CBRE RESEARCH

2018 ASIA PACIFIC

REAL ESTATE MARKET OUTLOOK

India

CBRE

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REAL ESTATE MARKET OUTLOOK

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Source: CBRE Research, January 2018.

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.

CBRE

2018: A WATERSHED YEAR AFTER POLICY REFORMS

The year 2017 was one of short-term disruptions for the Indian economy, largely due to the implementation of several policy reforms such as demonetisation and the Goods and Services Tax (GST). India's economic growth dipped marginally during the year to reach approximately 6.75% in 2017-18, as several sectors such as manufacturing, construction and infrastructure felt the downward impact of these structural policy changes. However, this impact is increasingly waning now, and various global and Indian thinktanks and multilateral institutions (and the Indian government) have projected relatively stronger growth in 2018. The International Monetary Fund (IMF) expects India's real GDP growth to reach 7.4% in 2018 and 7.8% in 2019, thereby reinstating the country as the world's fastest growing major economy. A landmark tax reform such as the GST is designed to turn India into a unified common market. In the long run, steps such as these are expected to help improve the ease of doing business in the country and propel greater investment flows across sectors.

The office market in 2017 continued to breach the 40-million mark in terms of space take-up despite a dip in supply across key markets during the year. Leasing activity was dominated by the three cities of Delhi-NCR, Bangalore and Hyderabad. Despite the cautionary trends permeating the office sector, we expect 2018 to be a positive year, with a healthy play between supply and demand. Flexibility in work spaces is expected to emerge stronger, with landlords expected to better align spaces with the needs of occupiers. As availability of ready-to-move-in spaces remains constrained (particularly in core locations) amid sustained rental growth, pre-commitment activity is likely to remain strong, especially in cities such as Bangalore.

The retail sector remained stable in 2017 with the addition of about 3.4 million sq. ft. of supply across seven key cities – almost in line with the supply in 2016. A majority of the supply was concentrated in Mumbai, Delhi-NCR, Pune, Bangalore and Kolkata. In terms of new global entrants, 2017 witnessed the entry of almost 15 global brands. In 2018, we expect supply to be led by the southern cities of Hyderabad and Bangalore. While traditional factors (such as availability of new supply, government initiatives and supply-demand gap) would continue to shape the retail segment, new-age developments (rise of sharing economy, flexible leases, etc.) would result in a better alignment with global trends.

The logistics sector continued to tread on a strong growth trajectory, with leasing activity reaching an all-time high of approximately 17 million sq. ft. in 2017. We expect this momentum to continue into 2018 as existing and new occupiers consolidate/expand their operations across the country. Sustained demand from sectors such as third-party logistics (3PL), e-commerce, FMCG, retail, and engineering and manufacturing is expected to drive transaction activity. The government's impetus to formalise the sector by granting it infrastructure status as well as the implementation of the GST have also propelled investments / supply creation in the sector. This new investment-grade supply by prominent Indian and global players is expected to start getting operational from mid-2018. It is likely to have a positive impact on transaction activity and propel leasing volumes even further in 2018.

The residential segment was seen reeling under the impact of demonetisation and implementation of the Real Estate Regulatory Act (RERA), as sales and new project launches declined to historic lows in 2017. Although homebuyer sentiments improved marginally in select cities such as Bangalore, Hyderabad, Chennai, Mumbai and Pune, the sector continued to suffer from subdued sales and select / intermittent supply addition. As the developer community gets used to RERA, we expect the residential segment to show some signs of recovery in 2018. Affordable housing as a segment is also expected to see greater interest, as incentives offered by the government are likely to result in better end-user and developer participation. Overall, in 2018 we expect the market to undergo a sieving process, with credible and sustainable developers differentiating themselves from other players, and the focus steadily moving towards end-users.

The investment market was buoyed by several government initiatives in 2017 as the new policies were expected to increase transparency and enhance consumer and investor confidence in the real estate sector, thereby resulting in significant interest from offshore equity investors, large Indian corporates and high net-worth individuals (HNI). With valuations remaining attractive and quality assets being available in core and core-plus locations, investment activity in the segment has remained hectic. The coming year is only going to build upon the stepping stones that 2017 has provided, with more money expected for existing as well as newer asset classes. Quality is likely to remain the overriding theme as good quality assets would continue to attract a majority of this money. As fewer assets compete for these investments, the market is likely to witness increased consolidation among developers as well as large land owners. While the past two years have witnessed numerous steps to ease the investment environment, further streamlining of the regulatory environment would be key to attracting and sustaining investor interest and confidence.

ECONOMIC OUTLOOK

GROWTH IN THE FAST LANE

GROWTH IN THE FAST LANE

2017 GLOBAL ECONOMIC OVERVIEW

The global economic recovery, which began in H2 2016, picked up pace in 2017 on the back of strong investment and improved economic performances of Europe and Asia. According to IMF estimates, global growth rate rose by 0.5% y-o-y to 3.7% in 2017. The agency expects the growth rate to rise further to 3.9% in 2018 and 2019, partially attributable to recent US tax policy changes.

India and China are expected to drive the global economy, clocking 7.4% and 6.6% growth rates respectively in 2018. The two countries would ensure that Asia-Pacific's growth remains stable at about 6.5% in 2018-19. However, growth is expected to slow gradually in China, although the IMF has revised up its forecast for the country from its previous estimate – a reflection of strong external demand. In 2019, China is estimated to grow by 6.4% y-o-y, while India's growth will accelerate to 7.8%, according to latest IMF projections.

HIGHER CRUDE OIL PRICES

Crude oil prices rose by 20% between August 2017 and mid-December 2017[1] due to improved global growth scenario, extension of the OPEC–non-OPEC production cap agreement and geopolitical instability in the Middle East. Although wage and core price inflation has remained weak, the crude price rise has pushed up headline inflation in developed and developing

[1] IMF

countries. If the price rise continues, inflation is set to grow and limit real incomes and spending if the increase is passed on to the consumers. Higher inflation figures would require tighter monetary policies, leading to increase in lending rates.

STRONG GROWTH MOMENTUM IN THE US

Higher projected external demand, tax reforms and growing deal activity in 2017 have resulted in stronger growth forecast for the US. The IMF raised the country's growth forecast to 2.7% for 2018 and to 2.5% for 2019. In addition, the proposed US tax reforms (significant reduction in corporate tax rate to 21%) could reduce demand from US corporates for Asia Pacific operations. However, experts believe that the positive effects of the corporate tax cuts on the US growth rate will be felt only until 2022 due to the temporary nature of some of its provisions, after which growth will start decelerating again. In the short term, these tax cuts could affect the competitiveness of the Indian subsidiaries of US firms and encourage flow of capital from these subsidiaries to their parent companies. Moreover, the US government's push towards a weaker dollar is expected to put a strain on Indian exports, which form a crucial component of the country's growth story.

KEY RISKS

There are widespread fears that the Chinese downturn could become more severe over the next few years. The housing market, which accounts for almost 30% of China's GDP growth, is already showing signs of weakness. In addition, geopolitical tension between North Korea and the rest of the world might continue to pose a threat to regional safety and create caution among investors considering purchasing assets in South Korea.

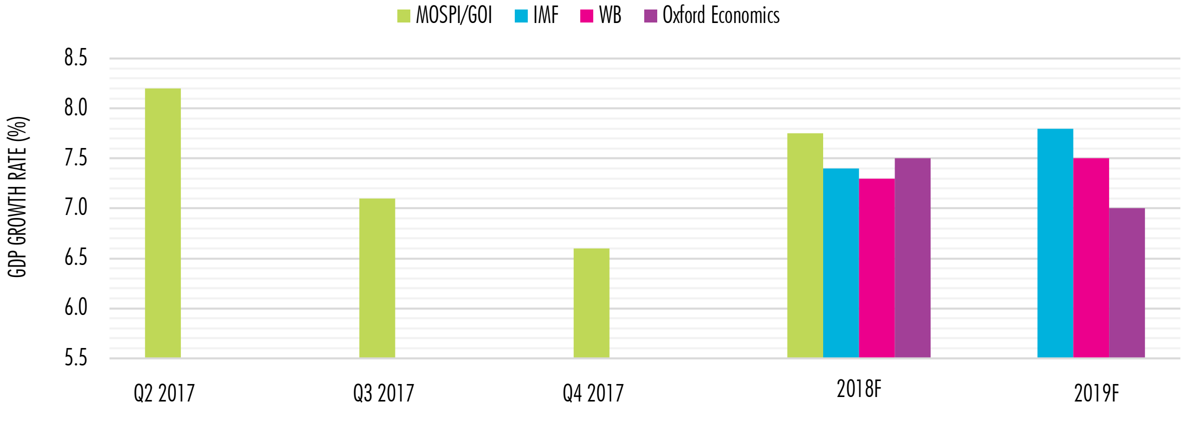
Other key risks could include the volatile growth of cryptocurrencies such as Bitcoin and Ethereum. While they do not pose a direct threat to the real estate market yet, there is growing concern that the unpredictable price movements of cryptocurrencies could trigger a new financial crisis.

INDIAN ECONOMIC OVERVIEW 2017

While 2016 was a year of policy announcements, 2017 saw their implementation. Last year, the government finally implemented several policies, initiatives and reforms it had announced over the past two years, infusing positivity in the real estate landscape. We expect these initiatives to bear fruit in 2018.

During the presentation of Budget 2018-19, the government indicated that it expects GDP growth in the second half of the year to be in the range of 7.2-7.5%, which is expected to boost the overall 2017-18 growth to around 6.75%. This should allow real GDP growth to reach 7-7.5% in 2018-19, thereby reinstating India as the world's fastest growing major economy.

Figure 1: India's GDP Growth Trend (2017-19)



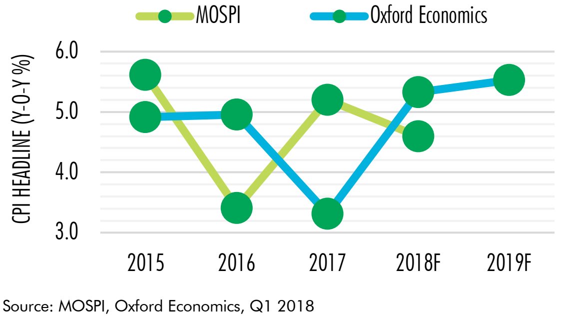
Source: MOSPI, GoI, IMF, World Bank, Oxford Economics, Q1 2018

However, going by these estimates, the decline in annual GDP growth could be attributed to the impact of demonetisation, which is now increasingly waning. This has led the IMF to retain its GDP forecast for FY17/18 at 6.7% in January. It expects the economy to grow by 7.4% in 2018 and 7.8% in 2019. According to the government's economic survey 2017-18, the country's cash-to-GDP ratio has stabilised, suggesting a return to equilibrium.

On the back of various targeted reforms undertaken to improve India's rank, India jumped 30 places to enter the top 100 countries in the World Bank's Ease of Doing Business Report (EODB) 2018, for the first time. India jumped 53 and 33 spots on the taxation and insolvency indices, respectively – attributable to taxation reforms and the passage of the Insolvency and Bankruptcy Code (IBC), 2016.

On the flip side, retail inflation (measured by consumer price index, or CPI) has remained a concern, even breaching the Reserve Bank of India's (RBI) 4% target in November 2017 and touching a 17-month high of 5.21% in December 2017. The increase was primarily attributed to rising housing, food and fuel prices. The record high inflation has reduced the scope for monetary easing. However, the RBI has so far exercised restraint and sustained the repo rate at 6%. The last rate change had occurred in August 2017 when the central bank had cut interest rate by 25 basis points on the back of a softening inflation target amid slightly slower but steady economic growth. The RBI is expected to keep a close eye on the market to ensure a balanced market, considering that the CPI has been projected at 5% for 2018 and at 6% for 2019.[2]

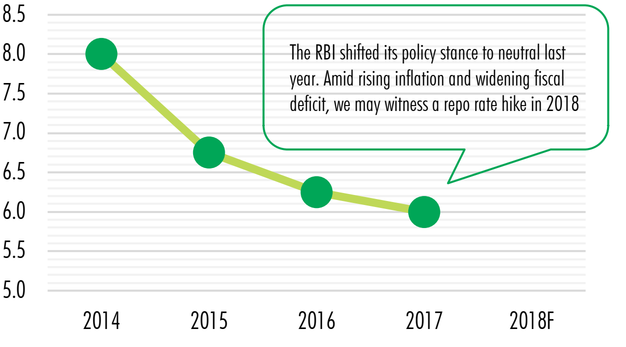
Figure 2: Headline Inflation (CPI) (%)



Source: MOSPI, Oxford Economics, Q1 2018

[2]Oxford Economics, [3]Economic Survey 2017-18

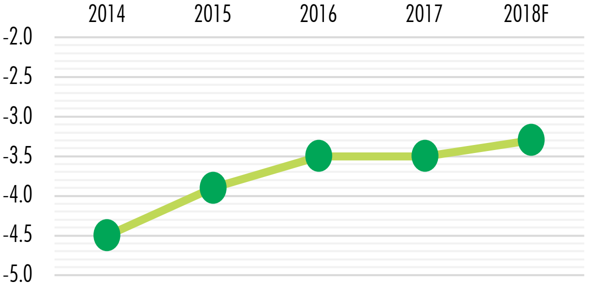
Figure 3: Lending Rates (%)



Source: RBI, Q1 2018

Meanwhile, fiscal deficit continues to be another top concern for the government. Budget overruns caused the central government's fiscal deficit until November 2017 to inflate to INR 6.1 lakh crore instead of the targeted INR 5.5 lakh crore[3]. For 2018, the government has projected a fiscal deficit target of 3.3% against market expectations of a 3.2% target – a move that has the potential to add to political and economic pressure as India nears the general elections.

Figure 4: Gross Fiscal Deficit (% of GDP)



Source: RBI, Q1 2018

CROSSING THE GST LANDMARK

The government implemented the landmark indirect tax, GST, in July 2017, designed to turn India into a unified common market. The effective GST rate for the construction sector now stands at 12% and includes the value of land. Initially, GST led to short-term disruptions in the country's GDP growth, but in the long term it is expected to revive investment sentiments as corporates increasingly become familiar with the tax. What has made the act even more industry-friendly is the government's willingness to make changes to taxation rates after assessing the market impact.

When the legislation was introduced in July 2017, several materials used in construction were placed in the 28% tax slab, resulting in an increase in costs that was expected to be passed on to the customer. As a relief, the government gave the construction industry 100% Input Tax Credit (ITC) on raw materials and services used. More relief came in November 2017, when the government shifted almost 178 of the 227 listed goods under the 28% tax slab to the 18% slab; these goods included marble, granite, ceramic articles and fly-ash bricks. However, cement and paints remain in the 28% tax slab.

Over the medium term, GST is expected to encourage economic activity and fiscal sustainability by reducing the cost of complying with multiple tax systems, improving the formality of the largely informal real estate sector, expanding the tax base and improving revenue collection. In the long run, it is expected to improve business environment (irrespective of the location) and help generate investment and employment. The removal of federal barriers and creation of a common market will improve supply chain efficiency, with the warehousing segment being its biggest beneficiary. The investment decision for a warehousing operator will no longer be governed by the comparative tax advantages of various states, thereby enabling them to make informed decisions based on supply chain dynamics. As the warehousing sector moves towards a more systematic mode of operation, the sector is likely to witness the inflow of more institutional funding and formal sources of capital.

RERA – A HARBINGER OF CHANGE

RERA, which came into effect on 1 May 2017, was aimed at ensuring accountability and infusing transparency and uniformity in practices prevalent in the real estate sector. The central act, which was notified in 2016, brought both ongoing and new projects under its purview. However, while notifying the rules, select states have diluted several of its regulations; these dilutions include exempting a majority of under-construction projects from RERA's purview.

One of the most critical aspects of the act was the setting up of online portals at the state level, detailing project-level information for public access. These registered projects must be updated on a quarterly basis, with updates on project progress and sales information. However, of all the states that have implemented RERA in various formats, only around 11 have an active online portal.

As the year saw continued dilutions of the central act, a number of petitions challenging the validity of RERA were filed across various high courts. At the behest of the central government in September 2017, the Supreme Court transferred all pending cases to the Bombay High Court to avoid multiplicity on the issue. In December 2017, a ruling by the Bombay High Court upheld the following provisions of RERA:

- RERA provisions will apply to all ongoing projects
- The court dismissed the excessive interest rate argument (in case of completion delays) and ruled that it is fair and imperative to protect homebuyers

However, the high court granted relief to developers on the following points:

- In exceptional circumstances, if the developer fails to deliver, the RERA authority has powers to provide an extension to the project without a penalty
- The RERA appellate tribunal should be headed by a judicial officer; a majority of the tribunal members must also be officers or members of the judiciary

While the combined effect of demonetisation and RERA created disruptions for residential real estate, in the long run, the act will be a positive step towards resolving issues related to accountability, transparency and investor confidence. It is also expected to revive end-user sentiment, resulting in a more resilient and end-user-driven demand in the residential segment in the future. However, this can only be achieved if the spirit of the act is upheld. The ruling by the Bombay High Court is critical as it tries to ensure that states do not try and dilute the purpose of the act by making exclusions. Developers in most states have already understood that RERA is a definite reality and that it is now only a matter of time that all 28 states will implement the act, bringing much-needed uniformity and transparency to the Indian real estate sector.

OTHER POLICY INITIATIVES

Besides implementation of the GST and RERA, several other policy initiatives were undertaken by the government, with an objective to ease business sentiments and propel investments. Some of these key initiatives have been mentioned below:

Table 1: Key policy reforms in recent times

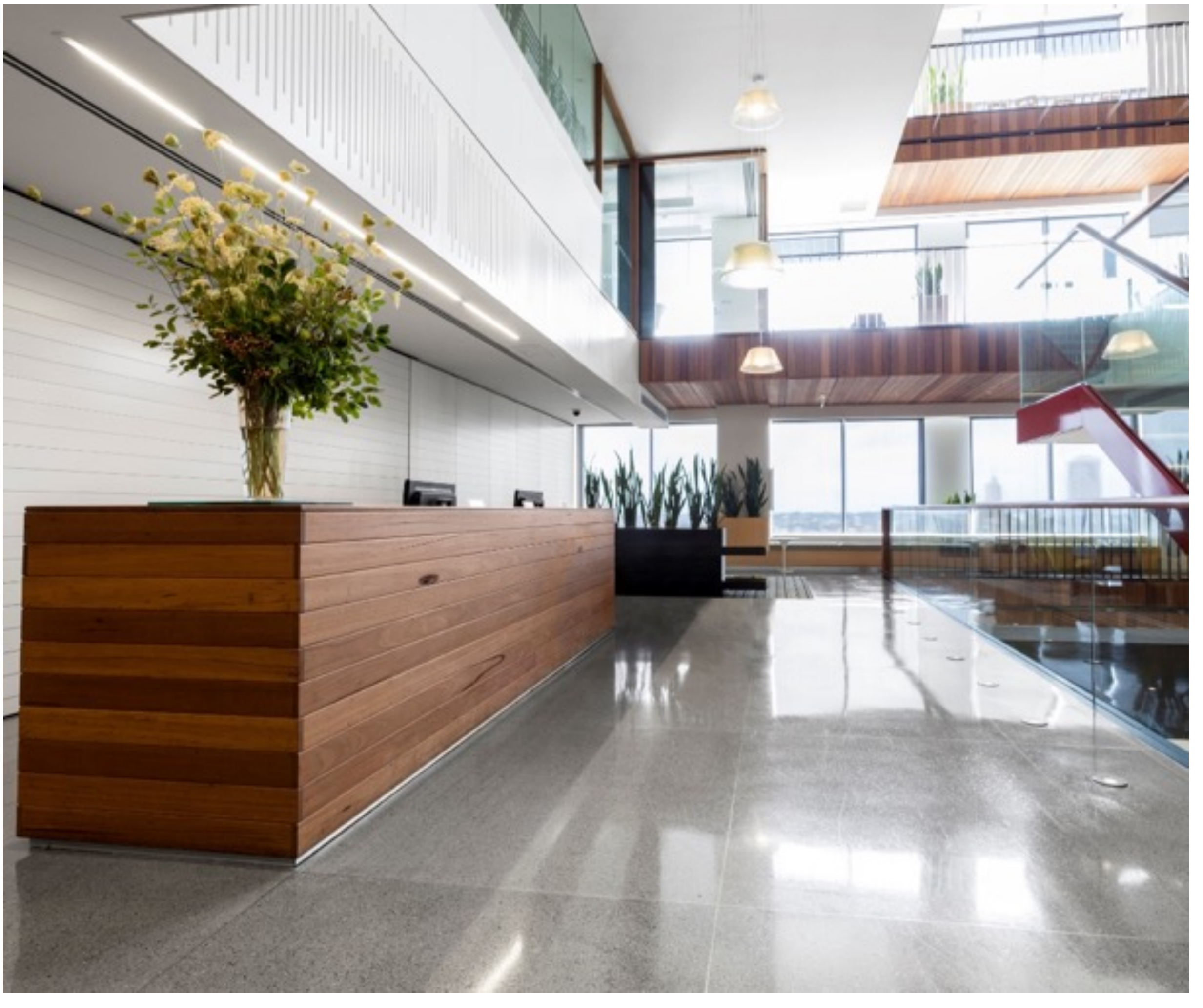
Policy Initiatives	Key Highlights	Expected Impact
Budget 2018-19	Infrastructure development was a focus area of the current government as it received an outlay of INR 5.97 lakh crore for 2018-19. Indian Railways will get INR 1.49 lakh crore, a large part of which will be used for capacity creation; more than 600 railway stations will be redeveloped. The government plans to add 150 km of suburban railway network in Mumbai at a cost of over INR 40,000 crore; for Bangalore, it plans to build a suburban network of 160 km at an estimated INR 17,000 crore. It also aims to add 9,000 km to the highway network of India. Further, it announced that 99 cities have been identified for the Smart City initiative and INR 2.04 lakh crore has been earmarked for the project. To spur the supply of affordable housing, the finance minister announced the setting up of a dedicated fund for affordable housing under the National Housing Bank, which will be funded by priority sector lending shortfall and fully serviced government-authorised bonds. This announcement added to the demand side pre-budget cheer for the segment wherein GST for affordable and low-cost housing was rationalised from the previous 12% to 8%. Further, it has allowed 5% variation in transaction and circle values for computation of capital gains tax for property transactions.	The budget was largely populist as it focused on providing social security and healthcare at the grassroot level. While the budget will benefit MSMEs, considering the sharp reduction in corporate tax from 30% to 25% for companies with a turnover of up to IMR 250 crore, it did not meet the real estate sector's expectations of being granted infrastructure status. Even the decision to allow 5% variation in transaction and circle values is not expected to offer much tax relief.
Grant of infrastructure status to logistics sector	The logistics sector is now a part of the Harmonized Master List of Infrastructure Sub-Sectors and falls under a new head 'Transport and Logistics'.	The move will increase investor interest, particularly from global players. Logistics sectoral growth is expected to spread to tier II and III cities.
Revision of foreign direct investment (FDI) and exit guidelines	A committee set by the Department of Industrial Policy & Promotion (DIPP) will now approve claims of single-brand retail traders with 'state-of-the-art' and 'cutting-edge' technology. Wholesale cash and carry traders will be allowed to undertake both single- and multi-brand retail trade under the same entity. The 70-30 local sourcing rule was relaxed. The government lifted restriction on global players to have a mandatory brick-and-mortar store for online operations.	The FDI policy relaxations will open new avenues for international brands and improve the ease of doing business in India, resulting in a significant increase in FDI inflows.
Broadening the coverage of incentives offered under the Pradhan Mantri Awaas Yojna (PMAY)	In November 2017, the carpet area under this initiative was raised from 90 sq. m. to 120 sq. m. for the INR 6-12 lakh/annum income category, and from 110 sq. m. to 150 sq. m. for the INR 12-18 lakh/annum category.	With the expansion of carpet area limit, a large segment of mid-income housing will also become eligible for benefits under the flagship affordable housing scheme.

Source: CBRE Research, Q1 2018

OFFICE

SOFTER GROWTH AHEAD

SOFTER GROWTH AHEAD



AN OVERVIEW OF 2017

Despite a crunch in the availability of ready-to-move-in space, office leasing remained resilient in 2017, dipping marginally by 3.5% y-o-y. The leasing activity was dominated by Delhi-NCR, Bangalore and Hyderabad. As in 2017, we expect occupiers to make more efforts to remain flexible as the business environment changes, focus more on pre-committing quality space and prioritise infrastructure availability while implementing their location strategies.

TRENDS TO LOOK FORWARD TO IN 2018

DEMAND: CHANGING OCCUPIER PREFERENCES

Sectoral growth: Disruptions in the tech sector are likely to marginally reduce leasing activity in 2018. However, the decline would be offset by augmented demand from other industry sectors such as banking, financial services, engineering & manufacturing, and research & consulting[4]. We also expect increased traction in leasing by sectors such as pharmaceuticals, healthcare, telecommunications and aviation. Co-working/business centre operators would

[4]CBRE Research: Disruptions in India's IT sector and its impact on CRE, July 2017

continue to expand, and their contribution to the overall leasing activity would be significantly higher than seen in the past couple of years.

Polarisation of demand: Delhi-NCR and Bangalore would continue to drive absorption in 2018, while Hyderabad would compete with cities such as Mumbai to become a key office destination. Demand across most cities would be predominantly supply-driven. Consequently, in the case of Chennai and Pune, demand would weaken as quality supply is expected to come onstream only after 2018.

Strong pre-leasing activity: Pre-commitment would remain popular among occupiers as it allows higher rental arbitrage, efficient portfolio evaluation and greater availability of quality offerings. We also anticipate a rise in the pre-lease period for buildings scheduled for completion within the next four years, considering occupiers' willingness towards operating from quality assets. In contrast, occupiers in completed properties would increasingly prefer a shorter lease period to gain flexibility.

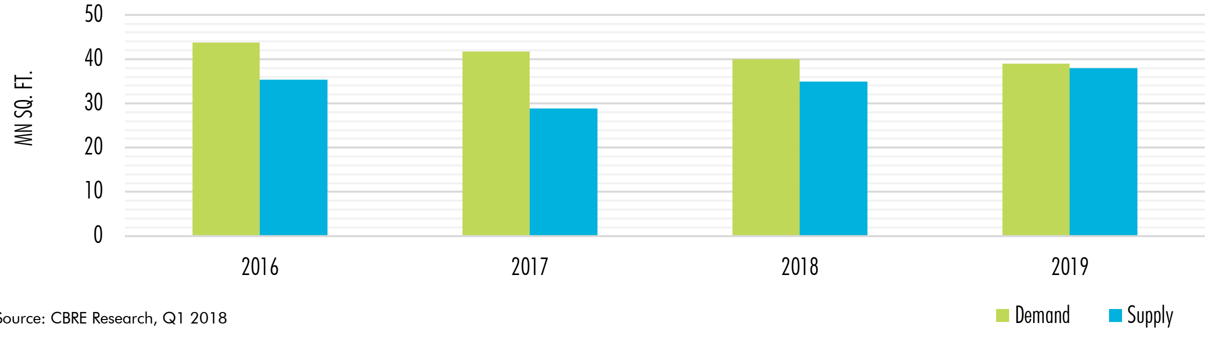
Quality supply-led demand: Developers are increasingly focusing on placemaking, with occupiers reconsidering existing occupational densities. The gradual alignment of these complementary interests could lower vacancies across cities. Low-quality (strata-sold) supply is expected to face both completion and leasing hurdles. On the other hand, occupier interest in quality assets will remain robust, which will lead to a supply-led demand in 2018.

Portfolio Optimisation: In line with other APAC countries, occupiers in India would continue to deploy modern workplace strategies – efficient space utilisation, flexible working and optimum hiring. These strategies (Table 2) are bound to impact office real estate demand.

EXTERNAL FORCES TO INFLUENCE OCCUPIER BEHAVIOUR

Exogeneous themes are key influencers of occupier behaviour in India. The office market was influenced by several external factors in 2017, which could impact occupier behaviour in 2018 too.

Figure 5: Narrowing Supply-demand Gap in 2018



Source: CBRE Research, Q1 2018

Table 2: Workplace strategies being adopted in India

Strategy	Practices
Efficient Space Utilisation	• Increased desk sharing ratios • Reshuffle between existing and new space options
Flexible working	• Activity-based working • Co-working • Mobile working policies • Focus on health and wellness
Optimum hiring	• Location selection on the basis of headcount planning • Tech-enabled work environment to attract/retain talent

Source: CBRE Research, Q1 2018

Infrastructure-led demand: Growing traffic congestion has made connectivity an important factor in job selection. As a result, occupiers are increasingly making location decisions based on employee preferences and are selecting developments that are connected through various modes of transport. Infrastructure availability will be a prominent concern for occupiers while implementing their location strategies, particularly in relatively bigger markets such as Bangalore and Delhi-NCR.

Advent of global players: India remains one of the top outsourcing destinations in APAC. In 2017, US, APAC and EMEA corporates accounted for most of the office leasing activity, due to India's inherent low costs and skilled resource base. Despite recent disruptions, we expect this trend to sustain in 2018 as new players enter the market and global players continue expanding operations.

Competitiveness of state governments: Various states including Maharashtra, Telangana and Karnataka have taken measures to attract key industries such as IT, pharmaceuticals and telecommunications. We expect states to continue launching initiatives (road shows, investment meets, etc.) in 2018 to ensure targeted players favour them for relocation/consolidation.

Office properties high on investor radar: Private equity (PE) and institutional firms have expanded their real estate portfolios in the past two years by acquiring completed, well-leased prime office assets. India's first REIT listing, expected in the coming months, is also likely to improve investor sentiments, potentially propelling major corporations to lease or purchase space in similar quality buildings scheduled for completion in 2018.

Evolving CRE in the digital era: According to CBRE Research, technology significantly impacts the business, talent and real estate needs of corporates in India[5]. Developers would, thus, increasingly opt for 'smart' buildings to deploy technology that maximises operational and energy efficiencies and optimises space usage.

Disruptions in the tech sector: One of the hurdles in the growth of the office real estate segment is the disruption caused due to the process of adopting new technologies. While corporates align operations to suit tech-based growth, hiring in the tech sector is expected to remain sluggish in 2018, as companies focus on imparting requisite skills to existing employees. This might reduce leasing activity of tech firms in 2018 – a trend already visible in 2017. However, this slowdown might only be witnessed in the short to medium term, with only a few corporates deferring their real estate decisions.

SUPPLY: TECHNOLOGY AND CUSTOMISATION TO INFLUENCE NEW DEVELOPMENTS

After delays in supply completions in 2017, we expect new supply to peak in 2018. This would result in complementary landlord-tenant relationships, with developers focusing on placemaking and meeting customised tenant needs. We expect the following supply trends in 2018:

Infrastructure-led supply: A large volume of premium

Table 3: Supply expected in the next year

City	Locations of expected supply in 2018	Major ongoing/recently completed infrastructure initiatives
NCR	Extended Golf Course Road, Sohna Road, Noida	Extended Golf Course Road: Rapid Metro Phase II Sohna Road: Underpasses Noida: DMRC Metro Phase III
Mumbai	Navi Mumbai, SBD, PBD E, ABD	Navi Mumbai: Navi Mumbai International Airport SBD: Metro Phase I PBD E: Metro Phase II ABD: Connecting Flyovers
Bangalore	ORR, PBD and NBD	NBD: Airport Elevated Expressway PBD: Metro Rail Phase I B ORR: Metro Rail Phase I
Chennai	OMR Zone 2, MPH and GST	OMR Zone II: Rajiv Gandhi Salai Phase II MPH: Metro Corridor GST Road: Airport Expansion MRTS
Hyderabad	Extended IT Corridor, IT Corridor	Extended IT Corridor: ORR, Regional Ring Road IT Corridor: Hyderabad Metro

Source: CBRE Research, Q1 2018

[5] CBRE Research: Arrival of the Tech Age – Is India CRE ready to embrace the change?, Feb 2018

City	Locations of expected supply in 2018	Major ongoing/recently completed infrastructure initiatives
Pune	PBD NW, PBD NE, SBD S/SE	PBD NW: Metro Line Phase I PBD NE: Pune Ring Road SBD S/SE: BRTS
Kolkata	SBD, PBD	SBD: Metro Phase I PBD: Metro Phase II

Source: CBRE Research, Q1 2018

office projects is expected to be completed across most cities over the next year, attributable to improved connectivity (Table 3).

Supply decentralisation: Due to several supply slippages in 2017, a significant amount of supply is expected to come onstream in 2018. Most of these projects are in peripheral/emerging locations, a trend similar to 2017. As with demand, the trend of polarisation would persist – supply would be released mainly in four cities: Bangalore, Delhi-NCR, Mumbai and Hyderabad. However, supply addition is also expected in tier II cities such as Kochi, Jaipur and Ahmedabad, as several prominent players have projects scheduled for completion in these cities.

Supply of SEZs/tech parks: More than 70% of the 2018 pipeline is expected to consist of quality SEZs and medium-to-large-sized tech parks. As most of this supply, particularly in Bangalore, is pre-leased, impact on vacancy levels would be limited.

Premium pipeline: Projects, which were either developed by prominent global PE investors and developers or those in which they have a significant stake, will comprise the supply pipeline in 2018. These would largely be mid-to-large-sized quality developments, which would be a priority for most corporate occupiers. Given their global experiences, most of these players are increasingly aware of occupier needs and are offering value additions. Further, several developers have also started partnering with co-working operators, a trend likely to remain prevalent in 2018 as well. We also anticipate LEED-certified buildings to become more popular.

Re-release of old supply: As occupiers focus on space efficiency, there would be greater fluidity in space offerings: pre-existing built-to-suit (BTS) options would be converted into multi-tenanted buildings (MTB), resulting in release of space in core locations.

ASSET PRICING: DIVERGENCE ACROSS CITIES

We anticipate rental growth to remain divergent across cities. We expect the following factors to largely drive rental growth in 2018:

Divergent rental growth: Rental values in cities such as Gurgaon and Mumbai have reached their historic highs. We expect rents to increase only marginally in select micro-markets in these cities in 2018, driven mostly by sustained occupier interest. However, rents in cities that are witnessing a supply crunch (Chennai and Pune) are expected to rise in 2018. Hyderabad and Bangalore will be exceptions as sustained occupier interest would push up rents despite healthy supply addition.

Infrastructure-led rental growth: Both supply and demand are expected to remain limited to peripheral locations in cities where infrastructure has received a major impetus recently. Improved connectivity would drive rental growth in key properties in these locations.

A RECAP OF WHAT TO EXPECT IN 2018
Infrastructure initiatives are likely to play a significant role in influencing demand-supply dynamics, leading to rental growth
Developers would increasingly customise supply to meet individual occupier needs
Owing to disruptions in the tech sector, leasing activity might dip marginally, but would be compensated by demand from other sectors
Occupiers are expected to continue to deploy modern workplace strategies – efficient space utilisation, flexible working and optimum hiring
Advances in technology are likely to impact both occupier and developer decisions
Office properties would remain high on investor radar, with PE and institutional firms increasingly acquiring/expanding real estate portfolios to hold quality office assets

RETAIL

THE FUTURE IS HERE

THE FUTURE IS HERE

AN OVERVIEW OF 2017

The year 2017 saw the addition of about 3.4 million sq. ft. of fresh retail space across seven key cities, almost in line with the supply that entered the market in 2016. The second half of 2017 was particularly robust from a supply point of view, as almost 2 million sq. ft. came on stream in H2 2017. A majority of this supply was concentrated in Mumbai, Delhi-NCR, Pune, Bangalore and Kolkata. In terms of new global entrants into the country, 2017 witnessed the entry of over 15 international brands including Kate Spade, Miniso, Ihop, Madame Tussauds, Scotch & Soda, Wok to Walk, Tom Tailor, Jo Malone, Bally, Springfield and Women's Secrets.

The year 2018 is likely to be a starting point for the confluence of the old and the new in the Indian retail real estate segment. A key regulatory development at the beginning of 2018 was the allowance of 100% FDI in single brand retail through the automatic route vis-à-vis the previous regulation which allowed up to 49% FDI through automatic route and up to 100% through approval. While traditional factors (such as availability of new supply, government initiatives and supply-demand gap) will continue to shape the segment, new-age developments (rise of sharing economy, flexible leases, etc.) will result in its alignment with the global market. Growing interest in retail real estate among PE players over the past two years has renewed developers' intention of investing in retail real estate, which could also spur the launch of a few new projects this year.

TRENDS TO LOOK FORWARD TO IN 2018

DEMAND: QUALITY TO COMMAND A PREMIUM; RISE OF OMNI-CHANNEL

Demand for quality space to remain the core theme: The entry of new supply is expected to create expansion opportunities for several brands which have been waiting for space in organised centres. A significant part of the expansion activity of national retailers is likely to be concentrated in prominent tier II & III cities, owing to the lack of quality mall space and opportunities for expansion in the larger tier I cities. We expect hypermarket operators to usher in space rationalisation as they look to penetrate deeper into catchments with smaller and closer-to-home stores. New / innovative F&B concepts are also expected to contribute to this growing demand for quality retail space. With the easing of FDI norms, we expect new international brands to enter India sooner than later and existing brands (who have been operating through the franchisee model) to expand their footprint further in the country.

The following table highlights the anticipated sectoral growth drivers across cities in 2018:

Table 4: Expected sectoral growth drivers in 2018

City	Mid-range Fashion	Food and Beverage	Entertainment (FEC and Multiplex)	Hypermarket and Departmental Stores	Luxury Retail
Delhi-NCR	↑	↑	↑	●—●	↑
Mumbai	↑	↑	●—●	↑	↑
Bangalore	●—●	↑	↑	↑	●—●
Chennai	↑	↑	↑	●—●	↑
Hyderabad	↑	↑	↑	↑	●—●
Pune	↑	↑	●—●	↑	NA
Kolkata	↑	↑	↑	●—●	●—●

Source: CBRE Research, Q1 2018

Convergence of offline and online retail: According to Forrester Research, India is the fastest growing e-commerce market in the world. Over the past few quarters, the online retail segment has seen considerable consolidation. Since a large portion of the e-commerce business goes to brands with a strong brick-and-mortar presence, a number of retailers (especially fashion brands) are increasingly adopting omni-channel strategies by collaborating with e-commerce majors. While Myntra took the rights of offline stores for Mango and Esprit in India and has already opened Mango stores, Zara became available online from October 2017. H&M also started its online operations in India in March 2018. Several retailers are also providing services such as buy online and collect in store, customer returns and refunds for products bought online and store kiosks for browsing and payment for products; this trend is expected to strengthen further in 2018. At the same time, many online retailers have ventured into traditional brick-and-mortar real estate by opening experience and sales outlets to drive their online sales; these include Urban Ladder, Roadster by Myntra, Pepperfry, Jaypore, and Nykaa.

Quality will command a premium: Quality retail developments are expected to continue commanding higher rentals, although rental growth would depend on the potential tenant's negotiating power and availability of space. Operational centres that cater to the relevant consumer segment and generate greater revenue per footfall would continue to be in great demand and command high rentals. Similarly, high streets, which offer adequate infrastructure and continue to attract footfalls, are also expected to witness rental increment. This growth is likely to not only be limited to marquee high streets but also spread to newer high streets that are fast emerging in residential areas. Increasing traffic and infrastructure woes, along with lack of large land parcels, have fuelled a need for the creation of localised high streets. These high streets typically take a few years to grow, starting from small mom & pop stores, grocery stores, multi-branded stores, services and then start attracting national banks and local retailers. After another year or so, they start attracting small and big vanilla and anchor tenants.

SUPPLY: REVITALISATION OF EXISTING SPACES; SUPPLY MOVES SOUTH

Southern states to lead supply: While the traditional gateway cities of Delhi-NCR and Mumbai have been at the core of retail activity, cities such as Bangalore, Hyderabad, Chennai and Pune have been generating occupier and retailer interest over the past few years. The year 2018 is likely to witness the addition of around 6 million sq. ft. of supply across these key cities, with the southern cities of Hyderabad and Bangalore leading the way. A strong pipeline is expected to ensure that Bangalore is well on its way to surpass Mumbai in a few years' time to become the second largest contributor of retail stock (just behind Delhi-NCR). Meanwhile, Hyderabad is also expected to post strong growth in retail stock in 2018.

Repositioning and rejuvenation of older retail developments: Another visible trend has been the revitalisation of existing retail developments which involves an effort to renovate/change positioning to stay relevant when compared with the new quality developments in the vicinity. These initiatives are likely to create opportunities for new entrants to enter the catchments of their choice.

OTHER THEMES THAT WILL DEFINE INDIAN RETAIL IN 2018

Flexible leases to be more commonplace: Given the growing number of retailers that did not even exist a couple of years ago, consumers are no longer content with brands that have not evolved with time and are constantly on the lookout for fresh offerings. The success of a store is not likely to be defined only by the sales generated by the physical outlet; rather it would also include items shopped online and collected from the store and the online sales influenced by the store. Accordingly, operators would require flexible and creative terms as the method of success measurement would change the role of a store. Therefore, assets would be set up to allow for a lower fit-out cost, including growing digitisation of fixtures, fittings, and displays and comparably lower software content costs.

Customisation to become the new loyalty: As lives become increasingly governed by social media, consumers are expected to treat products as a means of expressing their individuality. Consumers who customise a product are more likely to become brand advocates as well as repeat purchasers. The concept of customisation is expected to grow in 2018 as a greater number of people are likely to show an interest in customised products and a willingness to pay more. Moreover, advances in technology and increasingly flexible work systems are expected to make it easy for companies to customise goods and services in high volumes without a significant increase in costs.

Access to products will take precedence over ownership: In a sharing economy, parties provide each other access to goods or services for a fee, rather than buying them outright. The sharing economy is an increasingly popular global trend and is expected to continue and evolve in the coming years. While it is perceived to have a slightly negative impact on conventional retail, this trend of lower interest in ownership could also prompt innovations in the retail realm. Although the concept is still new to India, the country is unlikely to remain isolated from this global trend for long. In 2018, the sharing economy is expected to extend beyond accommodation, transport and workspace, with the entry of many new brands with roots in the sharing economy. Segments such as luxury retail are likely to benefit significantly from this model, as they create demand for certain niche segments that seemed out of reach of a majority of the population.

Omnipresent retail: While retail is already spilling over from the traditional high street and retail formats, this trend would only gain traction in the coming year. Fuel stations, metro stations, office complexes and airports are likely to allocate more space to retail. As people spend an increasing amount of time in transit, the retail mix at these locations is moving beyond support retail and kiosks to full-fledged stores and dine-in restaurants.

Showrooms will be for experience, retailers will no longer be stock keepers: Retail stores are likely to move beyond the point of sales and will play the role of brand ambassadors. As online retail has reduced the number of stores needed to gain the same market share, showrooms are expected to function as experience centres as well. Flagship stores on key retail streets are already being used as marketing tools (and not for pure revenue generation), and using showrooms as experience centres is likely to just be an extension of this trend. This could benefit customers, retailers and logistics players alike as it is likely to reduce the need for stockroom and non-selling space. The role of store staff would also mature as they would be product experts and brand ambassadors without necessarily being only stock keepers.

Stores to get a technology filter: An omni-channel consumer typically spends more than a single-channel shopper. That is why, retailers are likely to start investing in blending platforms of their stores. As the use of technology is unlikely to remain limited to websites or a social/digital media presence, retailers are expected to increasingly adopt Internet of Things (IoT) and artificial intelligence (AI) to amalgamate the physical shopping experience with a digital layer. The purpose of a store is likely to shift from providing transactional services to becoming marketing platforms and developing a loyalty-building environment.

Independent stores and F&B operators to be more prevalent: An increasing number of independent retailers, especially in the F&B sector, are launching offerings to cater to consumer demand for fresher, local options. As "healthy", "local" and "organic" become buzzwords across the retail realm, retail destinations and brands are likely to curate their offerings for the local catchment. Established chains are also recognising this opportunity and are likely to develop concepts, brand names and offerings to enhance their local appeal.

A RECAP OF WHAT TO EXPECT IN 2018
Nearly 6 million sq. ft. of retail supply is expected to be added across the key seven cities, with Hyderabad and Bangalore leading the way
Several national retail players would look at tier II and III cities for expansion due to the lack of quality mall supply and expansion opportunities in tier I cities
Retail would be everywhere; the quality of retail in transit spots is likely to move beyond kiosks to formal retail and full-fledged stores
Omni-retail is likely to be more commonplace; retailers are expected to adopt IoT and AI to provide a physical shopping experience with a digital filter

LOGISTICS

POSITIVE MARKET ABETS GROWTH

LOGISTICS

POSITIVE MARKET ABETS GROWTH

AN OVERVIEW OF 2017

In the past few years, the Indian warehousing/industrial sector has evolved into a fully integrated service provider. The government's initiative to streamline the logistics ecosystem was one of the key drivers of the sector's growth. In addition, strong and sustained economic growth has created a healthy demand for warehousing and industrial space. As a result, the size of the Indian logistics sector has grown at a rate of about 14% over the past 5 years, to swell to USD 260 billion[6]. Moreover, India was ranked 35 among 160 countries on the World Bank's Logistics Performance Index 2016 (up from 54 in 2014). Over the next few years, the logistics sector is expected to grow further, leveraging the increasing interest from government and private enterprises.

The Indian warehousing sector has been gaining significant momentum over the past few years. In 2016, leasing activity grew to about 10 million sq. ft., and further to approximately 17 million sq. ft. in 2017. City-wise, Bangalore, Delhi-NCR and Mumbai accounted for more than 50% of the warehousing space demand. Meanwhile, the share of smaller cities such as Hyderabad, Chennai, Kolkata and Pune in total transacted space grew from 25% in 2016 to an all-time high of 49% in 2017.

TRENDS TO LOOK FORWARD TO IN 2018

DEMAND: STRONG GROWTH SUPPORTED BY BOTH CONSOLIDATION AND EXPANSION

Demand for warehousing space is anticipated to remain robust, on the back of consolidation and expansion plans of existing as well as new occupiers in 2018. Strong demand from sectors such as 3PL, e-commerce, FMCG, retail and engineering and manufacturing is expected to drive transaction activity in 2018.

Corporates across all these sectors would be driven to opt for large, modern warehouses as they seek to leverage the new GST regime. The sector is also likely to receive a boost from several planned infrastructure projects, which include industrial corridors between key cities (Delhi, Mumbai, Bangalore, Chennai, Vizag, Amritsar and Kolkata), multimodal logistics hubs at Dadri (Haryana)

[6]Logistic Industry Report 2017 - IMAP India

and several airports, rail networks and port upgrade projects across India. The government's plan to develop multi-modal logistics parks across the country would further boost support infrastructure.

The following table highlights the anticipated sectoral growth drivers across cities in 2018:

Table 5: Major growth drivers for 2018

Cities/ Segments	3PL	e-Commerce	Engineering and Manufacturing	FMCG	Retail
NCR	↑	↑	↓	↑	↑
Mumbai	↑	↓	↓	↑	↑
Pune	↑	↓	↑	↓	↓
Chennai	↑	—	↑	—	—
Hyderabad	↑	↑	↓	—	—
Bangalore	↑	↑	↓	↑	↑
Kolkata	—	↑	—	↑	↑

Source: CBRE Research, Q1 2018

SUPPLY: DEVELOPMENT OF LARGE, MODERN WAREHOUSES TO DOMINATE PIPELINE

In the post-GST era, warehousing is emerging as an attractive asset class for investors and PE players.

Various PE firms and foreign players are making inroads in the sector via joint ventures, mergers and acquisitions. Below are a few key instances of M&A activity reported in the sector:

Table 6: Key instances of M&A activity

City	Investor Company	Investee Company	Segment	Mergers and Acquisitions
Mumbai	Ascendas-Singbridge Group	Firstspace Realty	Logistics	JV
Mumbai	Ascendas-Singbridge	Arshiya Limited	Industrial / Warehousing	Acquisition
Pune	Morgan Stanley	KSH Infra	Industrial / Warehousing	Merger
Pune	Warburg Pincus	ESR	Industrial / Warehousing	Merger
Chennai	Tata Realty Infrastructure Ltd JV Standard Chartered Bank	Maharashtra Industrial Development Corporation	Land	Acquisition

Source: CBRE Research, Q1 2018

Leading real estate developers have also initiated land acquisitions across major cities for developing warehousing facilities. They are strengthening the supply pipeline by investing in quality warehousing space. This supply pipeline will start getting operational from mid-2018 onwards.

Big consumption hubs such as Delhi-NCR, Mumbai, Hyderabad and Bangalore are likely to account for a major portion of the supply surge expected at the end of the year. Below are a few key instances of the warehousing supply lined up for completion in 2018:

Table 7: Expected project deliveries in 2018

Project Developer	Location	City	Type	Area (in acres)	Expected Date of Completion
Embassy Group	Taoru Road, NH-8	NCR	Logistics	24	2018
Indospace	Luhari, NH-8	NCR	Logistics	35	2018
Ancon Group	Adibatla	Hyderabad	Logistics	22	2018
BGR Realty	Padgha	Mumbai	Logistics	70	2018

Source: CBRE Research, Q1 2018

ASSET PRICING: DIVERGENCE ACROSS CITIES

Strong rental momentum was observed across most micro-markets in the past two years. Currently, rents across most cities are at a historical high, with further upward momentum expected in select micro markets during 2018.

Table 8: Rental trends expected in 2018

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

Source: CBRE Research, Q1 2018

OTHER THEMES THAT INDICATE MAKINGS OF A MATURE MARKET

Sustained support by the government - Thanks to the government's efforts towards propelling the growth of modern warehousing facilities in the country, the logistics sector is well on its way to attain greater significance in the overall real estate pie. After the implementation of GST, occupiers across several segments were looking for large-sized warehousing spaces to consolidate and expand in both tier I and II cities in the second half of 2017 – a trend likely to continue in 2018. In addition, due to the government's move to grant infrastructure status to logistics/warehousing, the sector is likely to witness the inflow of more institutional funding and formal sources of capital along with the entry of national level/credible players.

Rise of new technologies - Automation and robotics have become buzzwords of the global warehousing/logistics industry. 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 Indian market for warehouse automation is projected to grow at a CAGR of 10-12% to touch USD 3.49 billion by 2020[7]. The widespread deployment of IoT would revolutionise operations by creating smart warehouses that improve supply chain efficiencies. The initial green shoots of these initiatives are likely to appear in 2018; however, their actual impact would only unfold over the next couple of years.

A compelling manufacturing market - The manufacturing sector is expected to be a growth driver for the Indian economy. It currently contributes about 16-17% to the GDP, with the government's Make in India initiative envisioning boosting this share to 25% by 2025. As a result, the sector is increasingly becoming an attraction for both foreign and domestic investors. Between 2000 and 2017, about USD 74 billion in FDI was injected into the sector[8]. Signs of growth are already visible as several international players have either set up or are in process of setting up manufacturing units in the country. This is expected to have a positive fallout on the warehousing sector of the country.

A RECAP OF WHAT TO EXPECT IN 2018
Demand for warehousing space is anticipated to remain robust in 2018 as existing players expand operations and new players enter the market
While large urban centres such as Delhi-NCR, Mumbai and Bangalore are expected to continue dominating transaction activity, the real growth would be witnessed in smaller cities such as Chennai, Pune, Hyderabad and Kolkata
As leading real estate developers acquire large land parcels for development of warehousing facilities, the supply of modern warehouses and industrial parks is expected to increase
Rental growth is expected to diverge across markets. The northern corridor of Hyderabad and western / eastern corridor of Bangalore are likely to lead growth

[7] Analytics India
[8] Indian Brand Equity Foundation (IBEF

RESIDENTIAL

BUYERS' MARKET ON THE HORIZON

RESIDENTIAL

BUYERS' MARKET ON THE HORIZON

AN OVERVIEW OF 2017

Policy disruptions such as demonetisation and RERA have significantly impacted the residential sector in the country. In the post-RERA scenario, housing sales and new project launches across all major Indian cities declined y-o-y by about 14% and 35%, respectively. Although sales improved marginally in cities such as Bangalore, Hyderabad, Chennai, Mumbai, Pune and Kolkata in H2 2017, sentiments have remained subdued in Delhi-NCR. Developers continued to adopt a wait-and-watch approach while launching new projects. However, in the post-RERA scenario, cities such as Mumbai and Pune (which already have a dedicated regulatory authority in place) have reported the launch of several old and new projects.

TRENDS TO LOOK FORWARD TO IN 2018

As the developer community gets used to RERA, we expect the residential segment to show some signs of recovery in 2018. Affordable housing as a segment is likely to see greater interest, as interest subsidies offered to first-time homebuyers under the credit-linked subsidy scheme (CLSS), along with incentives offered by the government to affordable housing developers, are likely to result in better end-user and developer participation. However, legislative challenges that affected the market in 2017 will continue to dominate residential activity in 2018 as well. Overall, we expect the market to undergo a sieving process, with credible and sustainable developers differentiating themselves from other firms as the focus slowly but steadily moves towards an end-user-centric market.

SUPPLY: OPTIMISED SUPPLY IN H1; MARKET TO STABILISE IN H2

Residential supply in India is set to improve by the first half of 2018, surpassing previous quarters. After RERA was implemented and a few states established regulatory authorities as mandated by the act, developers became confident enough to start launching not only new projects but also relaunching old projects after registering them with RERA. Several cities, especially Mumbai, Bangalore, Hyderabad, Chennai and Pune, are expected to report upticks in project launches in the first half of 2018.

In terms of segments that will drive residential growth, affordable housing could set the tone for the residential market in 2018. Shift in end-user demand, government incentives and the award of 'infrastructure' status to the affordable segment is likely to result in a realignment of the product mix of developers. Several prominent developers have already set up separate divisions for affordable housing, indicating that the market share of affordable housing projects might increase in upcoming quarters. Also, as RERA's implementation picks pace, consolidation activity among developers and land owners is expected to intensify, with larger players collaborating with the smaller/financially stressed developers.

Table 9: Supply forecast for 2018

Time Period	NCR	Mumbai	Bangalore	Chennai	Hyderabad	Pune	Kolkata	India - Supply
H1 2018 (F)	↓	↑	↑	↑	↑	↑	●—●	↑
H2 2018 (F)	↓	●—●	●—●	●—●	●—●	●—●	●—●	●—●

Source: CBRE Research, Q1 2018

DEMAND: IMPROVED TRANSPARENCY TO DRIVE SALES IN AN END-USER-DRIVEN MARKET

For most of 2017, homebuyer sentiments were influenced by the implementation of RERA and other policy measures. Buyers opted for restraint until they got more clarity on the evolving policy scenario. As the dust over the implementation of these reforms settles, we expect fence-sitting buyers to enter the market, especially in the mid-end and affordable categories.

Developers, on the other hand, are expected to remain accommodative of buyer needs and will continue to offer unit sizes, plan configurations and amenities that suit their needs. Meanwhile, as consumers slowly return to the sector, developers are likely to continue offering flexi-payment plans, subvention schemes and attractive discounts in 2018 as well. As a result, residential real estate market in India would shift towards being a buyer-focused market, which would act as the base for amplifying future sales.

Table 10: Demand forecast for 2018

Time Period	NCR	Mumbai	Bangalore	Chennai	Hyderabad	Pune	Kolkata	India - Sales
H1 2018 (F)	↑	●—●	↑	↑	↑	↑	●—●	↑
H2 2018 (F)	●—●	↑	↑	●—●	↑	↑	↑	↑

Source: CBRE Research, Q1 2018

ASSET PRICING: EXPECT STABILITY

Premium / luxury segment: 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 are likely to remain stable, especially in the first half of 2018. Customisation is expected to remain a key theme for luxury developments, as developers repackage and design their products to suit buyer needs. Attractive valuations and increased transparency in the operating environment is likely to increase the interest of HNIs in this segment, especially in the southern cities of Chennai and Hyderabad.

Mid- / high-end segment: Capital values in the mid- and high-end categories are expected to stabilise in the early quarters of 2018 as developers continue to focus on completing and offloading existing inventory. Ready-to-move-in properties are expected to remain high on the radar of homebuyers, with RERA-registered projects expected to add to buyer confidence. Markets such as Bangalore, Chennai and Hyderabad might also witness a slight appreciation in capital values backed by strong end-user demand and building upon a low-base effect.

A RECAP OF WHAT TO EXPECT IN 2018
Despite RERA, read-to-move-in properties are likely to remain high on the radar of homebuyers
Consolidation among developers and landowners as well as more joint ventures are expected
Private participation in affordable housing is likely to pick up pace; however, land availability for affordable housing projects in key markets would remain the chief concern
Technology would improve buyer experience and transform developers' marketing strategies as the use of online sales channels, mobile apps and virtual tours grows
Overall investor confidence is likely to improve, resulting in the inflow of institutional capital
Increased fund inflows would rationalise cost of capital as RERA would reduce the risk perception associated with real estate in India

CAPITAL MARKETS

REAPING THE BENEFITS

CAPITAL MARKETS

REAPING THE BENEFITS

AN OVERVIEW OF 2017

The past year was another positive year from an investment regulatory perspective, with initiatives such as RERA, easing of FDI norms, GST implementation– all expected to increase transparency and enhance consumer and investor confidence in the real estate sector, thereby resulting in significant interest from offshore equity investors, large Indian corporates and HNIs. The dominance of institutional funds in the country's investment market signals their long-term confidence in the country's growth prospects. With quality assets being available in core and core-plus locations, investment activity in the segment has remained hectic. Not only has the sector witnessed high levels of investment activity in office, residential and retail sectors, there has been active interest in the warehousing sector as well. The cost and availability of funding have also eased up for the sector. While structured continued to be a viable source of funding, equity is slowly but steadily making a comeback, especially for the larger, established players.

TRENDS TO LOOK FORWARD TO IN 2018

Core to remain the focus – With the availability of well-leased assets across core locations, PE investments in core assets are likely to continue. Yields are expected to remain stable, resulting in the continued attractiveness of core assets for investors. Also, developers are particularly keen on the commercial segment and have been displaying increased interest in commercial projects. The reason behind this is that the office sector is likely to maintain its growth momentum in 2018 with an anticipated absorption of 40 million sq. ft. The combined effect of RERA and REITs is likely to result in better compliance as well as standardisation of space, resulting in the emergence of more investment-grade office space. While investors continue to invest in completed assets, a key trend over the past year or so has been selective development equity.

Further consolidation expected – Consolidation among developers as well as large land owners is likely due to subdued market conditions, with smaller players expected to look for avenues for funding or resort to asset monetisation. Credible developers are likely to benefit the most as a majority of land owners (and smaller developers) are entering into joint development agreements and development management structures with well-capitalised/credible developers and corporate players. Corporates keen on monetising their land assets and smaller developers looking to retire debt are also bringing attractive land deals to the market. In addition to transactions for the residential segment, the land market is offering opportunities for office, retail and industrial developments.

Incremental interest in 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. Over the past year, various equity/platform deals have been witnessed in the real estate sector. The focus of equity investments is no longer only on returns/IRR, but the quality of the asset is now an overriding theme. Strong track/performance record and corporate governance will play a critical role in gaining investor trust and funding. Players such as GIC, Xander and Blackstone have been making acquisitions/picking up stakes in key properties of leading developers. The following table highlights some of the key transactions for office equity in 2017:

Table 11: Key transactions for office equity in 2017

Investor	Owner	Location	Deal Size (in USD)	Transaction Type
GIC	DLF Cyber City Developers	Multiple	1.37 billion	Promoters sold their stake (33.34%) in the rental arm of DLF Cyber City Developers to GIC Portfolio - 26.9 million sq. ft. of leased-out space, under-development space of about 2.5 million sq. ft., future development potential of about 19 million sq. ft.
Xander Group	Shriram Properties	Chennai	350 million	Xander acquired 100% interest in Shriram Gateway SEZ for USD 190 million, along with a further commitment of USD 160 million towards the expansion of the IT SEZ
Blackstone	K Raheja Corp	Mumbai, Navi Mumbai, Hyderabad Pune	262 million	Blackstone acquired a 15% stake in the completely leased office portfolio spanning approximately 20 million sq. ft.
Blackstone	Xander Group, Panchshil Realty	Pune	77 million	Blackstone acquired a 49% stake in Pune's International Convention Centre, a mixed-use project of Panchshil Realty, from Xander Group

Source: CBRE Research, Q1 2018

Widening funding, with some tightening – The current environment for real estate is both challenging and opportunistic at the same time. Traditional bank credit has also evolved as housing finance companies as well as Non-Banking Financing Companies (NBFCs) are providing lease rental discounting loans to real estate players. The NBFCs have been further sweetening the deal by offering LRD with added flexibility for developers in terms of both serving and repayment. While we expect such investments to continue making inroads into the real estate segment, lending from the traditional banking sector is likely to come with some caution, resulting in the tightening of liquidity for the sector.

More money, newer asset classes – While office and residential segments have remained the traditional investment drivers, alternative sectors such as retail and warehousing have also come to the forefront. With the implementation of GST, the warehousing sector has attracted interest from domestic as well as national players, resulting in the emergence of better quality, investment-worthy assets. Players such as Blackstone, CPPIB and Virtuous Retail were active in the retail space in 2017, while players such as Ascendas, CPPIB and Warburg Pincus were active in the warehousing/industrial segment. Most of this flight of capital has been limited to tier I and to some extent tier II cities. Below are some of the key investments across these sectors in 2017:

Table 12: Key transactions for office equity in 2017

Investor	Owner	Location	Segment	Deal Size (in USD million)	Transaction Type
Blackstone	Carnival	Chandigarh	Retail	338	• Blackstone acquired the commercial property of Carnival Group spanning nearly 1.8 million sq. ft. – including a 1-million sq. ft. mall, a Hyatt hotel and office space
CPPIB	Phoenix Mills	Multiple	Retail	246	• Platform-level deal between CPPIB & Phoenix Mills • CPPIB to initially own 30% (of Island Star Mall, subsidiary) and invest in multiple tranches, to own up to 49% • Strategy to acquire and develop both greenfield assets on newly purchased land banks as well as operating assets
CPPIB	IndoSpace	Multiple	Ware-housing	500	• IndoSpace Core, a joint venture between CPPIB and IndoSpace, will focus on acquiring and developing modern logistics facilities in India • To acquire 13 industrial & logistics parks spanning about 14 million sq. ft. across cities including Chennai, Pune, Mumbai, Delhi and Bangalore

Source: CBRE Research, Q1 2018

A RECAP OF WHAT TO EXPECT IN 2018
Enhanced transparency is likely to result in a more secure environment for investors and better exit opportunities
Average ticket size of investments is expected to increase. The office segment would continue to attract interest, while warehousing and retail segments would also gain momentum
Focus on corporate governance would be key to attracting funding; equity to witness incremental interest
Investor focus is expected to remain on quality of assets; core and core plus assets would also generate significant interest
Easing and streamlining of regulatory environment would be key to attracting and sustaining investor interest and confidence

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