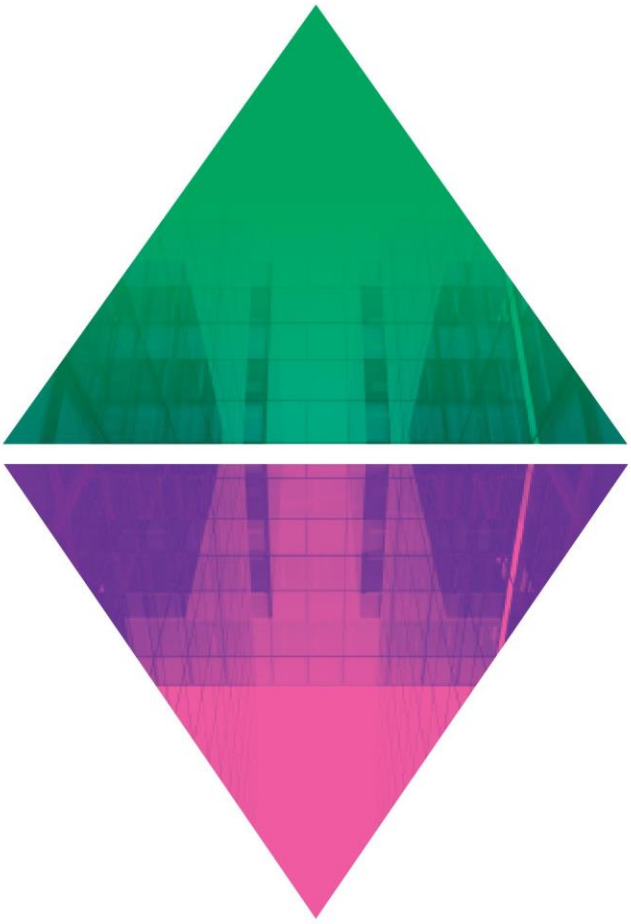


REAL ESTATE MARKET

OUTLOOK 2019

INDIA

CBRE

TABLE OF CONTENT

04 EXECUTIVE SUMMARY

05 ECONOMIC OUTLOOK

13 OFFICE SECTOR

21 RETAIL SECTOR

28 LOGISTICS SECTOR

35 CAPITAL MARKETS

41 RESIDENTIAL SECTOR

ASIA PACIFIC REAL ESTATE MARKET OUTLOOK 2019

CHANGE TO BECOME A NEW NORM

INDIA

General election on the horizon

OFFICE

Evolving landlord occupier relationships to be the enablers of change

Workplace transformation will continue to evolve **from experimentation to mainstream**

Tech to put people **at the centre of the workplace**

Location is no longer everything - **mobility is rewriting office demand**

Core + Flexi workplace strategies to increase RE agility

RETAIL

Despite tightening of FDI norms, omnichannel to continue to reinvent retail formats

Demand diversification across brand categories to refine brand mix

Rising consumer expenditure on experiences to fuel experiential retail

Seamless integration of retail platforms to boost omnichannel expansions

LOGISTICS

Strong demand, policy reformation and growing investor appetite to drive growth

Logistics supply chain to improve on the back of infrastructure creation

Despite policy tightening on FDI, **e-commerce expected to hold strength**

Consolidation among domestic and global players to deliver quality supply in the segment

Use of automation and AI to improve efficiencies

CAPITAL MARKETS

Greater due diligence to be the norm

NBFC consolidation imminent, due diligence to come into sharper focus

Core assets to have greater investor interest, appetite for equity as a source of funding likely to improve

Real Estate Investment Trusts (REITs) to formalize the funding mechanisms

RESIDENTIAL

Dynamics to continue to improve post structural policy reforms

Backed by government initiatives, **affordable and mid-end housing to lead demand**

Alternate asset classes such as co-living, student and senior housing to emerge

Quality supply infusion expected, **unsold inventory set to decline**

Consolidation and formalisation of the sector expected; delivery capabilities and balance sheets of developers to come into sharper focus

CBRE RESEARCH
This report was prepared by the CBRE Asia Pacific 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

2019: CHANGE TO BECOME A NEW NORM

India's economic growth forecast continued to move upwards to 7.5%[1] in January 2019 ensuring that it remains the world's fastest growing major economy. According to the Reserve Bank of India (RBI), crude oil prices and unpredictable global financial markets are expected to have a bearing on India's retail inflation. Policy reforms across various sectors in 2018 led to a tremendous improvement in India's Ease of Doing Business Ranking. According to the World Bank, India ranks at 77 and the ranking is anticipated to improve further in the coming years backed by progressive government policies.

As supply addition for the office segment increased in 2018, demand also rose substantially, surpassing last year's absorption as space take-up crossed 47 million sq. ft. Leasing activity continued to be dominated by Bangalore, NCR and Hyderabad. Growth is expected to continue in 2019 as well where demand and supply will be focused across major cities. Tech is expected to shape office demand in a huge way with occupiers adopting workplace strategies to realign their portfolios. The approaching date of the sunset clause is anticipated to further propel occupier demand in the SEZ segment. Office demand is expected to advance across most sectors in 2019, including flexible spaces. The changing nature of jobs and increased interest from global as well as domestic firms will be the key catalysts for growth in the office segment.

Retail demand saw a healthy mix across brand categories, further strengthened by the completion of nearly 5.1 million sq. ft. of investment grade supply in 2018. Southern cities of Hyderabad, Chennai, Bangalore led this supply addition. Although the recent clarification of FDI rules for the e-commerce segment may be a dampener for online sales, omnichannel retailing will continue to redefine retail formats in 2019. Consequently, 'click-and-brick' enterprises will remain popular among buyers. Expansion by domestic and international brands across tier II and tier III cities is anticipated to rise with retailers adapting to the consumer base in these cities. In a bid to enhance consumer experience, developers and retailers are likely to embrace new trends such as experiential retail, concept stores and retailtainment.

The logistics sector picked up tremendously after the implementation of Goods and Service Tax (GST) and granting of 'infrastructure status'. Absorption reached an all-time high of nearly 24 million sq. ft. in 2018. Cities such as Mumbai, NCR and Bangalore were the primary demand drivers, closely followed by Chennai and Hyderabad. Although quality supply has remained a prime concern across this segment, the situation is expected to improve in 2019 as prominent developers continue to acquire land assets and partner with international players to develop world-class warehousing facilities. The government's push to bolster growth in this sector through the implementation of favourable policies has garnered tremendous attention from international players and foreign investors. This trend is likely to continue in 2019 with sizeable private equity investments expected across major cities.

As the after-effects of the implementation of Real Estate (Regulation and Development) Act (RERA) and GST slowly faded, residential demand and supply inched upwards in 2018. The residential segment was also backed by several government initiatives to promote affordable housing, leading to a marginal increase in supply across this segment. As quality supply and credible developers are establishing their foothold in the market, share of unsold inventory is expected to decline further. Recently, the Non-Banking Financial Company (NBFC) sector - the major source of funding for many developers was hit by a liquidity crunch. Although, this may lead to liquidity issues for a few developers, alternate sources of funding are also expected to emerge in 2019.

With a large number of global and domestic institutional investors, India is inching closer towards becoming an organized market. Nearly USD 4.7 billion of investments were witnessed in the real estate sector in 2018, primarily in the office and retail sectors. Share of land deals increased in 2018 and land assets will continue to witness further traction in 2019 as well. Investment across greenfield projects is expected to rise especially in the retail and logistics sectors, as availability of investible developed assets remains a concern. Although the liquidity crunch faced by NBFCs is expected to lead to greater due diligence while lending, consolidation across NBFCs is expected to result in the availability of quality capital. The long-awaited listing of India's first REIT in March 2019 is expected to pave the way forward for several retail / institutional investors.

[1]International Monetary Fund (IMF)

ECONOMIC OUTLOOK

GDP GROWTH TO CONTINUE

GDP GROWTH TO CONTINUE

FACTORS THAT WILL SHAPE THE INDIAN ECONOMY IN 2019

Global economy headwinds

As we proceed further into 2019, a degree of uncertainty clouds the economic outlook, however growth and confidence are expected to pick up during the year. China, the world's second largest economy, slowed in the second half of 2018, which was a contributor to the weak performance of global stock markets over the year. Financial conditions in the US also tightened in 2018, not through the channel of 10-year treasury rates, but via rising spreads of corporate debt, higher value of the dollar, and falling equity prices in the final quarter of 2018. We expect this financial tightening to reduce US GDP growth in 2019 to 2.4% from 2.9% in 2018.

Slower US growth in 2019 will have a positive side as well. It will ease pressure on the tight labour market, keeping inflation down. It will also ease the Fed's need to increase short-term rates, which will take off some upward pressure of the dollar – providing some relief to emerging markets and US exporters. Finally, as a 2020 US election is in the offing it may also motivate politicians to reach a deal with China on trade.

China at its end, is already deploying extra fiscal stimulus to boost its economy, as the government seeks to boost consumer spending while reducing reliance on exports and leveraged fixed capital investment for GDP growth. Growth is also expected to pick up in Europe, and upside potential for the euro area economy in 2019 include lower oil prices, a bounce back of the German economy, increased government spending in many European countries and a Brexit compromise (in all likelihood leading to an orderly exit of UK from the EU).

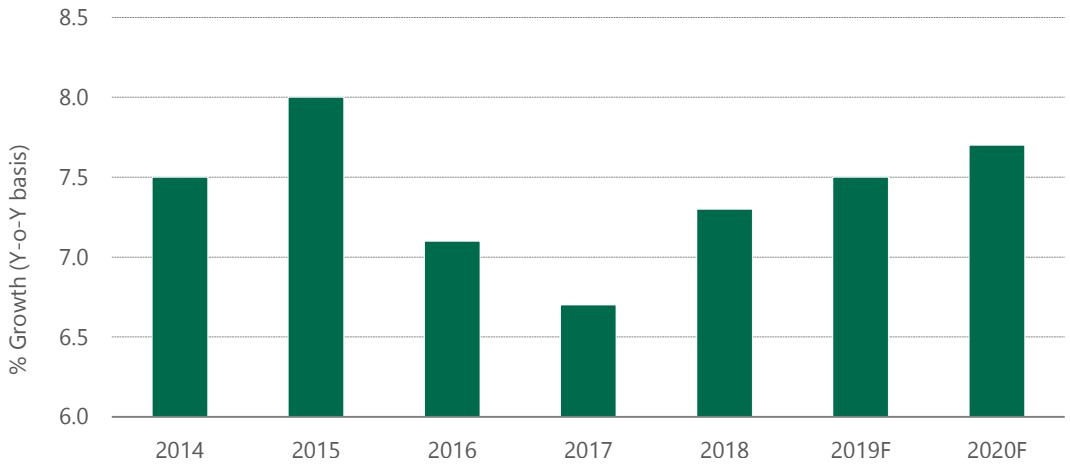
GDP GROWTH TO CONTINUE

India growth story

India's GDP growth moderated in the quarter ending December 2018, touching 6.6%, as compared with 7% in the previous quarter, due to weaker consumption and liquidity constraints, fuelled by the NBFC liquidity crunch which emerged towards the end of 2018. Still, the GDP growth outpaced neighbouring China's 6.4% growth in the same period, with India retaining the status of the world's fastest growing major economy. Also, while the country progresses into the election season in mid-2019, the recent escalation of tensions between India and Pakistan and the response around the escalation might have put the current government on a steady path of re-election. This could spell positive news for the equity market and investment inflows.

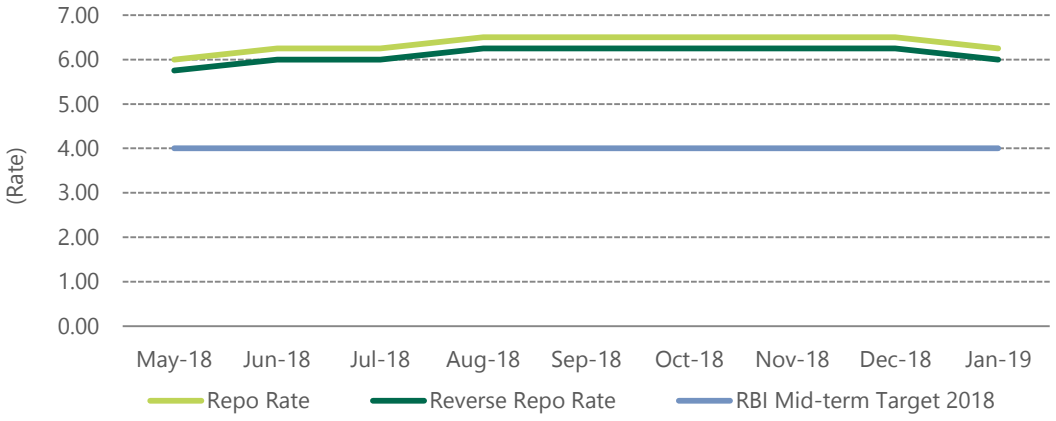
In October 2018, the International Monetary Fund (IMF) had reduced India's GDP growth forecast to 7.4% for 2019 compared to the previous forecast of 7.5%. This was largely due to a volatile global economic backdrop. However, in January 2019, India's growth forecast for 2019 has been revised upwards to 7.5%, even as it cut the same for the global economy by 0.2% at 3.5 per cent for 2019 (Figure 1-1). This will ensure that India remains the world's fastest growing major economy. The IMF's database also suggested that India's contribution to world growth has increased from 7.6% during 2000-2008 to 14.5% in 2018.

Figure 1-1: GDP growth rate



Source: IMF, January 2019

Figure 1-2: Key interest rates



Source: Database of Indian Economy, Reserve Bank of India (DBIE - RBI), January 2019

GDP GROWTH TO CONTINUE

Interest Rates and Inflation

In the wake of the continued drop in inflation and improvement in domestic macro-economic sentiments (despite growing global trade protectionism and an uneven growth outlook), the RBI maintained the repo rate stable in the last quarter of 2018, while opting for a rate cut in February 2019, the first since August 2017 (Figure 1-2). Also, the Monetary Policy Committee (MPC) decided to change the monetary policy stance from calibrated tightening to neutral keeping in mind the medium-term target for CPI of 4% within a band of + / - 2%, while supporting growth. As core inflation (excluding fuel and food prices) which in the past was sticky, has also started to ease; hence there is expectation of another rate cut in April 2019.

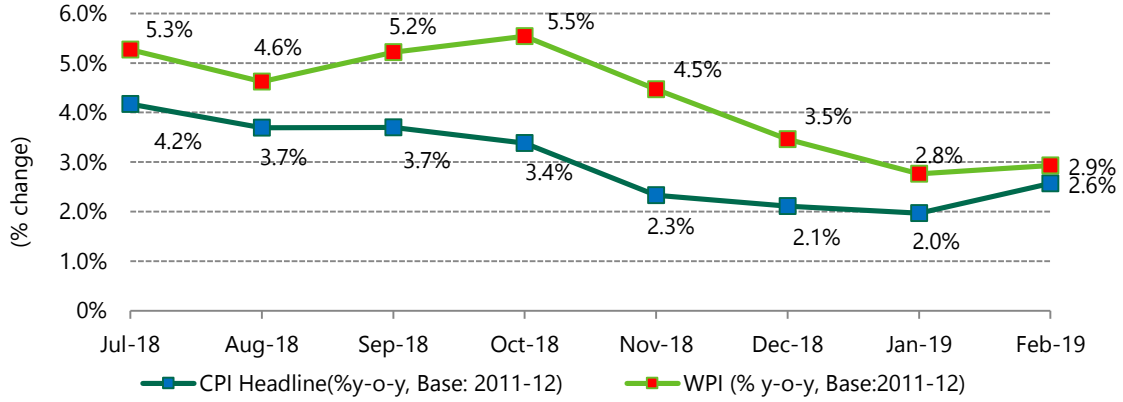
According to the RBI, India's inflation outlook will be shaped by multiple factors, including softening crude oil prices, and the volatile international financial markets. Inflation is likely to edge over 4% in the second half of the next fiscal year (we have already seen an uptick in inflation, moving from 2.0% in January 2019 to 2.6% in February) and there are various upside risks from volatility in food and fuel prices, monsoon uncertainty, possible fiscal slippages and high core inflation. Against this backdrop, it is unlikely that the Central Bank will be very aggressive in cutting rates (Figure 1-4).

Figure 1-3: 2019 Summary of expected global fiscal and monetary policies

G7 & BRIC's	2019 GDP Growth (F)	2019 CPI Inflation (F)	Fiscal Policy	Monetary Policy Ahead	Monitary Policy now
CANADA	1.4%	2.2%	Contractionary ▼	Tightening	Neutral
FRANCE	1.5%	1.0%	Expansionary ▲	Tightening	Easy
GERMANY	1.2%	1.5%	Expansionary ▲	Tightening	Easy
JAPAN	0.8%	1.1%	Contractionary ▼	Tightening	Easy
ITALY	0.2%	0.7%	Expansionary ▲	Tightening	Easy
UK	1.5%	2.2%	Contractionary ▼	Tightening	Easy
US	2.4%	1.9%	Expansionary ▲	Tightening	Neutral
BRAZIL	2.0%	3.5%	Contractionary ▼	Tightening	Tight
CHINA	6.0%	2.1%	Expansionary ▲	Tightening	Neutral
INDIA	**7.2%**	**4.0%**	**Contractionary ▼**	**Easing**	**Tight**
RUSSIA	1.0%	5.1%	Contractionary ▼	Tightening	Tight
Global	2.6%	3.3%	Mid Expansionary ▲	Tightening	Mid Easy

Source: Oxford Economics, CBRE Research, Q4 2018

Figure 1-4: Consumer Price Index (CPI) and Wholesale Price Index (WPI) movement



Source: Office of the Economic Advisor, October 2018; DBIE -RBI, December 2018; *Provisional numbers

GDP GROWTH TO CONTINUE

The twin deficits – Current and Fiscal

A fiscal deficit occurs when a government's total expenditures exceed the revenue that it generates, excluding money from borrowings. India has set a target of fiscal deficit at 3.4% of GDP in 2019-20, however it is likely to face challenges in meeting this target because of higher spending and lower revenue growth. The 3.4% fiscal deficit target is wider than expected, largely driven by increased spending to provide income support to small farmers and tax rebates ahead of the general elections in April-May this year. In order to ensure that the fiscal target is met, the government is trying to tap every source of revenue that it can. For instance, the Reserve Bank of India transferred INR 28,000 crore as dividend to the government in early 2019. The Securities and Exchange Board of India (SEBI) is also likely to transfer a large portion of its surpluses to the government.

For next year, deviating from the path laid down in the Fiscal Responsibility and Budget Management (FRBM) Act; the government has pegged the fiscal deficit at 3.4% of GDP, as against the original target of 3.1%. However, as per the IMF, greater efforts will be needed to reduce India's fiscal deficit as the interim budget envisages a slower pace of fiscal consolidation than previously planned, thereby delaying the time to reach the medium-term central-government debt target of 40% of GDP. To ensure that the debt target is met by 2025, further steps to increase GST compliance will be critical to reach budgeted revenue goals.

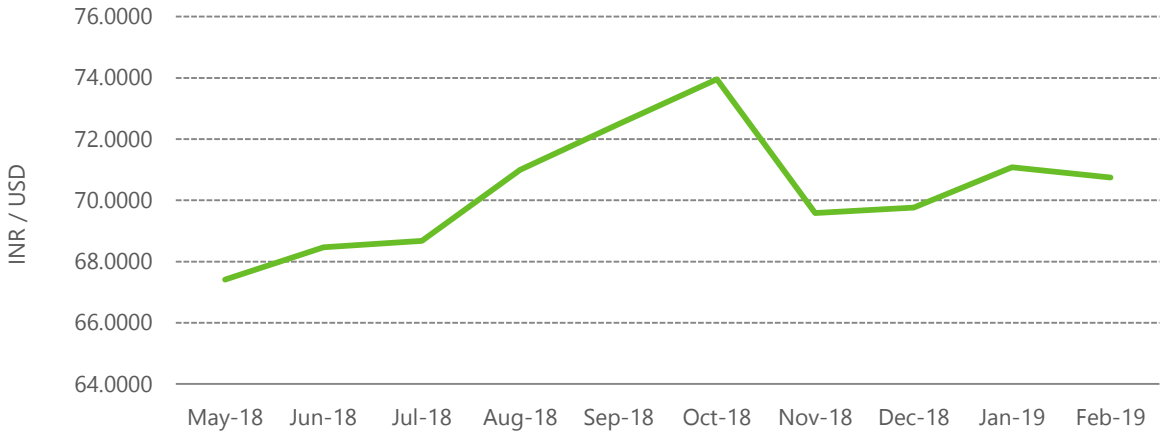
For India, the value of the rupee as well as crude oil and gold imports are major factors which affect current account deficit (CAD). Given that fuel imports constitute a larger share of India's imports compared with other emerging markets, India is especially vulnerable to an oil price hike, which, apart from raising the twin deficits, would also feed into inflation.

Movement of the rupee against the dollar also has an impact on the CAD levels and a rupee deprecation results in more expensive inward-shipments / imports (Figure 1-5). The government on its part is taking CAD controlling measures such as reviewing mandatory currency hedging for infrastructure, easing rules for manufacturing entities to raise overseas funds, removal of restriction on Indian banks' market making of masala bonds, amongst others.

POLICY STIMULUS

Various policy measures were undertaken in 2018, most of which were follow ups to measures already undertaken in 2017, to ensure that the full intended benefit of these measures was achieved. The first two months of 2019 have also been fairly active and saw revisions in several policy initiatives as the government focused on meeting end-user and industry expectations. The table that follows highlights the key policy reforms undertaken by the government in recent times.

Figure 1-5: INR versus USD – exchange rate movement



Source: Bloomberg

Table 1-1: Policy Initiatives

Policy Initiatives	Key Highlights	Expected Impact
REIT	By 2018, almost all concerns regarding the viability of a REIT launch had been addressed, making it an opportune time for a REIT listing.	In Q1 2019, Embassy Group and Blackstone Group LP launched the country's first REIT, which was oversubscribed on listing. This is a critical step towards formalising the funding mechanisms prevalent in the sector.
FDI in e-commerce, draft e-commerce policy	Towards the end of December 2018, the government came out with clarifications on the existing FDI policy on e-commerce. Two key points that were enlisted in the clarifications were: • To keep a tab on inventory ownership, it has been mandated that an e-commerce platform cannot purchase more than 25% of the total value of goods (of the vendor) from a single vendor / its group of companies. In other words, a vendor can only sell 25% of its total goods by value to a single e-commerce player. • Any entity that has an equity participation by an e-commerce player cannot sell its products on the platform that is run by such an e-commerce player. • A draft e-commerce policy was floated In Feb 2019, for industry suggestions wherein special emphasis was laid on data sharing; data has been termed as a 'National Asset' and a legal and technology framework proposed for imposing restrictions on cross-border data flow.	Though the intent of these provisions was to ensure that there are no circumventions around the existing policy (specially to gain entries into multi-brand retail); however, some of these provisions are seemingly restrictive, particularly for foreign players. While existing players might have to redraw their business models / future plans; a constantly changing policy may also impact foreign investor sentiment. To ensure a level playing field, there is a need for a comprehensive e-commerce policy applicable to both foreign and domestic players.
Amendments in RBI's ECB (External Commercial Borrowings) policy	Revisions to the ECB policy were made in January 2019, wherein all eligible borrowers have been allowed to raise up to USD 750 million per financial year under the automatic route, replacing the existing sector-wise limits. The Central Bank has also expanded the list of eligible borrowers and recognised lenders.	The move is likely to improve the Ease of Doing Business ranking. Also, to curb the volatility in the forex market (because of increasing demand for the USD for crude oil purchases), the revised norms provide special allowances to public sector oil marketing companies.
GST rate cuts change in definition of affordable housing	GST Rates - Non-Affordable Housing • 5% on under-construction properties with no input tax credit (ITC), no GST on completed projects GST Rates - Affordable Housing • 1% on under-construction property with no ITC, no GST on completed projects	Having a standard tax will allow for simplicity in compliance processes and should result in limited tax leakages. There could be an increase in cost due to no ITC for developers (particularly for affordable housing projects), however this could be offset by an increase in sales volume.

Source: Securities and Exchange Board of India; Reserve Bank of India, DIPP, CBRE Research

Some risks remain

While most policy initiatives have been taken with the intent to boost consumer sentiments and attract investments, however certain policies appear restrictive, especially policies that target the e-commerce sector. With the new draft policy that was released in February 2019, the focus is not only on trade but also places restrictions on cross-border flow of data; local presence and taxability of foreign entities, the digital infrastructure for e-commerce, amongst others. While today, e-commerce accounts for only 2-3% of the total retail trade in India; but as is true in economies across the globe; it will gain traction in the coming years. Hence, rather than

Table 1-1: Policy Initiatives (Continued)

Policy Initiatives	Key Highlights	Expected Impact
Affordable Housing	Change in definition of affordable housing: • 60 sq. m. in metropolitan cities (NCR including Delhi, Noida, Greater Noida, Ghaziabad, Gurgaon and Faridabad), Bangalore, Mumbai – MMR region, Chennai, Hyderabad and Kolkata) having value up to INR 4.5 million • 90 sq. m. in non-metropolitan cities / towns with value up to INR 4.5 million.	Relaxing the carpet area for affordable housing means that a significant majority of the country's residential stock now falls in the 1% GST category (higher in tier II cities, lower for the major tier I cities), which will augur well for the government's programme of building housing for all by 2022.
Angel tax	• The government shall now consider an entity as a start-up for up to 10 years after its incorporation as compared to 7 years earlier, provided its turnover for any one financial year has not exceeded INR 1 billion. • Start-ups can apply for an exemption from angel tax if their paid-up share capital is up to INR 0.25 billion, compared to INR 0.1 billion earlier.	Widening the definition of start-ups (which now includes later stage companies, with a higher annual turnover), increasing the exemption limit on equity investments will give the much-needed boost to mid-sized start-ups. The earlier regime has numerous redundancies, stretched timelines, and red-tapism due to the procedures, which will now be reduced. It will provide a conducive environment and enable quick processes.
100% risk weights removed for Non Banking Financial Companies (NBFCs)	In Feb 2019, the central bank announced that NBFCs' risk weights will now be as per their rating, which is a positive development for higher-rated NBFCs. Also, various categories of NBFCs have evolved over time pertaining to specific sector / asset classes - at present there are twelve such categories. However, it has now been decided to harmonize major categories of NBFCs engaged in credit intermediation, viz., asset finance companies, loan companies, and investment companies, into a single category.	The proposed merger of existing categories would reduce, to a large extent the complexities arising from multiple categories and also provide NBFCs greater flexibility in their operations.
Foreign Portfolio Investors (FPI) restrictions	The central bank announced the removal of FPI restrictions in corporate debt. As a part of the review of the FPI investment in corporate debt undertaken in April 2018, it was stipulated that no FPI shall have an exposure of more than 20% of its corporate bond portfolio to a single corporate (including exposure to entities related to the corporate). The RBI announced in Feb 2019 that the provision stands withdrawn.	While the provision was aimed at incentivizing FPIs to maintain a portfolio of assets, however it was seeming that FPIs have been constrained by this stipulation. The removal of restrictions on FPI will encourage a wider spectrum of investors to access the Indian corporate debt market.

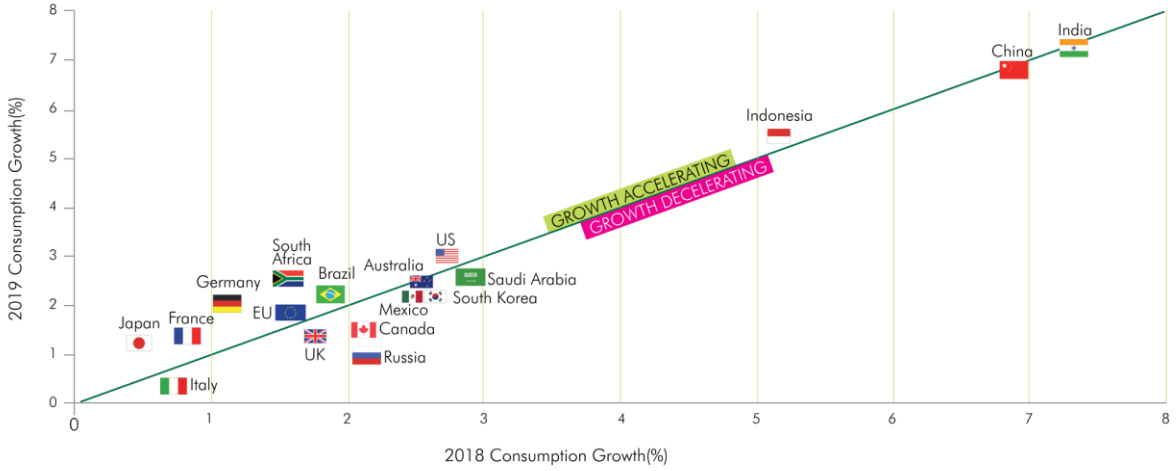
only creating an environment of protecting small / medium scale players, the government needs to prepare these players to embrace the reality of e-commerce. Also, rather than restricting foreign players in the sector, the government needs to formulate rules that encourage the Indian start-up ecosystem via tax incentives and friendly equity investment rules. These foreign players need to be seen in a more holistic fashion, rather than as disruptors. Benefits that these players bring to the table - investments in technology and modern warehousing, improvements in supply chain & logistics and widening the market base shouldn't be ignored while arriving at a policy that will not only impact online trading, but also have a bearing on the overall economy.

HOW IS 2019 EXPECTED TO UNFOLD?

Even as global factors will continue to shape the economic landscape, domestic factors such as economic growth, consumption patterns, policy stimulus, inflation and government revenue stream are expected to a play a critical role in charting the country's growth trajectory (Figure 1-6). The country's resilient domestic factors coupled with limited exposure to global manufacturing trade is likely to result in a largely stable pace of growth over the next couple of years. For instance, The United States recently announced that it was ending India's trade concessions under the Generalised System of Preferences (GSP) as it felt that India was not providing the US with equitable and reasonable access to its markets. However, India's total exports were worth USD 76.7 billion and the end to GSP affects only a small part of it - limited to USD 5.6 billion. Household consumption on the other hand has been on the upswing and has more than tripled in the last decade, with 28% of households accounting for 43% of the total consumption. The trend is expected to accentuate, with household consumption expected to triple by 2028, despite the higher base effect.[2]

The government has set the stage for long-term growth with a progressive budget which will go a long way in creation of a well-balanced and empowered economy, with focus on key aspects such as ease of living, infrastructure, public health, technology and better living. While paying attention to the requirements of rural areas and agriculture, right measures have been announced for revival of important sectors such as infrastructure, healthcare and investment. Also, stimulus is not only from the end-user perspective, but also on the business environment front. India has witnessed rapid strides in its Ease of Doing Business Ranking with the government taking numerous steps in its bid to enter the top 50 ranks by next year.

Figure 1-6: Consumption growth 2018 to 2019



Source: Oxford Economics, CBRE Research, Q4 2018

[2]Boston Consultancy Group, Feb 2019

OFFICE SECTOR

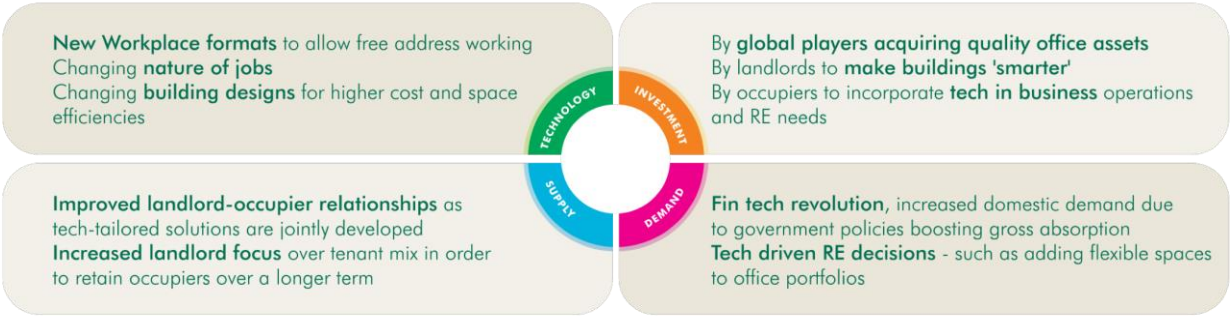
DISRUPTING THE DISRUPTIONS

DISRUPTING THE DISRUPTIONS

The year 2018 was a landmark one with office space absorption crossing an all-time high of 47 million sq. ft. (up 5% y-o-y) across the nine leading cities, boosted by a supply influx of 35 million sq. ft. (up 17% y-o-y). On expected lines, while Bangalore and NCR continued to dominate take-up, Hyderabad emerged as the third most preferred office destination, overtaking Mumbai. The year also saw a significant spurt in flexible space operators and their footprint across the country. Flexible space operators leased more than 6 million sq. ft. of investment grade office space in the country, more than double the quantum leased in 2017.

Several structural changes have been underway in the office segment in the country since the past few years, the most important ones being the disruptive impact of technology and the evolving relationship between occupiers and developers. In our opinion, 2019 would be the year when the impact of these disruptive changes would be clearly visible, with stakeholders undertaking various measures to counteract the same. This has resulted in tech linking demand, supply and investment in the office segment:

Figure 2-1: Office sector in India: stronger link between tech, investment, supply and demand



CBRE Research , Q1 2019

DISRUPTING THE DISRUPTIONS

This would mark a paradigm shift in the way the segment would function going forward – change would move from an 'experimentation' to 'transformation' stage. However, there are several trends that would continue from the previous year (Table 2-1).

OFFICE DEMAND 2019: NEW SOURCES OF DEMAND

Rising interest of global occupiers: Traditionally, American corporates have driven about 40% of total leasing in the country over the past few years. While this trend is expected to continue, we anticipate that India's position as a preferred outsourcing destination would also attract corporates from other geographies such as EMEA and APAC. This would result in an increase in fresh transactions in the future, thereby boosting space take-up. In fact, our India Office Occupier Survey 2019 revealed that corporates remain more positive towards expanding their footprint in India than across APAC in the coming years (Figure 2-4).

India's position on the war for talent: Increasingly, a larger number of global and domestic firms are

Table 2-1: Themes continuing from 2018

Themes	Trends
Polarisation between cities	We expect that both demand and supply would continue to be focused towards the most prominent destinations: Bangalore, NCR, Hyderabad and Mumbai.
Infrastructure-led growth	Majority of the activity – both in terms of leasing and new supply completions is expected to be led by the completion of urban infrastructure, particularly the provision of metro services or major arterial roads.
Dominance of SEZ's / tech parks	With the looming sunset date of benefits for occupiers to expire in March 2020, we expect heightened activity in this segment for both absorption and development completions in 2019 (Figure 2-2, Figure 2-3).
Tech driven RE decisions	Technology would continue to impact occupiers and developers, resulting in increased flexibility in decision making and space leased / released.

Source: CBRE Research, Q1 2019

Table 2-2: Themes expected in 2019

Absorption trends: evolved sources of demand	• Rising interest of global occupiers • Winning the war for talent • Workplace changes due to digitization of jobs • Evolving need for flexibility • Increased office demand for domestic needs • Rise in net absorption • Core + Flexi workplace strategies
Supply trends: tech-tailored development patterns	• Stronger pipeline in 2019 • Rise of "smarter" buildings • LEED TO 'WELL'
Rental trends: tapered growth	• Rental growth expected to taper across most cities • 'Gateway' cities would see rental growth • Convergence between SEZ and non-SEZ rentals

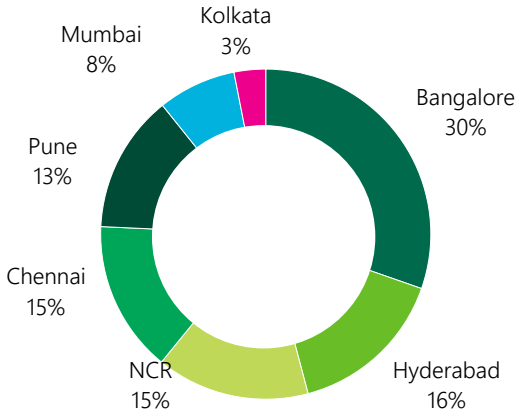
Source: CBRE Research, Q1 2019

positioning India as the destination for higher skilled requirements, either for their global operations (through Global Inhouse Centers - GICs) or for tech-driven services; rather than low-end processes. We expect this trend to strengthen further and the appetite for Indian talent to result into a greater influx / expansion of global corporates in the country. This is expected to result in an increase in the quality of space demanded by such corporates as the employee base would consist of a more cosmopolitan / millennial mindset.

Impact of digitization of jobs: Over the past few years, the changing nature of jobs due to technology is changing workplace designs. This is visible in India as well, however is more pronounced due to the unique advantages the country offers. The rise of start-ups, particularly tech based, and their evolving relationship with large multinationals / established domestic corporates, has resulted in workplace formats becoming more tech-enhanced, with an increasing demand for cost-effective managed offices or 'café' environments.

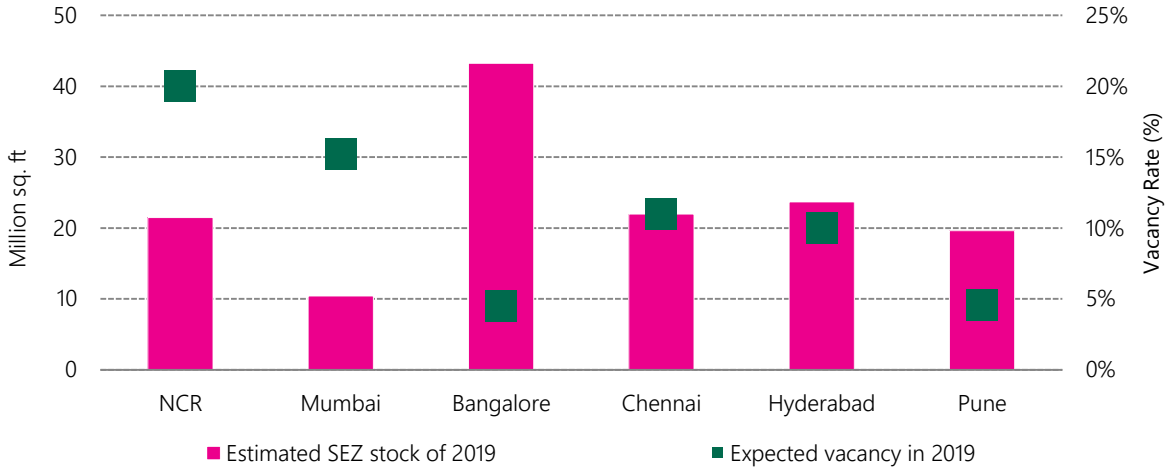
Increased office demand for domestic needs: Another source of demand is the growing need for corporates to cater to domestic requirements rather than just outsourced operations to accommodate 'rest of the

Figure 2-2: SEZ stock split across cities till 2018 end



Source: CBRE Research, Q1 2019

Figure 2-3: Expected vacancy levels across SEZ's in key cities by 2019



Source: CBRE Research, Q1 2019

world'. For instance, several policy initiatives by the government such as Make in India, Digital India etc, along with the emphasis on smart cities and industrial corridors, have resulted in both Indian and multinational corporates to increasingly cater to both domestic and global needs. This has supported the expansion of their office operations in the country.

Rise in net absorption: We expect that a combination of new sources of demand and influx of investment grade quality supply is expected to increase the share of net absorption in overall leasing, from the current 60-65% to about 70-75% during 2019-20. This is expected to be boosted by the continuing trend of large occupiers consolidating their real estate footprint and pre-leasing in under-construction projects or built-to suit developments (Figure 2-6).

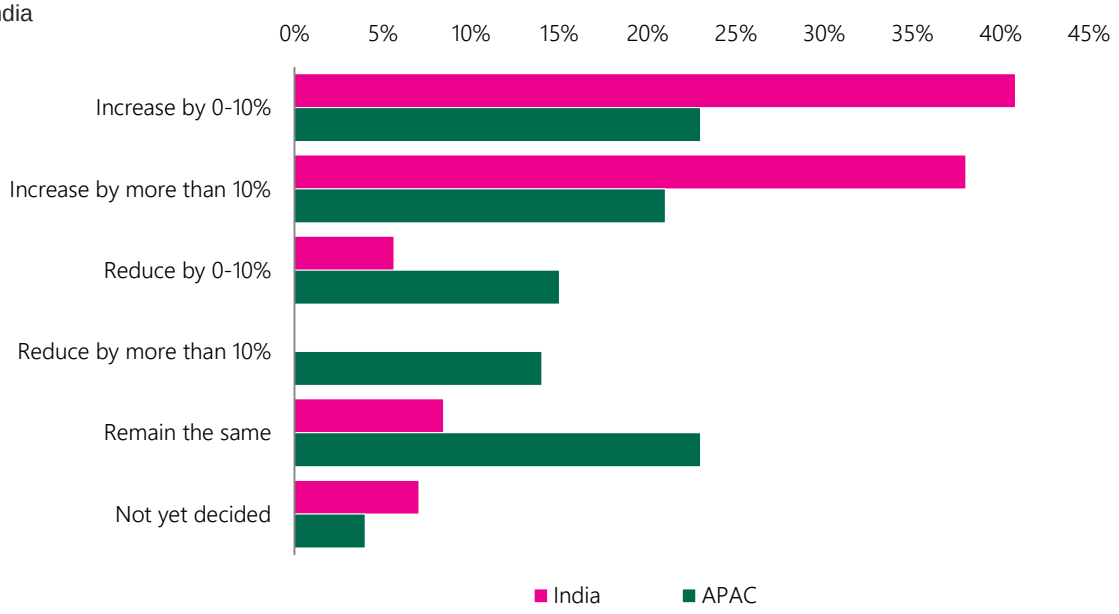
Core + Flexi workplace strategies: Occupiers are likely to increase agility in their real estate portfolios - finding the right mix of flexibility and collaborative / incubation spaces within their core workplaces along with adding external flexible options (Figure 2-5). RE portfolio agility combined with rising practices of remote working are also likely to result in lower space per employee.

SUPPLY TRENDS 2019: TECH-TAILORED DEVELOPMENT PATTERNS

Stronger pipeline in 2019: We anticipate that the pipeline for 2019 is expected to be relatively higher, mainly due to the pent-up supply from 2018. The 2019 supply pipeline would be dominated by Hyderabad, after Bangalore, where supply anticipated to be released would outstrip NCR and Mumbai. Chennai and Pune, after witnessing minimal levels of development completions in the past two years, are also likely to see the completion of large-scale tech parks / corporate developments by leading players. With these factors coming into play, CBRE expects more than 40 million sq. ft. of new office space to be released over the next twelve months (Figure 2-7). Almost 30% of this pipeline is expected to be SEZ spaces, particularly new blocks of existing developments (Figure 2-8).

Rise of "smarter" buildings: Developers are likely to continue to move towards providing 'smarter' space solutions, mainly by incorporating tech across all aspects of a development - from workplace patterns to facility management solutions. Tech has not only improved the quality of space, but also influenced occupier-landlord relationships. Developers are now willing to invest more

Figure 2-4: Office portfolio growth intentions: APAC vs India

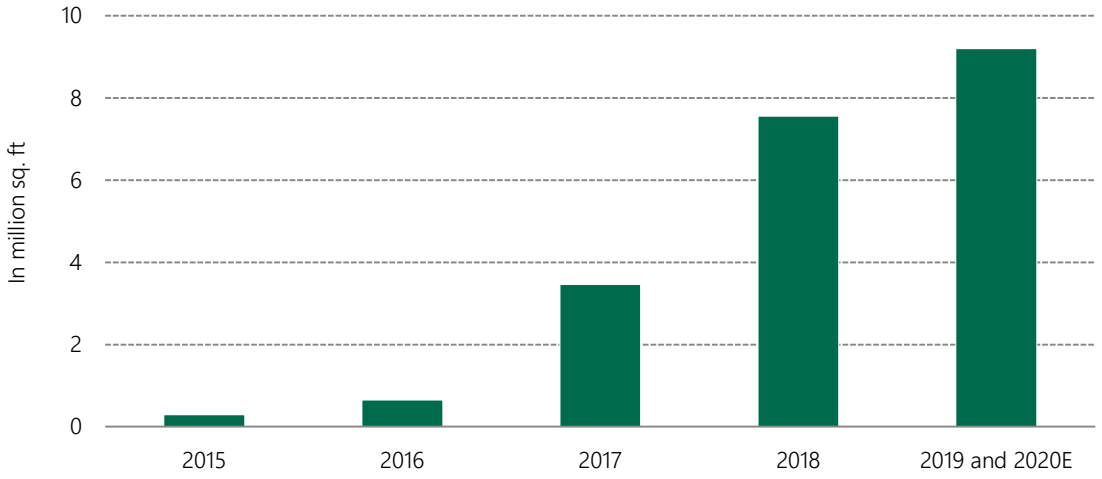


Source: CBRE's India Office Occupier Survey 2019, CBRE's APAC Occupier Survey, 2018

to provide spaces which would be customized to occupier needs. Further, developers are increasingly looking at ways to attract occupiers – from including mainstream retail to flexible spaces as part of their product offering.

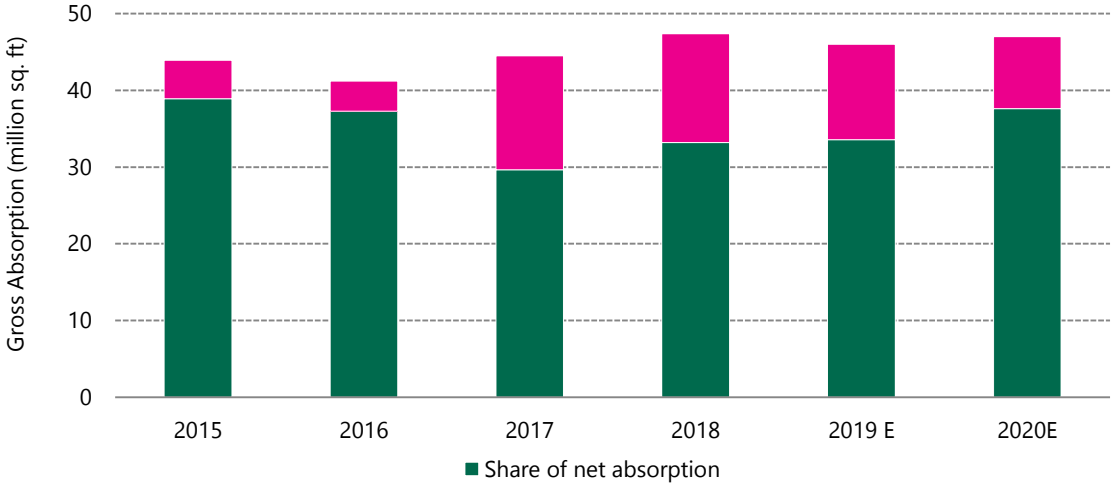
LEED TO 'WELL': Last year, CBRE had anticipated that developers would prioritize providing 'green' spaces. This year, we anticipate that landlord priorities would shift from just LEED certifications to delivery of International WELL Building Institute's (IWBI) WELL Building StandardTM (WELL) certifications. WELL consists of more than 100 features across seven concepts (air, water, light, comfort, fitness, nourishment and mind) addressing the design and operation of buildings and how they impact and influence human behaviour related to health and wellness. This is in line with occupier measures for encouraging wellness including providing choice of work settings, healthy food options and physical fitness opportunities.

Figure 2-5: Growth of the flexible space segment in India



Note: includes leasing by flexible space operators in investment and semi-investment grade office buildings, along with non-office developments
Source: CBRE Research, Q1 2019

Figure 2-6: Anticipated rising share of net absorption in India



Source: CBRE Research, Q1 2019

DISRUPTING THE DISRUPTIONS

RENTAL TRENDS 2019: TAPERED GROWTH

Rental growth expected to taper across most cities: Similar to the previous year, we expect that rental growth would taper in Bangalore, Chennai and Pune. In Bangalore, the lack of readily available supply would result in rental growth to occur only on the basis of residual demand. With larger quantum of supply finally to be released in Chennai and Pune, residual spaces along with higher quality of new space is likely to drive rental growth. In case of Hyderabad, however, even with rising absorption, the quantum of supply lined up for release is likely to limit rental growth – a trend that was already visible in 2018.

'Gateway' cities would see rental growth: In the case of NCR and Mumbai, rental growth has been limited over the past few years as sustained office demand has resulted in rents already reaching a comparatively high base. However, we anticipate that strong demand for space in quality developments is likely to result in a marginal growth in a select locations in these cities in 2019.

Convergence between SEZ and non-SEZ rentals: We also anticipate that occupiers' top priority would be operating out of quality, well located spaces, which offer larger-sized floor plates. With the quality of the space being the key factor defining rental trends, hence the rental arbitrage between SEZ and non-SEZ spaces is likely to blur. This is likely to result in a convergence of SEZ and non-SEZ rentals within the same micro-markets across cities in 2019.

HOW TECH WILL IMPACT THE SECTOR

With technology clearly pervading the nature of jobs, business operations and models, it is clear that India's tech sector continues to be resonant. Additionally, the nature of relationship between leading Indian tech suppliers and their global client base is also evolving. From outsourcing to offshoring, we have now reached a stage of real-value partnering. Clients are increasingly re-connecting with their traditional vendors, but for much more strategic and comprehensive tech related requirements. This, besides the rise of GICs in India, ensures that space take-up by tech firms will remain steady in 2019. The share of tech in overall space take-up in the country will remain in a range of 30 – 35% till the end of 2019, even as leasing by other major sectors such as banking, financial services, engineering & manufacturing, research & consulting will also remain strong.

Figure 2-7: 2019 office supply split across cities

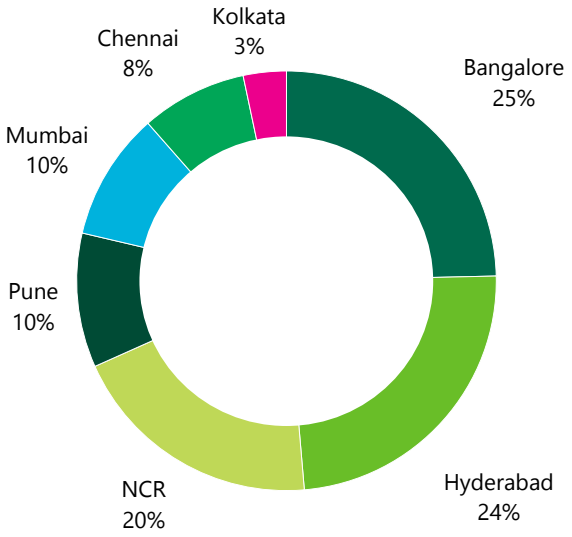
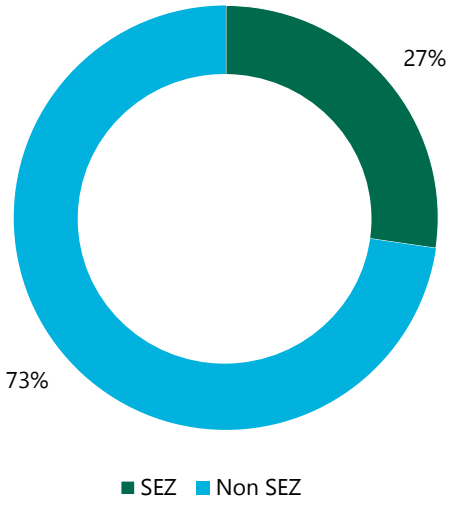


Figure 2-8: 2019 Future supply split across segments



Source: CBRE Research, Q1 2019

DISRUPTING THE DISRUPTIONS

Tech to put people at the centre of the workplace: The move towards a more tech-enabled work face will place a stronger emphasis on improving user experience. Occupiers will demand higher quality space capable of encouraging greater collaboration, innovation and employee wellbeing. Indian occupiers would prefer to adopt workplace strategies, which ensure a balance between cost, space and operational efficiencies, along with attracting and retaining talent.

The workforce will become more mobile and flexible: Work is expected to become more mobile and technically - skilled individuals will be in greater demand. Many jobs (mundane or basic) are likely to disappear and old ones will change significantly. Work will require strong social intelligence, creative intelligence and the ability to leverage artificial intelligence. This will be one of the key drivers towards the usage of flexible spaces.

A more mobile workforce will require a more customized workplace: Occupiers will continue to adopt tech keeping in mind the best possible and sustainable design elements. This would involve installing tech for optimizing and monitoring space usage, along with optimizing operational and energy efficiencies. They would also strive to provide a mix of space formats, thereby offering options of 'we' and 'me' spaces.

A stronger demand for smarter spaces: Both developers and tenants will increasingly partner for delivering 'smart' i.e. tech- enhanced spaces. Developers will become more cognizant of tenant requirements at the planning stage to ascertain the features and technologies they require. In fact, developers are likely to finetune their strategies in line with occupier expectations on tech and infrastructure.

WHAT TO EXPECT IN 2019?

Interest from global and domestic occupiers is expected to generate **evolved sources of demand.**

Rise in evolved sources of demand and strong supply pipeline is likely to result in the **share of net absorption to rise.**

Lack of readily available supply is likely to result in rental growth continuing in Bangalore, Chennai, Hyderabad and Pune. This **rental growth is expected to taper** over the coming quarters.

Rental growth is likely to occur in a few, select locations of Mumbai and NCR – mainly led by occupier interest in moving across quality spaces.

Occupiers are anticipated to **reinvent workplace strategies** due to changing nature of jobs.

Tech enablers such as **employee mobility** and **free-addressing** would continue **to improve workplace designs**, building quality and overall work environments.

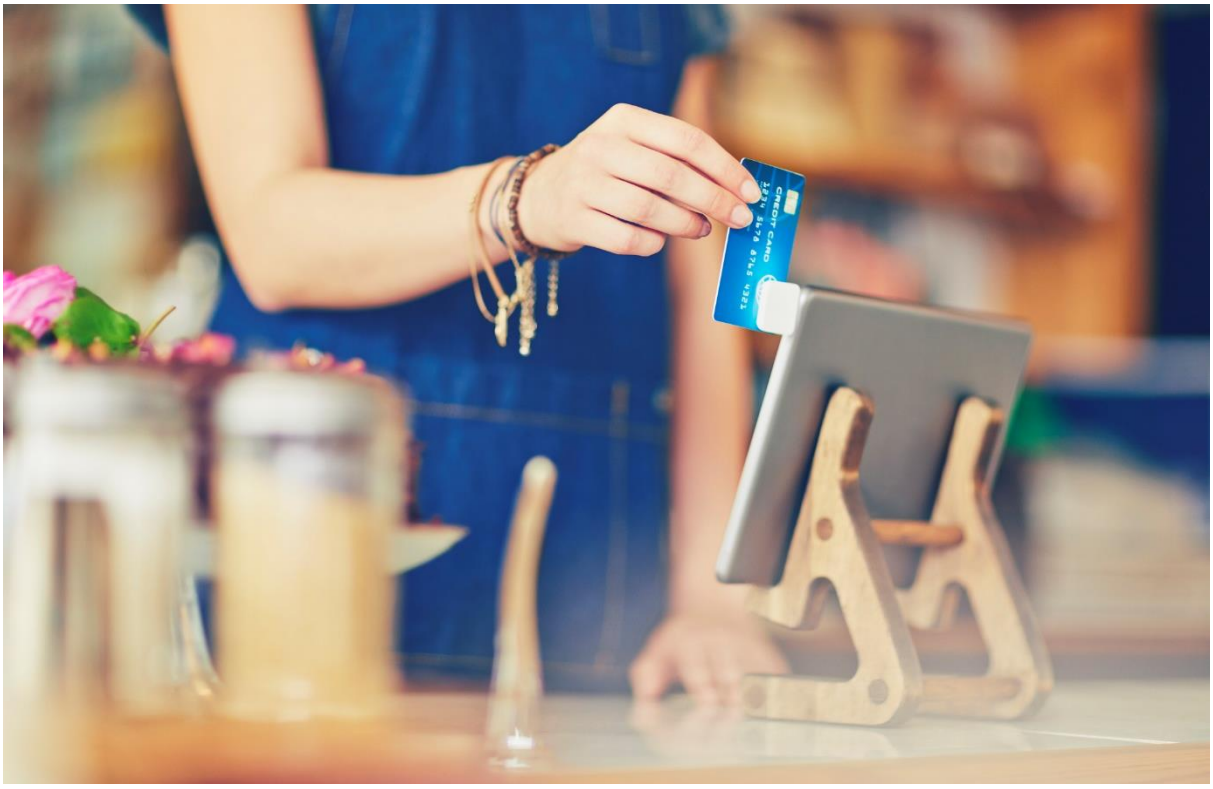
Occupiers are expected to increasingly **tilt towards 'smarter' spaces, with tech- enhancements** continuing to gain more importance.

RETAIL SECTOR

“CHERISH” RETAIL TO EMERGE STRONGER

"CHERISH" RETAIL TO EMERGE STRONGER

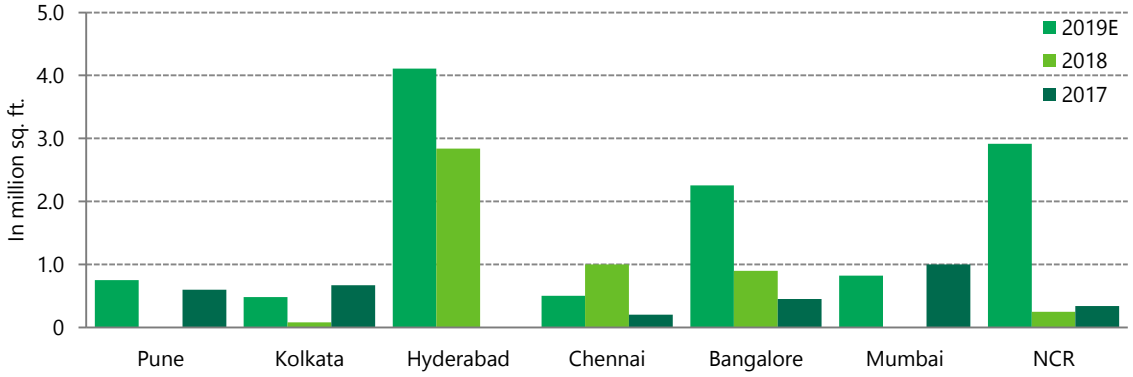
RETAIL SECTOR



Retail demand continued to grow in 2018 as the customer base in India is expanding with the number of millennials steadily on their way to dominate India's demographic profile. Due to a change in demographics, consumer behaviour is also evolving rapidly, where shopping is no longer limited to the "chore" shopping but has started moving towards "cherish" retail.

In 2018, nearly 5.1 million sq. ft. of new retail developments became operational across the seven major cities in the country (Figure 3-1). Supply was led by the Southern cities, with Hyderabad at the forefront; followed by Chennai and Bangalore. Smaller retail developments also became operational in NCR and Kolkata.

Figure 3-1: Pipeline set to improve across major cities



Source: CBRE Research, Q1 2019

"CHERISH" RETAIL TO EMERGE STRONGER

Demand on the other hand was fed by several categories including F&B, fashion, apparel, accessories, electronics, sportswear, entertainment centers and multiplexes. Both domestic and international players remained active across the retail leasing landscape. Ikea, made its long-awaited entry into the Indian retail market through the 100% FDI route by opening their first store in Hyderabad. Other notable international brands that made entry into the country last year include Berlutti, Love Moschino, Bath & Body Works, American Eagle, Ted Baker, Polo Ralph Lauren, amongst others.

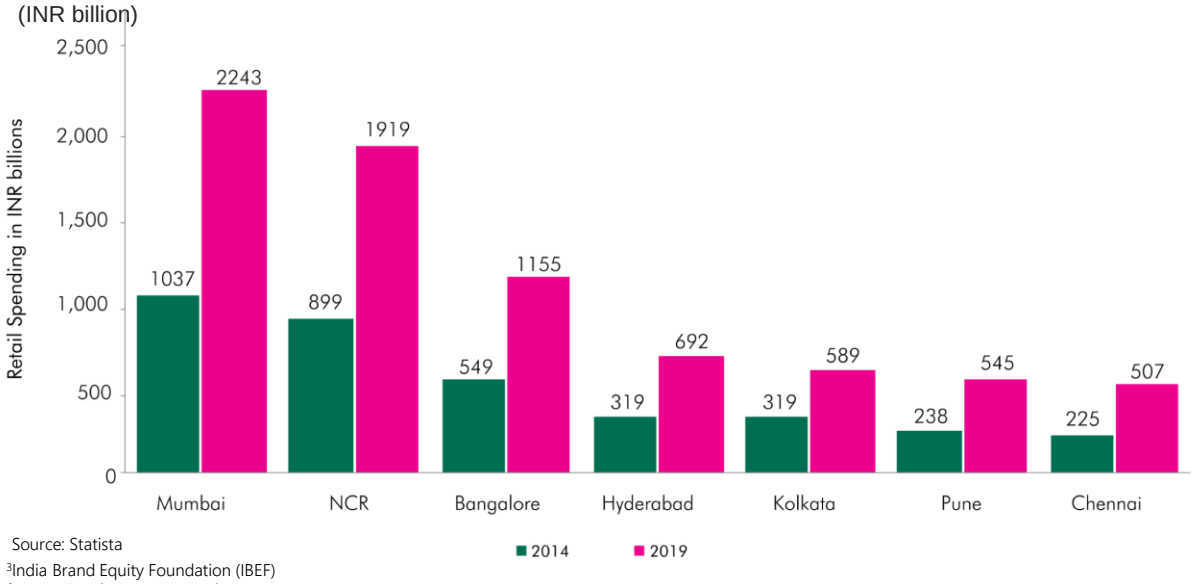
The retail real estate segment, which remains at the forefront of having to be receptive to changing consumer dynamics is expected to witness a transformational streak, with technology and changing consumer preferences at the helm of this transformation. Although online shopping is penetrating rapidly among Indian shoppers, however the share of online retail is still miniscule when compared to brick and mortar sales. This means that brick-and-mortar stores will continue to dominate and hence evolve, by using physical space to experiment with technology, location and customer needs. Newer retail formats are expected to emerge, with the focus being on creating a more personalized experience for shoppers, creating community spaces instead of regular retail centres thus increasing engagement with the customers to ensure sustained footfalls and sales.

RETAIL CONSUMPTION EXPECTED TO RISE: DIVERSIFICATION IN DEMAND

Due to its rapid economic growth, favourable demographics and rising levels of income, India is one of the fastest growing markets in the world and the fifth largest consumer market globally. The retail segment accounts for over 10% of the country's GDP and around 8% of the employment.[3] With around 1.3 billion people across 29 states, 7 union territories and nearly 33% population residing in urban areas[4], India's demographic profile has positioned it favourably in comparison to other emerging markets.

India provides a significant retail opportunity for not only domestic but international retailers as well. For instance, a large number of US-based retailers are looking at India for high growth, vis-a-vis the US economy which is considered a mature market with a large number of competitors. Going forward, increasing urbanization, rising young population, increasing workforce, social media pressures and higher per capita income are expected to drive consumption in India. Total retail spending across cities in the country is expected to touch INR 7,650 billion in 2019 (Figure 3-2).

Figure 3-2: City-wise total retail spending in India in 2014 and 2019 (INR billion)



Source: Statista

[3]India Brand Equity Foundation (IBEF)
[4]International Monetary Fund (IMF)

"CHERISH" RETAIL TO EMERGE STRONGER

The past couple of years have witnessed a divergence in the demand and consumption pattern of consumers in India. While fashion and apparel is expected to continue remaining a key demand stream (value fashion, along with mid-range fashion is expected to drive retail sales), but it has also given way to categories such as F&B, multiplexes and entertainment centres, along with accessories amongst others.

The year 2018 witnessed increased demand from such categories, a trend that is only likely to accentuate in 2019. As per CBRE's latest edition of the report – How Global is the Business of Retail, F&B brands globally accounted for a third of all new entrant activity in 2018, compared to a quarter of new entrant activity in 2017. Social media and technology have been two drivers of growth in the F&B market. Consumers, particularly the millennial generation are always looking to engage in new, interesting experiences and share them via social media, which has been a driver for the need of stimulating dining concepts. The food delivery market is also expected to grow at a very rapid pace in the near future, thus cloud kitchens is another domain where demand has started intensifying significantly and is expected to increase further in 2019. In addition, there has been an organic spill over of F&B outlets onto commercial spaces, which is only expected to continue and refine going forward.

CHANGING THE RULES: AMENDMENTS IN FDI E-COMMERCE NORMS

Recently, the government came out with clarifications on the existing FDI policy in e-commerce to ensure that e-commerce players / marketplaces do not influence the price of goods and services that are sold online. As per the policy, a vendor can only sell 25% of its total goods by value to a single e-commerce player. In addition, if an e-commerce entity has an equity participation by a marketplace player, then the entity cannot sell its products on that platform. Any discounts / cashbacks offered to the customer should be non-discriminatory and fair. Also, marketplaces cannot mandate any vendor to sell goods exclusively on their platform.

The policy came into effect on February 1, 2019 and has resulted in most leading players redrawing their current and future expansion plans. Also, the draft e-commerce policy (announced in Feb 2019) moves beyond online sale of goods and covers cross border data sharing, supply chain transparency, product authenticity, and last mile connectivity amongst others. Overall, the policy is expected to not only result in an increase in compliance costs but is likely to impact investor sentiment as the segment has witnessed significant policy changes in the first quarter of 2019 itself.

NOT ONLY BROWNFIELD: INCREASING INVESTMENT APPETITE FOR GREENFIELD

During the last few years, favourable norms have fuelled investor appetite and leading PE funds and institutional investors have entered the Indian retail sector (Table 3-1, Table 3-2). Investments are being evaluated across not

Table 3-1: Key investors and their portfolios in India

Blackstone	Canada Pension Plan Investment	GIC Private Limited	The Xander Group
~6 MILLION SQ. FT.	~1 MILLION SQ. FT. OPERATIONAL, PLUS 3 MILLION SQ. FT. UPCOMING	~2 MILLION SQ. FT.	~5 MILLION SQ. FT.

Table 3-2: Key Players and their Portfolios in India

Phoenix Mills	DLF	K. Raheja Corp.
~9 MILLION SQ. FT.	~5.6 MILLION SQ. FT.	~2.2 MILLION SQ. FT.

Source: CBRE Research, Q1 2019

"CHERISH" RETAIL TO EMERGE STRONGER

only completed assets, but also under-construction developments across tier I and tier II cities. As nearly 10 - 12 million sq. ft. of quality supply is expected to come on stream in 2019, investments, especially in greenfield developments are also likely to rise (Figure 3-1).

LACK OF QUALITY SUPPLY TO REMAIN A CONCERN; REDEVELOPMENT AND RE-TENANTING ON THE RISE

Limited availability of quality assets in the organized retail segment and key high street locations is a prime concern amongst retailers. To partially resolve this, retailers try to continuously re-assess store sizes / formats to accommodate new entrants / make way for the most relevant brands. For instance, changing consumer trends along with the growing importance of quality and convenience have presented supermarket retailers an opportunity to change their store formats in recent years.

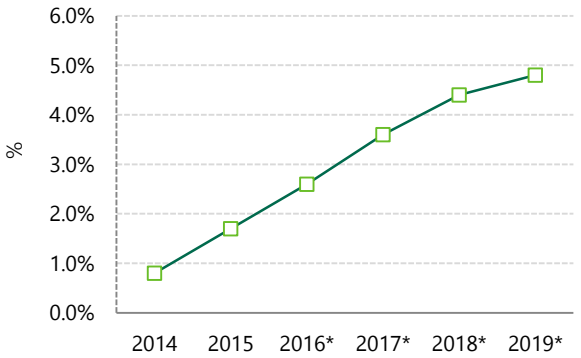
Although nearly 10 – 12 million sq. ft. of supply is expected to come onstream in 2019; demand is expected to outstrip supply. With a dearth of large land parcels in core areas, there is likely to be a rise in redevelopment and re-tenanting, especially in key locations, thereby creating an opportunity for repositioning assets. It is expected that traditional soft goods and department store spaces in these malls / properties will be replaced by F&B, mixed use & entertainment.

MAJOR TRENDS TO LOOK OUT FOR IN 2019

Convergence of online and offline platforms for omni-channel retailing to continue: India is one of the fastest-growing e-commerce markets in the world, with millions of new internet users joining the bandwagon every year. Total internet audience in India is estimated to surpass 635 million online users by 2021.[5] With the onslaught of e-commerce, consumer preferences are changing, and while omni-channel customers are interested in physical retail experiences, but their expectations are of new, interesting experiences. Pure-click enterprises are expanding their offline presence, whereas brick-and-mortar stores are considering digital expansion. Consequently, 'click-and-brick' stores are on the rise, defining the new retail format. Also, developers are trying to leverage the competitive advantage of brick-and-mortar experience and have adopted various approaches for creating these experiences, including investment in creative design, events and common spaces. Tenant strategies such as pop-ups by these e-commerce players are becoming more commonplace to create an element of surprise and draw in traffic.

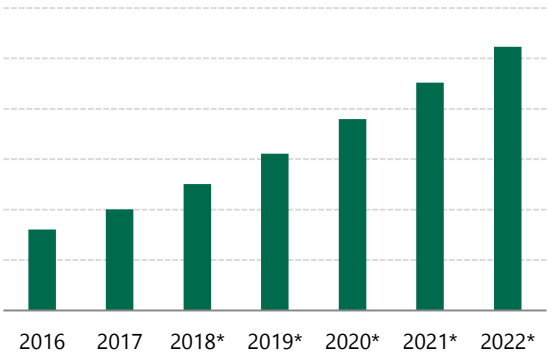
Rising prominence of tier II and tier III markets: Factors such as increasing personal disposable income, lower real estate costs in tier II and tier III cities, increasing awareness of fashion trends, preference towards affordable luxury items and emergence of a 'new rich class' have provided retailers with an opportunity to penetrate these markets. With online retail already providing deliveries to these smaller cities, leading brands are looking to delve into these relatively untapped markets. International brands such as Zara, H&M, Miniso have already entered smaller cities and opened stores across the country.

Figure 3-3: Share of online retail sales in India



Note: * Indicates estimate; select items only
Source: Statista

Figure 3-4: Online retail sales in India (USD million)



[5]Statista

"CHERISH" RETAIL TO EMERGE STRONGER

Growing customer base in these cities and data received from online channels have given retailers the visibility to target and enter these untapped markets.

Retail logistics to remain a concern: The integration of retail and logistics will continue apace, with e-tailers looking for physical outlets and traditional retailers strengthening their online channels, thereby restructuring their logistics footprint. However, the dearth of quality, compliant warehousing space and efficient logistics deters retailers from expanding at the desired pace. It is therefore imperative that warehouses and supply chains adapt to the new technologies and formats. Developers should keep in mind emerging demand categories and try and align their spaces according to these categories. For instance, the increasing demand for seafood, meat, imported F&B, medicines will necessitate investments in cold chain logistics facilities such as temperature-controlled warehouses.

Variation across rents to continue: Although premium assets will continue to command higher rentals, availability of space, location and consumer dynamics are expected to remain key drivers of rental growth. As rental growth across prime properties and prominent high street locations is peaking and cutting into retailer profits, developers and retailers are also increasingly adopting revenue share models. Developers have also started investing in brand franchises where they are confident about sales and increased returns.

Flexibility in lease: Shopping center developers continue to refine their tenant mix by shifting away from low -growth categories and trades exposed to e-commerce. Hence, many developers are reducing the lease terms to have flexibility of churning the brand, to hedge against performance and brand stagnancy. Likewise, retailers have started opting for temporary set-ups and opting for pop-up stores to gauge the consumer response without making a long-term commitment. This gives both developers and tenants a glimpse into the potential of the center for the said retailer.

TECH TO BECOME A GAME CHANGER FOR RETAIL

Of all the opportunities for retailers through the increased digitization of shopping, the one that offers the most strategic benefit is data. Historically, customer insights were limited, delayed and sometimes difficult to collect. However, as digital channels increase device interaction and customer touchpoints, a large amount of data is made available on how, when and why consumers shop. This data may be obtained from third parties at a high level or provided by consumers themselves for access to exclusive offers. From measuring conversion rates, to predictive analytics and targeted promotions, tracking customer movement through physical stores, digital analytics are a key tool for shaping retailer strategy.

Table 3-3: Expected sectoral growth drivers in 2019

City	Value & Mid-Range Fashion	Food and Beverage	Entertainment (FEC and and Multiplex)	Hypermarkets and Departmental Stores	Luxury Retail
NCR	▶	▲	▶	▶	▲
Mumbai	▶	▲	▶	▶	▲
Pune	▲	▲	▶	▶	▶
Chennai	▲	▲	▲	▲	▶
Hyderabad	▲	▲	▲	▲	▶
Bangalore	▶	▲	▲	▶	▶
Kolkata	▲	▲	▲	▶	▶

Source: CBRE Research, Q1 2019

"CHERISH" RETAIL TO EMERGE STRONGER

Assist the growth of the online retail market: Over the last few years, consumer behavior has transformed tremendously owing to technological advancements.

WHAT TO EXPECT IN 2019?

Diversification in demand to continue, with expansion by various domestic and international brands across categories.

Change in FDI norms for e-commerce may affect online sales and investments in the segment in the short-term.

Despite uncertainty across the e-commerce segment, **omnichannel retailing is grow and evolve.**

Developers and retailers likely to use **tech for studying consumer patterns and enhance customer experience.**

Supply addition expected to improve with nearly **10-12 million sq. ft. of development completions in 2019**; investment activity likely to pick up if quality assets become available.

Experiential retail and **placemaking** will be the key

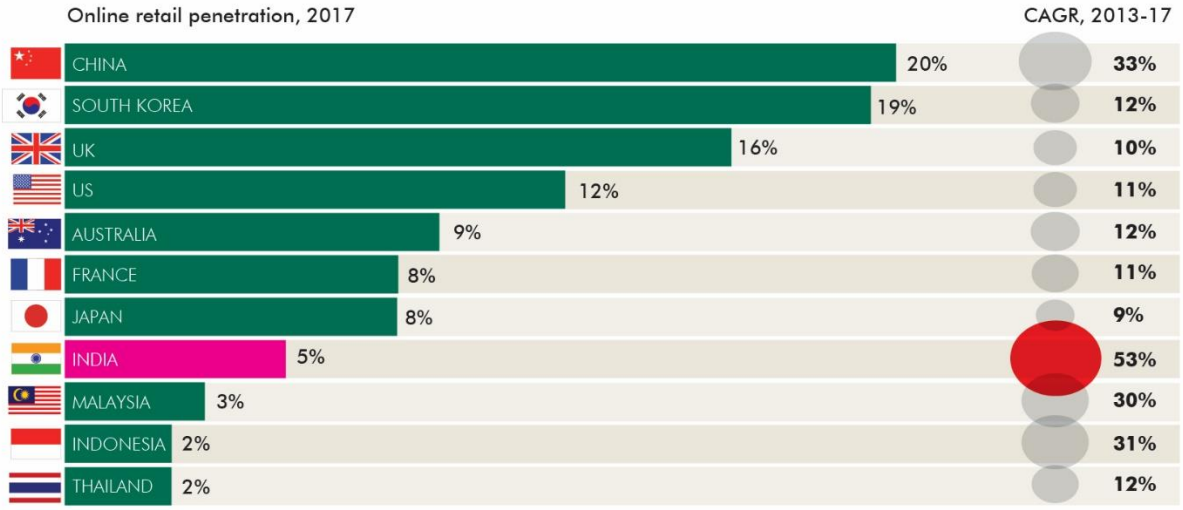
Consumer activity has spiraled in the digitally enabled e-commerce space, resulting in the growth of the online retail market, which is estimated to reach USD 60 billion by 2020.[6] According to Euromonitor, India witnessed the highest CAGR growth of 53% from 2013-17 in terms of online retail penetration, all of which has been assisted by the increased internet access and smartphone usage (Figure 3-5).

Integration of big data analytics into merchandising & marketing: Digital platforms for shopping, searching, returns, ratings and reviews leave behind traces of relevant consumer data that can be translated into insights. Many retailers are now translating this data into action and adopting data-driven merchandising. Big Data analysis enables retailers to get to know their clients better, whilst new means of communication will allow them to implement more tailored marketing strategies.

Use of tech to enhance shopping experience: As tech has become an integral part of the retail fabric, trends such as cashier-less shopping, experience stores with enhanced virtual retail experience, hyper-local retail (consumers can find and buy products close to them via an app) are likely to pick up in 2019.

Tech in F&B: Tech is reshaping the retail sector, especially in the restaurant industry. In addition to tech inside the restaurants, the use of last mile restaurant delivery techniques will evolve. In 2019, an accentuation of this trend is expected and tech will play a greater role in the F&B industry.

Figure 3-5: Online retail penetration has risen



Source: Euromonitor

[6]India Brand Equity Foundation (IBEF)

LOGISTICS SECTOR

ON THE PATH TO TRANSFORMATION

LOGISTICS SECTOR

ON THE PATH TO TRANSFORMATION

We have seen technological, demographic and economic changes before, however, the logistics sector has never experienced such structural shifts vis-a-vis e-commerce and automation, leading to a blurring of lines with the retail sector, a transformation in supply chains as well as rising investment. In addition to the cyclical drivers that have shaped the current logistics landscape, there have been structural drivers at play, such as changing consumer demands, the evolution of retail, the growing influence of urban areas and global investment in logistics real estate. The introduction of GST in late 2017 and the granting of 'infrastructure status' created a conducive business environment for the sector. In the past few years, the government has emphasized on infrastructure development, with several investment and policy proposals for the transport and logistics sector. The government has invested heavily to connect and integrate the country with a complete network of roads, railways, airports, ports and inland waterways. Such policy reforms and infrastructure development, alongside the creation of a favourable business environment has provided substantial results. In 2018, India jumped 30 ranks in The World Bank's Ease of Doing Business Index. In addition, the Agility Emerging Markets Logistics Index— a 50-nation index to gauge for emerging markets' competitiveness—places India and China amongst the most attractive investment destinations for the logistics industry.

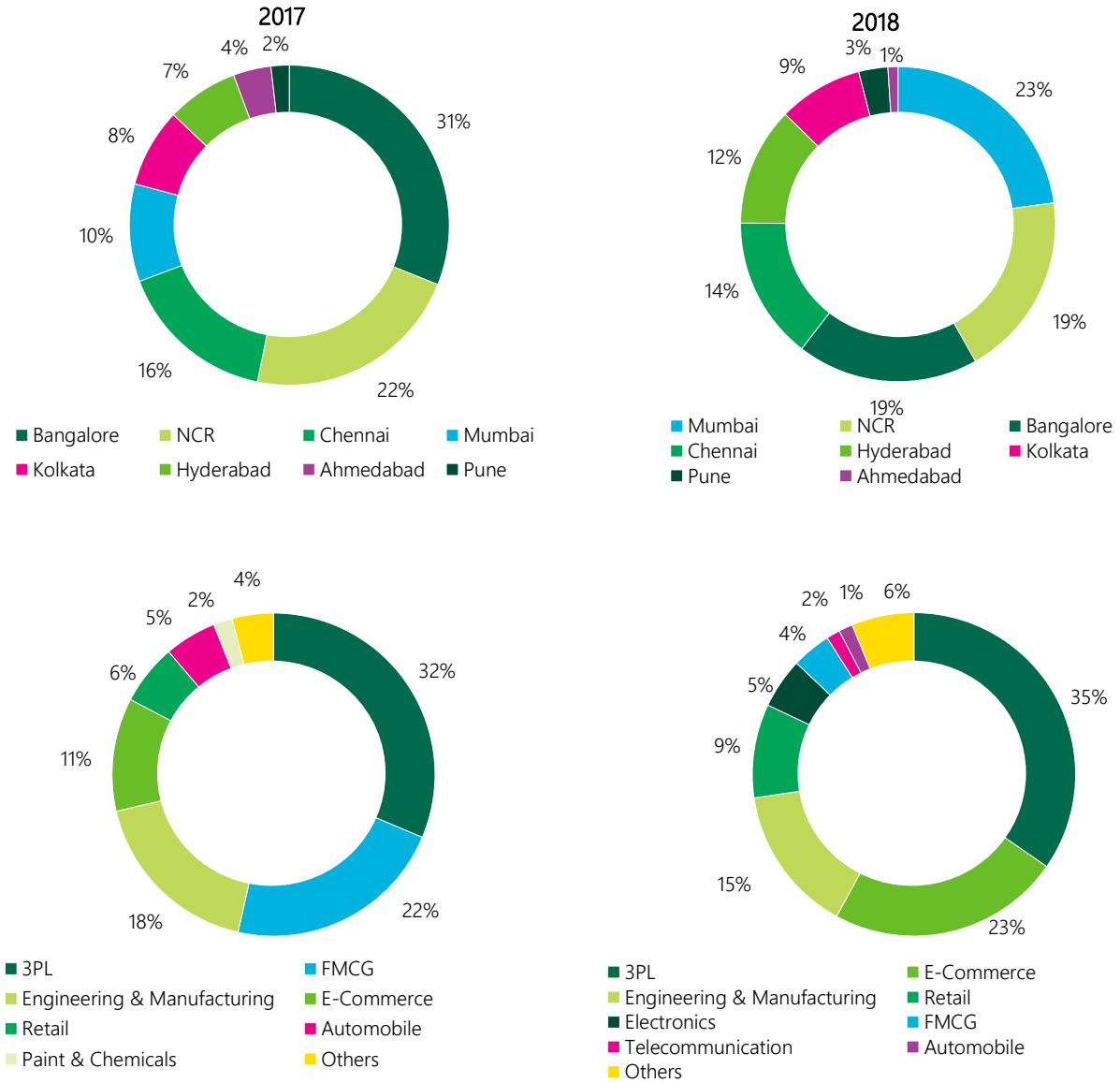
SUPPLY – DEMAND DYNAMICS, RENTAL MOVEMENT, DEMAND DRIVERS

The year 2018 was remarkable for the logistics market in the country. The overall absorption during the year touched close to 24 million sq. ft., which was a growth of about 44% compared to the prevailing year. Majority of the demand was concentrated in Mumbai (23%), NCR and Bangalore (19%) closely followed by Chennai and Hyderabad accounting for about 14% and 12% respectively. Nearly every city witnessed a growth in space take-up on an annual basis.

Following the expected trend, 3PL, e-commerce and engineering & manufacturing drove demand during

the year contributing about 35%, 23% and 15% to overall take-up respectively. On the rental front, several micro-markets observed appreciation owing to increased demand coupled with limited investment grade supply. Markets which witnessed rental appreciation during the year were Bhiwandi in Mumbai (23%), Western corridor in Hyderabad (20%), NH-6 in Kolkata (16%) and Northern belt in Chennai (11%). They were closely followed by the micro-markets of NCR, Western belt in Chennai, Southern corridor in Bangalore, NH-2 in Kolkata and Aslali in Ahmedabad, treading in the range of 8-10%.

Figure 4-1: How cities and sectors have performed: 2018 vs 2017



Note: Others Include – Pharmaceutical, Electronics, Telecom, F&B
Source: CBRE Research, Q1 2019

ON THE PATH TO TRANSFORMATION

POLICY HAZARD MAY IMPACT E-COMMERCE ACTIVITY; NEVERTHELESS, THE SECTOR IS EXPECTED TO PERFORM IN THE LONG RUN

We've been witnessing the impact of e-commerce on retail and logistics for some time now, however it's still quite relevant and will be for some time. The ongoing trend of omni-channel retailing and supply chain development will ensure continued, strong demand for modern industrial and logistics facilities in 2019. E-commerce is a key demand accelerator as the handling of a product ordered online requires up to three times more space than a conventional sale; even as brick and mortar retailers also grow their industrial and logistics space needs.

In the past four years, e-commerce has been a major contributor to overall demand in the sector, by leasing about 10 million sq. ft. of space across various cities. Also, the growing focus on expansion into the tier II and tier III cities by e-commerce players is likely to give a further

Table 4-1: Policies – the government's push for sectoral growth

Initiatives	Objectives	Impact on Industrial & Logistics sector
Infrastructure Status	Granted in the 2018 Union Budget, the move has enabled the logistics sector to access infrastructure lending at easier terms with enhanced limits.	Besides 100% FDI in the storage and logistics sector which is instrumental in attracting foreign funds, the infrastructure infrastructure status is envisaged to spur activity from leading developers and bring bring in domestic investments into the sector.
Revising load capacity capacity of heavy vehicles	The load capacity of heavy vehicles was increased by 20-25%, which is now at par with global standards.	This revision by the transport ministry is likely to reduce logistics costs by 2%.
Integrated Industrial Area (IIA) & Logistics Park Policy, 2018 - Maharashtra	Maharashtra has taken some concrete steps to stimulate stimulate private partnerships for industrial developments. These include increasing the FSI from 1 1 to 2, incentivizing stamp duty, reducing minimum land land requirement from 40 hectares to 20 hectares and revising the land use ratio (industrial: others) from 60:40 60:40 to 80:20. The state has also introduced an integrated logistics policy, which revolves around setting setting up about 120 logistics parks across the state under the supervision of the Maharashtra Industrial Development Corporation (MIDC).	Both these initiatives are aimed at improving infrastructure, regularise unauthorised developments in industrial areas and tap into unutilised land parcels.
National Logistics Policy (2019)	The policy is being prepared by the logistics division within the commerce ministry. The Ministry of Commerce had published the draft policy In February 2019 and opened the document for public discussions till March 2019.	The policy aims to provide an impetus to trade, enhance export competitiveness, improve India's ranking in the Logistics Performance Index to between 25 and 30, 30, among other initiatives.

Source: CBRE Research, Q1 2019

push to this demand. However, recent clarifications by the government on the policy on FDI in e-commerce, which enlists provisions such as restricting equity participation, limiting inventory purchase from a single vendor and any exclusive marketing provisions to select vendors, will pose challenges. Also, the draft e-commerce policy (announced in Feb 2019) moves beyond online sale of goods and covers cross border data sharing, supply chain transparency, product authenticity, and last mile connectivity amongst others. Overall, the policy is expected to not only result in an increase in compliance costs but is also likely to impact investor sentiment. While the sector is expected to continue remaining a key demand driver for logistics, however the policy changes are likely to make a dent on the sentiment of the e-commerce fraternity and might result in a slowdown in demand in the short to medium term.

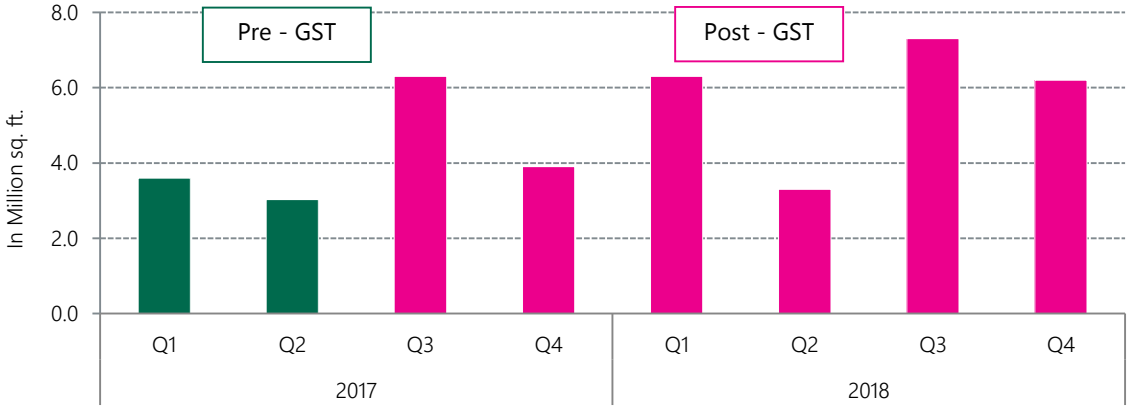
DEMAND TO REMAIN UPBEAT IN 2019

Logistics demand in the past three years has increased at a rapid pace as the government also took some effective steps to nurture the sector. Post the implementation of GST, the demand for warehousing facilities has witnessed a significant surge (Figure 4-2). The growth in leasing activity in 2018 versus 2017 was observed to be close to 44%, the annual absorption in 2017 was approximately 17 million sq. ft.; while 2018 recorded absorption of close to 24 million sq. ft. As technology permeates the sector, demand for quality space is increasing and corporates across segments are opting for large, modern warehouses. Advances in technology, particularly automation will enhance the specifications and operations of logistics assets, thereby pushing older, inferior grade properties down the demand pyramid. Also, we expect that the trend for e-commerce platforms to own and operate their own

Table 4-2: Expected sectoral growth drivers in 2019

Cities\Segments	3PL	e-Commerce	Engineering and and Manufacturing	FMCG	Retail
NCR	▲	▲	▲	▶	▲
Mumbai	▲	▶	▶	▲	▶
Pune	▲	▶	▲	▶	▶
Chennai	▲	▲	▲	▶	▶
Hyderabad	▲	▲	▲	▶	▶
Bangalore	▲	▲	▲	▶	▶
Kolkata	▲	▶	▶	▶	▶

Figure 4-2: Pre-GST and Post-GST demand



Source: CBRE Research, Q1 2019

facilities will result in more built-to-suit facilities, thereby taking off some "pure" leasing from the market. In the longer-term, the gradual normalisation of e-commerce growth and pressure on the profit margin of 3PL players for faster and cheaper delivery will result in the stabilisation of demand (Table 4-2). Hence, in a bid to cut costs and enhance efficiencies, we may see interest of e-commerce players / retailers to share fulfilment centres. This may encourage the growth of small-scale warehouses, especially in close proximity to highly-populated residential catchments.

A key demand theme for the coming year will be the focus on fresh produce / groceries delivery. As the segment witnesses increased traction, we expect players to display interest in cold chain facilities and temperature-controlled warehouses. While players such as Zomato are already in the business of supplying fresh raw material to restaurants, this may eventually give rise to the concept of "dark kitchens", where the production of meals is outsourced to the logistics operator.

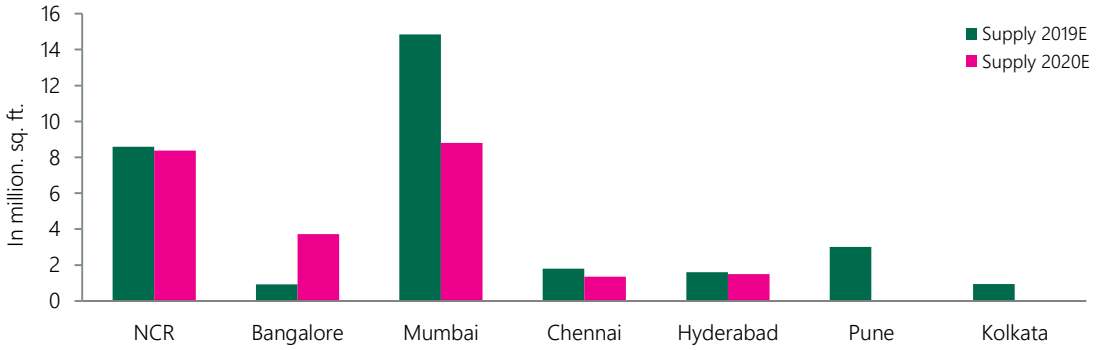
SUPPLY FOLLOWING DEMAND

As demand has remained robust, supply needs to keep up pace to accommodate the significant increase in space take-up over the past couple of years. Since majority of the demand is from players seeking quality, technology compliant spaces, hence large-scale developments in the logistics sector have started to spring up across the country. While majority of the sector is unorganised, however the entry of international players has resulted in the emergence of quality assets. Also, the demand for such global standard facilities has opened up avenues for players to seize the opportunity and invest in the various private equity firms and foreign various private equity firms and foreign development of such assets. While the overall supply (grade A and inferior grade) for the sector is expected to be around 60 million sq. ft. till 2020, at least 22 million sq. ft. of this supply is estimated to be in the grade A category, with supply infusion by leading players such as Indospace, All cargo, Embassy, ESR etc (Figure 4-3).

Cities such as NCR, Mumbai, Bangalore are expected to dominate the supply pipeline, with the average size of warehouses in NCR and Mumbai to be more than 1 million sq. ft. Other cities such as Chennai, Hyderabad and Pune are also expected to witness supply addition, however the average size of developments here are expected to be in the 0.3 - 0.5 million sq. ft. category. In order to satiate the demand for quality spaces, domestic companies are partnering (JV, merger, etc.) with foreign players to seize the growth opportunity that the sector is offering. For instance, Hindustan Infralog Private Limited, a JV between global port operator DP World and the NIIF, aims to invest up to USD 3 billion in the port, logistics and related sectors; as a part of this strategy, it has acquired a 90% stake in Continental Warehousing Corporation. Another investment firm, Singapore-based Temasek, has entered into a platform level partnership with Ascendas-Singbridge to invest in logistics and industrial real estate across India.

While substantial new supply is expected to enter the country, at the same time, market players will strengthen their focus on in-city logistics solutions, which will increasingly cater for food and grocery deliveries and therefore need to include temperature-controlled facilities.

Figure 4-3: Future pipeline across major cities



Source: CBRE Research, Q1 2019

ON THE PATH TO TRANSFORMATION

Light industrial and other urban 'infill' logistics sites will play a crucial supply-side role for these opportunities.

CONTINUED IMPETUS ON MANUFACTURING SECTOR TO DRIVE DEMAND

The government's ambitious Make in India initiative is expected to act as a catalyst for growth in the logistics sector. Currently the manufacturing sector contributes about 19% of the GDP as per Q2 2018-19 (2011-12 prices) estimates. To further increase this contribution to 25% by 2025, the government is working on a new industrial policy with focus on three pillars – competitiveness, sustainability and inclusion. The policy proposes establishing an overarching body with representation by the Centre and the states - similar to the GST Council - to enable swift decisions on key changes such as the revamping of labor laws, taxation provisions and land leasing. With the focus being on manufacturing, developers need to ensure that they are not only prepared for higher demand from the manufacturing sector, but also for a probable shift in type of manufacturing i.e. high value manufacturing.

WHAT TO EXPECT IN 2019?

Significant supply addition expected; share of Grade A supply in overall supply expected to increase.

Demand from e-commerce players may slow down in the short term due to policy disruptions; in the long run, BTS properties to become more commonplace for such players.

Favourable policy framework and **government focus on infrastructure initiatives** is likely to spur growth in the sector; **greater use of technology** expected in the sector.

Focus on **building in-city logistics, grocery deliveries and cold chain facilities** to see greater

High-value adding manufacturing occupiers would have slightly different requirements from traditional occupiers, which may eventually propel the shift from "technology driven" warehouses to "smart" warehouses in the medium to long-term.

RENTAL APPRECIATION ANTICIPATED ACROSS CITIES

Considering the prevailing land costs and the associated construction costs of global standard facilities, rental values across various micro-markets are likely to appreciate in the short to mid-term. We expect occupier decisions to be based not purely on rentals but also on factors such as asset location, infrastructure and access to labour. This will push up the rental expectations of investment grade, compliant warehouses, thereby pushing up the market average. For 2019, we expect supply-constrained locations to continue to deliver rental growth, with new logistics hubs also emerging across cities in response to labour availability and land shortages. Prime locations such as NH-8 in NCR; Bhiwandi in Mumbai; Western and Northern belts in Chennai; Northern corridor in Hyderabad; and NH-2, NH-6 in Kolkata are likely to witness rental growth in the coming months.

ADOPTION OF NEW TECHNOLOGIES TO IMPROVE EFFICIENCY AND FLEXIBILITY

Use of automation to improve supply chain efficiencies: Indian e-commerce companies, 3PL players and online grocery chains are increasingly using innovative tech solutions to improve inventory management. The use of fleet management software (provides live tracking of goods), RFID systems for inventory identification and automated pallet storage is growing quickly, as is the number of start-ups aimed at bridging the technology gap. The widespread deployment of IoT is expected to revolutionize operations by creating smart warehouses that improve supply chain efficiencies. While the initial green shoots of these initiatives have already started appearing, their actual impact would only unfold over the next couple of years.

CAPITAL MARKETS

STABILITY TO ENSUE

STABILITY TO ENSUE

India's real estate industry has witnessed a paradigm shift from traditional finance to an era of structured finance, private equity and future public offerings. During 2018, the commercial real estate investment market witnessed few large-scale deals which has led to about USD 4.7 billion of investments. Transaction activity was led by private equity investors focusing on the office and retail sectors, while local investors focused on investing in land parcels for RE developments (Figure 5-2) . The inflow of long term, patient capital from private equity and other institutional players – especially in office and retail has provided these sectors with stability that will ensure a steady growth curve.

In terms of cities, Mumbai dominated the investment activity in 2018 with majority of deals in office sector followed by investor appetite for land(Figure 5-1).

STABILITY TO ENSUE

TRENDS EXPECTED IN 2019

Consolidation amongst NBFCs : There is an indication towards a consolidation wave amongst NBFCs, with the more robust ones taking over the smaller firms that are facing a financial crunch. The NBFC market in India is currently witnessing an overcrowding situation. As per the RBI, there are more than 10,000 NBFCs registered with the RBI as of October 2018, out of which only 275 are systematically important (with assets of more than INR 5 billion). In the current situation of cautious funding exposure towards NBFCs, the larger ones are expected to manage their liabilities by tapping public issues, while the smaller ones will find it a challenge to seek alternate sources of funding (Figure 5-3). This is likely to have a clean-up impact on the sector, with only credible lenders with strong balance sheets expected to sustain, thereby ensuring that the sector has access to long term, patient capital.

Loan quality to improve: While growth may be impacted with the liquidity squeeze, however a positive fallout of this is going to be reduction of concerns around asset quality, as incremental funding is expected to be deployed in quality loans and not high-risk loans. With the RBI also being aggressive with cancelling licences of non-compliant NBFCs (around 4,500 NBFCs have had licences cancelled till October 2018), it is eventually going

Figure 5-1: Investment share across major cities

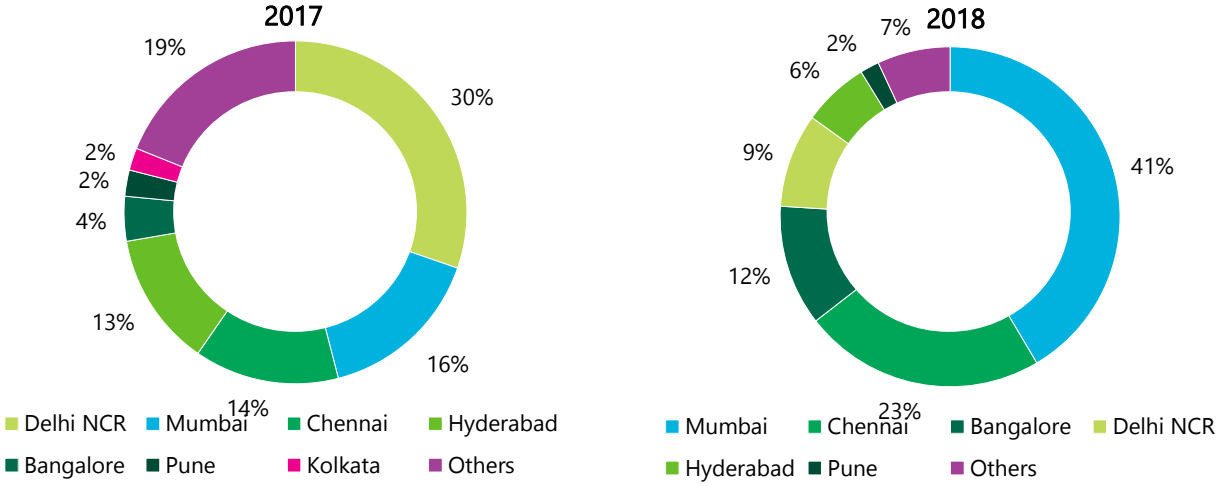
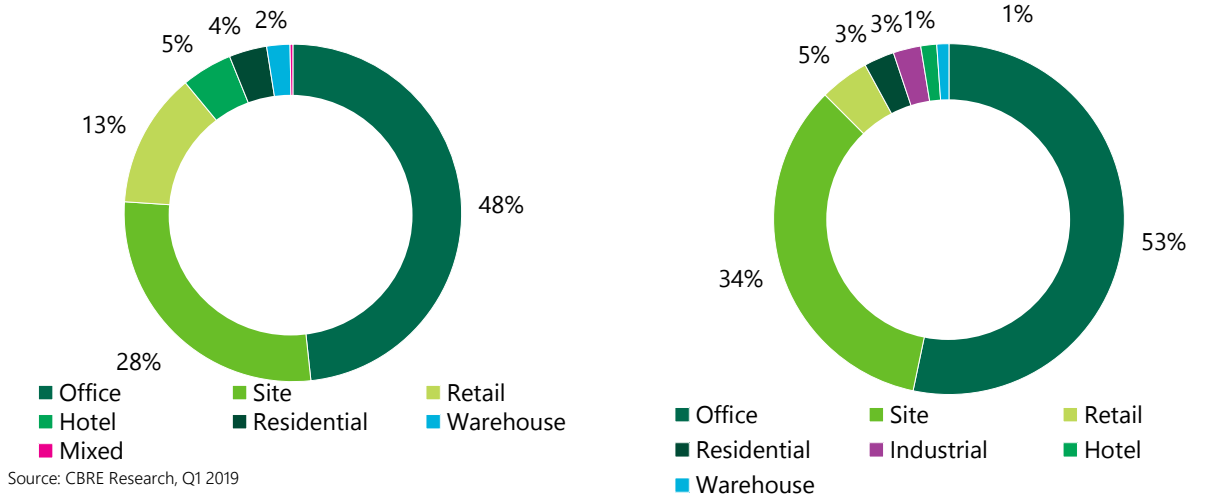


Figure 5-2: Investment share across major sectors



Source: CBRE Research, Q1 2019

to result in a clean-up, ensuring availability of quality capital for quality assets.

Due diligence to come in sharper focus: The NBFC liquidity situation will bring due diligence by investors, especially PE players into sharper focus. As lending becomes more opportunistic and the credibility of the counter-party and quality of asset comes into greater focus, it means that due diligence (and its increasing depth) will remain the dominant theme in the coming few months. Investors are expected to be selective in their investments, with core, Grade A assets remaining as favoured investments. Funding for greenfield developments will come under greater scrutiny due to the execution risks involved.

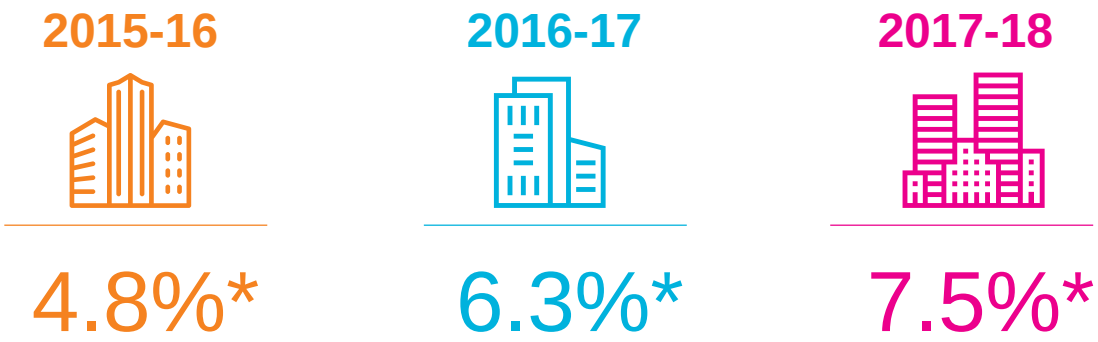
Increment in funding costs to continue: As banks and mutual funds have become cautious with their lending and refinancing towards NBFCs; cheaper sources of capital such as commercial paper has become scarce thereby implying that NBFCs must tap alternate but more expensive sources of capital (such as raising funds from the debenture market). A fallout of the same is going to be an increment in cost, which may not be applicable to existing loans (thereby impacting interest margins), but this hike is eventually being passed onto the borrower.

Shift towards core assets and LRD's: As fresh disbursements are slowing down and caution looms around new assets and land, assets that are backed by some type of collateral as well as core assets are likely to be in greater focus. It largely implies that there is likely to be greater focus on LRD's and core assets while financing / refinancing opportunities with existing partners and land deals are expected to be slow. However, refinancing will offer some opportunity wherein it could mean scouting for new players.

Real Estate Investment Trust (REIT) becoming a reality: With the first REIT listing (Embassy - Blackstone), retail investors have more options to invest (and exit) in the sector. As the sector gets more organized, HNI and non-resident Indian (NRI) investors are realizing that instead of taking on the pain of directly buying, managing and maintaining commercial properties, they can also participate through a REIT.

The yield conundrum: On the backdrop of increased demand for the dollar, rising crude oil prices and liquidity issues has resulted in 10-year bond yield (G-sec) breaching the psychological 8% mark during 2018. On the other hand, prime yields in sectors such as office and retail are also around the 8.0 – 8.5% ballpark, owing to marginal growth in rents and increase in capital values. This has resulted in the spread between G-sec and RE narrowing to less than 1%. However, on the flipside, the compression in yields can offer investors the dual benefits of growth in rental income and from rising capital values.

Figure 5-3: Real estate exposure to total assets (NBFC) in India



*Percentage of Total assets
Source: Reserve Bank of India (RBI)

STABILITY TO ENSUE

Table 5-1: How will 2019 be different from 2018?

Trends forecasted for 2018	Will it hold true for 2019?
Core to remain focus: • With the availability of well leased assets across core locations, PE investments in core assets are likely to continue.	• With limitation of investable assets in core locations, investors are expected to also look for well leased assets in in peripheral locations. • Yields witnessed a slight compression in 2018. During 2019, 2019, yields are expected to remain stable. • Commercial assets to remain in focus, however, investors are are expected to look for alternate assets such as retail, warehouse, co-working and data centers.
Consolidation among developers as well as large land owners owners with smaller players expected to look for avenues of funding or resort to asset monetisation.	• This trend is expected to continue in 2019 as well with consolidation amongst land owners and NBFC players as well.
Incremental interest for equity: • Compared with the past couple of years where debt remained the dominant flavour, there has been a selective but incremental appetite for equity as a source of funding.	• Equity funding is expected to continue with restriction to asset types such as commercial and retail. • It is expected that the residential sector will still be driven by by debt. Equity will be the preferred funding mechanism in commercial and industrial assets.

Table 5-2: 2019 Investment strategies

Tier I - Look for opportunities within sectors	
Office	Core assets will remain the focus, investors should also look for upcoming peripheral and suburban locations where rents are catching up with core locations.
Retail	As quality retail space is significantly under-supplied, investments in under- construction / new development and even redevelopment should be considered.
Logistics	Investors should look for prime properties in tier I cities with good infrastructure; greenfield opportunities should be at the forefront.
Other sectors	Investors could also look at alternate sectors such as data centers, co-living, student and senior housing, etc.
Tier II – Look for opportunities in cities with good fundamentals	
Office	Investors should focus on quality assets in core locations in cities such as Kochi, Trivandrum, Mysore, Ahmedabad, etc.
Retail	Investors should concentrate on quality assets with rising footfalls in core and non-core locations.
Logistics	Investors should look at warehouses located along the upcoming industrial corridors such as DMIC (Delhi-Mumbai Industrial Corridor), CBIC (Chennai-Bangalore Industrial Corridor), ADKIC (Amritsar-Delhi-Kolkata Industrial Corridor), MBIC (Mumbai-Bangalore Industrial Corridor).

Source: CBRE Research, Q1 2019

STABILITY TO ENSUE

WHAT TO EXPECT IN 2019?

As the number of NBFCs have increased in recent years, the current scenario and government policies will lead to **consolidation of NBFCs.**

PE investments are likely to focus on completed and under-construction quality assets in office and retail segments; residential sector will continue to be dominated by debt funding.

As the due diligence process tightens, **the quality of loans is also anticipated to improve**, however,

INCOPORATING TECH INTO FINANCIAL DECISION MAKING

Use of Artificial Intelligence (AI) for Risk Management: Financial organizations are on a path to improve their data management capabilities and are using AI tech to improve productivity across a range of functions such as risk management, trading and fraud detection.

Blockchain technology to become more critical: Blockchain or Distributed Ledger Technology (DLT) is a secure and consistent way of organizing and sharing data. In capital markets, the blockchain technology can streamline processes, reduce settlement times, risks and costs leading to operational improvements in the financial system.

RESIDENTIAL

PATH TO RECOVERY CONTINUES

PATH TO RECOVERY CONTINUES

The residential market was going through a bearish phase in 2017 due to the impact of policy disruptions such as demonetisation, Real Estate (Regulation and Development) Act (RERA) and implementation of the Goods and Service Tax (GST). These initiatives resulted in a decline in residential sales and launches across cities. With the impact of these policy initiatives subsiding in 2018, new launches and sales inched upwards with a y-o-y increase of about 15% in new supply and 13% in sales. While the recovery was at site, towards the end of 2018, a liquidity crisis in NBFCs - a leading source of funding for residential developers, resulted in fund crunch for the developer community. However, the government/RBI have been proactive in ring-fencing the NBFC liquidity crisis and at the same time, the GST council has slashed GST rates on housing units to spur demand.

PATH TO RECOVERY CONTINUES

INCREASING HOUSEHOLD DISPOSABLE INCOME AND CONTAINED INFLATION TO SOW THE SEEDS FOR REVIVAL

Over the last five years, retail inflation has been softening owing to strict measures adopted by both the RBI and the government, which has led to household disposable income increasing over the same period with a CAGR of about 5% (Figure 6-2). On the other hand, residential prices have remained almost stable / declined in certain cities over these years. This is resulting in a period where the affordability of the household is strong, and when this is seen in conjunction with the regulatory reforms for the residential sector, it presents a clear case of recovery in the coming year.

Table 6-1: Policy measures and its impact on residential sector in 2018

Policy	Key Highlights	Current status
Real Estate Regulatory Regulatory Act (RERA)	RERA was aimed at ensuring accountability accountability and infusing transparency and uniformity in practices prevalent in the the real estate sector.	• More than 26 states and UTs have notified rules rules under the RERA and more than 20 states have their websites operational under the provisions of RERA. • As on December 2018, more than 34,000 RE projects have been registered under the RERA. RERA.
Affordable Housing	The government relaxed carpet area norms norms multiple times for affordable housing incentives. GST relaxations were also made.	• Revisions in GST rate were undertaken in Feb 2019. The GST rate is down from 8% to 1% on under-construction properties (subject to no ITC). Also, as previously, there is no GST on completed projects. • Area relaxations for affordable housing were also also undertaken in Feb 2019. Affordable housing housing now includes units upto 60 sq. m. in metropolitan cities (NCR including Delhi, Noida, Noida, Greater Noida, Ghaziabad, Gurgaon and and Faridabad), Bangalore, Mumbai – MMR region, Chennai, Hyderabad and Kolkata) having having value up to INR 4.5 million. This is up from the previous area definition of 30 sq. m. • For non-metropolitan cities / towns, units upto 90 sq. m with value up to INR 4.5 million have been included in the affordable housing category. This is up from the previous area definition of 60 sq. m.
Insolvency and Bankruptcy Code Amendment (IBC), 2018	The inadequacy of RERA to address the concerns of home buyers in case of corporate insolvency has led the central government to amend the law.	• Home buyers have been recognized as financial financial creditors which treats them at par with the financial institutions to receive their share in in case of insolvency proceedings. • The amendment is also is in sync with RERA, in in case of any delay from the developer, allottee

Source: CBRE Research, Q1 2019

PATH TO RECOVERY CONTINUES

THE SUPPLY-DEMAND CONUNDRUM: WHAT TO EXPECT IN 2019 – SUPPLY TO IMPROVE

As developers align themselves with structural policy reforms implemented in the past few years and with changing characteristics of demand, we can expect residential supply to improve in 2019 (Figure 6-1). The residential market is better placed this year as speculation-led investment activity has reduced significantly and financial checks are in place to prevent over-gearing. In terms of segments, mid-end projects will still garner the major chunk of supply, followed by the affordable segment (owing to government incentives and increase in end-user demand). An uptick in launches is expected to be witnessed in Bangalore, Mumbai, Hyderabad and Chennai, whereas launches in Kolkata and Pune are expected to be stable.

However, the NBFC liquidity situation may still pose an impediment to this recovery, since a number of NBFCs have a significant proportion of their loan books exposed to developer funding. A significant portion of these funds have been parked in projects in far flung, peripheral locations, with relatively weaker demand.

Figure 6-1: Supply demand dynamics

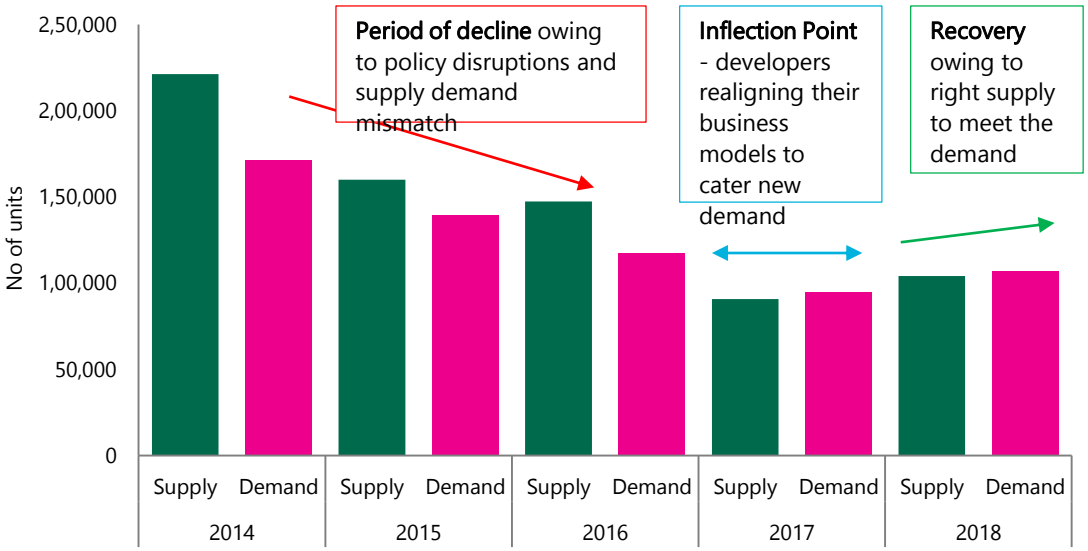
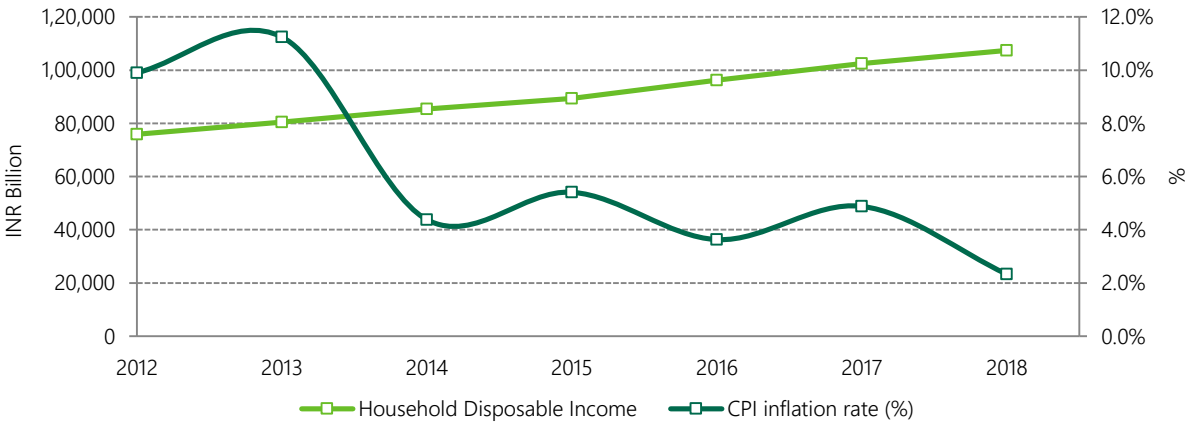


Figure 6-2: Household disposable income vs CPI inflation



Source: CBRE Research, Q1 2019

PATH TO RECOVERY CONTINUES

In the wake of this liquidity tightening, most NBFCs are expected to exert caution, with focus being on funding quality projects rather than only balance sheet expansion.

DEMAND TO BE STRONGER IN 2019, MID / AFFORDABLE HOUSING TO LEAD

The year 2018 witnessed demand inching past supply, resulting in a dip in unsold inventory levels. The confidence levels of end-users and fence sitters was also relatively higher than previous years. However, with the implementation of the GST and the confusion surrounding the transfer of ITC from developers to homebuyers, the appetite for completed developments was much higher; even though they form a miniscule proportion of the unsold inventory. With the government announcing GST rate cuts for residential properties in Feb 2019, the GST taxation gap between an under-construction and completed property has been narrowed (from an end-user perspective), and this could result in a pick-up in demand for under -construction properties as well (Table 6-3).

On the other hand, incentives for affordable housing coupled with lower GST rate has increased demand for this segment, a trend which is expected to continue in 2019 as well. In terms of cities, Hyderabad (West Hyderabad – Madhapur, Gachibowli, Nanakramguda), Bangalore (North Bangalore, Sarjapur ORR), Mumbai (Extended Western and Eastern Suburbs, Thane, Navi Mumbai), Chennai (OMR and GST Road), Kolkata (Rajarhat, Garia) are expected to drive demand in 2019. At their end, developers will try and stoke this demand by rolling up schemes and incentives (Table 6-2). In the affordable segment, developers are likely to draw up appropriate marketing strategies, phase-out launches and defend their margins by managing construction costs.

ASSET PRICING: TO BE LARGELY STABLE

Asset pricing trends are expected to be divergent across the leading cities as the level of unsold inventory and growth in sales is expected to dictate capital value movement. In markets such as NCR which have high levels of unsold inventory and several instances of delayed project deliveries, developers might be constrained from raising prices. As demand for affordable and mid-end properties intensifies, appetite for premium / luxury properties is expected to remain subdued. Consequently, capital values in most cities and micro-markets in this segment are likely to remain stable. Capital values in the mid and high-end segment are expected to be stable or witness a marginal increase (restricted to cities such as Hyderabad, Mumbai and Bangalore) owing to new launches.

MAJOR TRENDS TO LOOK OUT FOR IN 2019: APPROPRIATE LOCATION, RIGHT SIZING & PRICING TO DRIVE THE SECTOR

Supply to be concentrated in the mid and affordable segments: As we expect the market to witness a turnaround, developers will be concentrating on the mid and affordable segments and be cautious about location and launches. The first half of the year is expected to be stable with central and few state elections around the

Table 6-2: Supply forecast for 2019

Time Period	NCR	Mumbai	Bangalore	Chennai	Hyderabad	Pune	Kolkata	Overall India
H1 2019	▶	▶	▲	▶	▲	▼	▶	▶
H2 2019	▶	▲	▲	▲	▲	▶	▶	▲

Table 6-3: Demand forecast for 2019

Time Period	NCR	Mumbai	Bangalore	Chennai	Hyderabad	Pune	Kolkata	Overall India
H1 2019	▶	▶	▲	▶	▲	▼	▶	▶
H2 2019	▶	▲	▲	▲	▲	▶	▶	▲

Source: CBRE Research, Q1 2019

corner, but the second half is expected to witness an increase in launches. Limited traction is expected in the premium and luxury segment.

Demand to be strong for the right product: Demand will also remain concentrated in the affordable and the mid end segments. Projects which are launched in locations with developed physical and social infrastructure in place are expected to see greater traction in the coming year. As delivery capabilities and balance sheets of developers have come into greater focus, buyer preferences have shifted towards better quality and branded developments.

- **Credible players to enter affordable housing:** We expect more large-scale developers to enter this sector owing to government incentives, increased funding avenues due to infrastructure status and improving demand from buyers. Most of the launches in this segment are expected to be concentrated in the peripheral locations of tier I cities and in tier II and III cities, where the sizes of units are comparatively bigger.

- **Asset pricing to remain steady, albeit in key locations:** Pricing will be one of the key factors for projects to be successful. With limited speculative buying, developers will be cautious with pricing, resulting in stable capital values in 2019. To sustain the sales momentum, developers are expected to be flexible with the payment terms by offering subventions schemes, 10:80:10 schemes, etc. These schemes along with easier funding options is expected to improve sales in the coming year.

- **Consolidation expected, share of larger players to increase:** Fragmentation in the sector, not only at a national level but also at a city level. Reforms such as RERA have resulted in accelerated consolidation. The impact of the NBFC funding crunch and implementation of GST and Insolvency and Bankruptcy Code is expected to impact the smaller and mid-sized developers who are over-leveraged. Developers with a scalable business model are better placed to increase their market share in a regulatory environment that demands greater accountability and transparency.

- **Increasing investment in land:** There was an uptick in land transactions by developers in 2018, with about 34% of all investments concluded during the year concentrated in land or development sites; up from about 28% in 2017. Also, more than half of the land deals witnessed in 2018 are proposed to be developed as mixed-used / residential projects. Majority of these are in cities such as Bangalore, Mumbai and Chennai. This shows that investor focus still remains on the residential sector, and we can expect more development activity in the coming year or so.

- **Increased participation of private equity investors:** Currently, debt structures dominate the fund inflows in residential markets. Most developers are over-leveraged, but with RERA, a conducive environment for the return of equity participation has been created. The launch of a REIT is also expected to open up fund-raising avenues for cash strapped developers.

- **Emergence of alternate assets:** With an increasing millennial population which contributes to one fourth of the overall working population in India, their need for housing is slightly unique. They look for convenience, service and a frictionless experience while leasing a residential property. Investors are tapping this unexplored segment to cater to the demand; including co-living, student and senior housing options.

TECH TO AID SALES AND REVOLUTIONALISE THE CONSTRUCTION INDUSTRY

Tech affects every aspect of human life; it is ubiquitous and influences us personally and professionally. However, the impact of tech is no longer restricted to the devices we use as it has become a part of our working and social cultures. While tech has had a significant impact on the way companies conduct business, the residential / construction segment is still in initial stages of technological innovation. Improvements in construction techniques and adoption of tech will have far reaching implications on cost, timelines and quality – all of which are becoming increasingly important to developers and end-users alike.

PATH TO RECOVERY CONTINUES

Below are some of the key techniques / technologies, which are expected to be adopted by the developers to reduce costs and improve margins:

Online platforms to enhance sales: The internet penetration in urban India is observed to be more than 60% today and the number of mobile "internet" users is estimated to touch 627 million by the end of 2019.[8] This has led to a rapid increase in channel partners tapping this online platform for sales. In addition, developers are also increasing their investments in the internal CRM platforms to provide buyers with easy access to their investments.

Aluminium formwork: This is being utilised as part of a technology called Mivan which allows walls and slabs to be cast simultaneously at the construction site. The work requires less labour and time and at the same time produces more durable and earthquake-resistant buildings. Suitable for large housing projects and those requiring uniform construction, Mivan is already being used by a few developers in Mumbai and Hyderabad to reduce costs and meet timelines.

Prefabricated buildings: Precast or prefabricated construction is a technique where the key elements of a building, including floors, walls and roofs, are manufactured in a factory and then assembled on site. While the use of this technology for building homes in India is still limited, metro projects such as the Delhi Metro and Bangalore Metro have used precast / prefabricated structures to keep costs and timelines in tandem. The use of precast construction helps in saving significant amount of time (as compared to conventional construction methods) and also brings down costs.

Jump Formwork: Best used to develop high-rises (more than 50 storeys), this technology expedites the construction of building cores, including areas such as staircase, lift and lobbies by building these structures for two-three cores in one go. Not only does it minimise manual labour, but it also reduces the chances of leakage and cracks as the core uses minimal brickwork and is made largely of concrete and metal.

Building information modelling (BIM): BIM involves the development of highly accurate and detailed 3D structural models which help in end-to-end visualisation of a project. They allow developers to design even functional characteristics such as plumbing and wiring before the work starts. These models help companies test the constructability of a building in advance to make sure that errors and wastage is minimised, thereby reducing the risk of a project going off-budget or off-schedule.

With RERA imposing penalties on developers for delays and also the fact that construction timelines need to be adhered to for availing tax benefits, developers are expected to increasingly invest in latest construction technology in the coming years to ensure timely completions, that meet international standards.

WHAT TO EXPECT IN 2019?

Supply- demand scenario is expected to improve, unsold inventory levels to further decline.

Consolidation among developers to continue in 2019**, delivery capabilities and balance sheet strength** to come in sharper focus.

Affordable housing will drive supply and demand, to be backed by several government reforms.

Alternate assets such as **co-living, student** and **senior housing will continue to garner greater interest** from end-users and developers.

[8]IMRB International

For more information about this regional major report, please contact:

RESEARCH

Abhinav Joshi
Head of Research, India
abhinav.joshi@cbre.co.in

Vidhi Dheri
Sr. General Manager, India
vidhi.dheri@cbre.co.in

Sachi Goel
General Manager, India
sachi.goel@cbre.co.in

Raajthilak Raveendra
Asst. General Manager, India
raajthilak.raveendra@cbre.co.in

Uttara Nilawar
Asst. General Manager, India
uttara.nilawar@cbre.co.in

Chinmay Panda
Manager, India
chinmay.panda@cbre.co.in

For more information regarding global research, please contact:

Richard Barkham, Ph.D., MRICS
Global Chief Economist
richard.barkham@cbre.com

Neil Blake, Ph.D.
Global Head of Forecasting and Analytics | EMEA Chief Economist
neil.blake@cbre.com

Henry Chin, Ph.D
Head of Research, Asia Pacific
henry.chin@cbre.com.hk

Jos Tromp
Head of Research, EMEA
jos.tromp@cbre.com

Spencer Levy
Head of Research, Americas
spencer.levy@cbre.com

Follow CBRE

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.

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at www.cbre.com/research-and-reports

CBRE