Intelligent Investment

India Industrial & Logistics Outlook 2024

REPORT

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CBRE

Foreword

Anshuman Magazine
Chairman & CEO
India, South-East Asia, Middle East & Africa, CBRE

Abhinav Joshi
Head of Research, India, Middle East & North Africa, CBRE

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

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

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

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

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

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

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

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


Industrial & Logistics

Driven by the increasing adoption of multipolar strategies, India's Industrial and Logistics (I&L) sector is poised for growth in the coming quarters. Leasing activity is expected to sustain momentum, demonstrating the sector's resilience even amidst potential global and domestic economic headwinds.

The year that was

01

I&L LEASING PERFORMANCE SETS HISTORIC BENCHMARK

The Indian warehousing market has mirrored the growth of the Indian economy since 2022, and this trend continued in 2023, with demand not only sustaining but reaching record levels despite the volatile global economic environment. The I&L leasing activity witnessed a standout performance in 2023, reaching a historic peak of 38.8 million sq. ft. and crossing the 2022 peak of 36 million sq. ft.

As e-commerce companies have increasingly started prioritising profitability, they have shifted their focus towards cost optimisation and cautious expansion, moving away from speculative growth strategies. Therefore, leasing activity by e-commerce players experienced a slowdown during the year, while third-party logistics (3PL) players continued to dominate with a 45% share of the total leasing volume. However, the engineering and manufacturing (E&M) sector compensated for the slack in the e-commerce sector, leading to overall increased transaction volumes.

The majority of 3PL demand, driven by domestic occupiers, stemmed from sectors such as manufacturing, retail and e-commerce, among others. These sectors continued outsourcing their supply chain processes to 3PL firms to meet their storage requirements, gain flexibility, reduce costs, and overcome labour sourcing challenges.

Companies from the E&M sectors, including automotive, semiconductor, and energy, accounted for a significant portion of the total transacted volume. India has not only benefited from the ongoing trend of decentralising manufacturing capacity away from China, but the government's initiatives, such as the 'Make in India' campaign and the Production-Linked Incentive (PLI) scheme, have also started yielding positive results. These schemes have continued to enhance the prospects of the E&M sectors in the country, especially for industries evaluating long term establishments.

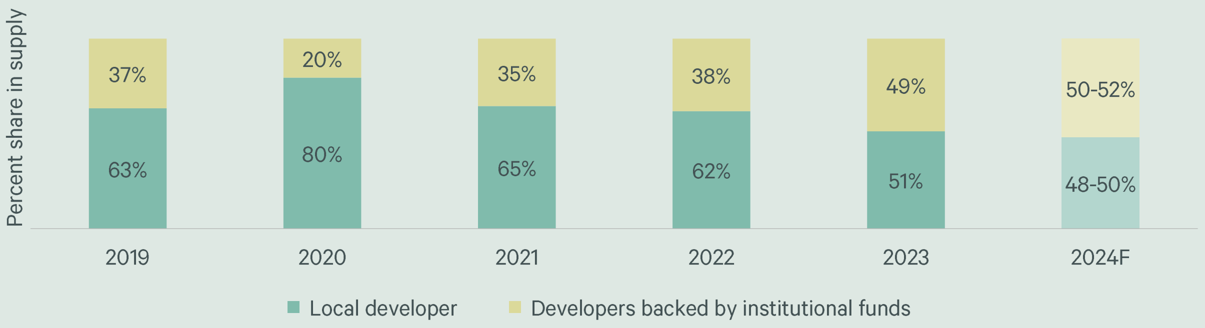
Mumbai, Delhi-NCR, and Chennai led the transaction activity in 2023, collectively accounting for approximately 60% of the total leasing share. In these cities, space take-up was predominantly driven by 3PL players, underscoring their strong presence in the market.

02

SUPPLY ADDITION SURGES TO A RECORD HIGH

In line with the absorption trends, supply in the I&L sector also achieved a historic peak in 2023. With about 36 million sq. ft. of space getting operational, supply addition witnessed a remarkable growth in 2023 compared to 25.4 million sq. ft. in 2022. Delhi-NCR, Chennai, and Kolkata drove the supply addition during the year, accounting for a cumulative share of 58%. The share of investment-grade facilities in the total supply addition jumped significantly, reaching nearly 50% in 2023 compared to 38% in 2022. Developers are increasingly focusing on building modern warehousing parks that meet the higher throughput needs of modern businesses and adhere to contemporary sustainability standards. This focus on higher-quality facilities is reflected by six out of the eight major markets witnessing an increase in investment-grade stock in 2023 compared to 2022.

Figure 1.1: Share of supply addition by domestic developers vs developers backed by institutional funds (2019-2024F)



Source: CBRE Research, Q1 2024

‘Flight-to-core and quality’ demand from occupiers seeking prime core logistics space, limited availability of such assets in preferred locations, and rising land / input costs are some of the factors that contributed to a strong rental momentum across cities. Except for Kolkata, most cities witnessed an uptick in rental values across key micro-markets in 2023.

While growth and buyout deals were an overarching theme for private equity investors in the real estate space in India in 2023, the warehousing sector witnessed more of opportunistic bets. This divergence in investment theme could also be attributed to the lack of built-up assets. However, the shorter project completion timelines for warehousing coupled with the growth potential of the sector gives comfort to investors to take such opportunistic bets. Therefore, despite ongoing challenges posed by factors such as rising land costs and longer acquisition timelines, prominent investors have shown resilience by not only acquiring land in key cities across prominent warehousing locations, but also by allocating funds towards acquisition of brownfield assets. Furthermore, many investors have also explored options in emerging micro-markets in key tier I / tier II cities to leverage competitive land values and get the first-mover advantage, if possible.

According to the 2024 CBRE APAC Investor Intentions Survey, I&L sector continues to be the most preferred sector for investments in 2024, and CBRE expects properties in selected Indian cities with strong lease covenants to be the most sought after by investors. Backed by robust demand for this asset class, capital inflows into the I&L segment surpassed USD 0.8 billion in 2023, reflecting a significant 7X Y-o-Y increase compared to 2022.

Table 1.1: Key I&L investments in 2023

City	Investor	Investee	Deal value (USD million)
Delhi - NCR	Blackstone	TransIndia Real Estate	79
Mumbai	Morgan Stanley	Prakhhyat Group	36
Pune	LOGOS	Foton Motors	33
Hyderabad	IndoSpace Logistics Parks	GMR Group	23

Source: CBRE Research, Q1 2024

Top trends expected to shape the I&L sector in 2024

01

LEASING TO REMAIN RESILIENT IN 2024

Demand for modern warehousing spaces is anticipated to remain strong in the upcoming quarters of the year, with occupiers expected to continue adopting their 'multipolar' supply chain strategies. Post a landmark absorption in 2023, leasing momentum is expected to continue in 2024, despite global and domestic macro-economic uncertainties. Cities such as Mumbai, Bangalore, Hyderabad, Pune, and Ahmedabad are anticipated to drive the demand, with space take-up expected to be rangebound as compared to the 2023 levels. However, the leasing activity is expected to normalise across cities such as Delhi-NCR and Chennai over the next few quarters.

Demand is expected to be majorly driven by 3PL firms owing to occupiers' continued reliance on their distribution networks, followed by E&M firms. E-commerce demand for small-sized requirements, especially for delivery centres, would pick up pace, and occupiers may consider relocation options to consolidate current facilities. Other sectors which are anticipated to drive demand include retail, FMCG, auto & ancillary, and electronics & electrical.

The share of large-sized transactions (more than 100,000 sq. ft.) has witnessed a marginal increase from 27% in 2019 to 31% in 2023. In 2024, we anticipate occupiers to sustain momentum in closing large-sized transactions, with the majority of leasing predominantly focused in the 50,000 – 100,000 sq. ft. range.

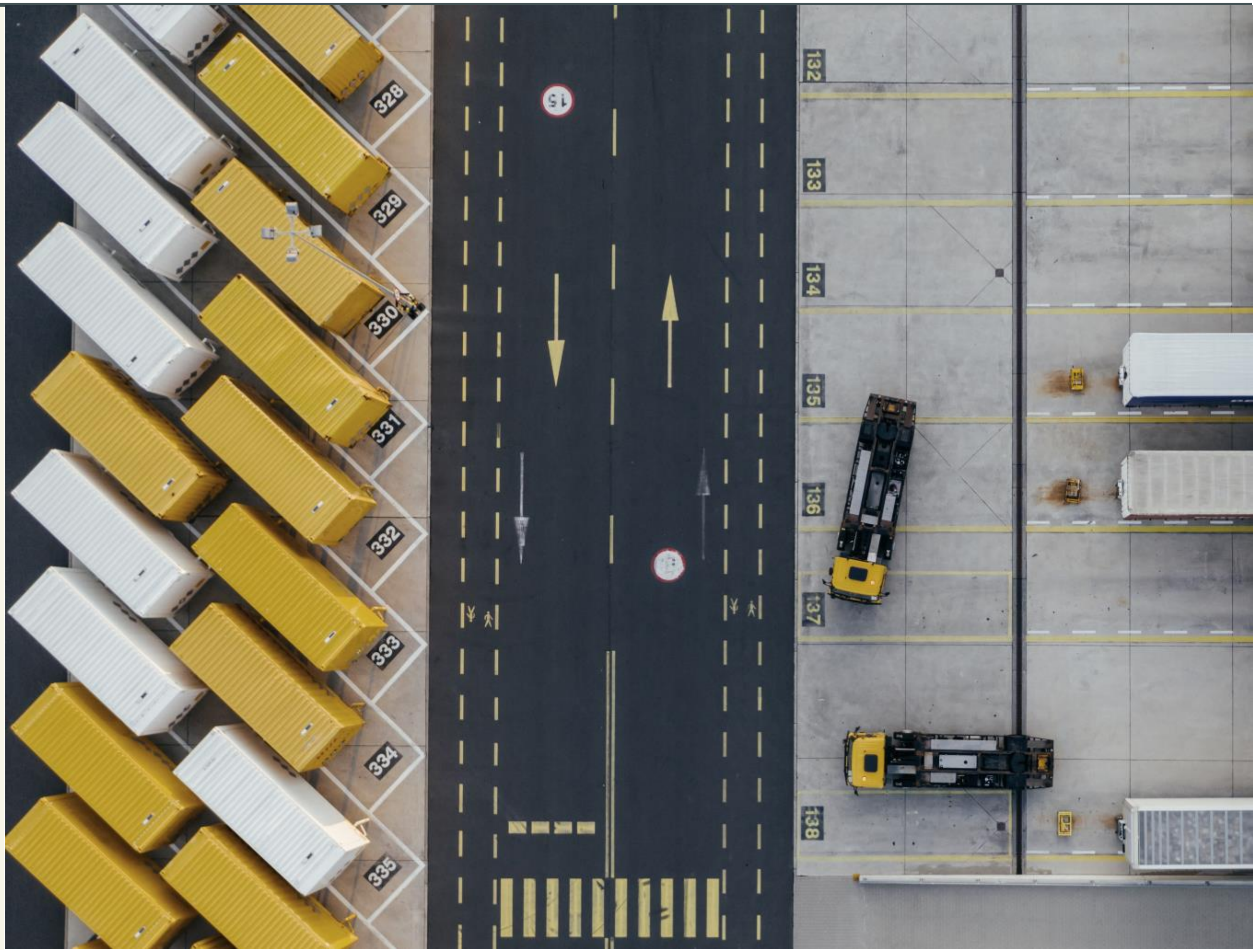


Figure 1.2: Share of I&L deal sizes (2019 vs. 2023)

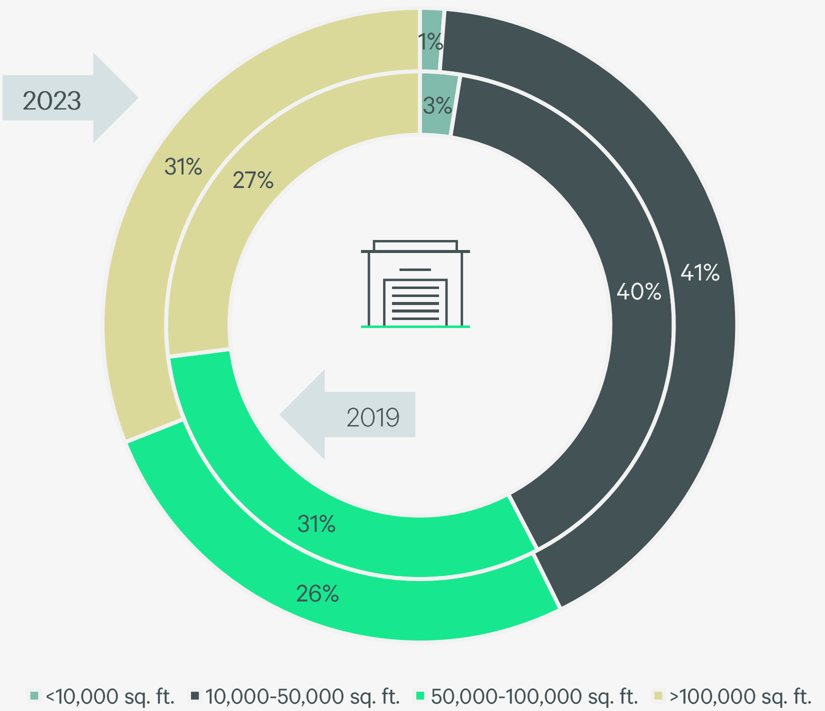
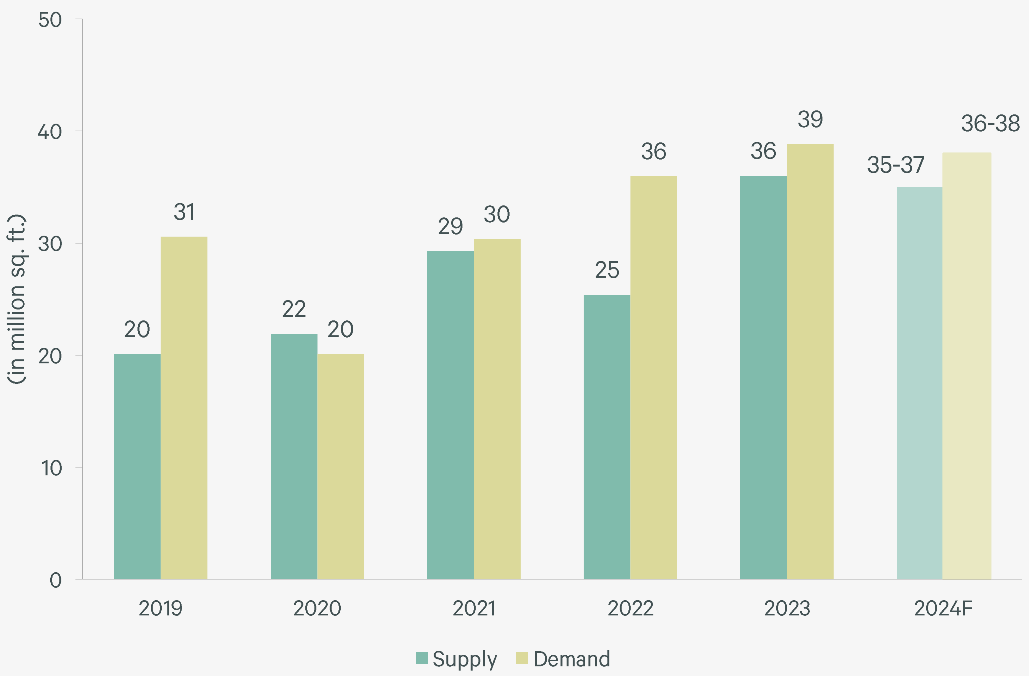


Figure 1.3: I&L supply-demand trends (2019-2024F)



Source: CBRE Research, Q1 2024

02 EVOLVING OCCUPIER STRATEGIES SHAPING I&L DEMAND

Occupiers are seeking to upgrade to core and quality-compliant assets that offer improved storage facilities, meet essential environmental, health, and safety (EHS) requirements, and provide optimised rental options.

Occupiers are preferring being close to industrial and consumption hubs or transportation nodes to reduce their transportation costs.

In the industrial space, some occupiers are choosing build-to-suit facilities or fit-out-based assets to align with their specific requirements, wherein the capex for such tenant improvements are amortised as monthly rent.

Occupiers are increasingly adopting automation and artificial intelligence (AI) technologies to improve cost-effectiveness and operational efficiencies.

Occupiers are strategically positioning their facilities to enable efficient coordination and optimisation of "first mile," "middle mile," and "last mile" logistics, ensuring timely, cost-effective deliveries.

Occupiers are expanding their operations and distribution networks to encompass new logistics hubs in key tier-II cities. This strategic move allows them to be closer to a larger population base and benefit from comparatively lower operational costs.

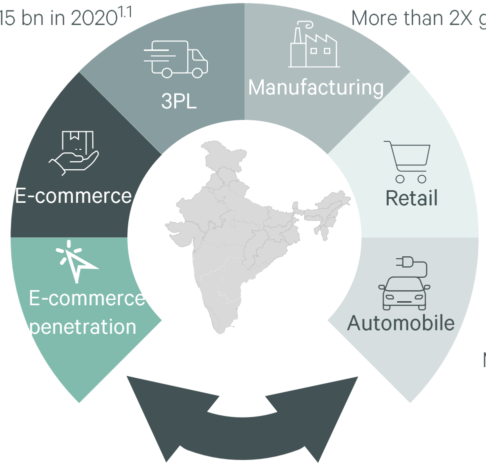
03 3PL AND E&M TO CONTINUE POWERING LEASING ACTIVITY

Over the past few years, persistent supply chain disruptions stemming from a confluence of factors have resulted in extended lead times. This has prompted occupiers in the e-commerce, retail, and manufacturing sectors to expand their buffer stock and increase their focus on developing and expanding sourcing options. Consequently, occupiers are increasingly leveraging the expertise of 3PL providers to fulfill their warehousing needs. This strategic shift allows them to refocus on core competencies by outsourcing logistical and warehousing functions to specialised 3PL partners. Spurred by an anticipated infrastructure boost, the 3PL sector is expected to grow from USD 215 billion in 2020 to USD 320 billion by 2025.[1.1]

India has undergone a remarkable transformation in its manufacturing landscape, diversifying beyond its traditional strengths in textiles and agro-based industries. This expansion has resulted in notable advancements in the manufacturing leasing as well. In recent years, the government has implemented several initiatives to boost the sector, most notably the PLI scheme, which has attracted substantial investments and boosted production in lucrative sectors such as electronics, automobiles, renewable energy, and semiconductor manufacturing. Additionally, initiatives such as Bharatmala Pariyojana, and the National Logistic Policy, have further enhanced opportunities in the manufacturing market. As per the Economic Survey, the PLI scheme for large-scale electronics manufacturing has attracted an investment of INR 4,784 crore and contributed to a total production of INR 2.04 lakh crore, including exports of INR 80,769 crore (as of September 2022).[1.2]

India's e-commerce industry is also witnessing substantial growth, driven by the country's digitalisation and expanding internet user base. Technological advancements, such as artificial intelligence (AI) and virtual reality, are poised to revolutionise the online shopping experience. Additionally, India's internet economy is projected to skyrocket to USD 1 trillion by 2030, a sixfold increase from USD 175 billion in 2022[1.3]. This remarkable surge is fuelled by the increasing penetration of e-commerce in tier-II and tier-III cities, previously underserved by traditional retail channels. Despite a slowdown in 2022 and 2023, the outlook for e-commerce appears positive for 2024, indicating significant opportunities for further expansion and development.

Figure 1.4: I&L demand drivers setting the stage for multi-fold growth



1.1. Indian Chamber of Commerce, 2022
1.2. The PLI Scheme: A Game-Changer for India’s Manufacturing Sector, Invest India, July 2023
1.3. 'The e-Conomy of a Billion Connected Indians’, a Google, Temasek and Bain & Company report, June 2023
1.4. Ministry of Commerce & Industry, GoI, April 2023
1.5. Statista, 2023
1.6. Invest India, Goi, 2030
1.7. CBRE Global estimates; 2021
1.8. Bain & Company, June 2023

04 RENTAL VALUES LIKELY TO WITNESS MODEST GROWTH

The share of modern, investment-grade warehouses is gradually increasing, reflecting a growing emphasis on quality in the market. However, despite this rise, these high-spec facilities still hold a smaller market share compared to older, sub-investment grade options. Although cost-conscious logistics occupiers are currently hesitant to pay premium prices - often prioritising affordability, the growing trend towards quality is expected to push rental rates upwards in the long term. Top-tier investment-grade facilities with superior specifications, amenities, and infrastructure, remain attractive to occupiers seeking the best possible environment for their operations.

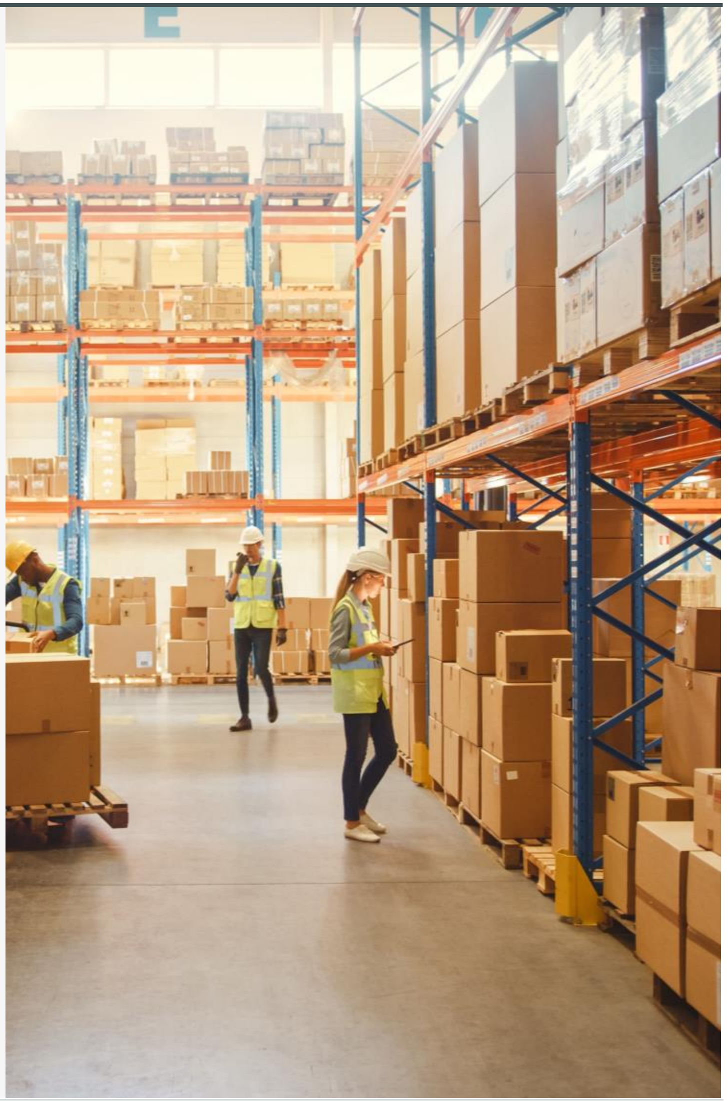
Looking ahead, prime locations and investment-grade assets are poised to take centre stage in 2024 and the intensifying competition for these assets is likely to drive rental rates upwards.

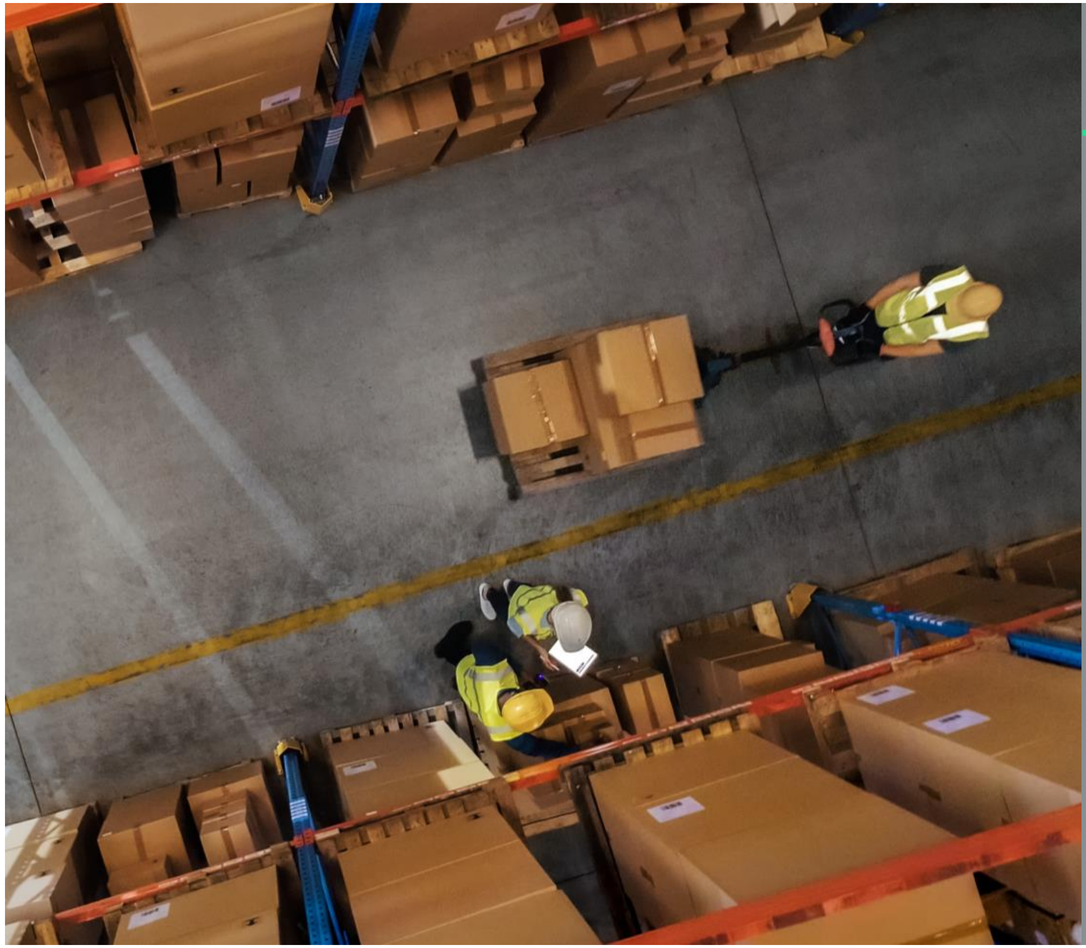
Note: Global macro-economic uncertainties may have an impact on these forecasts, and it is tough to estimate the extent of this impact accurately. Considering this inherent risk factor, forecasts are likely to change with periodic reviews, given the evolving situations.

Figure 1.5: Annual rental growth forecast for key Indian cities for 2024:

Delhi-NCR	2-5%
Hyderabad	3-5%
Chennai	2-5%
Pune	2-5%
Bangalore	3-5%
Mumbai	3-5%

Source: CBRE Research, Q1 2024





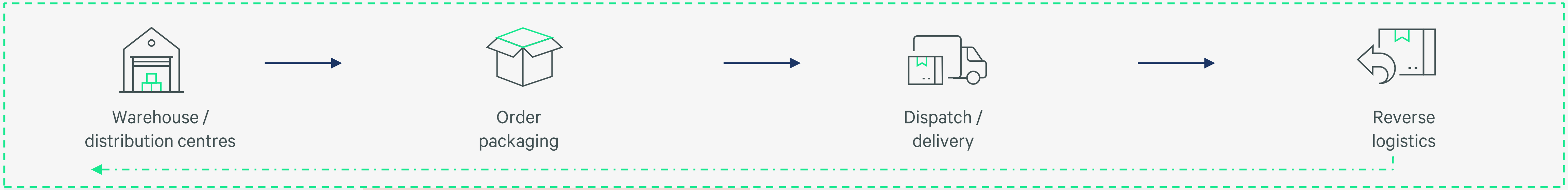
05

NEW-AGE WAREHOUSES WILL CONTINUE TO REVOLUTIONISE

Warehousing facilities with high ceilings, stronger floors, leak-proof thermal insulation, pre-installed dock levellers, sufficient loading and unloading zones, reliable power backup provisions, and robust fire safety systems are expected to gain more traction in 2024. Additionally, manufacturing units are expected to exhibit a growing preference for ready-built, plug-and-play infrastructure within industrial clusters. These facilities are expected to reduce capex and ensure immediate and seamless operations for the occupiers.

The combination of rising end-user demand for rapid delivery and tight labour markets will continue to spur warehouse automation and near-stocking at consumption points and service locations.

Figure 1.6: Tech advancement in new-age logistics' facilites



- **Automated storage and retrieval systems (AS/RS):** Computer controlled systems to fast-track order fulfilment and material handling operations.
- **Automated Guided Vehicles (AGV):** Used to transport inventories between multiple points in a warehouse. They navigate with the help of sensors, tracks, magnetic strips, etc., embedded in the warehouse floors.
- **Cobots:** Semi-autonomous robots which work alongside human labour to assist in tasks that require high precision / heavy lifting within the warehouses.

- **Robotic arms & grippers:** For precise and automated order picking and packaging.
- **Blockchain:** Supports in verifying product authenticity, ensures traceability and provides quality control with the help of sensors for time and temperature sensitive goods. It also facilitates smart contracts that automate packaging instructions, labelling requirements, and even payments when specific conditions are met.

- **Real-time tracking:** GPS and mobile apps enable real-time tracking of products that are out for delivery.
- **Drones:** Unmanned aerial vehicles to facilitate quick and efficient deliveries, both in busy areas and remote locations.
- **Delivery Bots:** Mobile robots used to deliver smaller goods, and which are designed to navigate sidewalks and streets in urban areas.

- **IoT sensors:** To verify the quality standards of returned goods, especially for products with temperature, time, humidity, and shock sensitivity.
- **AI & machine learning:** To analyse data from returned goods to identify patterns, reason for returns, and help decision-making with regards to restocking, refurbishing or recycling.

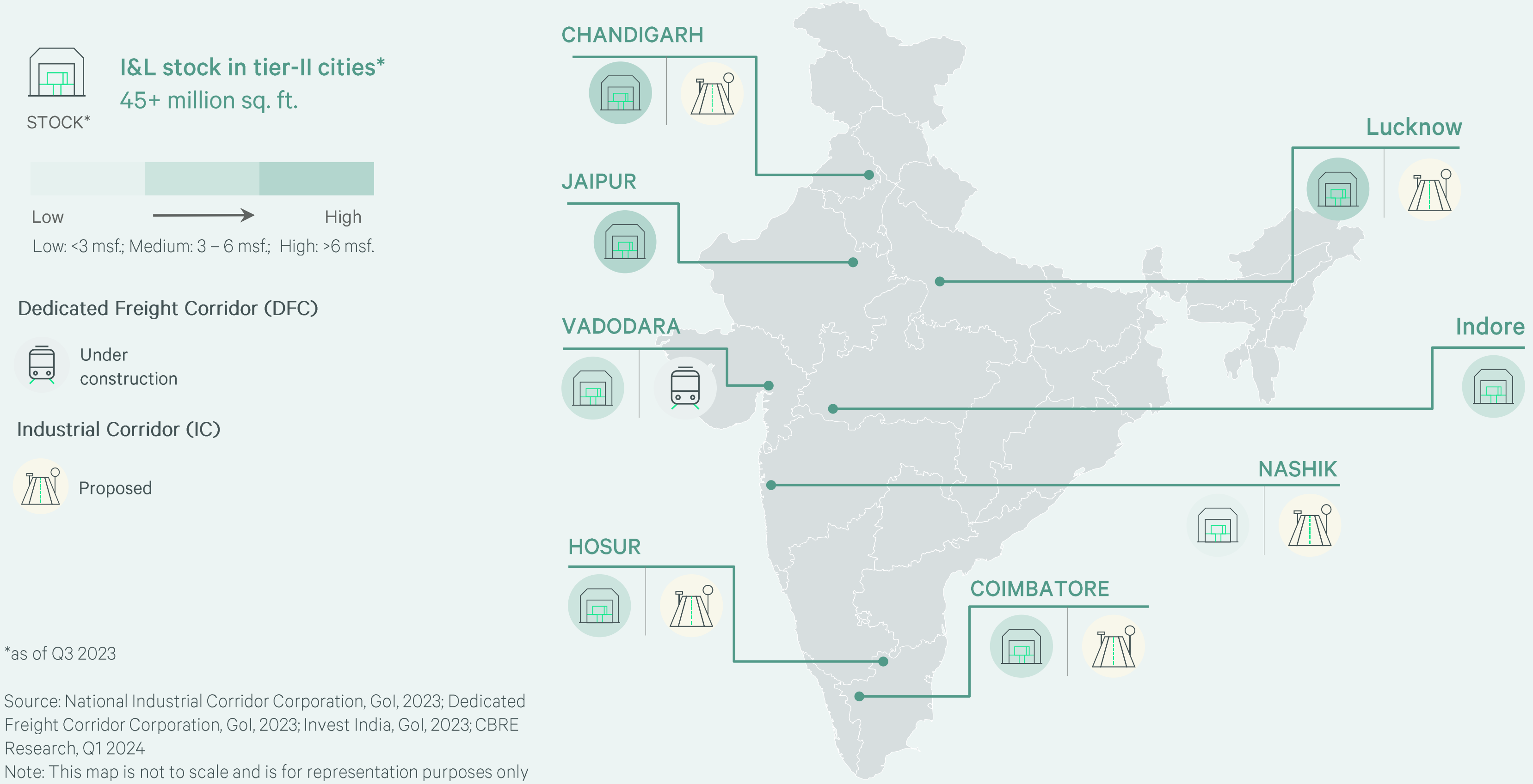
Source: CBRE Research, Q1 2024

Watch out for

Rising demand in tier-II cities

Enhanced infrastructure / connectivity, robust consumer base, and growing internet penetration shaping digital buying decisions in tier-II and III cities are attracting significant interest from both occupiers and developers. Recognising the potential of these untapped markets, occupiers are increasingly prioritising the establishment of efficient local distribution networks to facilitate faster deliveries, including same-day options.

Figure 1.7: Key drivers of I&L demand in tier-II cities



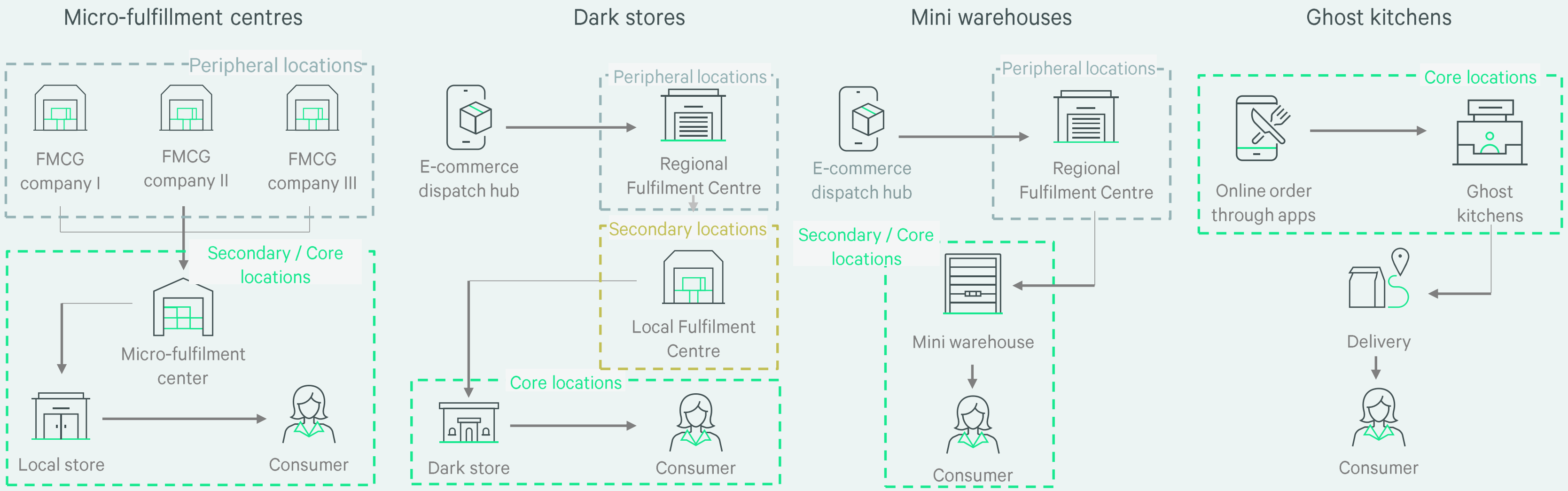
*as of Q3 2023

Source: National Industrial Corridor Corporation, GoI, 2023; Dedicated Freight Corridor Corporation, GoI, 2023; Invest India, GoI, 2023; CBRE Research, Q1 2024
Note: This map is not to scale and is for representation purposes only

Last-mile logistics: Delivery to dominate future I&L operations

Occupiers are increasingly focusing on optimising last-mile logistics services to meet customer expectations and gain a competitive edge in a market characterised by growing demand for swift deliveries. Efficient coordination and optimisation of first-mile and middle-mile logistics are also crucial in the industry to ensure timely and cost-effective deliveries. Occupiers are expected to focus towards last-mile warehousing facilities, such as micro-fulfillment centres, mini-warehouses, dark stores, and in-city warehouses, particularly in the retail and e-commerce sectors. These specialised facilities are strategically located closer to urban areas to enable faster and more efficient deliveries to end customers.

Figure 1.8: Operating models of key last mile delivery facilities



Source: CBRE Research, Q1 2024

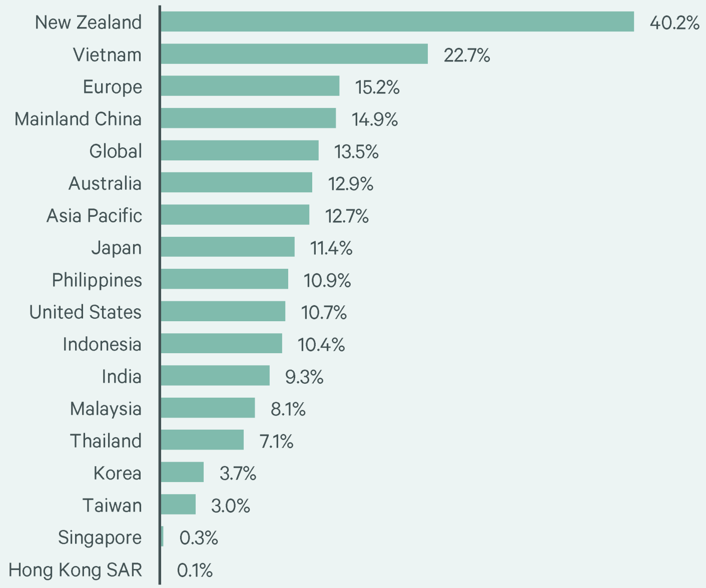
Watch out for

ESG to remain on the radar of I&L stakeholders

Developers are expected to continue prioritizing green / sustainable facilities to attract occupiers and enhance their portfolios. Investment-grade developers are expected to collaborate with occupiers to reduce energy consumption and implement green practices on-site. Despite upfront investments, lower electricity costs and government incentives make these initiatives appealing. Some developers are expected to introduce cost-effective assets with essential occupier requirements and sustainable facilities.

According to the 2023 Asia Pacific Logistics Occupier Survey[1.9], a majority of respondents identified green energy supply and electric vehicle (EV) charging as the most desirable features for ESG-compliant warehouses. While 70% of the surveyed respondents expressed a desire for greater access to green energy, the availability of such energy from the grid remains limited.

Figure 1.9: Renewable energy as a percentage of primary energy production



Note: Renewable sources refer to hydropower, solar, wind, geothermal, wave tidal and modern biofuels
Source: Our World in Data based in BP Statistical Review of World Energy, 2022

Figure 1.10: Key ESG initiatives under discussion and proposed by few developers

- Green certifications
- Solar panels
- Sewage treatment plants (STP)/ Water treatment plants (WTP)
- Energy-efficient HVAC and lighting systems
- EV charging stations
- Cool roofs using reflective roofing materials
- Daytime light/ Ridge ventilation
- Rainwater harvesting
- Waste management and recycling
- Locally sourced construction materials to reduce carbon footprint

1.9 The 2023 Asia Pacific Logistics occupier Survey was conducted from April to May 2023. More than 120 responses were received across Asia Pacific

Contacts

Research

Abhinav Joshi
Head of Research, India, Middle East and North Africa
abhinav.joshi@cbre.co.in

Vidhi Dheri
Head of India Research Operations
vidhi.dheri@cbre.co.in

Rajorshi Sanyal
General Manager, India Research
rajorshi.sanyal@cbre.com

Uttara Nilawar
Associate Director
Uttara.Nilawar@cbre.com

Darwish Mammi
General Manager, India Research
darwish.mammi@cbre.com

Research

Zinnia Saha
Manager, India Research
Zinnia.Saha@cbre.com

Jenifer Ruban
Assistant Manager, India Research
Jenifer.Ruban@cbre.com

Business Line

Ram Chandnani
Managing Director,
Advisory & Transaction Services, India
ram.chandnani@cbre.co.in

Jasmine Singh
Senior Executive Director,
Advisory and Transaction Services, India
jasmine.singh@cbre.co.in

S Balaji
Associate Executive Director,
Advisory and Transaction Services, India
s.balaji@cbre.co.in

Karuna Karan
Associate Executive Director,
Advisory and Transaction Services, India
karuna.karan@cbre.co.in

Nitin Chandra
Director, Consulting and Advisory Services, India
nitin.chandra@cbre.co.in

Hardeep Singh
Director, Advisory and Transaction Services, India
hardeep.singh@cbre.co.in

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Business Line Contacts

Advisory & Transactions

Ram Chandnani

Managing Director,

Advisory & Transaction Services, India

ram.chandnani@cbre.co.in

Consulting & Valuations

Rami Kaushal

Managing Director,

Consulting & Valuations, India, Middle East & Africa

rami.kaushal@cbre.co.in

Global Workplace Solutions

Rajesh Pandit

Managing Director,

Global Workplace Solutions, India & Property Management, India, SE Asia, Middle East & North Africa

rajesh.pandit@cbre.co.in

Project Management

Gurjot Bhatia

Managing Director,

Project Management, India, SE Asia, Middle East & Africa

gurjot.bhatia@cbre.co.in

Capital Markets

Gaurav Kumar

Managing Director & Co-Head, Capital Markets, India

gaurav.kumar@cbre.co.in

Capital Markets

Nikhil Bhatia

Managing Director & Co-Head, Capital Markets, India

nikhil.bhatia@cbre.co.in

Operations

Rajat Gupta

Managing Director, Operations, India

rajat.gupta@cbre.com

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