Current status	Expected impact in 2017
Budget 2017	Affordable housing given 'Infrastructure Status' , Relaxation in area measurements and completion timelines, tax sops for affordable housing Increased investment outlays for infrastructure sectors, Monetization of airport land assets, Public-Private Partnership (PPP) mode announced for airport operations Taxation benefits relating to capital gains tax for Joint Development Agreements and relaxation of holding period of capital gains on properties	Post the government thrust, increased PE interest in the affordable housing segment; rising private player interest in infrastructure projects	The thrust given to affordable housing and infrastructure development in the budget, will work in conjunction with the various investment easing regulations during the year.

Source: CBRE Research, Q1 2017

Policy initiative	Key highlights	Current status	Expected impact in 2017
Implementation of the Real Estate Regulatory Act (RERA)	The Centre has set a deadline of 1st May 2017 for the act to come into force; all the states are required to establish their authorities by the deadline	The Centre released rules applicable for Union Territories including Andaman & Nicobar Islands, Dadra & Nagar Haveli, Daman & Diu, Lakshadweep and Chandigarh Gujarat and Uttar Pradesh have notified guidelines Delhi, Maharashtra, Karnataka and Madhya Pradesh have released draft/final rules	Speedy settlement of disputes, due to the presence of a regulator Boost foreign/domestic investment due to improved transparency Expected increase in housing sales, due to improved buyer confidence
Passage of the Goods and Services Tax (GST) Act	Post passage of the Act in August 2016, a four tier GST rate structure of 5%, 12%, 18% and 28% across commodities has been proposed	As of December 2016, the Act has been ratified by all states except certain states such as Karnataka, Tamil Nadu, UP and West Bengal	Post adoption of a uniform GST rate, the warehousing sector in particular is expected to be positively impacted; corporates expected to consolidate and opt for larger warehouses. This is likely to attract PE investments, as deployment of capital expected to become easier
Revised REIT guidelines, November 2016	Increasing the share of under-construction properties in a REIT portfolio from 10% to 20% A minimum cap of 200 on the number of unit holders Removing the limit on the number of sponsors The REIT shall refund money, if it fails to collect subscription amount of exceeding 90% Revising the definition of infrastructure under "real estate" or "property" to include: - Hotels, hospitals and convention centers, forming part of composite real estate projects, whether rent generating/income generating - "Common infrastructure" for composite real estate projects, industrial parks and SEZ	Leading RE stakeholders are restructuring portfolios, in order to include assets in the country's initial REIT listing	The country's first REIT listing is likely to occur in the coming quarters Relaxed and clearer regulations likely to lead to an increased investor interest; inclusion of more asset classes under real estate expected to result in better quality of such "newer" assets, going forward

Office Sector

SUSTAINED GROWTH, NEW STRATEGIES

OFFICE SECTOR

SUSTAINED GROWTH, NEW STRATEGIES

STRONG LEASING MOMENTUM, MARGINAL SUPPLY RATIONALIZATION IN 2016

Commercial office market remains a bright spot for the real estate sector in the country. Steady lease rentals, high absorption levels and global investor interest continue to bring life into India's commercial real estate sector. 2016 was a landmark year for the commercial real estate market in the country, witnessing record absorption levels of over 43 million sq. ft. and registering a growth of 9% on a y-o-y basis.

Looking at the key market trends for 2016, Bangalore and Delhi NCR dominated the office leasing activity, followed by Hyderabad and Mumbai. Hyderabad, in particular, witnessed a steep rise in occupier demand, with absorption more than doubling from 2015 to cross 6 million sq. ft. in 2016.

The traditional demand driver - the IT/ITeS sector maintained its dominance in 2016 as well, along with steady demand from Banking, Financial Services and Insurance (BFSI) and engineering and manufacturing sectors. Space take-up comprised of both expansion and new lettings; driven by domestic and US-based occupiers, largely for their back-office operations.

Supply on the other hand, fell by about 12% in 2016, dropping to 35 million sq. ft. from approximately 39 million sq. ft. in 2015. The drop was largely on account of construction slippages in Delhi NCR (Gurgaon and Noida). With the traditional supply propeller witnessing a slowdown, development completions in 2016 were dominated by Bangalore and Mumbai. Rental trends displayed a clear divergence in 2016; rental growth began to taper in core micro-markets of cities such as Delhi NCR and Mumbai, while beginning to rise in decentralized peripheral micro-markets of cities such as Bangalore, Hyderabad, Chennai and Pune.

DEMAND IN 2017: INCREASING DECENTRALIZATION, RISING SHARE OF SMALLER CITIES

Office leasing activity is expected to sustain in the short-term, backed by companies looking to expand or consolidate operations. However, we expect leasing activity to be marginally impacted in the medium to long-term, with space take-up likely to touch about 40 million sq. ft. While the top three cities (Delhi NCR, Mumbai and Bangalore) are likely to continue their dominance in the overall space take-up, the share of cities like Hyderabad, Chennai and Pune is also expected to rise; as these cities are increasingly being preferred by corporates for setting up operations/expansion. Demand is likely to continue to be driven by mainstay sectors such as IT/ITeS (mainly led by ITeS), BFSI, engineering and manufacturing; consulting and research will also remain an active sector.

The following table highlights the anticipated sectoral growth drivers across cities in 2017:

Table 3: Office Leasing by Leading Industry Sectors in 2017

City	IT/ITeS	BFSI	Engineering and Manufacturing	Research and Consulting	E-commerce
Delhi NCR	●	●	●	▲	●
Mumbai	●	●	●	●	●
Bangalore	●	▲	▲	▲	●
Chennai	▲	●	▲	●	●
Hyderabad	▲	▲	▲	▲	●
Pune	▲	▲	▲	▲	●
Kolkata	●	●	●	●	●

Source: CBRE Research, Q1 2017

▲ Increasing ▼ Decreasing ● Stable

While the appetite for quality space in core locations will remain strong, dwindling availability and rising cost-sensitivity of tenants is likely to result in space take-up shifting to decentralized locations; thereby boosting take-up of primary space. Occupiers are likely to follow this trend of 'flight to value', while also using space utilization strategies such as workplace optimization and co-working spaces.

Global occupiers are likely to account for a sizeable share of leasing activity; we expect to see a rise in traction of domestic occupiers in the coming quarters. While the demand for small- medium sized spaces will continue to remain strong, demand for large sized spaces is also likely to receive a boost from the consolidation/expansion/relocation initiatives by corporates in peripheral/sub-urban locations. Additionally, cities like Mumbai and Bangalore might witness increased instances of purchase of space for end-use, along with a rising demand for space in properties for self-use (Built-to Suit).

On another note, the trend of automation is now gaining traction in India, with companies looking at replacing low-level and certain mid-level jobs with technological innovations. Processes such as the Internet of Things (IoT), increased usage of machines, robotics and even data analytics are likely to impact jobs in the 'repetitive' or 'low-skilled' categories. Instead, corporates (IT/ITeS in particular) may see an increasing demand for employees with higher skills; those who are able to work in an environment requiring minimum human interface. Indian corporates are expected to continue operating on a labor-cost arbitrage model. A complete shift to a capital intensive model is not likely to take place in the near future. Instead, corporates are expected to initially increase part-time employment (while replacing low-skilled jobs with technology), along with adopting employment strategies which would reduce labor constraints of distance and time.

SUPPLY IN 2017: DIPPING CONSTRUCTION SLIPPAGES, INCREASED SPACE OPTIONS IN DECENTRALIZED LOCATIONS

Supply across the seven cities is expected to marginally rise to touch about 38 million sq. ft. in 2017. Completion delays across cities are likely to abate, particularly in Mumbai and Delhi NCR which are expected to witness the completion of pent up supply, post the resolution of regulatory/infrastructural delays. As this pent up supply gets released, the supply pipeline in 2017 will be dominated by Hyderabad, followed by cities such as Bangalore and Mumbai. Most of the upcoming supply will be in the peripheral/sub-urban locations, which is likely to attract enhanced enquiries and strong pre-commitment activity in the coming months.

On a positive note, we also expect a rise in quality supply - in the form of well-connected/located projects, with several states revising their Transit Oriented Development (TOD) policies in 2016. Under the new policies, developers would be able to increase the space offered in projects located within a certain distance of existing/planned Mass-Rapid Transit System (MRTS), thereby offering quality options to occupiers for future operations.

Additionally, instances of institutional funding for commercial projects is likely to increase in the near future with such supply expected to enter the market in the medium to long term.

RENTS IN 2017: RENTAL GROWTH EXPECTED TO CONTINUE ACROSS CITIES

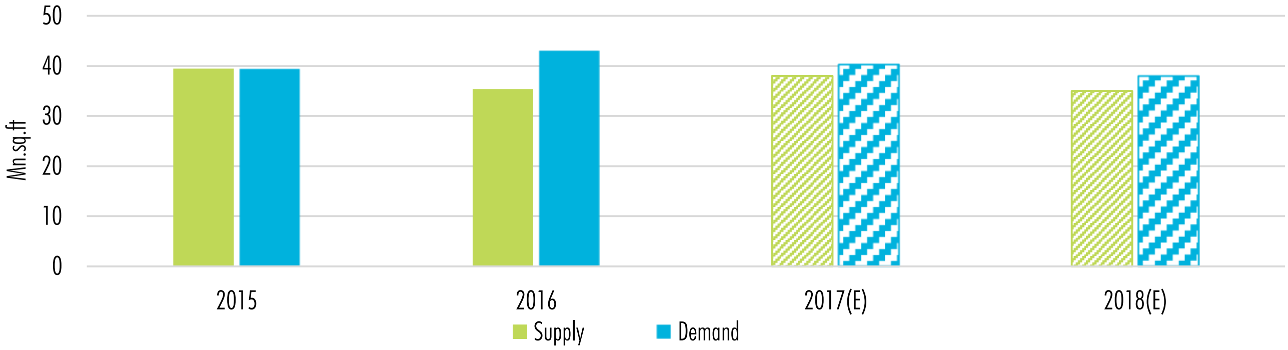
While a sizable supply is expected to enter across most cities, demand is also expected to remain strong (particularly in the core locations), thereby driving rental growth in the short to medium term. Additionally, while rental values are likely to continue to grow across micro-markets, we expect occupiers to close deals on favorable lease terms, taking advantage of the rental-arbitrage offered in cost-effective locations. Rental growth in most core-micro-markets (already close to peak values) expected to taper. On the other hand, the 'flight to value' demand in the newly completed developments in peripheral/sub-urban micro-markets would result in a comparatively higher rental growth (as compared to core micro-markets) across most cities.

Table 4: Rental Performance in 2017

Rents Growing	Rents Peaking (minimal growth expected)	Rents Declining
Bangalore: North Bangalore, Whitefield and Off CBD (Indira Nagar, Koramangala, Old Madras Road, CV Raman Nagar) **Mumbai:** ABD (Bandra Kurla Complex, Kalina) and PBD-Navi Mumbai **Pune:** SBD- (Kharadi) **Chennai:** Mt Poonamallee Road, OMR II, III **Hyderabad:** IT Corridor, Extended IT Corridor	**Bangalore:** SBD (Bannergatta Road, JP Nagar, Jayanagar, Mysore Road **Chennai:** OMR Zone I, Off CBD (Guindy, Ekkaduthangal, Vadapalani, Santhome and MRC Nagar) **Gurgaon:** DLF Cybercity, Golf Course Road	**Kolkata:** CBD (Park Street, Camac Street and Theatre Street) PBD (Salt Lake and Rajarhat)

Source: CBRE Research, Q1 2017

Figure 4: Office Supply Demand Dynamics



Source: CBRE Research, Q1 2017

OVERALL OFFICE MARKET SENTIMENT IN 2017

Economic uncertainty due to an anticipated protectionist policy environment in the US, might have an impact on the office sector in India. A likely change in the US outsourcing policy is also likely to adversely impact the expansion plans of global corporates in India. outsourcing destination and the cost arbitrage offered is unlikely to be impacted in the short to medium term; however, any protectionist measure undertaken by the new US regime will certainly have a long term fallout on the sector.

The following table highlights the key drivers and inhibitors for the office market in India:

Office outlook for 2017
Key Drivers
• Implementation of RERA and the modified guidelines for REITs are likely to result in the formalization of the sector, boosting transparency and increased investment flows • Completion of infrastructure initiatives (such as completion of new highways, introduction of MRTS services, etc.) would dictate occupier movement • Rise in quality supply through increased institutional investment, change in TOD policies
Key Inhibitors
• A likely change in the US outsourcing policy leading to NASSCOM's downward revision on growth projections for India's IT sector might impact the expansion plans of global occupiers • Use of new and innovative technologies under the ambit of 'artificial intelligence' may adversely impact employee requirements, particularly labor intensive organizations across all industry sectors • Increasing traffic congestion across cities would affect location strategies of various occupiers

Occupiers, while expanding their footprint across the country, are likely to keep a strong check on space utilization ratios and innovations in workplace strategies, while implementing their expansion plans. Additionally, we expect developer focus on BTS developments to continue in cities such as Bangalore and Chennai. We also anticipate that as part of newer expansion strategies, select tenants will adopt the 'Hub and Spoke' model. Under the model, office space take-up would be undertaken across multiple projects (as compared to a single development) keeping in mind cost, location and preferred modes of operation.

Pre-commitments in projects which are nearing completion are expected to continue in the coming months, particularly in the cities of Bangalore, Hyderabad and Mumbai. We expect occupiers to remain buoyant on Hyderabad; on the other hand, rising saturation, inadequate infrastructure and high rentals in cities such as Bangalore are likely to be critical factors guiding occupier strategies in 2017.

The following table summarizes the office outlook across cities:

OFFICE SECTOR

City	Office Outlook for 2017
Delhi-NCR	Rental stability across most micro-markets, release of pent-up supply in upcoming micro-markets such as Extended Golf Course Road, emergence of office-cum retail properties, sustained leasing activity.
Mumbai	Increased occupier interest towards newly-completed developments.
Bangalore	Rental growth to continue in certain micro-markets, release of pent-up supply, steady occupier interest towards locating in both MTB as well as BTS developments.
Hyderabad	Rental growth likely in key micro-markets, supply mainly concentrated in IT Corridor and Extended IT Corridor, high occupier interest (particularly from IT/ ITeS corporates) as compared to other cities.
Chennai	Limited upcoming supply to trigger rental growth across most micro-markets, rising instances of BTS developments.
Pune	Rental growth to continue in SBD, supply addition to gather momentum, BFSI (financial services) and IT/ITES companies to drive demand.
Kolkata	Sustained leasing activity, stable supply addition.

Residential Sector

REFORMS TO CATYLYSE GROWTH

REFORMS TO CATYLYSE GROWTH

RESIDENTIAL SALES AND NEW LAUNCHES REMAINED SUBDUED IN 2016

Residential activity in India dipped in 2016, with both housing sales and new project launches declining by over 18% - 22% y-o-y. Overall market sentiments varied across cities; the Southern cities of Hyderabad, Bangalore and Chennai and Mumbai in the West witnessed resilient demand and development completions, while the Delhi National Capital Region (NCR) continued to witness sluggish sales activity and buyer sentiments. However, by the end of the year, demonetization had a negative impact on market sentiments across all major markets, with developers delaying new project launches and buyers delaying investment decisions. Both are awaiting clarity on cumulative impact of the policy on the macro-economic scenario and market sentiments.

Prominent developers retained attractive schemes and discounts to attract potential buyers, which also included being flexible on pricing and payment schedules, especially for projects with quality construction, appropriate sizes and prime locations. Overall, India's housing market continued to shift from a pure price play mechanism towards a market driven by commitment to delivery and right pricing strategies. With the landmark RERA Act, 2016, having been passed by both the houses of the Parliament, and state level legislations coming into place, the year 2017 looks like a watershed year for India's residential market.

SUPPLY IN 2017: SUPPLY RATIONALIZATION IN THE FIRST HALF; GREEN SHOOTS OF RECOVERY MIGHT BE VISIBLE IN THE SECOND HALF OF THE YEAR

Housing supply in India during the first half of 2017 is expected to rationalize on account of cautious developer sentiment; largely due to the demonetization drive and the anticipated implementation of RERA. Limited/high cost of funding and sizable inventory pressure among developers might lead to delays in existing project completion timelines. Henceforth, majority of the developers would also aim at completing and delivering their existing inventory in hand, rather than launching new projects. However, the extent of the decline in new project launches is expected to vary across cities.

By mid-2017, it is expected that the impact of demonetization on the macro-economic sentiment might start dissipating; reduced mortgage rates (besides other policy steps by the government to enthuse the housing sector) is likely to revive the homebuyer sentiment. In the light of greater transparency, backed by government's efforts at reviving housing sales and introduction of a national regulatory authority, developers with a strong track record will be encouraged to launch new projects across markets.

Table 5: Supply Performance in 2017

Year	Delhi NCR	Mumbai	Bangalore	Chennai	Hyderabad	Pune	Kolkata	India - Supply
H1 2017 (F)	▼	▼	▼	▼	▼	▼	▼	▼
H2 2017 (F)	▼	●	●	▼	●	▼	●	▼

Source: CBRE Research, Q1 2017

▲ Increasing ▼ Decreasing ● Stable

DEMAND IN 2017: HOUSING SALES TO REMAIN DORMANT IN H1 2017 DESPITE FAVORABLE LENDING ENVIRONMENT

Housing sales are expected to remain dormant in the first few months of 2017, both in the primary and secondary markets. This is likely to be followed by a period of relative stability in the second half of the year, as homebuyer enquiries are expected to rise due to a favorable lending and policy environment. As a result, we might see a greater proportion of housing sales for end-use purchase; especially in the mid-end to affordable category.

On an annual basis, the cities of Mumbai, Bangalore, Chennai and Pune are expected to witness an overall stability in housing sales by the end of 2017. Increase in demand in the mid-end / high-end and affordable segments, along with a relatively larger presence of end use buyers might resuscitate the decline in sales by the second half of 2017 in these markets, thereby instilling stability on an annual basis.

As speculative investment-led activity gives way to end user demand, we are likely to see a greater proportion of housing sales attributed to end-use purchase than for investments. Also, in order to attract housing demand, prominent developers would be seen retaining attractive schemes and discounts to attract potential buyers. Prominent and credible developers would continue to observe stable sales activity backed by better credibility, sufficient funding, better quality of construction, timely project delivery, and better amenities; as compared to smaller players (mostly unlisted) who might face capital crunch and low sales margin.

Table 6: Demand Dynamics in 2017

Year	Delhi NCR	Mumbai	Bangalore	Chennai	Hyderabad	Pune	Kolkata	India - Demand
H1 2017 (F)	▼	▼	▼	●	▼	▼	▼	▼
H2 2017 (F)	▼	●	●	●	▲	●	▼	●

Source: CBRE Research, Q1 2017

▲ Increasing ▼ Decreasing ● Stable

CAPITAL VALUES IN 2017: VARIATION EXPECTED ACROSS CITIES AND MICRO-MARKETS

Premium/Luxury segment: Demonetization is expected to result in a downward trend in capital values across segments, even though the extent of decline is expected to vary across markets and geographies. Developers in the luxury segment should look at restoring sales volumes by offering flexible payment terms as well as certain incentives in cities such as Delhi NCR, Mumbai and Bangalore. Southern cities of Hyderabad and Chennai would continue to witness capital value appreciation based on an improved political stability in Hyderabad and sustained HNI demand in these cities over the past few years.

Mid-end/High-end segment: Bangalore, Mumbai, Hyderabad, Chennai and Pune are expected to witness stability in capital values across the mid-end/high-end and affordable segments in the coming 6-12 months. Capital values in Delhi NCR (including Gurgaon and Noida) would however remain sluggish during 2017, largely due to inventory pressures. Revisions in capital values coupled with an anticipated reduction in mortgage rates will positively impact the demand in this segment.

Residential outlook for 2017

Key Drivers

- As developers become keen on offloading inventory, flexibility in pricing schemes / payment structures is likely to spur sales
- Implementation of RERA is likely to instill greater confidence in buyers; to bring in fence sitting end- users / investors in the market
- Demonetization + RERA + REIT = Better structured process for residential real estate, leading to formalization of the sector resulting in an increased ability to attract formal sources of capital
- The government's focus on affordable housing is likely to spur private participation further; the segment can serve as a revenue stream in the wake of slower sales in other categories, especially luxury housing
- Not only are developers participating in affordable housing, private equity players are also actively partnering with developers; a trend that is likely to pick up further momentum in the year
- Decline in mortgage rates will boost market sentiment and enhance the purchase activity; some rationalization in lending rates may also be seen for developers
- As the government provides incentives to lower-priced units, LIG and MIG segment apartments are likely to witness high demand

Key Inhibitors

- Limited clarity on the progress of state-specific RERA guidelines
- Demonetization to pose challenge in terms of liquidity / funding and limited sales; especially for smaller developers
- Infrastructure delays in few peripheral locations of Bangalore and Delhi NCR to pose as a demand deterrent for projects in these locations

Retail Sector

GETTING INVESTMENT READY

GETTING INVESTMENT READY

ROBUST DEMAND FROM OCCUPIERS, PRIVATE EQUITY BULLISH ON RETAIL IN 2016

The Indian retail real estate witnessed continuous foray of international brands, completion of retail developments and robust demand during 2016. The organized retail segment witnessed fresh supply addition of about 3.4 million sq. ft. (a drop of about 5% on y-o-y basis); majority of the supply (more than 40%) was concentrated in Delhi NCR, followed by Bangalore and Pune. The key developments completed during the year included Logix City Centre in Noida, Worldmark Phase I, II & III in Delhi, Pioneer Park in Gurgaon, Brigade Orion, Mfar mall and Westend mall in Pune. New entrants in the market included Kiko Milano, Justice, Armani Exchange, Cath Kidston, Massimo Dutti, Hunkemoller, Longchamp, etc. opening their first stores in the country during the year. Existing retailers such as GAP, H&M, Marks & Spencers, Decathlon, etc. continued to expand their presence across the major cities of the country.

The private equity investment landscape was particularly vibrant for retail real estate in 2016. The cumulative investments by private equity/ wealth funds were estimated to be more than USD 700 million across major retail assets. Few notable investment deals included Canada Pension Plan Investment Board (CPPIB) having acquired a stake in Island Star Mall Developers Pvt. Ltd (ISML) - subsidiary of Phoenix Mills which owns and operates Phoenix Marketcity, Bangalore, and Singapore-based GIC investing in Sheth Developers' Viviana mall at Thane in Mumbai. Dutch pension fund asset manager APG Asset Management and Virtuous Retail, sponsored by leading emerging markets investment firm The Xander Group Inc., have partnered to form a joint-venture that acquired an initial portfolio of three retail assets including VR Mall Surat, VR Mall Bangalore and the upcoming VR Mall in Chennai.

SUPPLY IN 2017: SOUTHERN CITIES EXPECTED TO LEAD FRESH SUPPLY ADDITION

The year 2017 is likely to be positive for retail witnessing an increased quality supply with an addition of almost 7 million sq. ft. of Grade A supply, to be led by the Southern cities of Hyderabad and Bangalore. Even though we see a strong supply pipeline, the demand for organized retail space will continue to exceed the supply in most leading markets. With fresh supply on radar expected in cities such as Hyderabad, Bangalore, Chennai etc., we are likely to see global and national brands execute their entry and expansion strategy in these cities, leading to a more uniform development of retail space across India.

DEMAND DYNAMICS 2017: FASHION AND FOOD & BEVERAGE WILL CONTINUE TO DOMINATE, AIRPORT RETAIL TO GAIN PROMINENCE

Demand for retail space is expected to remain strong as occupiers from retail categories such as Fast Fashion, Department Stores, Sports & Leisure, and Food & Beverage will continue to absorb space in 2017. While international retailers such as H&M, Zara, etc. are likely to dominate the Fashion segment, F&B segment is likely to be a healthy mix of domestic as well as global operators across the QSR, café, brewery and casual dining formats. Besides these key shopping categories, Family entertainment centers and multiplex operators are also going to be active in leasing space at existing and upcoming malls in 2017.

As retail real estate expands beyond the realms of high streets and malls to quasi-retail locations (in the form of dedicated space at key business parks and office complexes), especially in cities such as Delhi-NCR, Mumbai and Bangalore; retailers especially in the F&B segment are expected to be attracted to such retail concepts. Steady footfalls from a captive catchment, competitive rentals and high visibility locations are some of the factors driving demand for retail space in commercial buildings. Also, with the government's focus on improving regional air connectivity by establishing new airports in Tier II/Tier III cities, airport retail as a segment is likely to gain more prominence over the coming years.

The following table highlights the anticipated sectoral growth drivers across cities in 2017:

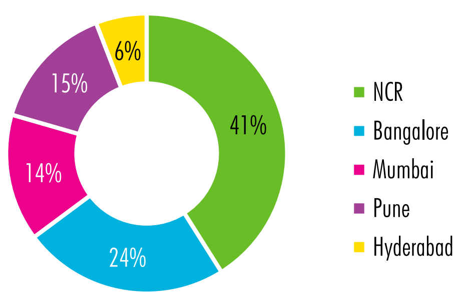
Table 7: Retail Leasing by Leading Sectors in 2017

City	Mid-Range Fashion	Food & Beverage	Entertainment (FEC and Multiplex)	Hypermarket and Department Stores	Luxury Retail
Delhi NCR	▲	▲	▲	●	▲
Mumbai	▲	▲	▲	●	▲
Bangalore	▲	▲	▲	●	●
Chennai	▲	▲	▲	●	▼
Hyderabad	▲	▲	▲	▲	●
Pune	▲	▲	▲	●	■
Kolkata	▲	▲	▲	▲	▲

Source: CBRE Research, Q1 2017

▲ Increasing ▼ Decreasing ● Stable ■ Not applicable

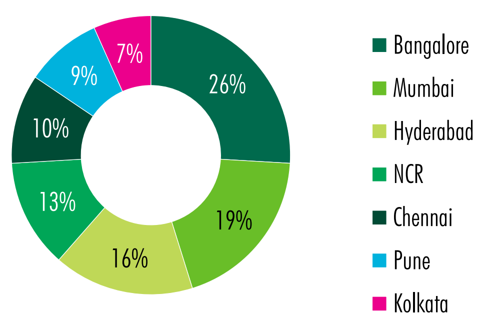
Figure 5: City-wise Supply Split in 2016



100% = 3.4 million sq. ft.

Source: CBRE Research, Q1 2017

Figure 6: Expected city-wise Supply Split in 2017



100% = 7 million sq. ft.

Source: CBRE Research, Q1 2017

RENTAL VALUES IN 2017 - DIVERGENT RENTAL TRENDS IN HIGH STREETS AND MALLS

Rental values are expected to witness a divergent trend during 2017. While leading high streets such as Galleria Market in Gurgaon, Connaught place in Delhi appear promising, high street locations battling with shortage of right-sized space, parking woes, infrastructural constraints etc. are likely to witness limited demand. The completion of infrastructure initiatives is going to play a pivotal role in deciding the rental trajectory of markets; for instance, the metro linkage to South Extension is expected to result in a revival of the high-street in the coming months leading to a surge in its rentals. However, rental growth in most high streets across key cities is likely to be limited as they have already reached their peak.

The following table highlights the rental trends for key high street markets:

Table 8: Rental Performance of High Streets in 2017

Rents Growing	Rents Peaking (minimal growth expected)	Rents Declining
Bangalore: Indira Nagar and Jaya Nagar **Chennai:** Anna Nagar and Adyar **Pune:** Koregaon Park	**Delhi NCR:** Connaught Place, South Extension **Bangalore:** MG Road, Brigade Road	**Mumbai:** Linking Road and Colaba Causeway **Hyderabad:** Jubilee Hills Road No. 26

Source: CBRE Research, Q1 2017

In terms of rental trends for organized supply (malls), the quality retail developments are better placed to leverage their position and command increased rentals. Most prominent developments are likely to witness a steady rental growth in 2017, however the rate of growth is not likely to be uniform; with some malls having a higher bargaining power than others due to their brand mix, footfalls and catchment areas. Also, certain developments likely to witness a rental decline due to factors such as age of development and a sub-optimum tenant mix.

The following table highlights the rental trends for mall clusters:

Table 9: Rental Performance of Shopping Centers in 2017

Rents Growing	Rents Peaking (minimal growth expected)	Rents Declining
Delhi NCR: Saket District Center and Vasant Kunj Clusters, Mall of India Noida **Mumbai:** Central Mumbai and Western Suburb **Bangalore:** CBD and South Bangalore	**Hyderabad:** Central and Western Suburbs **Bangalore:** MG Road, Brigade Road **Kolkata:** Salt Lake and Jadavpur **Chennai:** Royapettah and Velachery	**Chennai:** Mylapore **Pune:** MG Road

Source: CBRE Research, Q1 2017

KEY RETAIL TRENDS IN 2017

E-COMMERCE TO STABILIZE; OMNI-CHANNEL TO BECOME MORE PROMINENT

While the past few years have witnessed the mushrooming of various online retail platforms, 2016 in particular was a year of consolidation and realignment of expectations of the customers, retailers as well as E-commerce players. While the first wave of consolidation is already happening, further consolidation is likely to happen in the industry. As seen in more developed E-commerce markets, the industry tends to be dominated by one or two large players, with a significant gap observed between the scale and turnover of first and the second player. Also, we are likely to witness the increased emergence of the omni-channel route which will allow better amalgamation of the online "comfort" and the offline "experience". With the emergence of the omni-channel, the leading E-commerce players are expected to witness more realistic valuations (as the stores will allow better quantification of value) while the brick and mortar stores will add a digital layer to enhance their experience.

BRICK AND MORTAR CONTINUES TO REMAIN THE BACKBONE OF RETAIL IN INDIA

While E-commerce continues to grow, it shall co-exist with brick and mortar stores, which remains the backbone of retail in India. Going forward, brick and mortar retailers should focus on better alignment of the consumer proposition within their operational models. To be able to sustain in the competitive and high cost-real-estate market of India, retailers should focus on an enhanced customer experience in stores through improved services and better-trained staff, thereby ensuring stable cash flows and better profitability. As the pressure on profitability builds up, the dependence on the sale model needs to reduce and brands should look at driving sales on the basis of their unique appeal and differentiation.

RETAILERS WILL USE TECHNOLOGY TO PROVIDE A BETTER EXPERIENCE, AND IMPROVE EFFICIENCY

As the premium on experiential/in store activity gets higher, we are likely to witness an increased use of technology with brands across segments attempting to fuse augmented reality with the real world environment. The use of technology will not only be limited to provide an experience, it will also be used to improve efficiency and gain critical customer information for retail analytics. However, this data will only add to the existing customer touchpoints, not replace them.

LARGE FORMAT STORES GAIN POPULARITY

Large-format retail outlets, especially in the grocery and the apparel segment are increasingly becoming popular as they seem to have a larger variety in terms of both – brands and price range, preferred by many consumers. Large-format stores provide the consumers with a larger number of options to choose from, which greatly helps in increasing their sales as well.

DIFFERENT STRATEGIES FOR DIFFERENT SEGMENTS, TIER II CITIES

Brick and mortar retailers will have to look at realizing their strengths and building upon them. For instance, certain categories such as pharmacy and cosmetics – which work on factors such as trust, authenticity and the "need to try before buy" should be leveraged by physical stores, as it is a difficult sector for e-commerce to break into easily. Similarly, retailers should look at devising different strategies of operations in luxury segment as well. While single brand luxury stores may appear slightly difficult to sustain in smaller/Tier II markets, luxury departmental stores would be an exciting proposition for the consumer.

Retail outlook for 2017

Key Drivers

- Consumption patterns to mature due to increasing urbanization and policy initiatives by the government
- Government is expected to further relax investment guidelines for this sector (such as FDI relaxation for multi-brand retail)
- REITs to enable development of better quality of malls and discourage strata-sale of properties
- Implementation of GST would lead to rationalization of tax at different levels; expected improvement in ease of doing business and movement of retail goods
- Upcoming retail developments to allow entry points for global retailers beyond the traditional epicenters of Delhi NCR and Mumbai
- 'Bridge to luxury' or 'affordable luxury' segment to drive the luxury retail segment

Key Inhibitors

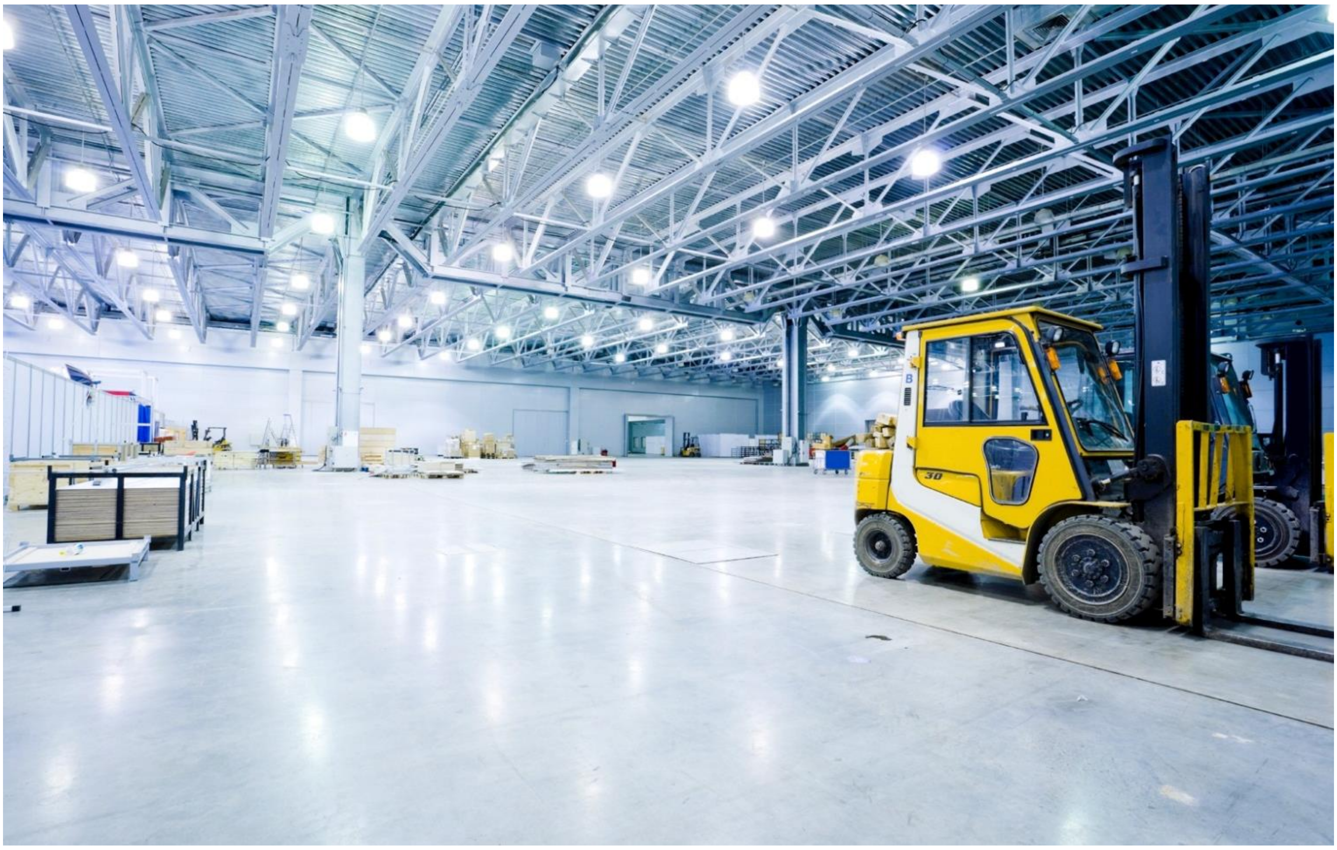
- High real estate costs are forcing retailers to discover the optimum store size and realign store portfolios through renegotiation of lease terms
- Limited quality supply in core locations

Logistics Sector

CHANGING THE RULES

LOGISTICS SECTOR

CHANGING THE RULES



LEASING GROWTH CONTINUES IN 2016, DEMAND PICKS UP ACROSS SMALLER CITIES

Strong and sustained economic growth over the past few years has led to healthy demand for warehousing and industrial space in India. The country's favorable population composition and increasing disposable incomes has bolstered consumption led demand for warehousing. Additionally, the government's 'Make in India' campaign has provided a further impetus and induced large scale investments resulting in a strong demand from the manufacturing sector. This coupled with an increasing focus on operational efficiency and growth of new business sectors such as E-commerce, has led to an increase in leasing of modern warehousing space from an average of 4.5 million sq. ft. during 2010–12 to approximately 7.7 million sq. ft. during 2013–15.

This growth momentum continued and a milestone for warehousing demand was achieved in 2015 as leasing activity reached an all-time high of approximately 10 million sq. ft. by year end. Demand sustained and further broadened in 2016 with slightly more than 10 million sq. ft. of space take-up. Also, the demand is no longer limited to the top three cities; the share of relatively smaller cities such as Hyderabad, Chennai, Kolkata and Pune in the overall space take-up increased during 2016. Collectively, these cities leased 49% of the total space transacted during the year, as compared to 25% during 2015.

DEMAND IN 2017: CONSOLIDATION AND EXPANSION ACTIVITY TO DRIVE DEMAND

Demand for warehousing space is anticipated to remain robust throughout 2017 with consolidation of operations being amongst the biggest drivers for warehouse demand. This will be closely followed by expansion activity of existing players and entry of new occupiers into the country. As a trend, the size and scale of warehousing operations has improved in the past few years.

The average size of warehouses leased across the top seven cities went up from approximately 60,000 sq. ft. during 2012 - 2014, to around 100,000 sq. ft. during 2015 - 2016. This trend of leasing large modern warehouses is likely to continue, due to an increasing focus on supply chain efficiency, amidst an improvement in the quality of space offered. Large urban centres such as the Delhi NCR, Mumbai and Bangalore are likely to continue as major hubs for warehousing activity. In the north, demand is likely to be concentrated around warehousing hubs in Gurgaon. While in Mumbai, Bhiwandi is likely to continue as the most preferred micro-market for leasing space. In the South, warehousing locations in the Western Corridors of Bangalore may witness bulk of the leasing activity in the city during 2017.

Smaller cities are anticipated to catch up and garner a relatively larger share of demand going forward. Cities such as Ahmedabad, Kolkata, the Western Industrial Belt of Chennai and the Northern Corridor of Hyderabad are likely to be on the radar of companies planning to penetrate into the Indian market further.

SEGMENTS DRIVING DEMAND IN 2017

During 2016, companies from the engineering and manufacturing sector and E-Commerce leased bulk of the total space transacted; 3PL companies and FMCG players were the other major occupiers of space. In anticipation of the GST, few firms have deferred their investment decisions. However, going forward, space take-up will be driven by an all-round push from all segments. E-commerce firms, engineering and manufacturing sector companies and 3PL players, in particular, will be the leading drivers of demand.

Table 10: Logistics Space Leasing by Leading Industry Sectors in 2017

Cities/Segments	3PL	E-commerce	Engineering and Manufacturing	FMCG	Retail
Delhi NCR	▲	▲	▼	▲	▲
Mumbai	▲	▲	▼	▲	▲
Pune	●	▼	▲	▼	▼
Chennai	▲	●	▲	●	●
Hyderabad	▲	●	▲	▲	▲
Bangalore	▲	●	▼	●	▲
Kolkata	●	●	●	▲	▲

Source: CBRE Research, Q1 2017

▲ Increasing ▼ Decreasing ● Stable

WAREHOUSING ACTIVITY TO BENEFIT FROM THE COUNTRY'S DEMOGRAPHIC AND ECONOMIC TRENDS

According to recent estimates, India is likely to emerge as the world's fifth largest consumer market by 2025 [1].The existing market sentiment is likely to corroborate this trend. India also scored first among the 63 countries that were surveyed for the Consumer Confidence Index (CCI) released by AC Nielsen in Q4 2016. The outlook also remains resilient as the Reserve Bank of India (RBI) published its CCI report in December 2016, indicating a positive outlook with signs of improvement over the next one year.

The Indian economy has emerged as a key driver of global growth. To cement the country's status as a fast growing economy, the government has initiated various policy measures. Notable among these is the 'Make in India' campaign, aimed at driving forward reforms in the manufacturing sector. As demand for products rises in India, it is expected that segments such as electronics and IT component manufacturing, automobile, automobile components will witness large investment commitments. Some of these segments have already witnessed significant interest from foreign companies. A case in point being the fast growing automotive industry in the country. As per recent government estimates, the Indian automotive industry has witnessed USD 5.5 billion of FDI (Foreign Direct Investments) during April 2014 to March 2016 period. Similarly, the electronics and computer software & hardware segment saw USD 6.1

[1] IBEF – India Manufacturing: Overview and Prospects

billion of FDIs during FY 2015-16[2]. In the medium to long term, such large scale investments will spur demand for large modern warehouses in the country.

The following table gives a list of recent investment commitments:

Table 11: Investment Commitments by Leading Players

Company	Industry Sector	Investment Location	Approximate Investment in (USD)
Tristone Flowtech Group	Automotive Components	Pune	2.6 million
LeEco	Electronics - Smartphone	Greater Noida	7.0 million
Zopo Mobile	Electronics - Smartphone	Noida	15.0 million
Panasonic	Consumer Electronics	Haryana	17.0 million
Havells India Limited	Consumer Electronics	Bengaluru	156.9 million

Source: CBRE Research, Q1 2017

RENTS IN 2017: RENTAL VALUES TO FIRM UP ACROSS LOCATIONS

Strong rental value growth was observed across most micro-markets during the past two years. Currently, rentals across most cities have inched up to their 'historic high', with further upward momentum anticipated during 2017.

Rental growth will be strong in locations such as Dhulagarh, Sankrial, and Uluberia along NH-6 in Kolkata, followed by Bhiwandi in Mumbai. Delhi in the North, the East Corridor in Bangalore, the Northern Corridor in Hyderabad and Aslali in Ahmedabad are the other micro-markets that may witness rental growth.

Table 12: Rental Performance in 2017

Rents Growing	Rents Peaking (minimal growth expected)	Rents Declining
Hyderabad: Northern Corridor **Bangalore:** Western Corridor (Mysore Road, Tumkur Road) Eastern Corridor (Whitefield, Soukya Road, Hoskote) **Delhi-NCR:** N-8, Gurgaon	**Bangalore:** Southern Corridor (Bommasandra) **Mumbai:** Bhiwandi **Pune:** Chakan	**Bangalore:** Northern Corridor (Doddaballapur) **Chennai:** Western Belt

Source: CBRE Research, Q1 2017

SUPPLY IN 2017: SUPPLY ADDITION WILL GATHER MOMENTUM DURING 2017

In line with an increased demand, the supply of modern warehousing and industrial parks is also anticipated to increase over the next few years. Leading real estate developers have initiated land acquisitions across major cities in the country and are awaiting clarity on key regulatory issues to kick start the development process. These projects are likely to fructify in a phased manner with project delivery anticipated to start by mid-2017. Development activity is likely to pick up in locations such as Delhi NCR, Mumbai, Kolkata and Ahmedabad. In South, the Karnataka Industrial Area Development Board (KIADB) is in the process of forming a logistics and hardware park in proximity to the International Airport to facilitate cargo and container movement likely to boost supply in the Northern Corridor of the city. On the other hand, the government of Telangana has introduced a new

[2]Automotive, Electronics and IT Sector Achievements Reports 2016, Department of Industrial Planning and Promotion (DIPP)

industrial policy to promote manufacturing activity and attract foreign investments. The policy entails single window clearance system for large scale projects. It will provide incentives and adequate social/physical infrastructure support to industries which is likely to have a positive impact on warehousing activity in the region.

The following table gives major Logistics/Industrial developments across leading cities:

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Table 13: Logistics/Industrial developments across leading cities.

Project / Developer	Location	City	Type	Area (in acres)	Expected Date of Completion
Agsons Group	Sonepat, NH-1	Delhi-NCR	Logistics	30	2017
Local Developer	Medchal	Hyderabad	Logistics	15	2017
Local Developer	Medchal	Hyderabad	Logistics	8.5	2017
Shyam Sel & Power Limited	Chamrail	Kolkata	Logistics	6	2017

Source: CBRE Research, Q1 2017

Warehousing outlook for 2017

Key Drivers

- Infrastructure construction and development of industrial zones are set to improve which will result in the emergence of new warehousing hubs across Tier-II cities
- Foreign private equity players and reputed domestic developers are foraying into warehouse development across major cities. This will offer occupiers a wider selection of prime assets going forward
- The transformation of supply chain due to online retail has created the need for adequate delivery sites in and around urban centers which will drive demand for last-mile facilities

Key Inhibitors

- Automation of warehouse operations is still at a nascent stage in India. New facilities with improved specifications and increased power capacity is the need of the hour
- As most of the warehousing hubs are located far from the city center, access to public transport, restaurants and accommodation for blue-collar workers in the vicinity is becoming increasingly important
- Supply of modern Grade A warehouses with international specifications is still very limited in India. Modern PEB with FM 2 specifications and floor strength of 6-8 tons / sq. m. with at least 14 meters of center height need to be developed

Capital Markets

EASED INVESTOR ENVIRONMENT

EASED INVESTOR ENVIRONMENT

CONDUCIVE INVESTMENT ENVIRONMENT

The Indian real estate industry witnessed a high level of investment activity in office, residential and retail sectors with signs of active interest in the warehousing and hospitality sectors. The past year was also particularly positive from an investment regulatory perspective, with initiatives such as RERA, Easing of FDI norms, demonetization, Benami Act and REIT guidelines – all expected to increase transparency and enhance consumer and investor confidence in the real estate sector.

Asset valuations are at their most attractive levels in the past decade. This, combined with a favorable regulatory environment is resulting in unprecedented interest from offshore equity investors, large Indian corporates and HNIs. They believe that the industry finally offers a level playing field with very attractive returns.

The above sentiment is further endorsed by a cyclical decline in interest rates in 2016. This has drastically reduced the cost of doing business for all investor classes. Even 'structured debt' has evolved from being a "high-cost source of funding" to being a very viable source of funding with successive interest rate cuts.

KEY TRENDS EXPECTED IN 2017

RESIDENTIAL: FOCUS TO BE ON AFFORDABLE / MID-MARKET HOUSING

The year 2017, from a policy perspective for affordable housing saw significant thrust from the government. While the demand side for affordable housing in India remains strong, in 2017 we expect strengthening of the supply side as more private players are expected to enter the segment since the India Union Budget 2017-18 has made further relaxations for developers in terms of construction timelines and tax rebates. The government also introduced measures to ease the taxation for residential real estate as a whole – by reducing the holding period for long term capital gains and by shifting the indexation year from 1981 to 2001, thereby allowing for easier monetization of historically-held assets.

With respect to market activity, credible developers with strong delivery track records would continue to experience stable sales activity and will therefore attract investments. With the synergetic effect of RERA, demonetization and the Benami Act; corporate governance is likely to improve which will attract more equity investors. Consolidation amongst developers is likely as a result of subdued market conditions, with smaller players expected to look at avenues for funding/resort to asset monetization. Credible developers are likely to benefit the most as most land owners (and smaller developers) are entering into Joint Development agreements with well capitalized/credible developers and corporate players.

OFFICE: RENEWED FOCUS ON DEVELOPMENT PROJECTS

While investors continue to invest in completed assets, a key trend has been the focus on development equity. Leading private equity players have been raising funds for greenfield projects, a trend that we expect will pick up pace in 2017. Also, developers are particularly keen on the commercial segment and have been displaying increased interest in commercial projects. This is not without reason as in 2017, the office sector is likely to maintain its growth momentum with an anticipated absorption of 40 million sq. ft. The combined effect of RERA and REIT's is likely to result in better compliance as well as standardization of space, resulting in the emergence of more investment-grade office space. With the availability of well leased assets across core locations, private equity funding in these assets is likely to continue.

With respect to yields, we have seen a slight compression in cap rates which are currently around the 9% levels for the office segment. We expect a slight compression in yields in the short term, however despite the compression, core assets will continue to remain attractive for investors.

RETAIL: INCREASED INVESTOR APPETITE FOR RETAIL ASSETS

The retail landscape in India witnessed a significant rise in private equity investments by foreign funds in 2016. Canada Pension Plan Investment Board (CPPIB) acquired a stake in ISML (subsidiary of Phoenix Mills which owns and operates Phoenix Marketcity, Bangalore), while Singapore-based GIC invested in Sheth Developers' Viviana mall at Thane in Mumbai. Dutch pension fund asset manager APG Asset Management and Virtuous Retail, sponsored by emerging markets investment firm - The Xander Group Inc., have partnered to form a joint venture that acquired an initial portfolio of three retail assets including VR Mall Surat, VR Mall Bangalore and the upcoming VR Mall in Chennai.

Given the stable economic and political environment, active leasing by retailers, and rising consumer demand; the investor community continues to remain bullish about India's retail real estate landscape. As the launch of REITs gets closer, we expect to witness a greater interest of private equity players in core retail assets. With a supply pipeline of almost 7 million sq. ft. (dominated by southern cities) of quality retail in 2017, we expect more investments/buyouts in these cities going forward.

LOGISTICS – GST COULD CHANGE THE GAME, LACK OF QUALITY SPACE AN OPPORTUNITY FOR NEW PLAYERS

The scarcity of quality warehousing space has been a key challenge that the segment has been facing; especially amidst a scenario where global as well as domestic e-commerce players have been looking to take up big box, quality spaces. While private equity players are keen to participate with local developers, but are facing challenges of scale and quality.

As the warehousing sector moves towards a more systematic mode of operation with the imminent implementation of the GST, the sector is likely to witness inflow of institutional funding and formal sources of capital. With the emergence of local and national players in the warehousing segment; deployment of capital in these fewer, better quality assets is likely to become easier. While some may argue that reform may prove to be detrimental for the smaller players, in our opinion it is likely to allow the smaller players to develop better quality assets or enter into JVs with larger players.

LAND – HECTIC TRANSACTION ACTIVITY

Land transactions have been at an all-time high despite the relative slowdown in some segments of real estate. This is due to a host of factors – new funds and institutional investors keen to invest in greenfield developments, corporate houses increasing their allocations to real estate, attractive land valuations and land owners increasingly opting for joint developments and development management structures. Corporates, keen to monetize their land assets and smaller developers wanting to retire debt are also bringing attractive land deals to the market.

In addition to transactions for residential, the land market has now expanded to acquisitions for office, retail and industrial developments. A few international developers including some Chinese players who have thrown their hats into the ring have made the land market even more interesting. 2017 is expected to see a surge in land transaction activity.

FAMILY OFFICE AND HNI INVESTMENTS

Buoyed by increased regulation and transparency in the real estate industry and an expanded spectrum of investment opportunities such as high quality pre-leased assets, structured debt, joint developments in land and new avenues such as affordable housing ~ family offices and HNIs have returned to real estate after a short hiatus.

As new structures are emerging, and the way of doing business is fast becoming more institutional, family offices are beginning to take early strategic investment calls across real estate segments. The return of this investor class signals the early signs of a recovery in the real estate market in the backdrop of a changed industry structure.

Investment outlook for 2017
Key Drivers
• Attractive asset valuations
• Improving transparency - Proactive government policies such as RERA, REIT guidelines, easing FDI norms, demonetization and GST to provide a more secure environment for investors; better exit opportunities. This will also lead to more participation from domestic corporate houses
• Office and residential to remain traditional drivers; however alternate sectors such as retail, hospitality and warehousing will also come to the forefront
• Improvement in quality of assets due to rising corporate governance. Family offices and Indian corporates fast taking notice
• Rationalized cost of structured debt; offshore and onshore players are keen to participate. Deal structures and payment terms are flexible and more in line with the need of the market
• Increase in interest of patient capital from large sovereign and foreign institutional players; quality of assets to remain the overriding theme
• Consolidation of developers, overcrowding of the segment likely to reduce
Key Inhibitors
• Keen attention needs to be paid by the government to local regulatory hurdles – frequent changes in local bye-laws and development clearances have been a point of concern for investors in several key cities
• Land issues – High land prices, cumbersome acquisition processes and lack of clarity on land titles continue to pose as challenges for developers
• While easing the regulatory environment at a macro-level remained at the core of the government's agenda in 2016; further streamlining is needed to sustain investor confidence

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