Confederation of Indian Industry

Intelligent Investment

Indian Real Estate: Taking Giant Strides

2023 Mid-Year Outlook

REPORT

CBRE RESEARCH
September 2023

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01
Economy

FORECAST 1

Recessionary forces at work

Economy

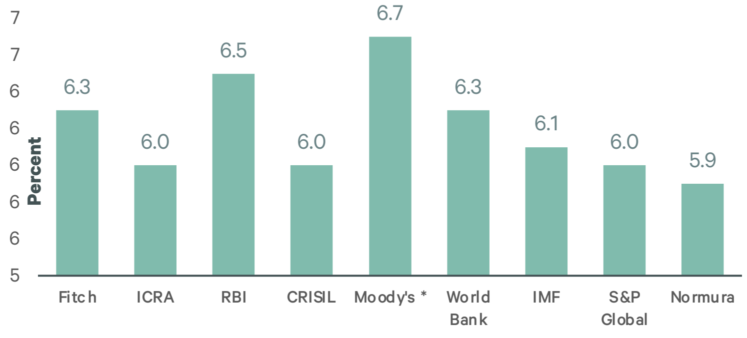
PREDICTO-METER

Monetary tightening and geopolitical crises to weigh on advanced economies, with moderate recession expected in the US and its growth projection reduced to 0.2% in FY2023 and 1.3% in FY2024. These could pressure the Indian economy, translating to slower manufacturing and export activity. However, its strong macroeconomic fundamentals and domestic consumption would ensure sustained growth in the medium term.

Midyear review

Advanced economies in the Eurozone witnessed negligible growth in the first half of 2023, while the US registered growth of 2 % and 2.1% in the first and second quarter of 2023, respectively[1]. India's Gross Domestic Product (GDP) grew by 7.8% in the April - June quarter, the highest growth rate in the past four quarters[2]. The financial, real estate and professional services sector grew by 12.2%, on a Y-o-Y basis. Despite a high base year effect (Y-o-Y growth of 16.0% in the April - June quarter of 2022), construction output displayed firm expansion and grew by 7.9%.

Fig 1.1 India's GDP projection for FY 2023-24



Note: Moody's forecast is for Calendar Year 2023

Outlook for the remaining year

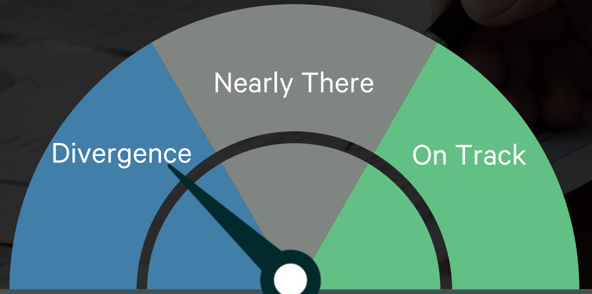
The International Monetary Fund has raised its India GDP growth rate estimate for FY2023-24 to 6.1%, up from its previous estimate of 5.9%, led by a stronger-than-expected growth in the January - March quarter[3]. Meanwhile, the World Bank expects India to grow by 6.3% during the year[4]. Going forward, we expect growth in bank credit, infrastructure spending and capital expenditure to support India's growth during FY2023-24.

1. BEA, US government
2. National Statistical Office, August 31, 2023
3. International Monetary Fund
4. World Bank

FORECAST 2

Inflationary pressures to ease

Economy



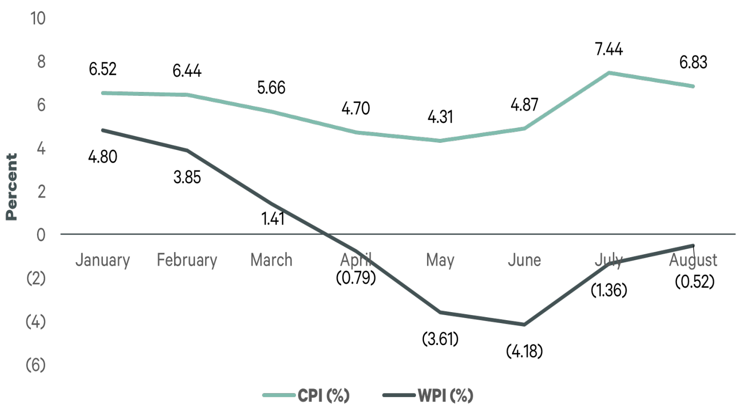
PREDICTO-METER

Headline inflation in India to stay high but within the RBI's target of 4% (+/- 2%) in FY2023. Moderating global oil prices and lowering input costs might help curb inflation, but increasing food prices could impact core inflation, causing it to stay stubborn. The monetary tightening cycle could, hence, continue with at least one or two more rounds.

Midyear review

The Consumer Price Index (CPI) inflation cooled down towards the end of H1 of CY 2023, but it shot up to a sharper-than-expected 15-month high of 7.44% in July, up from 4.9% in June[5]. This was attributed to the sharp rise in the prices of vegetables and other essential items. The Reserve Bank of India (RBI), understandably, did not tweak the key policy rates during its August monetary policy committee meeting.

Fig 1.2 Retail and wholesale inflation comparison 2023



Outlook for the remaining year

The Wholesale Price Index (WPI)-based inflation has been in the negative territory since April, and this may start reflecting in retail inflation with a time lag in the coming months[6]. India's inflation rate is expected to remain above the RBI's upper tolerance band of 6% at least until October, after which it is expected to start tapering. Inflation is likely to fall to within the RBI's 2 - 6% comfort zone in the next quarter or beyond. For the most part of 2024, we expect inflation to remain above 5%.

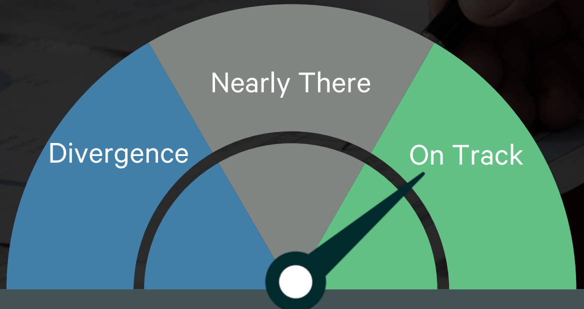
In line with most major economies across the globe, the rate hike cycle in India seems to have come to a halt with the RBI maintaining status-quo in the past two reviews. We expect the RBI to maintain a stable stance until the middle of next year, with a monetary easing policy kickstarting only towards the quarter of April - June 2024.

[5] National Statistical Office
[6] Ministry of Commerce and Industry

FORECAST 3

Domestic demand could moderate but stay in the positive territory

Economy



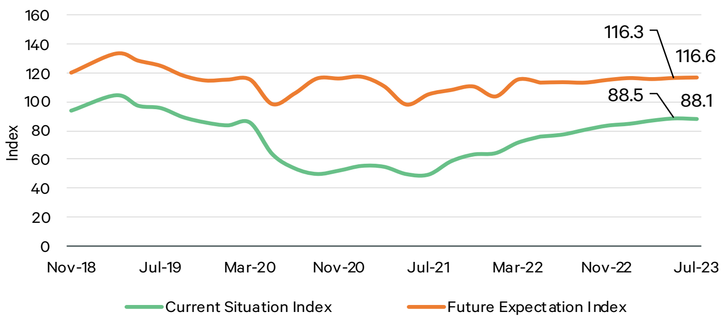
PREDICTO-METER

The impact of any slowdown on retail sales growth and private consumption is likely to get diluted with the festive season overlap of H2 2023. While consumer spending could moderate due to inflationary pressures and high borrowing rates, investments – mainly driven by the government's infrastructure spending – could still be a dominant growth driver in 2023.

Midyear review

Consumer confidence rebounded in 2023 and the RBI's Current Situation Index (CSI) increased to 88.1 in July 2023 from 77.3 in the same period last year[7]. Respondents remain optimistic about the economic situation in the coming year, with the Future Expectations Index (FEI) also improving marginally by 3% Y-o-Y. However, the current situation index witnessed a minor decline compared to May 2023, which could be attributed to a recalibration of respondents' sentiment on income and spending due to their scepticism regarding the general economic and employment situation.

Fig 1.3 Consumer confidence indices



Source: RBI

Outlook for the remaining year

The Current Situation Index is likely to dip further in H2 2023 due to global macroeconomic headwinds, a lagged impact of monetary tightening and inflationary pressures. However, urban demand for now has held up well with high frequency indicators being in the positive and rural demand also being on its way to recovery. But overall domestic demand may temper towards Q3 2023; even so the upcoming festive season is expected to offset any slowdown in consumption.

[7] Reserve Bank of India

FORECAST 4

Global supply chain realignment to India's advantage

Economy

PREDICTO-METER

Low labour costs, focus on transport and logistics infrastructure improvement and growing manufacturing prowess to embolden India's position as a preferred alternative supply source in the headwinds-hit global supply chain ecosystem. Besides, major policy initiatives like the PLI schemes to significantly boost global investments in India's manufacturing sector in 2023.

Midyear review

The government's PLI schemes have not just resulted in a significant increase in employment generation and economic growth but have also transformed India's export basket to include high value-added products like electronics & telecommunication goods, processed food products, etc[8]. Some major smartphone companies have also shifted their operations / supplies to India[9].

Outlook for the remaining year

Backed by the government's pro-infrastructure measures, India is likely to gain prominence in offering comparable skill and cost advantages to set up manufacturing facilities. We expect many more global companies to expand or initiate their operations in India, either on their own or through strategic partnerships with established domestic companies. A tweaked PLI scheme for semiconductors, announced in June, is also expected to attract major investments over the coming years[10].

8. Department for Promotion of Industries and Internal Trade, Government of India
9. PIB
10. Ministry of Electronics and Information Technology

FORECAST 5

Continued investment inflows in the tech sector likely

Economy

PREDICTO-METER

India to remain the 'office of the world' with sustained technology spending from corporates. The country's cost and scale advantages would drive global corporates to set up more Global Capability Centres (GCCs) across various sectors.

Midyear review

With 1,580+ centres employing over 1.66 million professionals, the overall size of the GCC market in India has grown at a CAGR of 11.4% to reach USD 46 billion between FY 2015 and FY 2023[11]. During H1 of CY 2023, Mumbai, Pune, Bengaluru, and Hyderabad saw the establishment of 18 new GCCs in India. Data science, automation, adaptive cyber insurance products, and identity-centric cybersecurity solutions are some of the focus areas of new and existing GCCs in India.

Outlook for the remaining year

While Indian IT companies serving clients in countries under greater impact of global headwinds might see some pressure on their margins until the end of 2023, the country's engineering talent pool and proactive policy measures will be key to making it a top GCC destination. Additionally, IT spending is anticipated to reach over USD 112 billion in 2023, slightly exceeding expectations, with enterprise software spending and IT services spending witnessing 14.6% and 8% annual growth, respectively[12].

[11] Nasscom, June 2023
[12] Gartner Press Release, November 2022

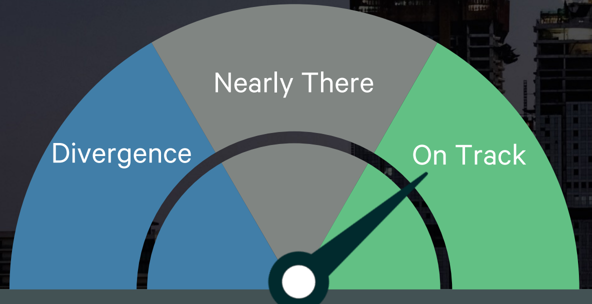
02

Office

FORECAST 1

Post-pandemic resurgence in leasing to stabilise

Office



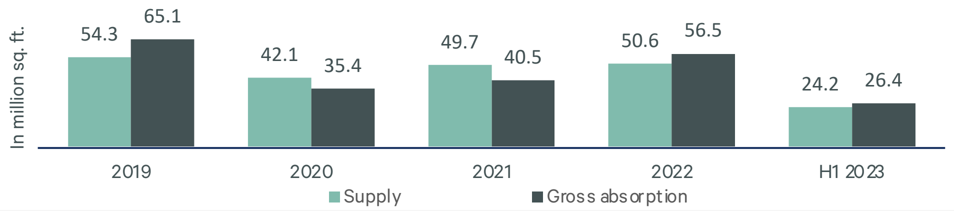
PREDICTO-METER

Global headwinds may impact occupiers' expansion plans and decision-making in 2023, and absorption may face downward pressures.

Midyear review

During H1 2023, leasing activity declined by 12% Y-o-Y to about 26.4 million sq. ft. The absorption during the first half of the year was led by Bangalore, Chennai and Delhi-NCR, which together accounted for 60% of the leasing. Technology companies held the highest share in the leasing activity, followed by BFSI firms, flexible space operators and engineering & manufacturing firms. In June 2023, while the Asia Pacific Leasing Market Sentiment Index by CBRE tapered slightly for India as compared to March 2023, it continued to be above the overall APAC average.

Fig 2.1: Office supply and gross absorption in India (2019 - H1 2023)



Source: CBRE India Research, Q3 2023

Fig 2.2 : Asia Pacific Leasing Market Sentiment Index*

Outlook for the remaining year

The global economic scenario and evolving hybrid workplace models would keep corporates cautious in the short- to medium-term regarding their office expansion plans. With occupiers focusing on achieving operational efficiencies, they continue to display a prudent expansionary appetite. Hence, office absorption is likely to face downward pressure this year. Bangalore, Delhi-NCR, Chennai and Hyderabad are expected to drive the demand in 2023, with the technology sector continuing to have a stronghold on leasing. However, demand is expected to become more diversified, with likely growth across BFSI, flexible spaces and engineering & manufacturing sectors.

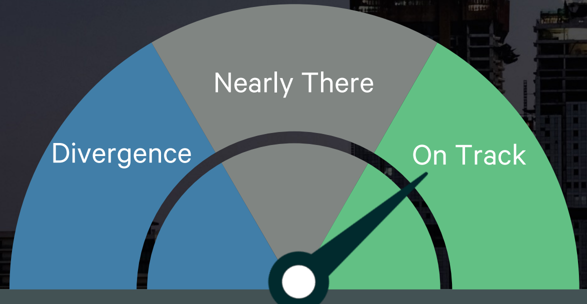
*. Market sentiment is based on the simple average of net intentions (net % difference between positive and negative answers) of seven surveyed indicators.

Source: Asia Pacific Leasing Market Sentiment Index, June 2023

FORECAST 2

Steady supply pipeline expected

Office



PREDICTO-METER

A steady supply pipeline of quality assets is expected to lead to around 51 – 53 million sq. ft. of delivered space in 2023. Bangalore, Hyderabad and Delhi-NCR are likely to continue dominating completions.

Midyear review

In H1 2023, about 24.2 million sq. ft. of new completions were witnessed – a decline of 4% Y-o-Y. Supply addition in the first half was led by Bangalore, Hyderabad, and Delhi-NCR with a combined share of 68%.

Outlook for the remaining year

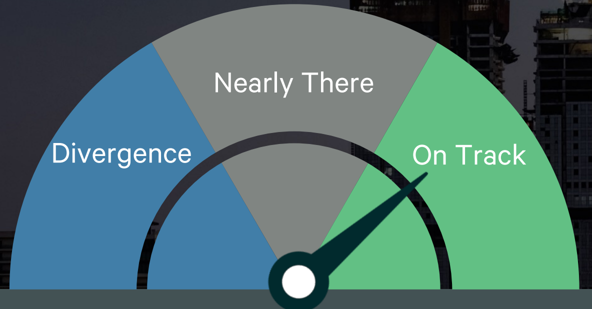
A steady quantum of space would continue to be delivered in H2 2023, given the pipeline of quality assets. CBRE expects the annual supply to be around 51 - 53 million sq. ft.[13], a marginal increase of 1 - 3%. Bangalore, Hyderabad and Delhi-NCR would continue to dominate completions. Occupiers' interest in investment-grade buildings in core locations is likely to continue, especially for projects by leading developers and institutional owners.

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

FORECAST 3

Vacancy rates to remain rangebound; moderate rental growth expected

Office



PREDICTO-METER

Vacancy rates are expected to largely remain rangebound in 2023. Additionally, select prominent micro-markets across most cities are expected to witness moderate rental growth in the year.

Midyear review

Pan-India vacancy rates have remained stable as of Q2 2023, as space take-up and supply have largely been at par during H1 2023. Led by sustained demand despite a challenging macro-economic environment, select micro-markets in cities such as Bangalore, Chennai, Mumbai, Pune and Delhi-NCR witnessed a Y-o-Y increase of 1 - 6.5% in quoted rentals during H1 2023.

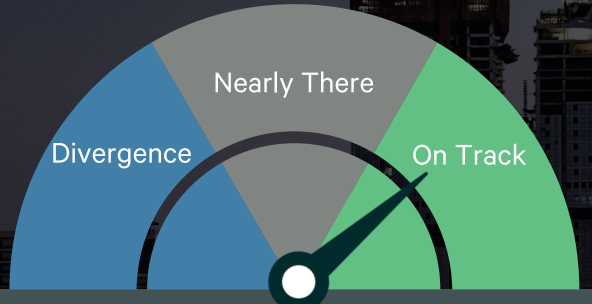
Outlook for the remaining year

Select micro-markets in cities are likely to see a moderate increase in rentals, as global occupiers' sentiments continue to strengthen with the easing of macroeconomic challenges. Well-located offices, replete with modern fixtures, amenities, and sustainability features, that elevate employees' experience, are expected to command a premium in the market. Moreover, with new office developments and demand expected to be in tandem during the rest of the year, vacancy rates are likely to be rangebound till the end of the year.

FORECAST 4

Hybrid working to continue with emphasis on office

Office



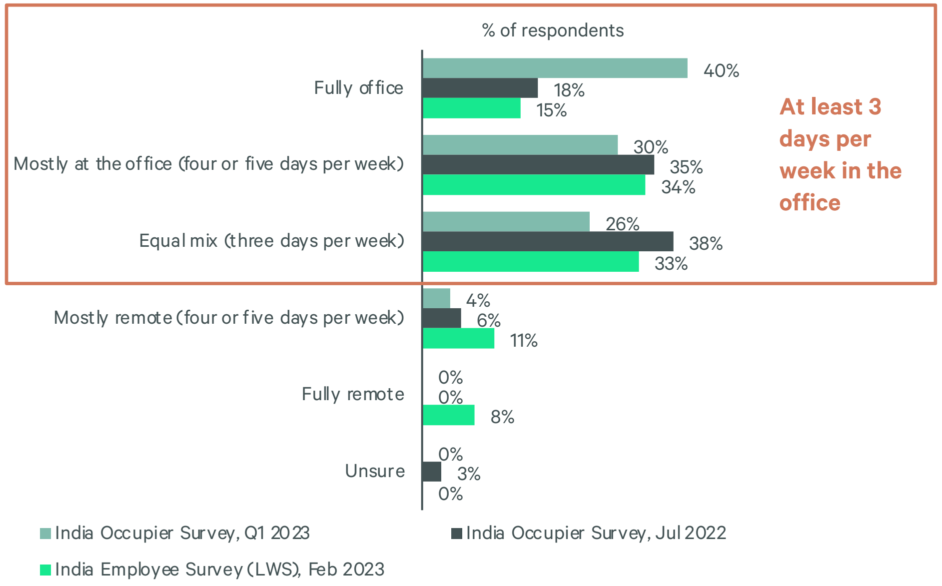
PREDICTO-METER

Hybrid working to continue to be the norm in India; however, emphasis on office-based working is also expected to be sustained.

Midyear review

With hybrid work here to stay, the workplace is evolving from being utility-led to purpose driven. CBRE's 2023 India Office Occupier and India Live-Work-Shop surveys indicate that both employers and employees are inclined towards office-based hybrid working, with at least three days a week in the office.

Fig 2.3: Cultural norms with regards to workplace policies that organizations aspire for in a steady state in India



Outlook for the remaining year

Occupiers are expected to continue framing hybrid working policies with emphasis on the 'office-first' model to enable deep collaboration between office-based employees and remote employees, and enhance productivity. An office-first approach is changing the purpose of workplaces from being only work-driven to a place for collaboration and ideation.

Note: Percentages may not total to 100 due to rounding.

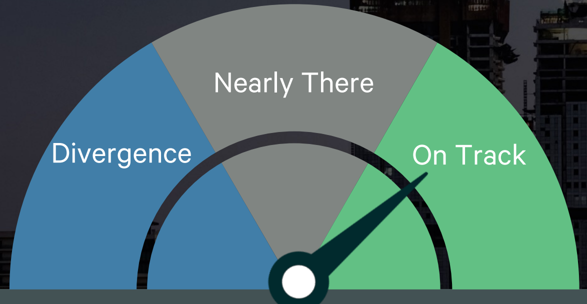
Source: CBRE's 2023 India Office Occupier Survey, Q1 2023; CBRE's 2022 India Office Occupier Survey, July 2022; CBRE's Voices from India: How will People Live, Work and Shop in the Future?, February 2023; CBRE Research, Q3 2023

Note: These results are limited to those respondents who chose to answer this question and may differ from individual companies on a case-by-case basis due to their scale, type and location of business operations.

FORECAST 5

Demand for ESG-compliant spaces to increase

Office



PREDICTO-METER

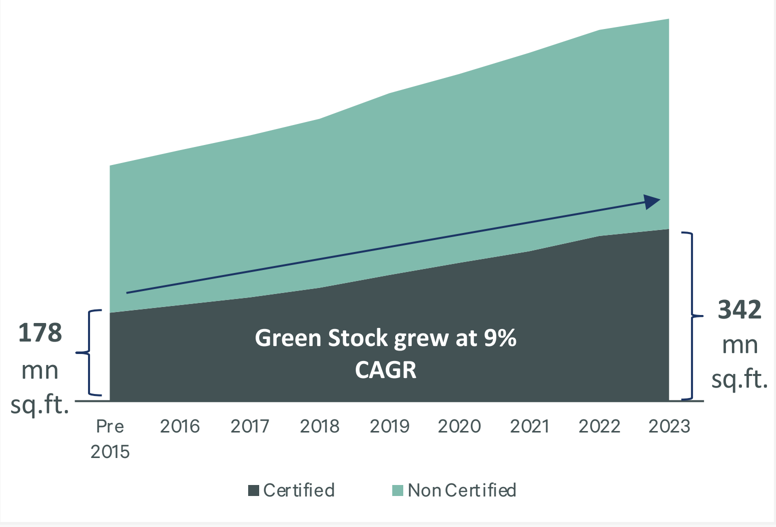
Tightening global and domestic ESG regulations would drive occupiers' flight-to-quality wave towards modern, premium and sustainable spaces in the medium to long term. Sustainable building features and operations to be among their most sought-after building attributes.

Midyear review

Signalling the growing focus of developers on sustainability, 46% of the newly completed developments during H1 2023 were green-certified. Global and domestic occupiers are on the path towards sustainability and have committed to targets with far-reaching impact. Stemming from global and national mandates such as the Corporate Sustainability Reporting Directive (CSRD), Enhancement and Standardization of Climate-related Disclosures, and India's Business Responsibility and Sustainability Reports (BRSR), occupiers continue to lease in next-generation, green-certified office spaces.

Outlook for the remaining year

Top office occupiers across the country have committed to achieving net zero by 2050. To meet this goal, as well as other sustainability metrics such as energy efficiency, water and waste management, occupiers are expected to continue the flight towards better quality assets, increasing their preference towards green-certified buildings. Over the past seven years, green-certified stock in India has almost doubled to about 342 million sq. ft at 9% CAGR, buoyed by the demand for green-compliant properties.

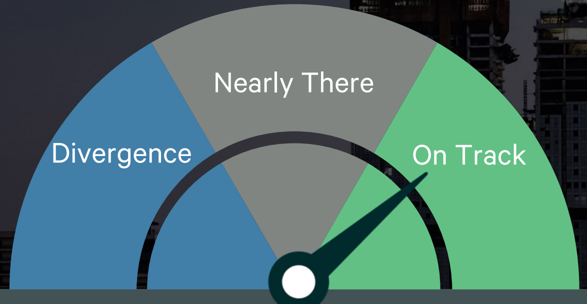


Source: *CBRE India Research, Q3 2023*

FORECAST 6

Workplace strategies to lead corporate agendas

Office



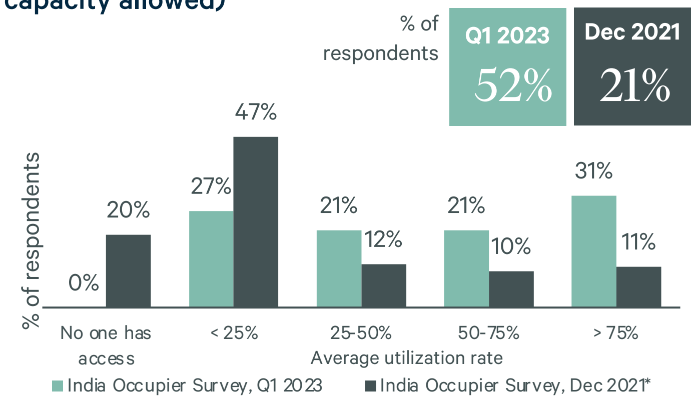
PREDICTO-METER

Return to office (RTO) planning and flexible working would place workplace strategies at the top of corporates' agendas in 2023. Additionally, the adoption of technology supporting flexible working would continue to pick up as RTO rates rise.

Midyear review

About 80% of the occupiers surveyed in CBRE's surveys indicated a preference towards working from office at least three days a week (India Office Occupier Survey, July 2022 ; India Office Occupier Survey, Q1 2023 and Live-Work-Shop Survey, Feb 2023). Moreover, office occupancies and utilization rates have witnessed a gradual uptick over the last one year, with occupiers stepping up their RTO plans due to work from home (WFH) fatigue, attrition and moonlighting concerns, amidst the need to regenerate collaboration opportunities and break business silos.

Fig 2.5: Average utilization rate in India over the past three months (number of seats used vs maximum capacity allowed)



Outlook for the remaining year

RTO planning remains on top of the occupiers' agenda, as they focus on creating experiential workplaces, through the amalgamation of technology and amenities. Office occupancies and utilization rates are likely to improve further as hybrid working frequencies shift towards working more days from office. In a shift from the 'nudge strategy, we are also likely to witness organizations adopting a gradual change in their RTO plans towards a more aggressive and mandated approach over the next 6 - 12 months.

*Note: 'Not applicable' responses have been excluded from the analysis.
Source: CBRE's 2023 India Office Occupier Survey, Q1 2023; CBRE India Future of Office Survey 2021, December 2021; CBRE Research, Q2 2023
Note: These results are limited to those respondents who chose to answer this question and may differ from individual companies on a case-by-case basis due to their scale, type and location of business operations.

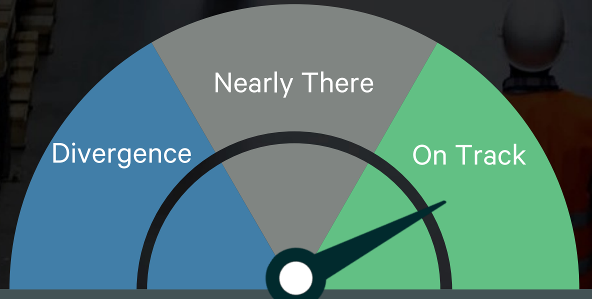
03

I&L

FORECAST 1

Resilient occupier demand to drive leasing in 2023

I&L



PREDICTO-METER

Demand for I&L spaces is expected to remain resilient in 2023 but growth rates could stagnate as occupiers might align their portfolio strategy with global headwinds, as per March 2023 predictions. This could cause absorption to range between 32 - 35 million sq. ft.

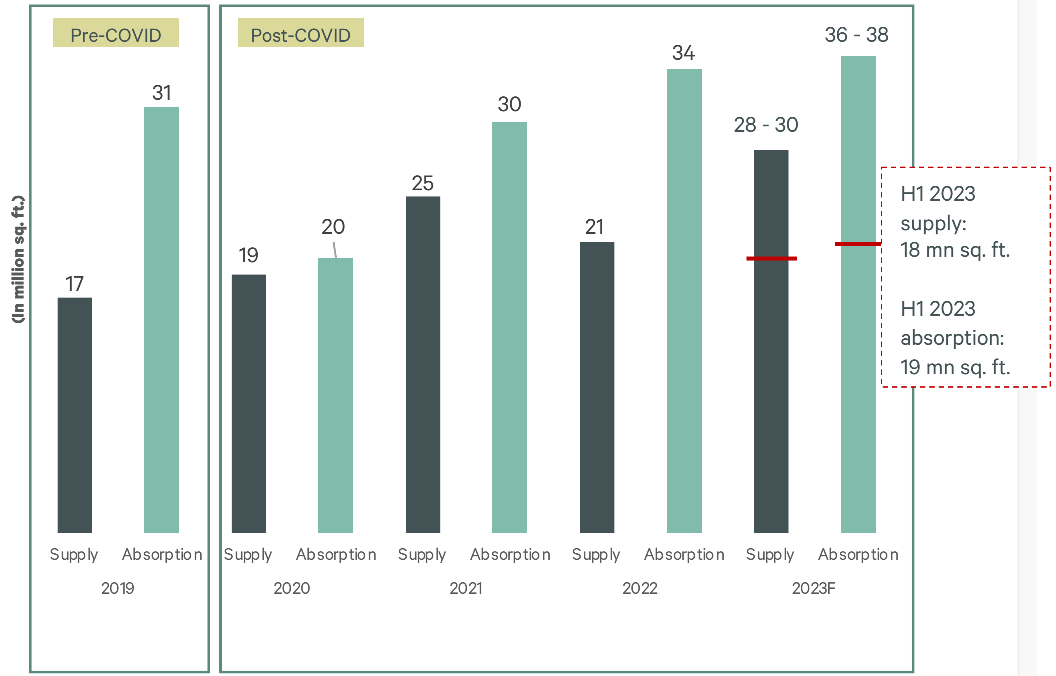
Midyear review

The I&L space take-up increased by about 35% Y-o-Y to touch 19.1 million sq. ft in H1 2023. Delhi, Mumbai and Chennai dominated leasing activity, accounting for about 60% of the overall space take-up.

Outlook for the remaining year

In the backdrop of easing supply chain pressures and quality supply addition, leasing momentum is anticipated to pick up pace further during the second half of the year. Additionally, the upcoming festive season is also expected to strengthen space take-up and the total absorption is likely to exceed earlier estimates and touch 36 - 38 million sq. ft. in 2023.

Fig 3.1: I&L supply-demand trends (2019 - 2023F)

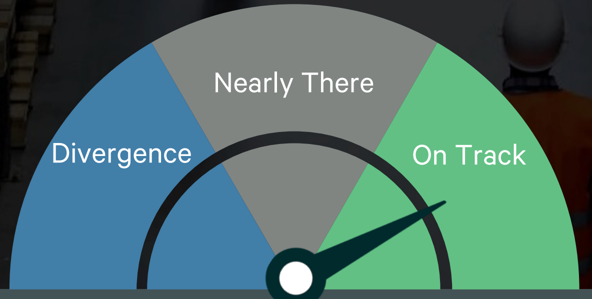


Note: CBRE Research, Q3 2023

FORECAST 2

I&L supply to breach 2022 levels

I&L



PREDICTO-METER

Driven by the completion of pent-up supply, the I&L supply is forecasted to exceed 2022 levels and reach 24 - 26 million sq. ft. in 2023, as per March 2023 predictions. The share of project completions by prominent global / domestic developers is also expected to rise from 37% in 2021-2022 to over 40% in 2023-2024.

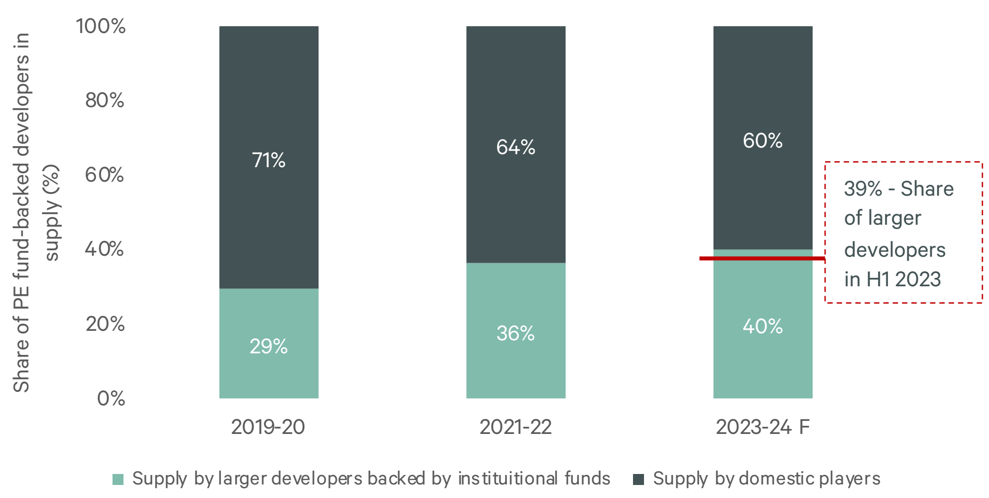
Midyear review

Half-yearly supply addition improved by about 56% to reach an all-time high of 17.7 million sq. ft. in H1 2023, led by completion of pent-up supply, mainly in Chennai, Kolkata and Mumbai. Together, these cities accounted for more than half of the total supply. The share of supply by larger developers backed by institutional funds stood at about 39% in H1 2023.

Outlook for the remaining year

Owing to completion of pent-up projects, supply addition is also expected to outperform and touch 28 - 30 million sq. ft by the year-end, as compared to about 21 million sq. ft. completed in 2022. We also foresee that the share of projects completed by larger developers backed by institutional funds would increase to about 40% in 2023. Supply addition is anticipated to be dominated by Mumbai, followed by Delhi-NCR and Chennai, cumulatively accounting for over 50% of the completions during the year.

Fig 3.2: Share of domestic developers vs larger developers backed by institutional funds in supply

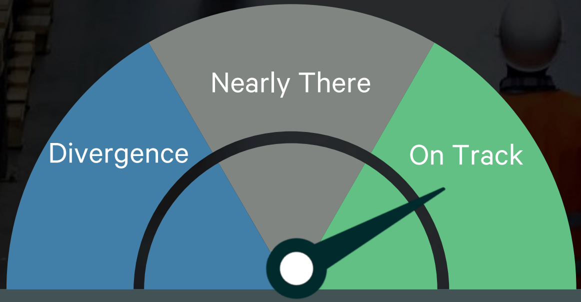


Source: CBRE Research, Q3 2023

FORECAST 3

Further rental growth anticipated

I&L



PREDICTO-METER

Increasing demand from occupiers to lead to upward rental movements in select micro-markets across cities.

Midyear review

Led by flight-to-quality demand, limited availability of quality supply in select locations and rise in land costs, quoted rental values increased on a half-yearly basis in key micro-markets across cities, with the exception of Mumbai and Kolkata. Rents remained stable in Mumbai while excess supply addition in Kolkata led to a dip of 2 - 3% on a half-yearly basis.

Outlook for the remaining year

Rents are likely to grow in select micro-markets; largely driven by the premium commanded by new investment grade assets that would become operational in H2 2023. Select micro-markets in Mumbai, Chennai, Bangalore, Pune, Hyderabad and Ahmedabad are expected to witness about 2 – 6% Y-o-Y growth in rents by the year-end, especially in investment-grade, tech-enhanced and strategically located assets.

Fig 3.3: Rental value forecasts in key I&L micro-markets

Average quoted Rents* Y-o-Y change (2023F)

Pune (Chakan-Talegaon)	▲ 5-6%
Ahmedabad (Sanand)	▲ 5-6%
Mumbai (Bhiwandi NH3)	▲ 2-3%
Chennai (Western Corridor-I)	▲ 2-3%
Bangalore (Eastern Corridor)	▲ 2-3%
Hyderabad (Northern Corridor)	▲ 2-3%

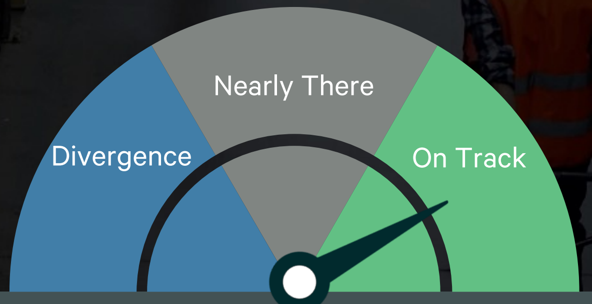
Source: CBRE Research, Q3 2023

*Note: The trend for transacted rentals may be in line with or diverge from quoted rentals for different assets depending on various factors such as asset quality, location, accessibility, age of the asset, space availability, etc.

FORECAST 4

Third Party Logistics (3PLs) and Engineering & Manufacturing (E&M) to continue as dominant drivers of space take-up; e-commerce is expected to make a comeback

I&L



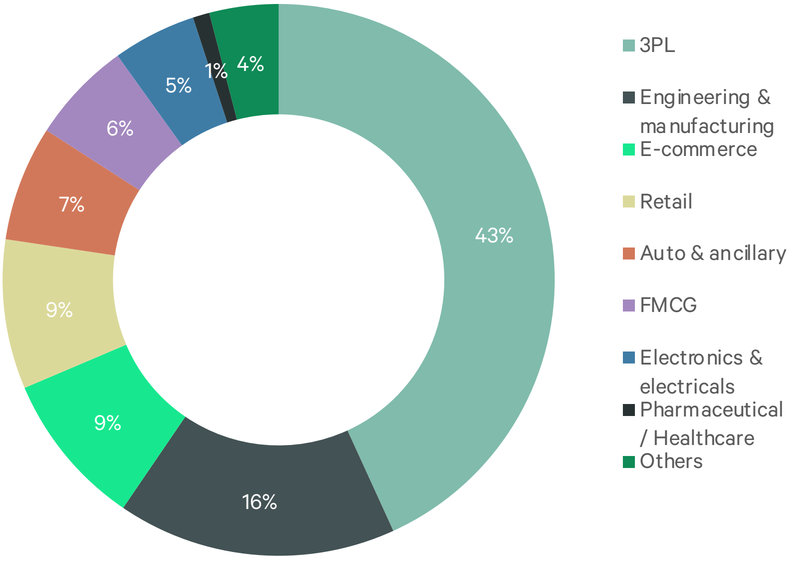
PREDICTO-METER

The dominant share of 3PL players in overall leasing is set to grow in 2023 in line with the preceding two years, followed by E&M firms. The expansion of the e-commerce sector is also expected to spur additional space requirements by the end of 2023.

Midyear review

3PL players continued to drive the leasing activity in H1 2023 with a share of about 43% – a marginal dip compared to 49% in H2 2022. E&M firms' space take-up accounted for about 16% of the overall leasing pie in H1 2023. The share of e-commerce and retail companies stood at about 9% each during the period.

Fig 3.4 Segmentation of transaction activity as per industry sectors in H1 2023



Source: CBRE Research, Q3 2023

Outlook for the remaining year

The I&L absorption would continue to be led by the 3PL and E&M sectors due to the continued adoption of "multipolar" supply chain strategies by occupiers and the government's pro-investment efforts. The share of 3PL in 2023 could, thus, be marginally higher, if not similar, to 2022 levels. We also anticipate heightened interest from FMCG, retail and electronics & electrical firms led by the rise in consumer demand. The upcoming festive season is likely to improve e-commerce leasing sentiments over the short-term. However, a few e-commerce players are also evaluating built-to-suit (BTS) facilities for long-term requirements.

04

Retail

FORECAST 1

In-store shopping to remain at the heart of business operations

Retail

PREDICTO-METER

Retailers are expected to make efforts to further enhance their physical shopping experiences by embracing technology, re-engineering store layouts, leveraging high-interest products and moving towards frictionless supply chain methods.

Midyear review

According to the findings of CBRE's 2022/23 Live-Work-Shop Consumer Sentiments Survey, almost 45% of shoppers still preferred "mainly offline" or "purely offline" shopping, despite the growing popularity of online shopping. While the younger generation displayed a strong preference for purchasing certain goods online, about 65% of the surveyed consumers across all generations showed a strong preference for shopping in brick-and-mortar stores for big-ticket purchases such as luxury products and jewellery. Examining the products remained the top reason driving people to physical stores across most categories, except essential items where immediate availability of products took precedence.

Fig 4.1: Reasons for preferring to purchase products offline

Reasons for preferred in-store shopping experience	Clothing & Footwear	Children's Clothing & Footwear	Homeware / Home decorations and furnishings etc.	DIY (Do-It-Yourself)	Electronics	Cosmetics	Luxury/ Jewelry	Specialist/ hobby items	Gifts	Essential items (Grocery & Toiletries)
I can see / try the product first	63	62	57	53	57	57	64	47	50	45
Products are immediately available	38	39	44	40	40	39	39	36	39	50
More variety in-store	43	44	40	34	34	36	39	37	42	41
Help from salesperson / more product information	31	30	32	30	42	34	35	30	27	25
Overall in-store experience	31	35	30	30	34	27	37	36	26	35
Easier price comparison	33	28	32	30	34	27	31	29	31	38
Better offers/ promotional deals	27	24	26	24	31	27	25	29	28	31
Products I want are only available in-store	22	20	27	26	23	26	25	27	23	27

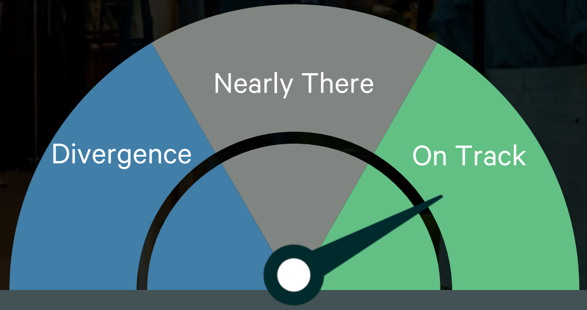
Low — High

Source: CBRE's 2022 / 23 Live-Work-Shop Consumer Sentiments Survey, January 2023

FORECAST 1

In-store shopping to remain at the heart of business operations

Retail



PREDICTO-METER

Retailers are expected to make efforts to further enhance their physical shopping experiences by embracing technology, re-engineering store layouts, leveraging high-interest products and moving towards frictionless supply chain methods.

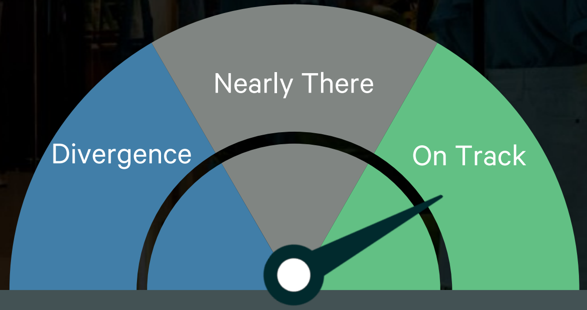
Outlook for the remaining year

With malls becoming entertainment centres, footfalls in brick-and-mortar stores are likely to be on the rise, especially with the approaching festival season. The shopping experience will continue to witness constant transformation and innovation as retailers strive to elevate the in-store experiences for shoppers. Retailers will continue upgrading their stores in terms of technology, consumer engagement, redistribution of space and personalised services.

FORECAST 2

Retailers will continue carving out success in diverse locations

Retail



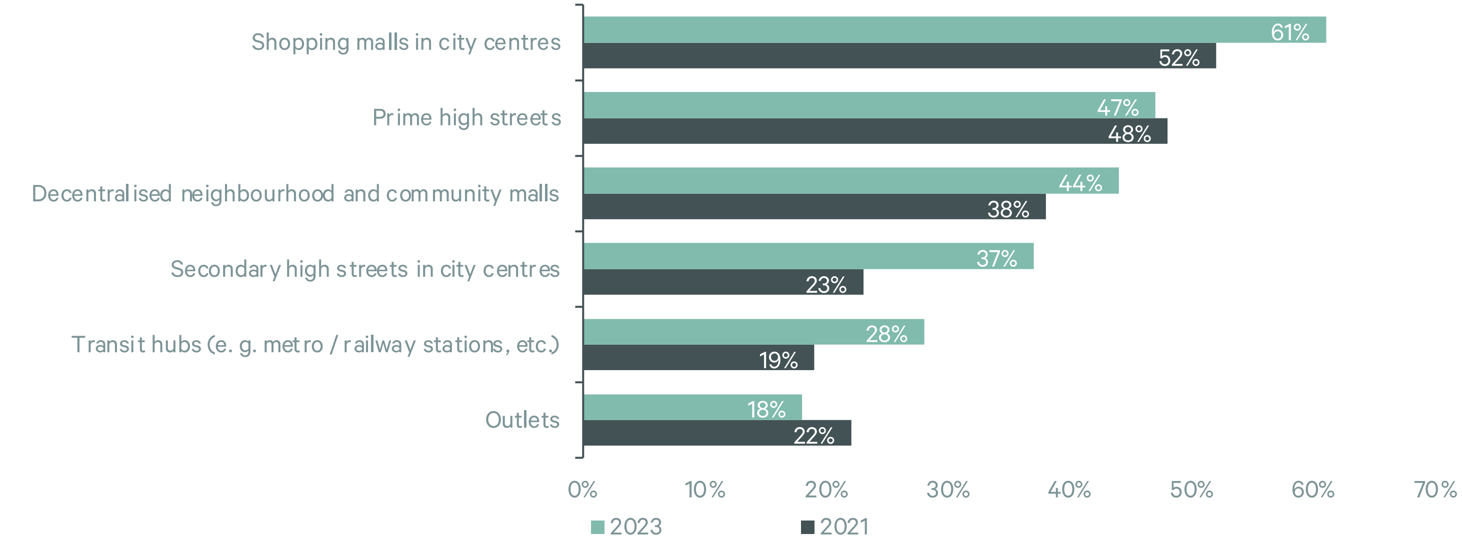
PREDICTO-METER

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

Midyear review and Outlook for the remaining year

According to CBRE's 2023 Asia Pacific Retail Flash Survey published in January, Indian cities are expanding towards suburban locations which are witnessing the emergence of newer high streets or malls. As new consumption centres emerge on account of this expansion, retailers continue to diversify across asset types, including decentralised neighbourhood and community malls, secondary high streets in city centres, and transit hubs (metro / railway stations, etc.).

Fig 4.2: Preferred locations for new physical stores in 2023

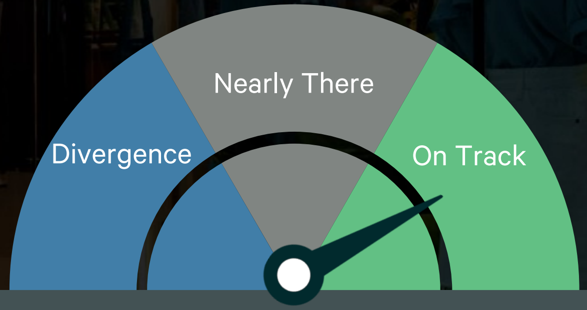


CBRE's 2023 Asia Pacific Retail Flash Survey, January 2023

FORECAST 3

Leisure spending may be constrained

Retail



PREDICTO-METER

Despite sticky inflation, overall consumer sentiments in terms of spending are expected to remain positive, although cautious, particularly on non-essential items. The impact of any slowdown on retail sales growth and private consumption is likely to be diluted by the festive season in H2 2023.

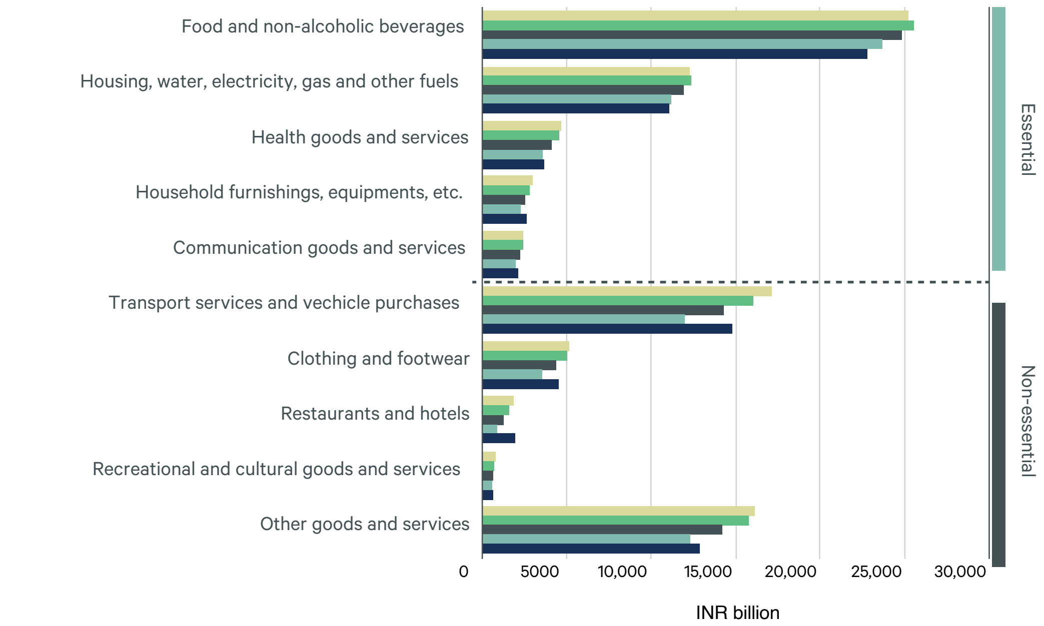
Midyear review

Inflation in July reached a 15-month high of 7.44%, primarily driven by a substantial uptick in food and vegetable prices. In August, inflation eased to 6.83% because of the moderation in vegetable prices; but price pressures around cereals, pulses, and oilseeds continues[17]. While consumer confidence has improved compared to the same period last year, as indicated in the July edition of the RBI Consumer Confidence Survey, there has been a marginal decline in the current situation index compared to the survey findings for the month of May. Given the backdrop of sluggish economic growth, it is expected that consumers will continue to exercise caution in terms of their spending patterns.

Outlook for the remaining year

As the trend of "pent-up demand" subsides, the surge in consumer spending and retail sales witnessed last year is expected to rationalise to a 2% and 3% Y-o-Y growth, respectively, by the end of 2023. However, spending across non-essential categories such as restaurants and hotels, transport services and vechicle purchases and apparel and footwear are expected to witness a Y-o-Y growth of 17%, 7% and 1%, respectively.

Fig 4.3: Growth in consumer spending expected to temper in 2023



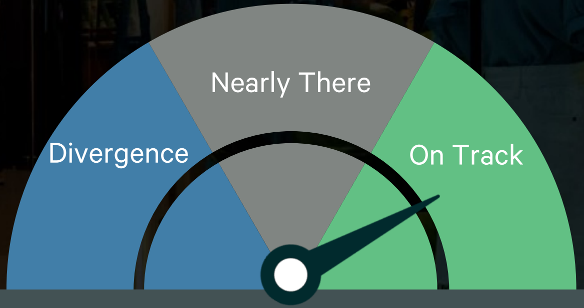
Source: Oxford Economics, H1 2023

17. Mospi

FORECAST 4

Retailers to become more active in untapped markets

Retail



PREDICTO-METER

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

Midyear review

Tier-II cities continued to maintain their growth trajectory and the total space take-up increased significantly in cities such as Chandigarh, Indore and Kochi to touch 0.46 million sq. ft in H1 2023, compared to 0.05 million sq. ft. and 0.19 million sq. ft. during H1 2022 and H2 2022, respectively[18]. Indore dominated the leasing activity across the tier II cities.

Outlook for the remaining year

Supply between 1 - 1.5 million sq. ft. is anticipated to come on stream in these cities (Chandigarh, Indore and Kochi) in line with similar demand trends. A more aspirational population with higher spending potential, reverse migration during the pandemic, developing infrastructure and airport connectivity, along with the availability of land and a strengthening office market are some factors that will continue to elevate preference for these markets.

[18] Cities include Chandigarh, Indore and Kochi

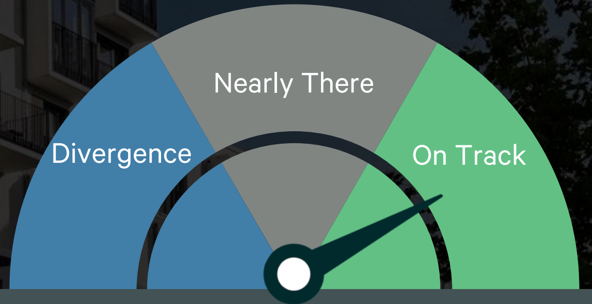
05

Residential

FORECAST 1

Sales and new launch activity to remain steady

Residential



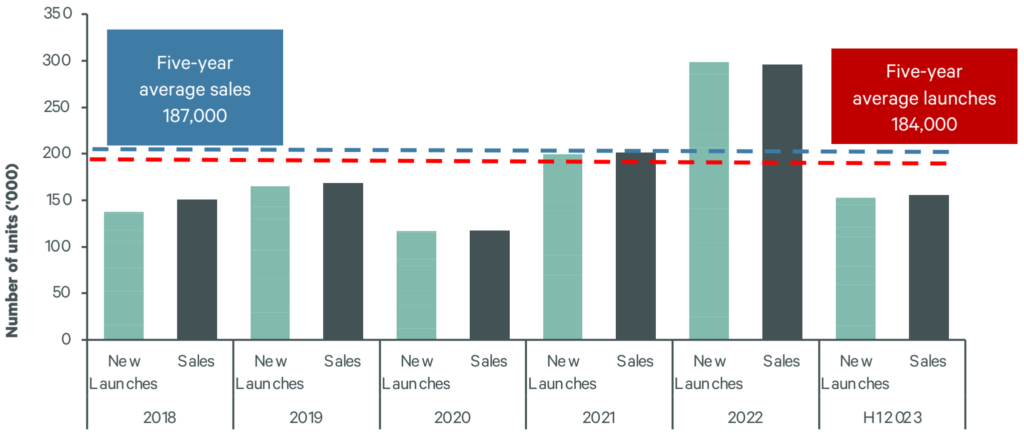
PREDICTO-METER

The strong momentum seen in 2022 in both sales and new launches is expected to continue in H1 2023. While there could be a tapering of activity towards the middle of the year, this is likely to be cushioned by the festive season in 2023 driven by developer incentives and schemes.

Midyear review

Despite anticipation around a lagged impact of monetary tightening, outstanding housing credit rose substantially by about 37% on an annual basis in July 2023[19] . This is indicative of the resilient housing demand across major cities in the country. Residential sales in H1 2023 exceeded 150,000 units; surpassing sales reported in H1 2022 and H2 2022 by around 4% and 6%, respectively. Sustained momentum in demand led developers to launch over 150,000 new housing units in H1 2023, marking an annual growth of 11%.

Fig 5.1: Residential sales – new launch dynamics over the years in India (2018 - H1 2023)



Source: CBRE India Research, Q3 2023; across top seven cities

Outlook for the remaining year

On the back of strong demand momentum witnessed in 2022 and H1 2023, we anticipate the housing market to be further bolstered by the upcoming festive season in H2 2023. With the interest raise cycle expected to near an end, incentives and schemes offered by developers in the festive season are likely to further boost sales. We estimate that both sales and new launches could reach a ten-year high in 2023, and may exceed the 300,000-unit mark. While the momentum continues overall, it is advisable for developers and investors to be aware of the emerging dynamics of the residential sector in specific cities and micro-markets while planning their launches and strategies for the sector. There have been instances where specific micro markets and segments have significant supply overhang leading to subdued calls from developers on future launches. For instance, in Maharashtra, there have been instances of projects in Mumbai and Pune getting deregistered on account of perceived viability gap.

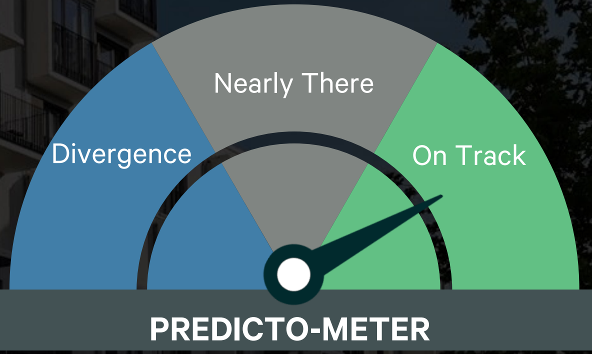
In addition, we anticipate some level of demand supply mismatch to set in from 2024, as a large influx of supply is expected across markets in the next two quarters.

[19] RBI

FORECAST 2

Capital value growth to be selective than broad-based

Residential

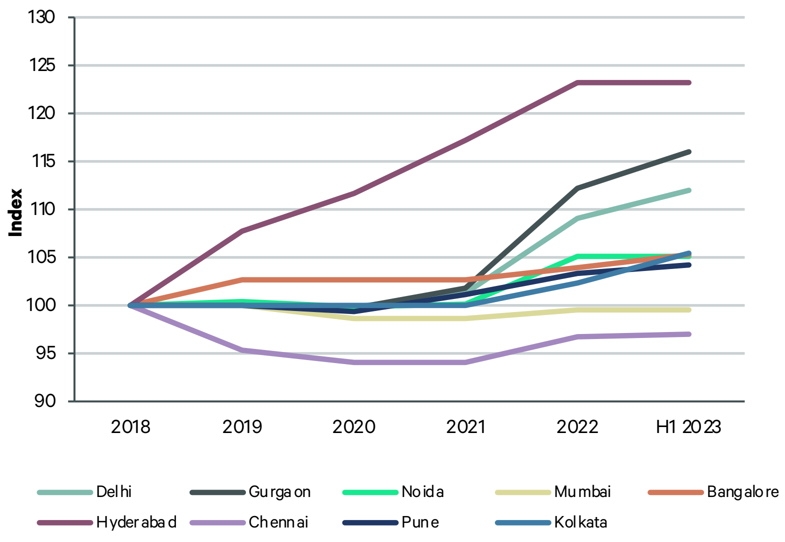


The residential sector is likely to witness divergent trends in capital appreciation in 2023, with asset prices expected to vary as per the city, micro-market or even project attributes. Any appreciation could also be governed by unsold inventory levels or inventory overhang.

Midyear review

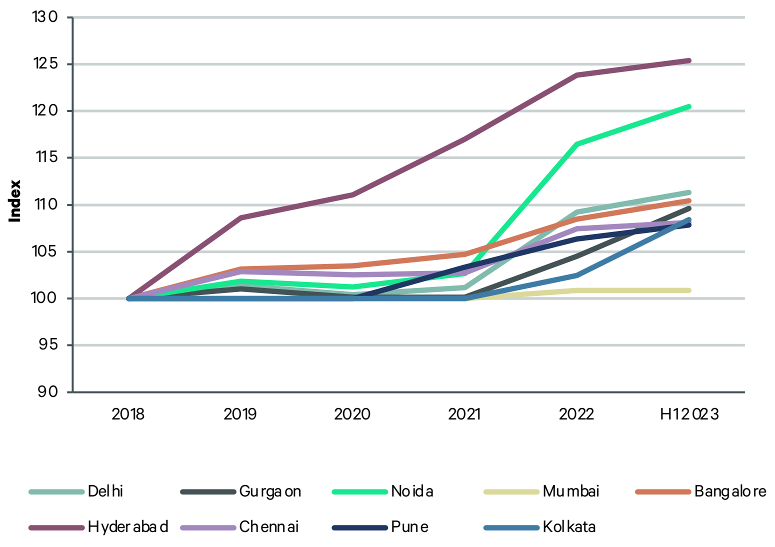
Capital values for the residential sector over the past couple of years have remained on a consistent upward trajectory. Factors such as quality supply, location, project features, and access to essential amenities have played pivotal roles in shaping this growth. Notably, during H1 2023, segments such as high-end, premium and luxury (INR 2 – 4 crore and above) saw a modest increase of about 0 - 3% H-o-H in capital values, while the mid-end segment (INR 1 – 1.5 crore) experienced growth of approximately 2 - 6% H-o-H.

Fig 5.2: Capital value trends – high-end segment (2018 - H1 2023)



Source: CBRE India Research, Q3 2023; across top seven cities

Fig 5.3: Capital value trends – mid-end segment (2018 - H1 2023)

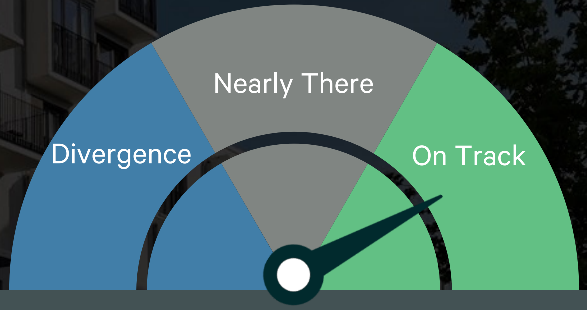


Source: CBRE India Research, Q3 2023; across top seven cities

FORECAST 2

Capital value growth to be selective than broad-based

Residential



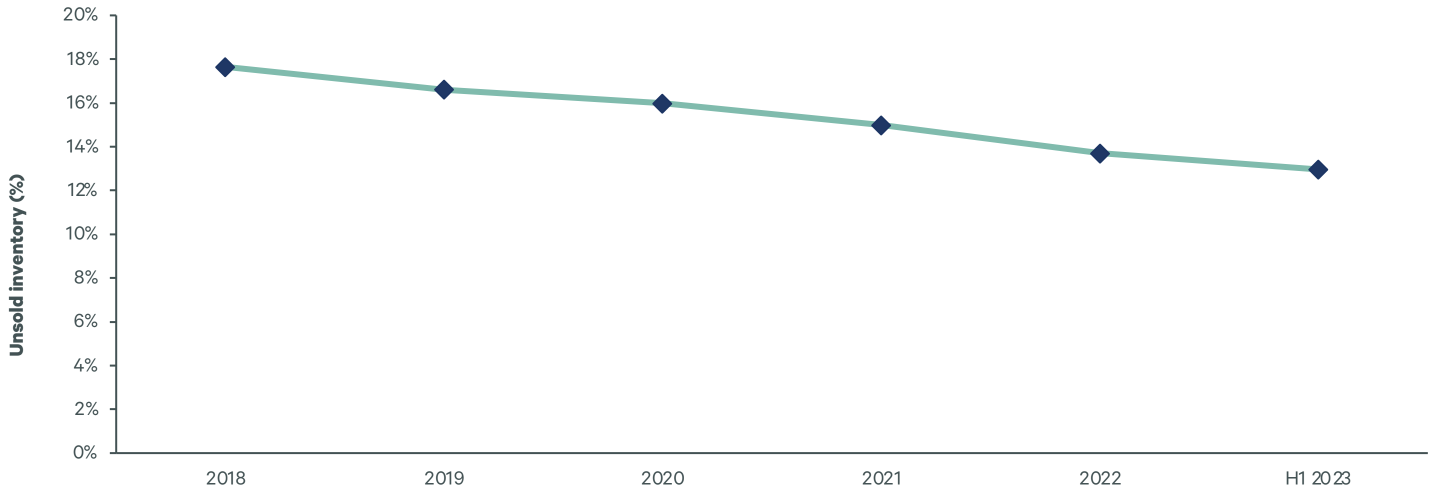
PREDICTO-METER

The residential sector is likely to witness divergent trends in capital appreciation in 2023, with asset prices expected to vary as per the city, micro-market or even project attributes. Any appreciation could also be governed by unsold inventory levels or inventory overhang.

Outlook for the remaining year

The capital value growth is expected to see divergent trends among specific regions and property categories and is likely to be governed by unsold inventory levels and inventory overhang. Rather than having a broad-based approach towards capital value appreciation, developers should exercise prudence when considering such decisions, especially in the face of an anticipated influx of supply and inflationary pressures, as these could also potentially affect the decisions of prospective homebuyers.

Figure 5.4: Unsold inventory (%, 2018 - H1 2023)

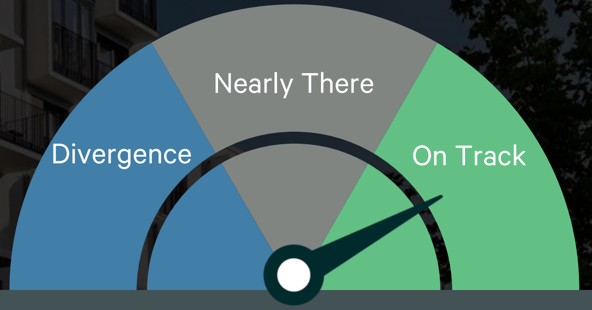


Source: CBRE India Research, Q3 2023; across top seven cities

FORECAST 3

Mid-end, followed by budget / affordable and high-end segments, to drive momentum

Residential



PREDICTO-METER

Demand for projects in the mid-end and budget / affordable category (INR 45 lakh – 1 crore) is expected to remain strong in 2023, in line with the last two years' trends. Similarly, projects in premium and luxury segments (INR 2 – 4 crore and above) are also expected to exhibit sharp growth. Besides, capital value appreciation over the past two years is likely to attract increased activity from HNIs and NRIs.

Midyear review

The mid-end segment constituted nearly half of all housing sales reported in H1 2023. The budget / affordable segment constituted about 21% of the sales, while the high-end segment had an almost 20% share. Additionally, the premium and luxury segments also experienced notable growth, driven by preference for larger unit sizes, quality inventory and rising capital value appreciation in recent years. This surge in demand was especially pronounced amongst UHNIs, HNIs, and NRIs, contributing to the segment's overall robust performance.

Fig 5.5: Segment wise new launches and sales (2018 - H1 2023)

Source: CBRE India Research, Q3 2023; across top seven cities

Outlook for the remaining year

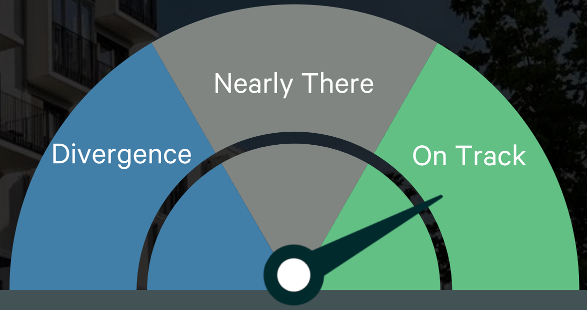
The second half of the year is poised to attract a substantial number of first-time buyers, with fence-sitting end-users expected to make decisions during the festive season offers and discounts. As the residential cycle matures amidst inflationary pressures, we have witnessed the blurring of lines between the mid-end and premium category. The mid-end category by true definition has gone beyond the INR 1 crore mark, with the sweet spot being in the range of INR 1 - 1.5 crore. Hence, we anticipate strong demand in the INR 1 - 1.5 crore price category.

While the affordable category tends to remain the most popular category from an end-user perspective, however supply in this category has remained constrained across key markets due to factors such as high land costs, upper cap on capital values and high material costs. Conversely, the premium and luxury segment is expected to emerge as a sought-after investment avenue, particularly for HNIs and NRIs seeking to safeguard their investments amid global macroeconomic uncertainties. We anticipate a sustained level of activity in this segment, driven by the prospects of long-term capital appreciation.

FORECAST 4

Increasing focus on property surroundings emphasising physical and social infrastructure

Residential



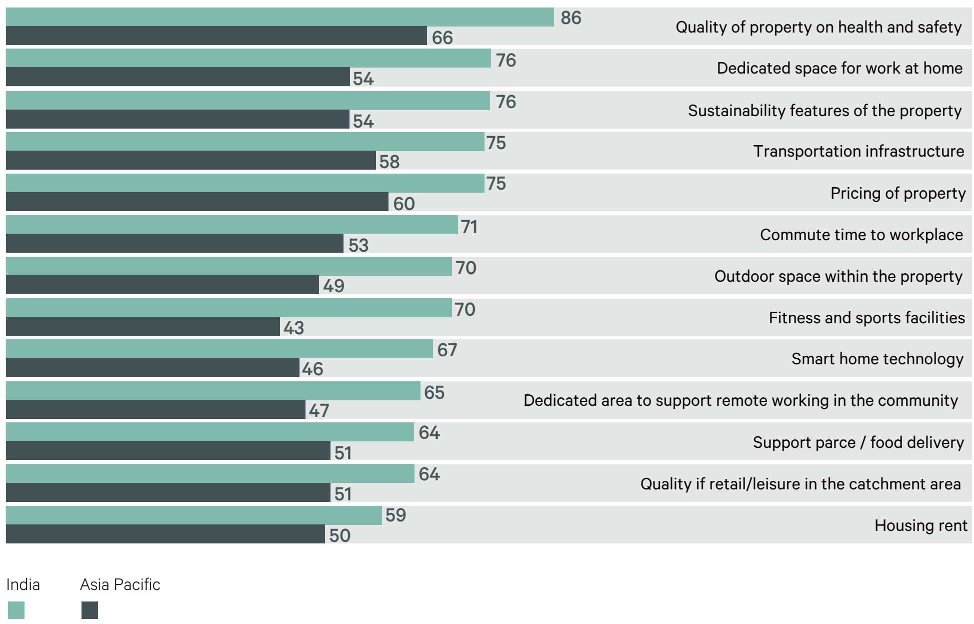
PREDICTO-METER

The new housing demand will be centred around areas with good physical as well as social infrastructure, in addition to the property's quality. Increasing focus on house layout / optimal designs is expected to mark a transformation from developers' traditional project planning approach.

Midyear review

According to CBRE's Survey, February 2023, the 'quality of property on health and safety' was the top criterion for home selection since the pandemic's onset. This was followed by dedicated space for work from home, sustainability features of the property, transportation infrastructure and pricing of the property.

Fig 5.6: Important home selection criteria since the pandemic's onset



Source: Voices from India, how people will live, work and shop, 2022

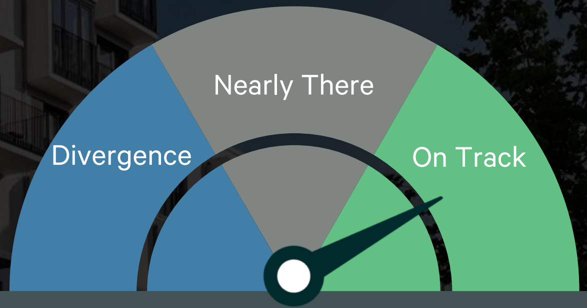
Outlook for the remaining year

Amid transforming preferences, affordability is no longer the sole decisive factor for homebuyers as health & safety, sustainability and integration of smart home technologies have also started to emerge as being core to home purchase decisions. Home buyers are expected to continue to display strong preferences for projects which offer enhanced accessibility to essential infrastructure, ancillary amenities and thoughtfully designed indoor and outdoor spaces.

FORECAST 5

Inclination towards tier-I developers to continue

Residential



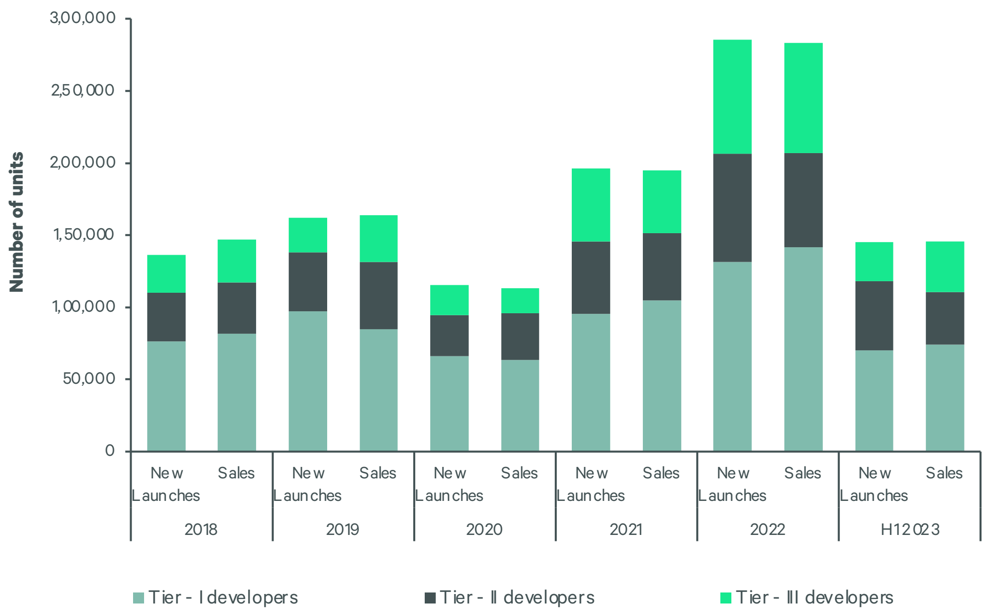
PREDICTO-METER

A greater inclination towards tier-I developers, seen in new launches and sales throughout 2019-2022, is likely to continue in 2023 as well.

Midyear review

The confidence of Indian homebuyers in tier-I developers was evident in the first half of 2023 as these developers dominated the market, accounting for almost half of the total sales.

Fig 5.7: Sales across developer category (2018 - H1 2023)



CBRE India Research, Q3 2023; across top seven cities

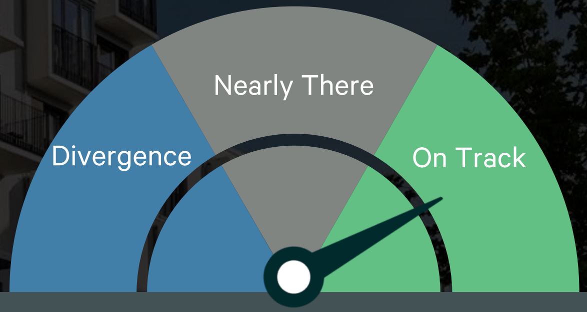
Outlook for the remaining year

Buyer interest will continue to be driven by factors such as reputation, execution capability, and financial stability of the developers. Tier-I developers backed by their proven delivery track record and solid market reputation, consistently dominated the market in terms of new launches and sales from 2018 to H1 2023. We expect this trend to continue gaining momentum.

FORECAST 6

Reputed developers to foray outside their home turfs

Residential



PREDICTO-METER

A higher number of joint ventures / joint developments involving large developers looking to foray outside their home turfs and in tier-II cities is expected in 2023.

Midyear review

Several top-tier developers have expanded or planning to expand beyond their local markets, with some even venturing into tier-II cities to capitalise on the strong sales momentum and promising growth prospects.

Outlook for the remaining year

Reputed residential developers will continue to explore newer cities, in a bid to expand their portfolio and capitalise on their brand value. Leading players are expected to gain larger market shares and continue entry into newer markets in a bid to achieve better operational performance.

06

Investments

FORECAST 1

Investment inflows to remain steady

Investments

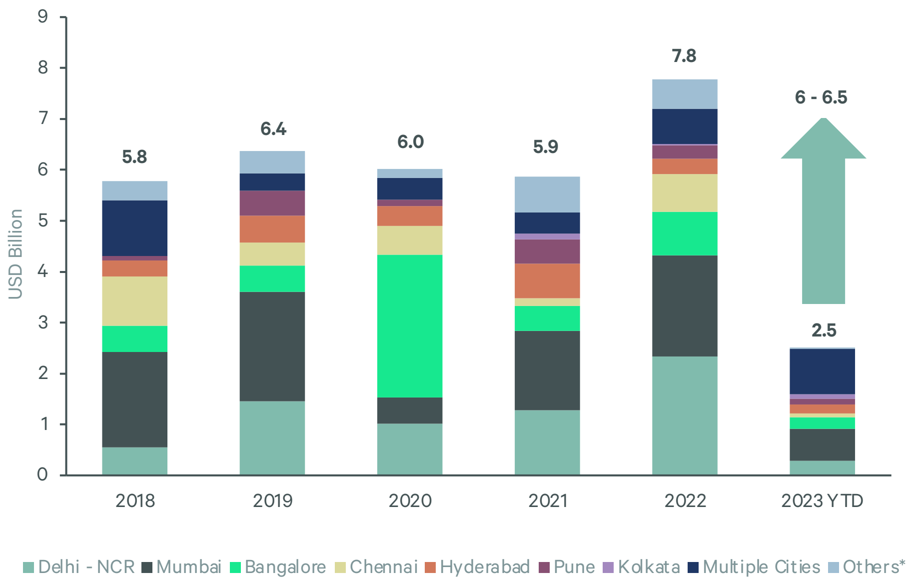
PREDICTO-METER

Overall investments are anticipated to remain steady in 2023 on the back of a strong acquisition pipeline. However, increased capital costs, mismatch in expectations between investors and sellers, and recessionary fears in developed economies might lead to delays in deal closures.

Midyear review

After a strong 2022, there has been some tempering in overall investment activity in 2023; capital flows in H1 2023 touched USD 2.5 billion; down by 37% on a Y-o-Y basis and 34% on a half yearly basis.

Fig 6.1 Equity investments in Indian real estate over the years



Source: CBRE Research, Q3 2023
Note: *Gandhinagar and Trichy

Outlook for the remaining year

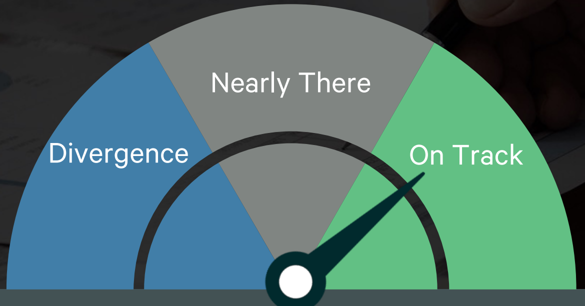
While transaction closures were slow in H1 2023, we expect the investment activity to pick up pace in H2 2023, considering the strong deal pipeline. However, despite this anticipated pick up in momentum, overall capital inflows could still dip in 2023 owing to delays in decision-making and a general sentiment of caution around capital deployment. **We expect overall investments in 2023 to be in the range of USD 6 – 6.5 billion.**

On the positive side, the rate hike pause by major economies such as the US and Canada is expected to ease some pressure off PE investors in the coming months. In terms of cap rates, the halt of the interest rate expansion cycle across major economies, including India, is likely to result in stabilisation/rationalisation of cap rates over the next 3 - 4 quarters.

FORECAST 2

Gateway cities to lead investment activity, further traction likely in tier-II cities

Investments



PREDICTO-METER

Delhi-NCR, Bangalore and Mumbai are expected to retain pole positions in 2023

Midyear review

Among the major cities, Mumbai has seen the highest share of capital inflows (USD 0.62 billion) with a ~25% share in H1 2023. The city, followed by Delhi-NCR and Bangalore, cumulatively accounted for a share of more than 45% during the period.

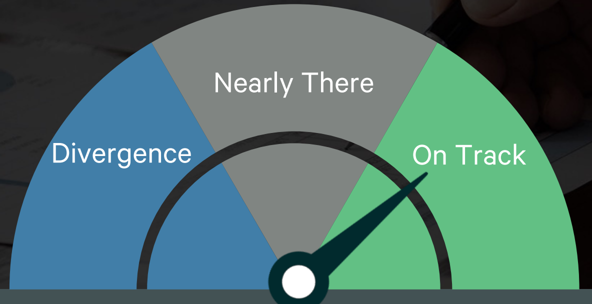
Outlook for the remaining year

The top three cities are likely to continue driving investments, with sustained demand in sectors such as office, residential and logistics. However, as tier-II markets have also started witnessing the addition of quality assets by leading players; especially in sectors such as office and retail, we could expect institutional capital chase these quality assets in the coming years.

FORECAST 3

Development sites (land), built-up offices and I&L to garner major investments

Investments



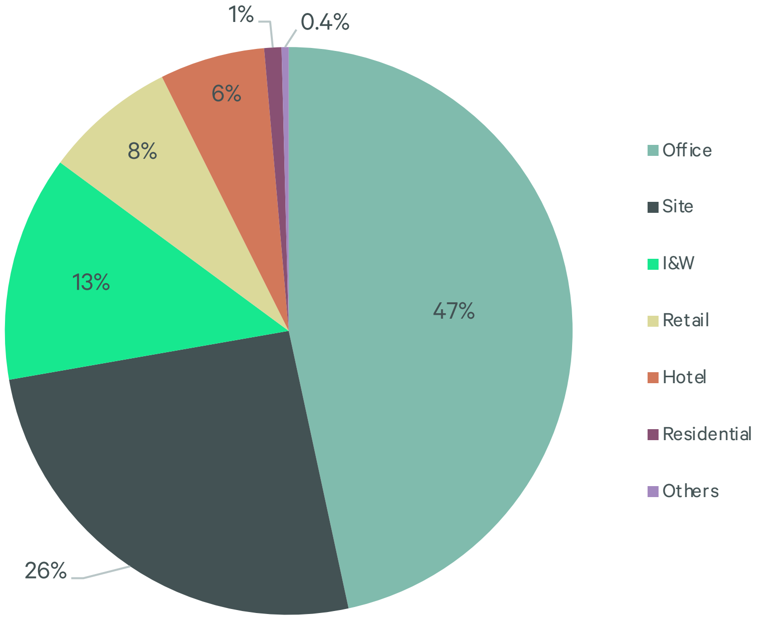
PREDICTO-METER

Capital flows in 2023 are likely to be led by development sites / land and built-up office assets; the I&L and residential sectors could also see higher equity inflows.

Midyear review

With a share of 47% in overall investments in H1 2023, office assets attracted inflows worth USD 1.17 billion, followed by development sites and I&L, with approximately 26% and 13% share, respectively.

Fig 6.2 Asset wise share of investments in H1 2023



Source: *CBRE Research, Q3 2023*

Outlook for the remaining year

The office sector and site (land acquisitions) are expected to continue dominating the capital flows; land acquisitions have witnessed an uptick in the past couple of quarters on the back of strong activity in the residential sector. Going forward, some investment activity in the I&L and retail sectors could also be expected in H2 2023. Also, as alternate asset classes pick pace, we are likely to witness more allocations towards sectors such as data centres, mixed use assets and hospitality.

FORECAST 4

Heightened activity through opportunistic bets likely

Investments

PREDICTO-METER

Core and core-plus assets would continue to be preferred by major foreign investors in 2023. Greater activity via the opportunistic route amid the limited availability of investment-grade assets that are up for sale is also expected.

Midyear review

During H1 2023, more than 74% of the investments have gone towards completed assets, in a way reflecting the cautious stance of investors. The remaining 26% (USD 0.6 billion) was deployed for greenfield developments, with residential (73%) accounting for the majority share in greenfield investments. From an investor type perspective, while institutional money has continued to chase core / core plus assets, opportunistic bets have mainly been the territory of RE developers, largely in the residential sector.

Strategy	Preferred sectors				
Core	Office	Retail			
Core-plus	Office	Retail	I&L		
Value-add	Office	Retail			
Opportunistic	Residential	Office	Mixed-use	I&L	Data Centres

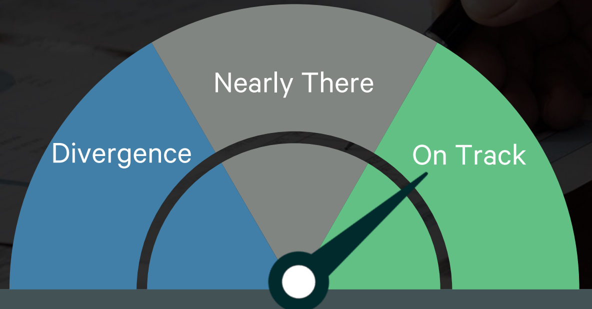
Outlook for the remaining year

We expect investor interest to remain focused around completed assets; especially in the office sector as caution is expected to prevail for most part of 2023. However, opportunistic bets for sectors such as I&L and residential are expected to continue, as the investments will continue to remain via the development route.

FORECAST 5

REIT landscape to get more diverse

Investments



PREDICTO-METER

The year 2023 could see the listing of India's first retail REIT, adding more depth to the REIT market in India.

Midyear review

In H1 2023, the market saw the listing of India's first retail REIT - the fourth listed REIT in India. With a view to further streamline the REIT operations in the country, the Securities and Exchange Board of India (SEBI) implemented several significant amendments to the REIT regulatory regime in August, as mentioned below:

ANNOUNCEMENT	DESCRIPTION
Nomination rights	Unitholders of REITs can now nominate a person to represent them on the board of the Manager of REIT.
Stewardship Code	Any unitholder holding not less than 10% of the total outstanding units of the REIT must comply with a Stewardship Code, which outlines the responsibilities of unitholders towards the REIT.
Sponsors' unit-holding norms	Sponsors of REITs will be required to hold a certain minimum unit-holding on a reducing scale for the entire life of the REIT. The sponsor's mandatory unit-holding must be locked in and unencumbered. Previously, sponsors were required to hold at least 15% of total units for a minimum of three years from listing or initial offer.

Outlook for the remaining year

The listing of the first retail REIT earlier this year has added the much needed diversification to the country's REIT landscape. Besides, the market is expected to witness the listing of India's fourth office sector REIT in the upcoming quarters. Also, NDR warehousing is looking at its INR 2,000 crore InvIT by listing its almost 19 million sq. ft. portfolio in India. The draft placement document has already been filed with SEBI. Furthermore, Reliance Industries Ltd (RIL) is also believed to have started the process to set up an Infrastructure Investment Trust (InvIT) for its asset portfolio of almost 33.6 million sq. ft. as of December 2022.

FORECAST 6

Partnership models to gain further traction

Investments

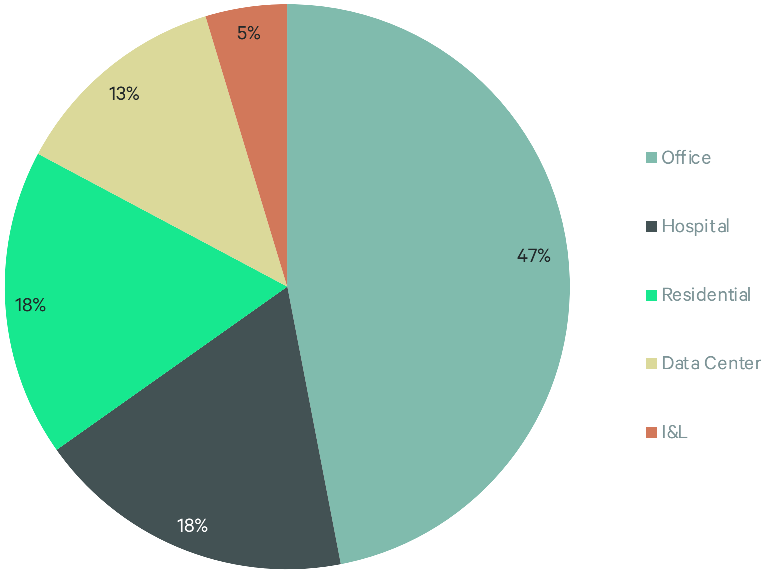
PREDICTO-METER

The growing trend of commitments in investment and development platforms is likely to continue in 2023, with major commitments to be made in the office and I&L sectors.

Midyear review

In H1 2023, we have seen the creation of investment and development platform totalling ~ USD 4.4 billion. Among the major real estate sectors, office held the highest share of ~47%, followed by residential and I&L sectors with more than 18% and about 5% share, respectively. Alternate sectors (Hospitals and Data Centres) accounted for a 31% share.

Fig 6.4 Sectoral split in investment and development platform deals in H1 2023



Source: CBRE Research, Q3 2023

Outlook for the remaining year

As per historical trends, we expect investors to continue preferring such platforms in the medium- to long-term, as it allows them to spread the investment and execution risk while maximizing returns potential. In addition, this route also leads to higher synergies between marquee global investors, who bring long-term patient capital and follow global best practices, and developers who bring local market knowledge and expertise to the table. We believe that the much-needed long-term patient capital would further strengthen the fundamentals of the Indian real estate sector and result in further institutionalization.

Investments: Overall sectoral outlook

We anticipate that investment flows in real estate would remain steady over the next two years, with about USD 16 - 17 billion of cumulative inflows expected during this period. Going by the historical and prevailing trends and the available capital with the existing investment platforms that have been raised over the past 2 - 3 years, we expect the office sector to continue garnering a majority share of the total institutional inflows, followed by the I&L sector and site / land parcels.

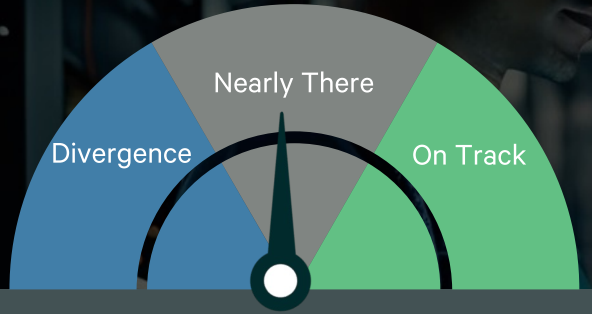
	Office	I&W	Retail	Residential	Alternates
INVESTMENT STRATEGY	Blend of core and core-plus; selectively opportunistic	Predominantly opportunistic in key urban cities, mix of core-plus and opportunistic in tier-II towns	Value-add in gateway cities majorly opportunistic across tier-I and II cities	Primarily opportunistic otherwise majorly structured-debt	Predominantly opportunistic Data Centres to be high on investors' radar
DEVELOPMENT TYPE	Mix of brownfield and greenfield	Largely greenfield projects	Both brownfield and greenfield	Predominantly greenfield	Greenfield
PREFERRED MARKETS	Gateway cities – Mumbai, Delhi-NCR and Bangalore	Across tier-I and select tier-II cities	Metro / tier-I cities, selective entry / expansion in tier-II cities	Top seven cities, and select tier-II cities	Mumbai, Bangalore, Hyderabad and Delhi-NCR


07
ALTERNATE SECTORS:
Data Centres

FORECAST 1

Occupancy levels to improve, increased adoption of hybrid route likely

Data Centres



PREDICTO-METER

Data Centre occupancy levels stood at approximately 80 - 85% at the end of 2022, which are likely to further improve in 2023. The sectors such as BFSI, media and OTT services are expected to continue DC space take-up during the year. Further, public sector undertakings (PSUs) and other key government enterprises are also likely to move to third-party colocation DCs due to an increased focus on digitization and e-governance to ease operations.

Midyear review

With continued demand from BFSI firms, cloud service providers, social media and content streaming companies, DC occupancy levels stood at 75 - 80% in H1 2023. Also, PSUs have set up third-party colocation DCs to address the growing demand for e-governance projects.

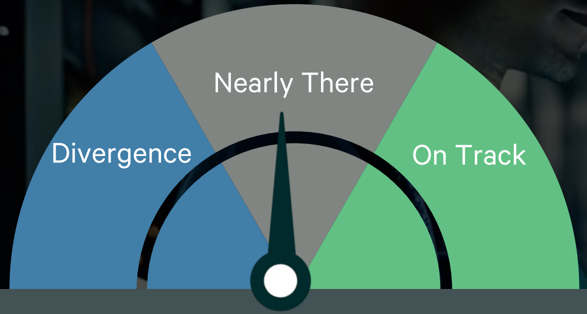
Looking ahead

The exponential growth in AI-generated data workload is expected to drive demand for high power density DC facilities (~ more than 30kW / rack) as compared to traditional power density facilities (~ 8-10kW / rack). In addition, engineering & manufacturing firms and tech companies are likely to set up DCs for R&D labs. Further, PSUs and other government enterprises would continue to focus on the deployment of operations to third-party colocation DCs.

FORECAST 2

DC supply to continue to rise

Data Centres



PREDICTO-METER

The total DC stock in India is expected to touch ~1,020 MW, with a planned supply addition of about ~340 MW, in 2023. More than 95% of the development completions during the year is expected to be concentrated in Mumbai, Noida, Chennai, Hyderabad, Pune and Bangalore.

Midyear review

In H1 2023, the DC market in India saw a supply addition of about ~103 MW. Mumbai dominated the new capacity addition with a share of 73% followed by Chennai (17%), Hyderabad (6%) and Bangalore (4%).

Looking ahead

By the end of 2023, the total DC stock in India is expected to increase by about 35% annually to touch ~1,048 MW, with a planned supply of about 170 MW lined up for the second half of the year. Cities such as Mumbai, Chennai and Delhi-NCR together are likely to account for a share of about 95% of the new supply addition.

07

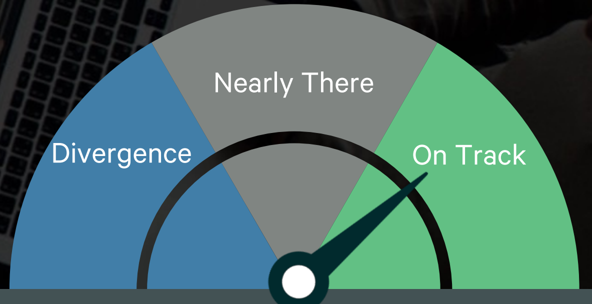
ALTERNATE SECTORS:

Flexible Spaces

FORECAST 1

Flexible spaces' demand drivers to remain intact

Flexible Spaces



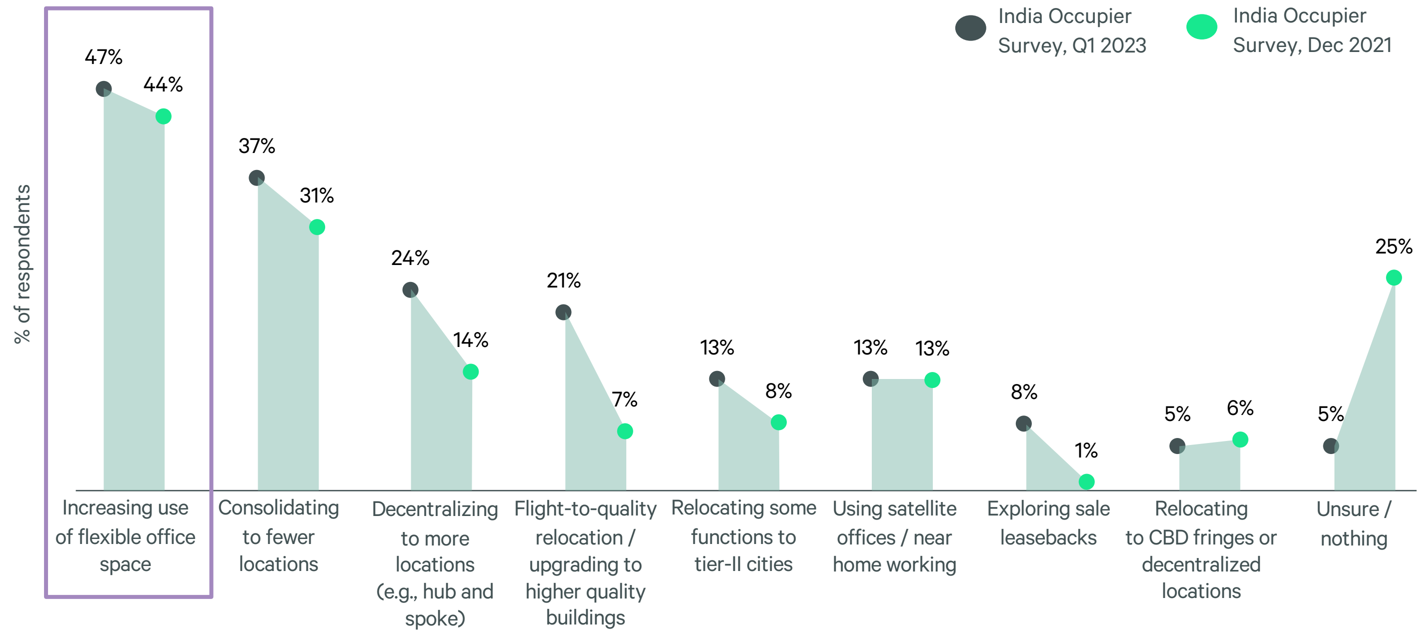
PREDICTO-METER

The need to support hybrid and distributed working would continue to drive demand for flexible spaces in 2023. The flexible space stock is expected to grow from 51 million sq. ft. in 2022 to over 60 million sq. ft. by the end of 2023.

Midyear review

Flexible spaces continue grow as enterprises take up space in flexible centres. The share of flexible spaces in office leasing took the third spot in H1 2023, increasing by 20% and 14% Y-o-Y and H-o-H, respectively. As per CBRE's 2023 India Office Occupier Survey, several large occupiers have increased the share of flexible spaces in their portfolio over the past year. The total flexible stock in India, as of Q2 2023, stands at about 59 million sq. ft.

Fig 8.1: Portfolio strategies in India over the next 12 months



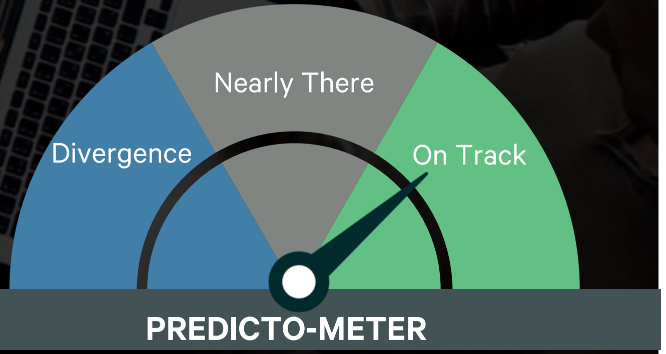
Source: CBRE's 2023 India Office Occupier Survey, Q1 2023; CBRE India Future of Office Survey 2021, December 2021; CBRE Research, Q3 2023

Note: These results are limited to those respondents who chose to answer this question and may differ from individual companies on a case-by-case basis due to their scale, type and location of business operations.

FORECAST 1

Flexible spaces' demand drivers to remain intact

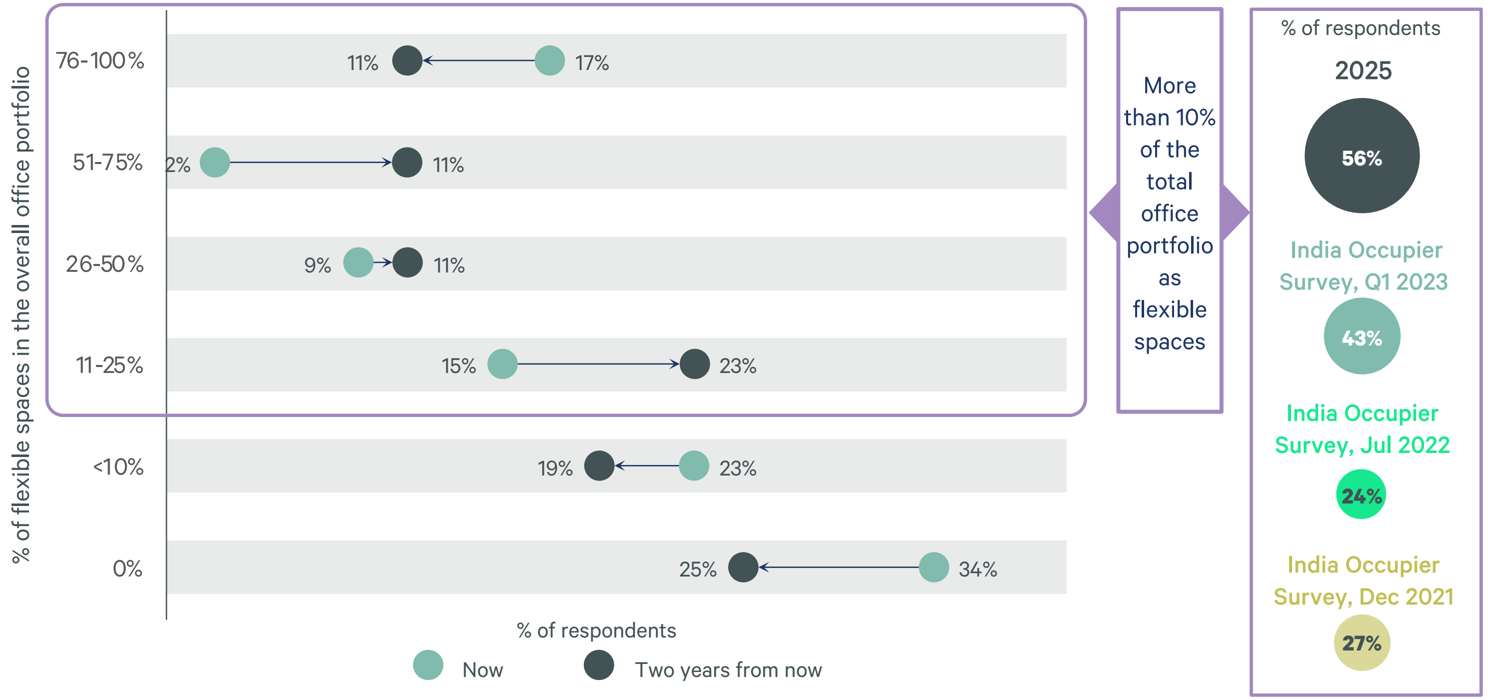
Flexible Spaces



The need to support hybrid and distributed working would continue to drive demand for flexible spaces in 2023. The flexible space stock is expected to grow from 51 million sq. ft. in 2022 to over 60 million sq. ft. by the end of 2023.

Midyear review

Fig 8.2: Percentage of flexible spaces in the overall office portfolio in India (now & two years from now)



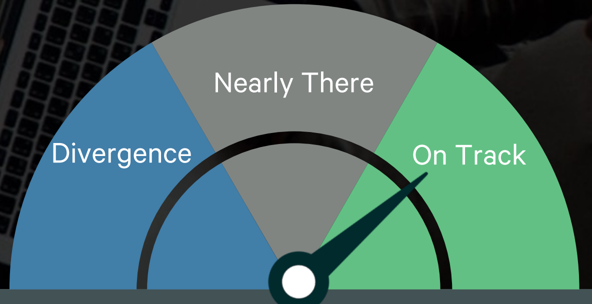
Source: CBRE's 2023 India Office Occupier Survey, Q1 2023; CBRE 2022 India Office Occupier Survey, July 2022; CBRE Research, Q3 2023

Note: These results are limited to those respondents who chose to answer this question and may differ from individual companies on a case-by-case basis due to their scale, type and location of business operations.

FORECAST 1

Flexible spaces' demand drivers to remain intact

Flexible Spaces

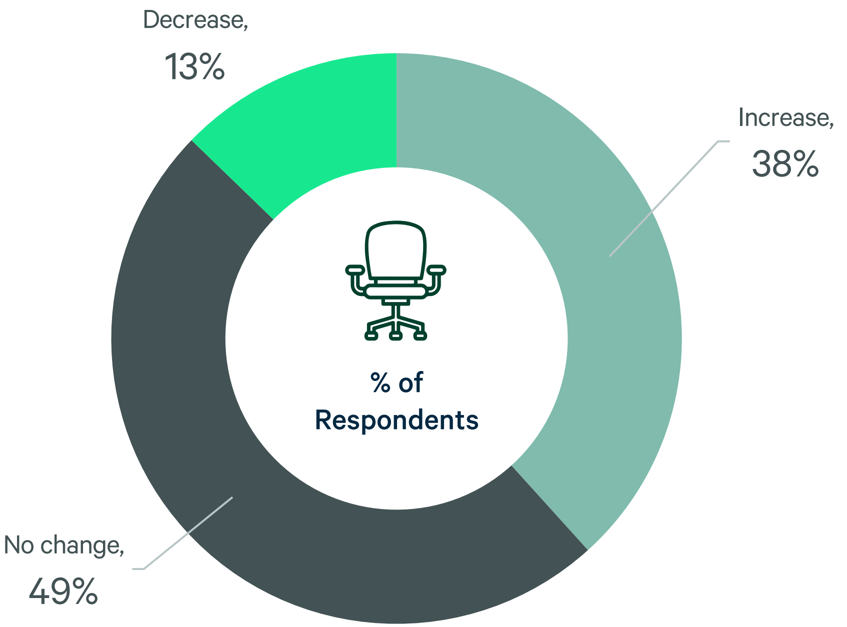


PREDICTO-METER

The need to support hybrid and distributed working would continue to drive demand for flexible spaces in 2023. The flexible space stock is expected to grow from 51 million sq. ft. in 2022 to over 60 million sq. ft. by the end of 2023.

Midyear review

Fig 8.3: Change in the percentage of flexible spaces in the overall office portfolio in India (two years from now)



Source: CBRE's 2023 India Office Occupier Survey, Q1 2023; CBRE 2022 India Office Occupier Survey, July 2022; CBRE Research, Q3 2023

Note: These results are limited to those respondents who chose to answer this question and may differ from individual companies on a case-by-case basis due to their scale, type and location of business operations.

Looking ahead

Increasing the use of flexible spaces is expected to continue being a portfolio strategy for occupiers. CBRE's 2023 India Office Occupier Survey suggests that a major share of respondents are planning to allocate more than 10% of their office portfolios to flexible spaces. This proportion is expected to rise from 43% in Q1 2023 to 56% by 2025. Additionally, 87% of respondents indicated that there would be either no change or an increase in the percentage of flexible spaces in their office portfolios two years from now.

07

ALTERNATE SECTORS:

Life Sciences

FORECAST 1

Steady office absorption by life sciences firms

Life Sciences

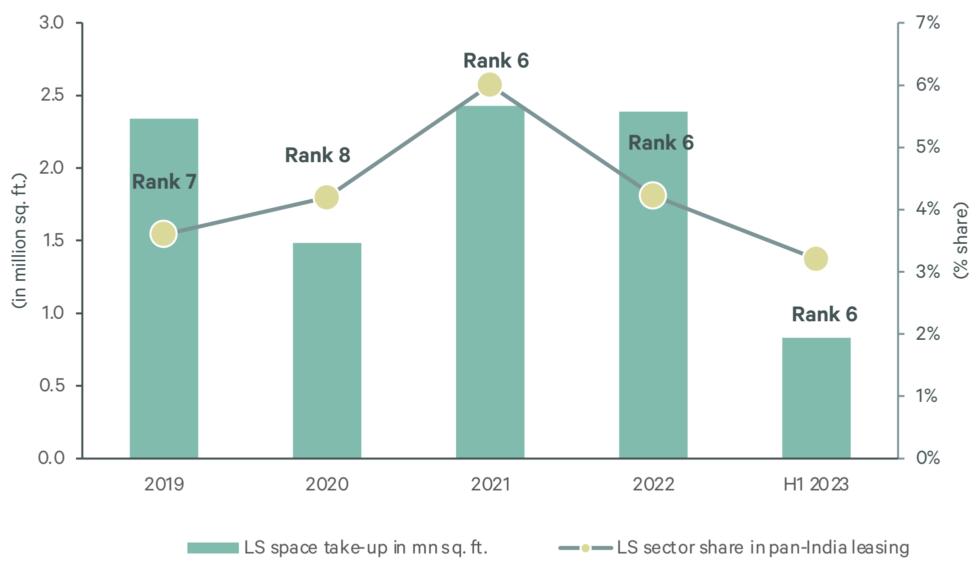
PREDICTO-METER

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

Midyear review

During H1 2023, life sciences firms were the sixth biggest driver of office demand in the country. Global firms continued to lead the absorption in the life sciences sector, accounting for a share of more than 85%. Propelled by the ample availability of skilled talent across the spectrum, presence of a strong technology infrastructure and adequate investment-grade assets replete with relevant amenities, several global firms have opened their global capability centres (GCCs) for research & development and business process management (BPM) services.

Fig 9.1 Annual space take-up by LS companies (2019 - H1 23)



Looking ahead

While the sector is at a nascent stage in India, there is ample opportunity for several states such as Telangana, Karnataka, etc. to earmark parks for life sciences facilities. Buoyed by the increasing government healthcare expenditure and talent availability, global corporates are expected to continue to invest in India for their research & development centres.

FORECAST 2

Life sciences real estate supply to evolve in the future

Life Sciences

PREDICTO-METER

More cluster developments such as life sciences / pharma cities, bulk drug parks, medical devices parks, etc. are expected to develop in the future. 'Flight-to-quality' leasing by occupiers in new-age upcoming and existing life sciences parks is likely to result in vacancies dipping in the medium to long term.

Midyear review

Driven by the ambitious government healthcare support via various central and state level policies, we have witnessed robust development of life sciences clusters across various cities. The Indian pharmaceutical market is estimated to touch USD 130 billion in value by the end of 2030[20].

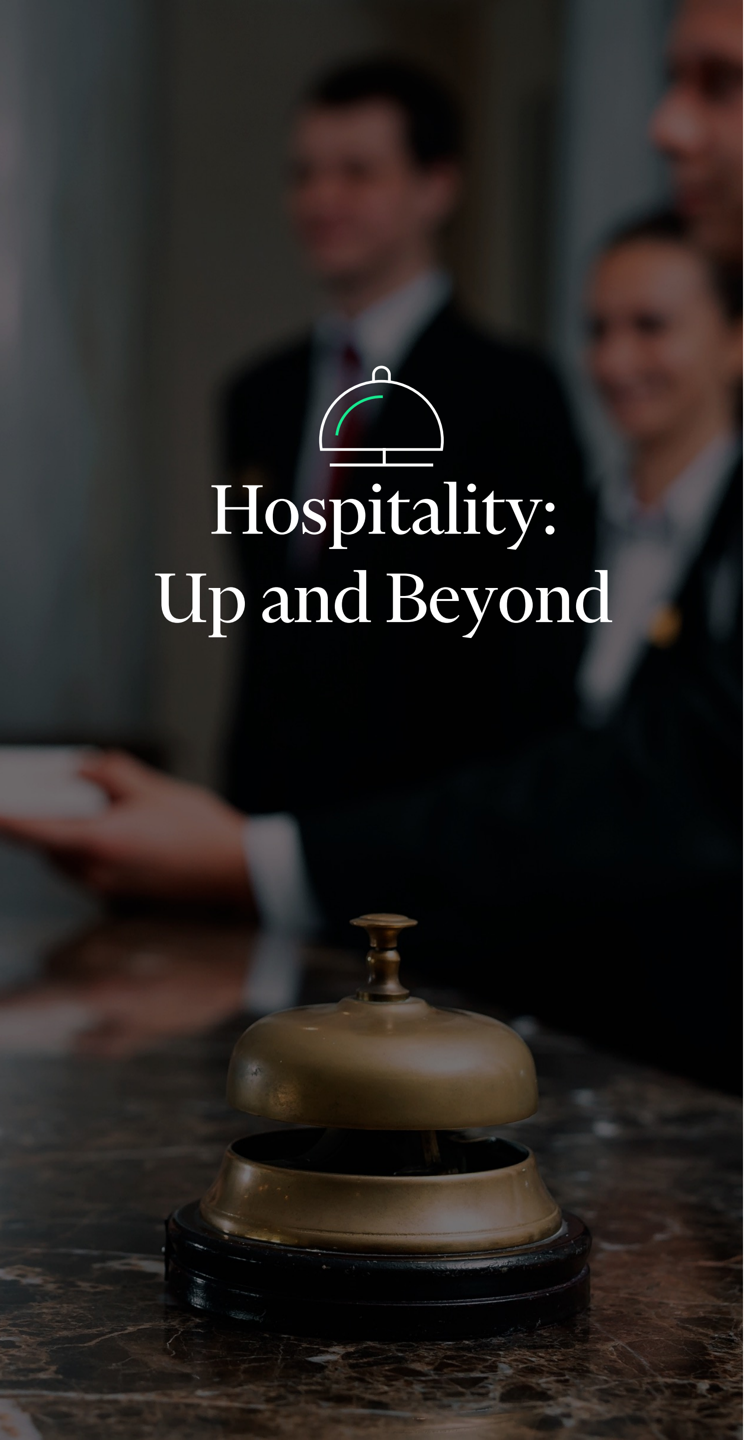
Looking ahead

The life sciences sector in India is expected to continue its growth trajectory in the upcoming years with an increase in cluster developments such as bulk drug parks, medical devices parks and pharma cities. Further, the sector would continue to evolve through leveraging of government incentives, enhanced distribution networks, last mile efficiencies and also via 3PL partnerships to improve supply chain networks.

20. EY-FICCI-Indian Pharmaceuticals Industry 2021: Future and Now, February 2021

08

Hospitality: Up and Beyond

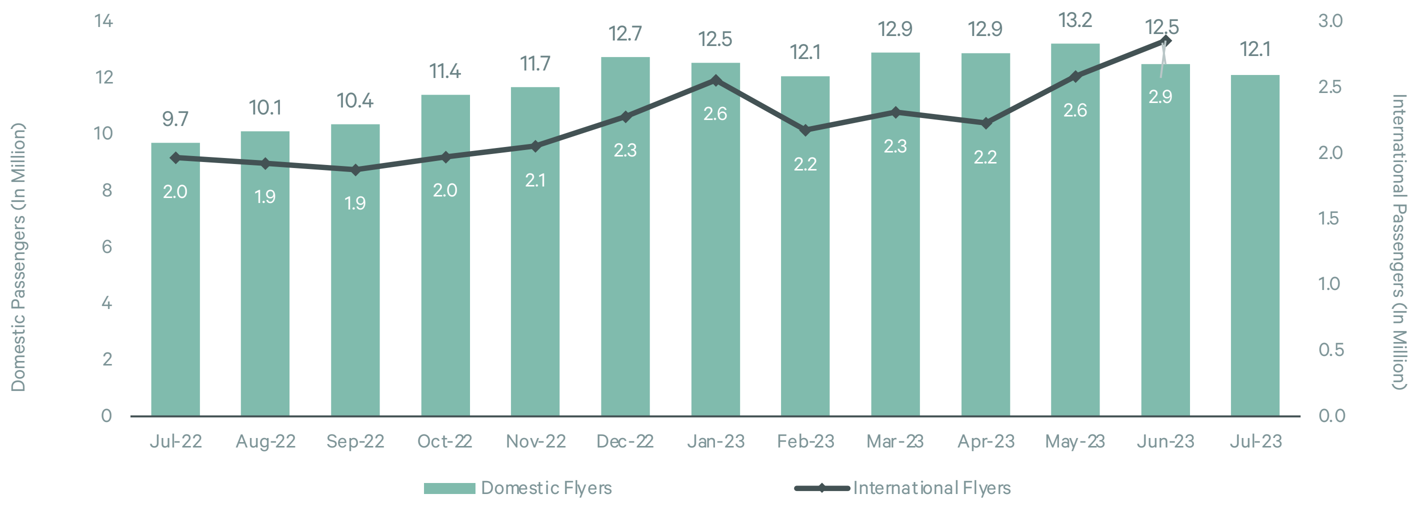


Hospitality: Up and Beyond

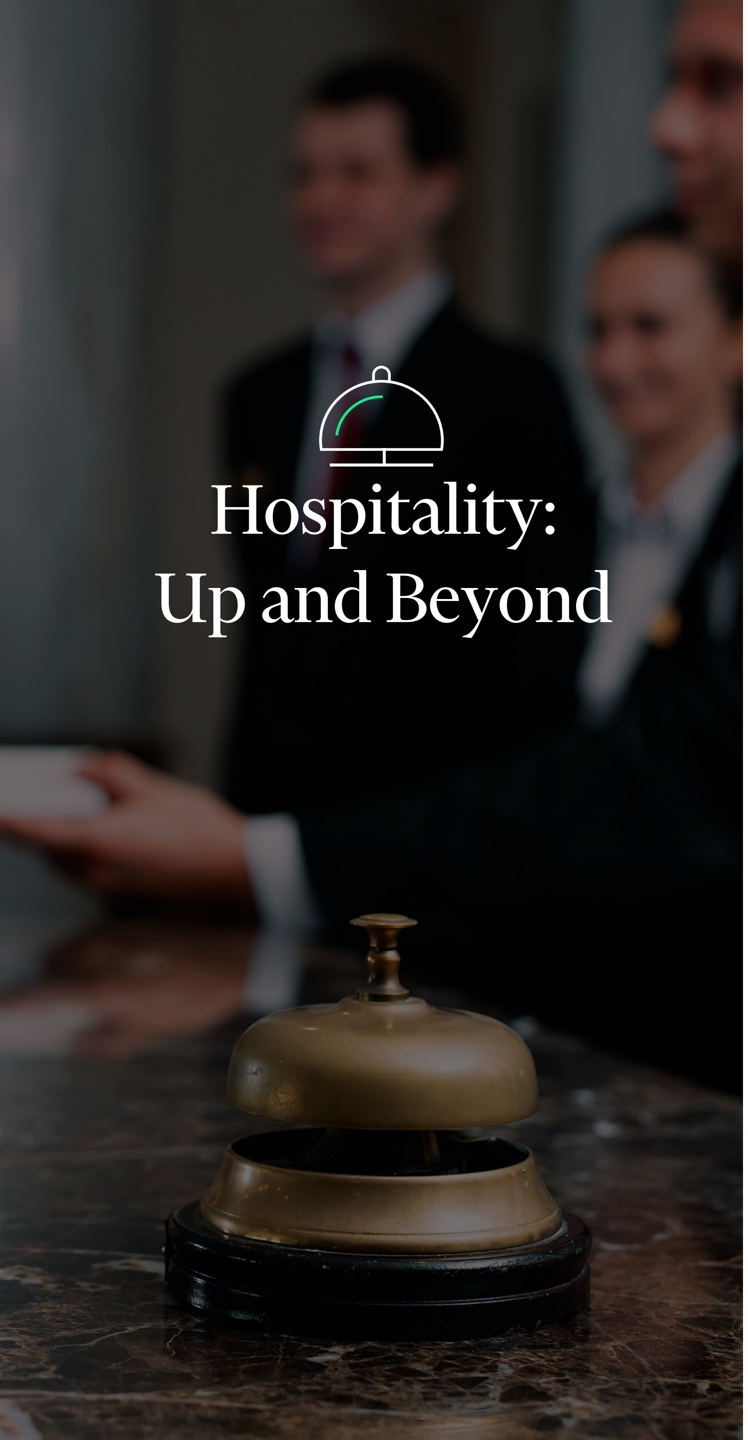
The nearly two-year-long cyclical upswings and downswings of the COVID-19 pandemic and the resulting travel restrictions impacted the hospitality sector in India, probably more severely than any other sector. However, activity started to normalise in 2022 with "revenge travel" emerging as a key trend for most part of 2022.

The year 2023 has been promising till now, and the outlook for the Indian hospitality industry remains positive. Domestic demand will continue to be strong and international travel is also expected to pick up, despite possible economic challenges in the US and Europe. According to the Directorate General of Civil Aviation (DGCA), domestic air traffic registered an annual growth rate of 33% in H1 2023. In addition to the already-concluded G20 Summit, the upcoming P20 summit and the ICC Men's World Cup where India plays host is likely to lead to an increased demand for hotels in the cities where these events will take place.

Fig 10.1 Domestic and international arrivals (India - July 2023)



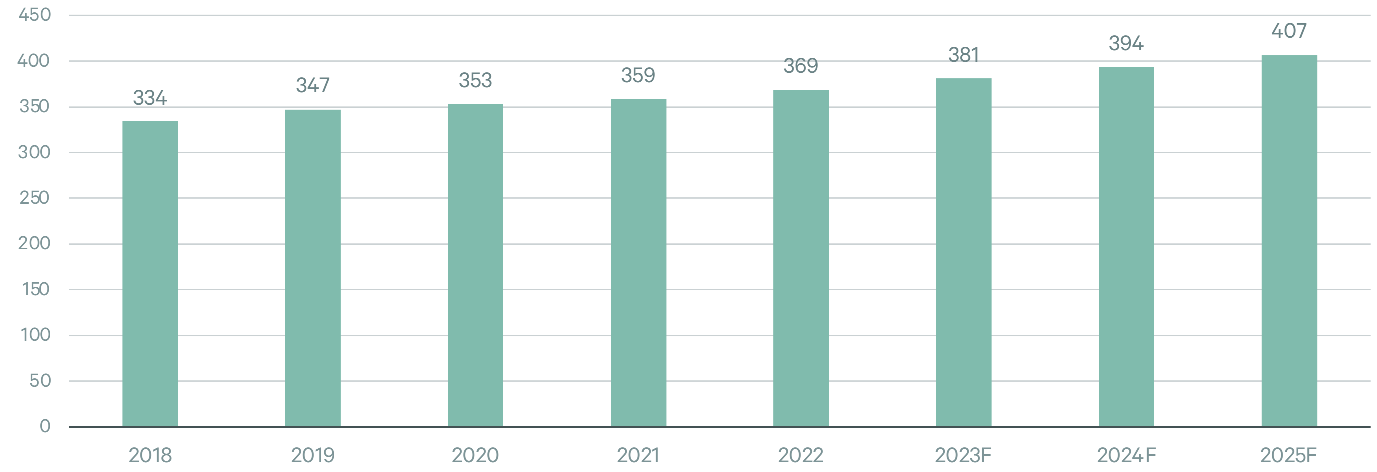
Source: Directorate General of Civil Aviation, India (as of July 2023)



Hospitality: Up and Beyond

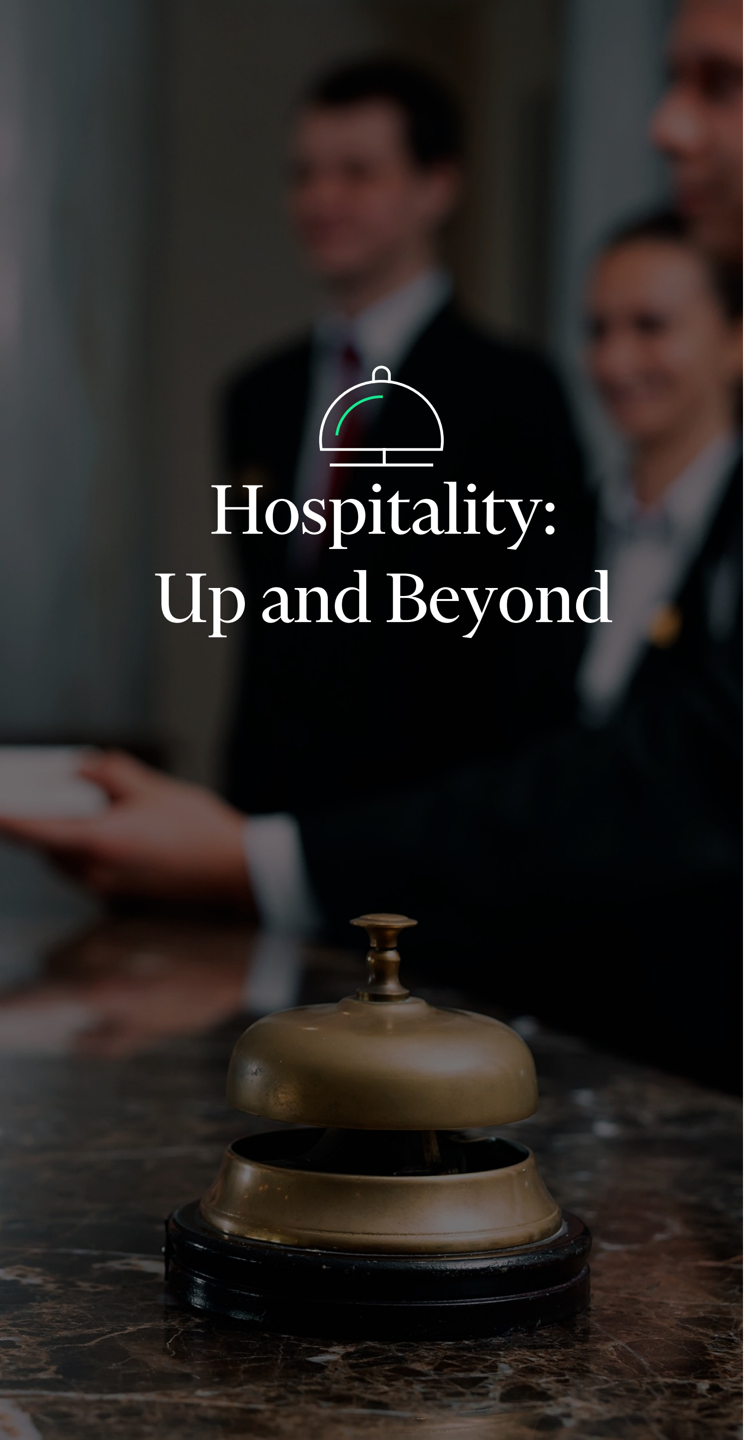
While demand patterns stabilise in 2023 with revenge travel being on the decline, the demand for leisure travel continues to remain strong. Also, as borders reopen for business as usual, the corporate travel segment has continued to grow despite high airfares and high average room rate (ARR's).

Fig 10.2: Number of hotel rooms



Source: *CBRE Research Q1 2023 / STR Global*

Between 2020 and 2022, the number of hotel rooms has grown at a CAGR of 2.2%. We expect this steady growth in supply to continue for the next few years. Although only 12,000 rooms are likely to be added in 2023, we expect the CAGR to rise to ~3.3% by 2025. However, during this period we expect recovery in demand to remain ahead of supply addition, which will auger well for the key metrices of the hotel sector's performance. Also, the demand over the next few years is not expected to remain concentrated across select pockets/cities, but likely to be more equilateral and broad-based.



Hospitality: Up and Beyond

What's driving the hospitality industry?

Flexible/hybrid working snowballed the bleisure travel theme - but with the debate around flexible working being not completely settled, **we expect 'bleisure travel and 'workcations' as concepts to continue remaining relevant.** In fact, as international business travel picks pace, we expect the trend of bleisure only to strengthen. We expect hotels to continue expanding their array of services by including tour packages and pre-planned itineraries for the partners / families of the business traveller.

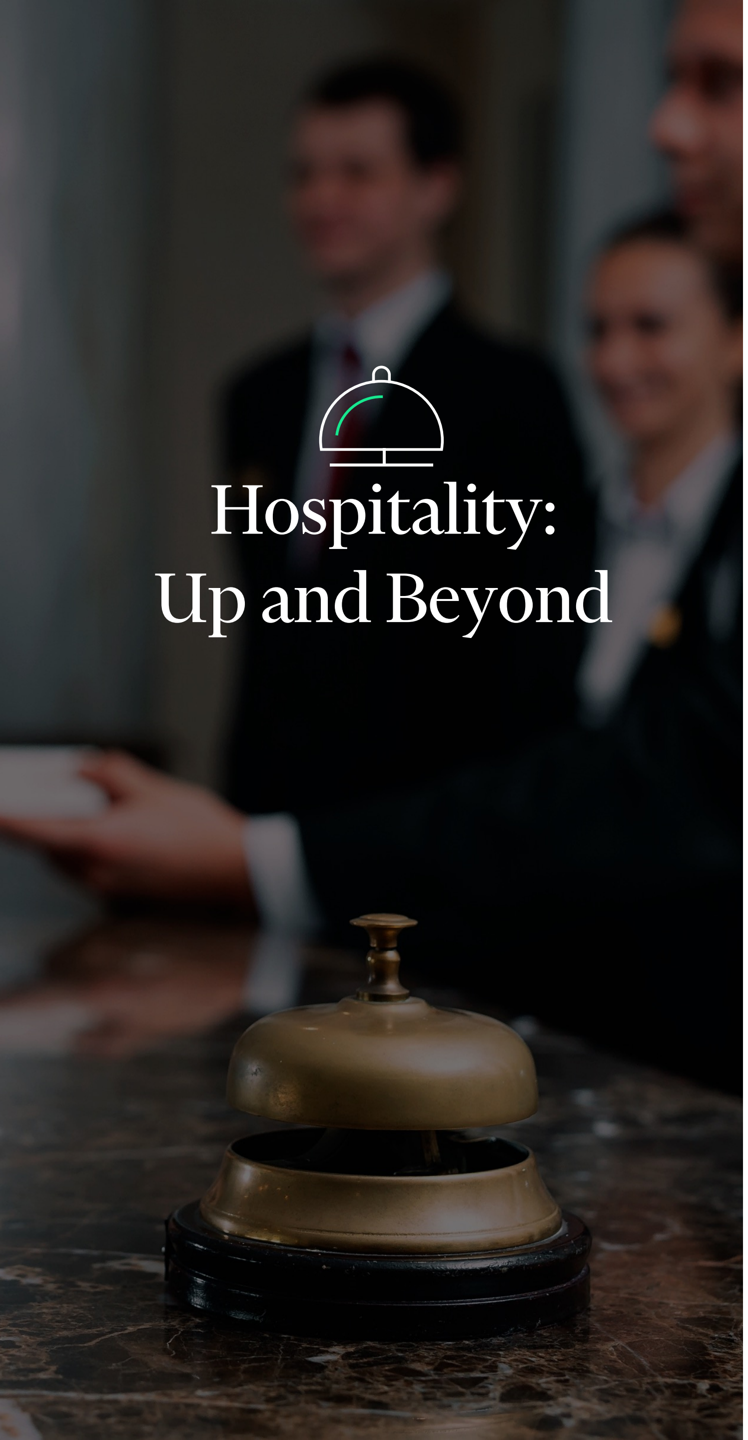
Spiritual/religious tourism has always been a steady income generator for hospitality in India. A survey by ICICI Direct stated that while Varanasi received 7.2 crore tourists in 2022, Goa was at 85 lakh. These trends underline the potential that the hotel industry can unlock in these locations across categories – affordable, mid end and luxury hotels.

Also, the **gamut of spiritual/religious tourism is expanding to include wellness and wellbeing** – with the younger generation being particularly inclined towards wellness tourism. **According to the 2023 travel predictions by global online travel agency Booking.com, 70% of Indian travellers are seeking vacations that "recentre the mind, allow for meditation and mindfulness getaways".**

Leading chains have already started to tap into the changing aspirations of religious/spiritual tourists, most of who now seek clean, hygienic, and family-friendly accommodations for which they are ready to pay a premium. Also, we expect more traction on new age wellness resorts that will cater to all age groups with highlights such as healthy menus and activities such as yoga, meditation and holistic wellbeing amongst others.

Sustainability is another trend that we expect will accelerate in the coming years. As a starting point, the government of India has already come out with a National strategy for Sustainable tourism in 2022 which highlights the role that the central, state and other nodal agencies / ministries will play in reducing the carbon footprint of the tourism sector while aligning with the SDG goals. Also, in September 2023, the Ministry of Tourism collaborated with the United Nations World Tourism Organization (UNWTO), to launch the G20 Tourism and SDG Dashboard. The G20 Tourism and SDG Dashboard consolidates the roadmap, survey results, case studies, and best practices from G20 countries.

As regulations become stringent and country level SDG goals comes into focus, we expect hospitality players to accelerate their ESG journeys. While most leading players are already taking steps such as removing single use plastic, recyclable packaging, LED lighting and reducing water usage, however **we expect the steps to get more defined going forward.** Use of renewable energy, prioritising local food produce, installing on -site water bottling plants, local recruitment, amongst others. **From a real estate perspective,** incorporating green construction materials, reuse of materials while renovations and opting for green building certifications can mean that hospitality players are environmentally conscious from the start of the project lifecycle.

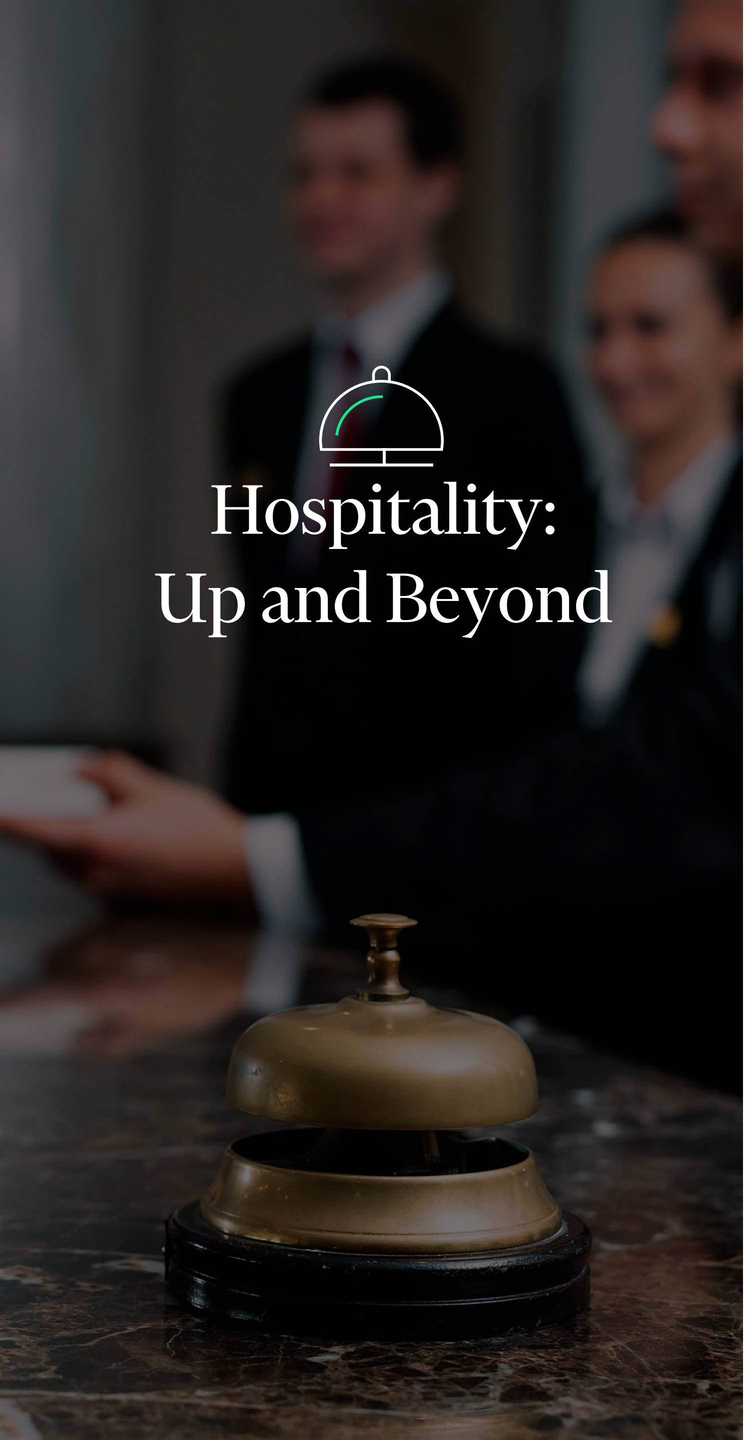


Expansion spree to continue

Riding on the market momentum, leading hotel chains have announced significant expansion plans. Below are some of the key announcements that hotel chains have made in 2023 on their openings/expansion plan in India over the next couple of years:

Hotels	Current number of Hotels in India	Hotels signed/added in 2023	Future Plans
Hyatt	40+	10 hotels to be added, targeting total number of hotels to be at 50	Targeted number of hotels by year 2028: 100
Accor Group	55+	**6 hotels to be added by year end:** • Opened three hotels: ○ IBIS in Thane ○ Novotel in Jodhpur ○ Novotel in Mumbai • Three upcoming hotels: ○ IBIS in Wagator Goa ○ Novotel in Jaipur ○ Grand Mercure in Agra	Accor group's brand Fairmont to open additional hotels in Udaipur, Mumbai and Shimla by end of 2024
		Signed new property of Fairmont Hotels & Resorts in Agra, to be operational by 2025	
ITC	115+	Signed three properties under brand Storii in Goa, Himachal Pradesh and Uttar Pradesh	Newer properties at Goa, Manali, and Prayagraj would be looking for growth and expansion in coming years
Hilton Group	20+	Hilton and the Dangayach Group to sign the launch of Waldorf Astoria Jaipur	13 hotels under construction; plan to have 75 hotels by 2026

Source: *Annual reports, media articles and CBRE Research Q3 2023*



Hospitality: Up and Beyond

Hotels	Current number of Hotels in India	Hotels signed/added in 2023	Future Plans
Radisson Hotel Group	150+	Launched brand Radisson Collection brand in India by signing Radisson Collection hotel in Hyderabad, which would be operational by 2026.	**Upcoming Hotels:** • Radisson Blu Resort Hyderabad Chevella by 2026. • Radisson Hotel Sonamarg by 2024. • Radisson Hotel Ujjain by Q1 2026. • Radisson Hotel Raipur by Q4 2025. • Radisson Hotel Visakhapatnam by Q2 2026.

What to watch out for?

- As the market is witnessing a boom, there is also a **supply-demand gap from a skilled workforce perspective.** Most leading chains are trying to address this gap by either hiring from relevant, alternate fields such as retail or are investing in their own skill centres to upskill employees.
- **Technology** as a macro trend has already begun to permeate in this segment. It is currently operating at two levels – digitalization of the guest experience by way of automated hotel processes for activities such as check-in / check-out; and digitalization of background processes for jobs such as hotel management and room bookings. This is especially relevant as the industry faces a workforce challenge.
- Currently, **ownership and management contracts** are a more popular business model in India. However, as the country's hotel market is witnessing a boom, brands are now considering deploying the **franchising business model** as it allows for rapid expansion. Several international and Indian-origin brands are now exploring opportunities in franchising across positioning and brands. This trend accelerated in the aftermath of COVID-19 in India after travellers sought trusted brands as they started travelling again.

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Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering Industry, Government and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, with around 9,000 members from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from 286 national and regional sectoral industry bodies.

For more than 125 years, CII has been engaged in shaping India's development journey and works proactively on transforming Indian Industry's engagement in national development. CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, livelihoods, diversity management, skill development, empowerment of women, and sustainable development, to name a few.

As India strategizes for the next 25 years to India@100, Indian industry must scale the competitiveness ladder to drive growth. It must also internalize the tenets of sustainability and climate action and accelerate its globalisation journey for leadership in a changing world. The role played by Indian industry will be central to the country's progress and success as a nation. CII, with the Theme for 2023-24 as 'Towards a Competitive and Sustainable India@100: Growth, Inclusiveness, Globalisation, Building Trust' has prioritized 6 action themes that will catalyze the journey of the country towards the vision of India@100.

With 65 offices, including 10 Centres of Excellence, in India, and 8 overseas offices in Australia, Egypt, Germany, Indonesia, Singapore, UAE, UK, and USA, as well as institutional partnerships with 350 counterpart organizations in 133 countries, CII serves as a reference point for Indian industry and the international business community.

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CBRE was the first International Property Consultancy to set up an office in India in 1994. Since then, the operations have grown to include more than 11,000 professionals across 15 offices with a presence in over 80 cities in India. As a leading international property consultancy, CBRE provides clients with a wide range of real estate solutions, including Strategic Consulting, Valuations/Appraisals, Capital Markets, Advisory & Transactions, Global Workplace Solutions & Property Management and Project Management. The guiding principle at CBRE is to provide strategic solutions that make real estate holdings more productive and economically efficient for its clients across all service lines. Please visit our website at **www.cbre.co.in**

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