Intelligent Investment

India Economy Outlook 2024

REPORT

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Foreword

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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.

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Economy

India's economy continues to demonstrate resilience, exhibiting sustained growth underpinned by several positive indicators. These include a narrowing current account deficit, near-record foreign exchange reserves, and a healthy fiscal position. The government's commitment to fiscal consolidation, coupled with the central bank's disciplined monetary policy, has established a strong foundation for continued economic expansion. Furthermore, healthy balance sheets across the central government, banking sector, and financial institutions, along with targeted government incentives, are anticipated to set a fresh capex cycle in motion.

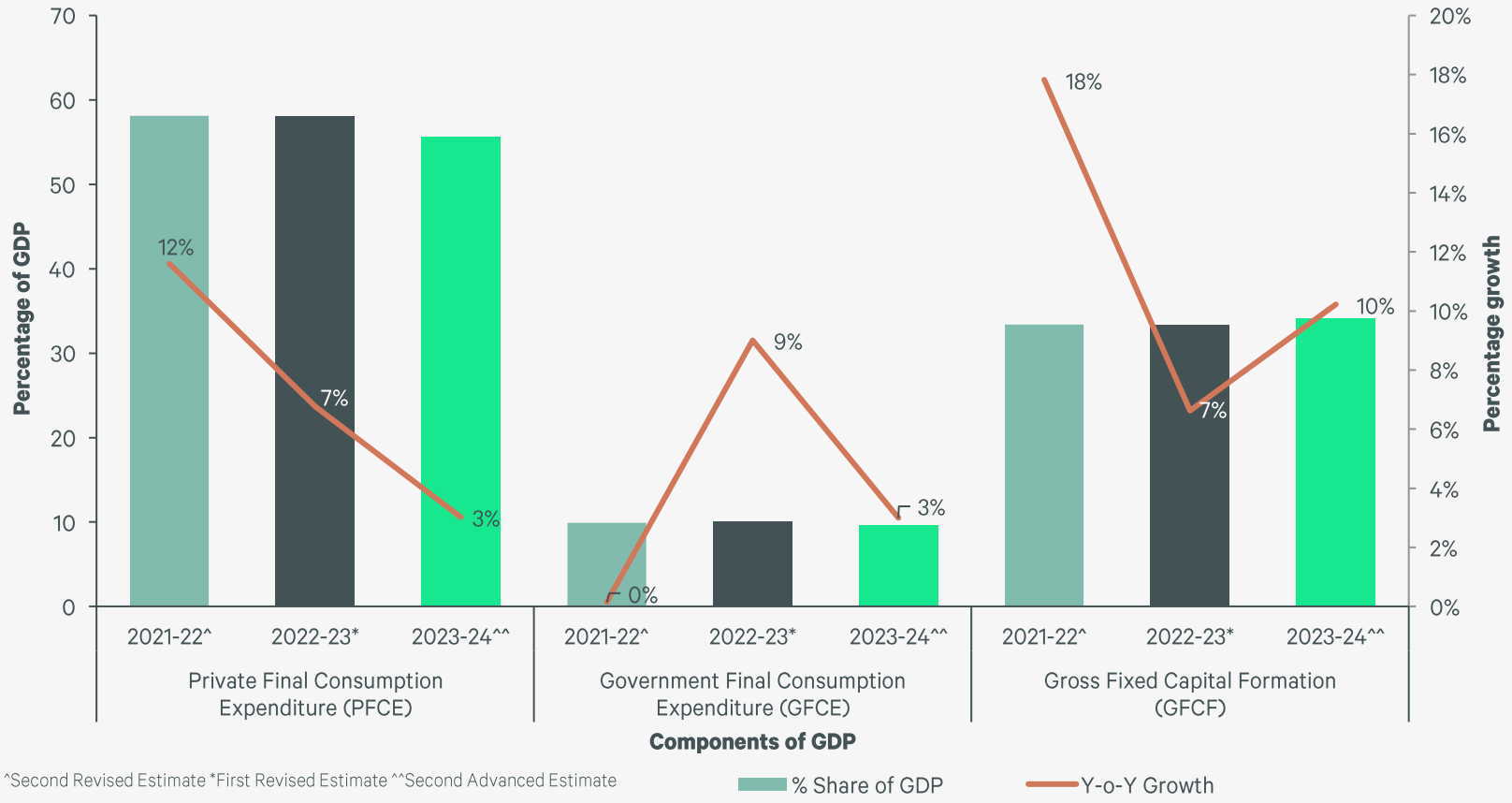
The year that was

01

GROSS FIXED CAPITAL FORMATION SCALES NEW HIGHS

The gross fixed capital formation (GFCF), a measure of the growth of productive assets in the economy, noticeably increased from a low of 30.7% of GDP amounting to INR 32.78 lakh crore in FY2015 to 34.1% of GDP amounting to INR 58.93 lakh crore in FY2024.[1.1] Unsurprisingly, the Indian economy has seen its highest pace of asset formation since 2009. For capital expenditure on projects related to sectors such as health, education, irrigation, and power, the central government approved and provided special assistance to the states through a 50-year interest-free loan. In addition, the Interim Budget 2024-25 proposed increasing the outlay for infrastructure development by 11%, amounting to INR 11.11 lakh crore, or 3.4% of the GDP. [1.2]

Figure 1.1 Expenditure components of GDP



^Second Revised Estimate *First Revised Estimate ^^Second Advanced Estimate

Source: Ministry of Statistics & Programme Implementation; CBRE Research, Q1 2024

1.1. Second advanced estimates of National Income 2023-24, Ministry of Statistics & Programme Implementation, Government of India, February 2024
1.2. Interim Budget 2024-25

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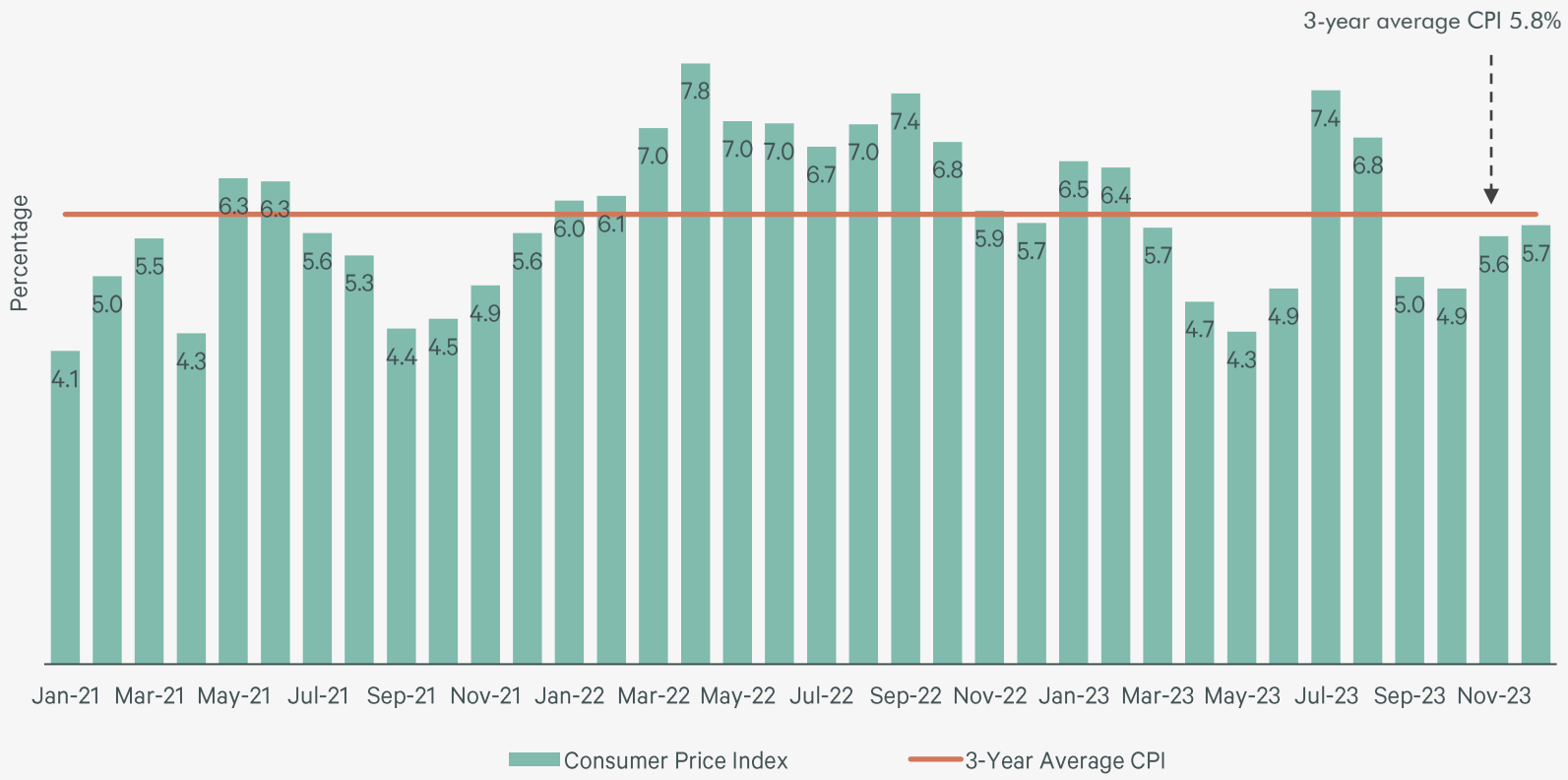
02

STICKY INFLATION PERSISTED IN 2023

Retail inflation surpassed the Reserve Bank of India's (RBI) target rate of 4% (+/- 2%) on four occasions throughout 2023. Headline Consumer Price Index or CPI inflation eased to 4.9% in October, down from a July high of 7.4%. This moderation was evident in food, fuel, and core CPI components. The impact of prior policy rate adjustments is ongoing. Consumer prices for food and beverages rose by 8.02% in November following a four-month low of 6.24% in October. While remaining stubbornly elevated throughout 2021 and 2022 (~6% average), core inflation (CPI excluding food and fuel) declined notably to 3.8% in December 2023.

Figure 1.2 Consumer Price Index: 2021, 2022, and 2023



Source: Ministry of Statistics & Programme Implementation; CBRE Research, Q1 2024

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Top five trends expected to shape the economy in 2024

01 INTEREST RATES MAY REMAIN HIGHER IN THE SHORT TERM

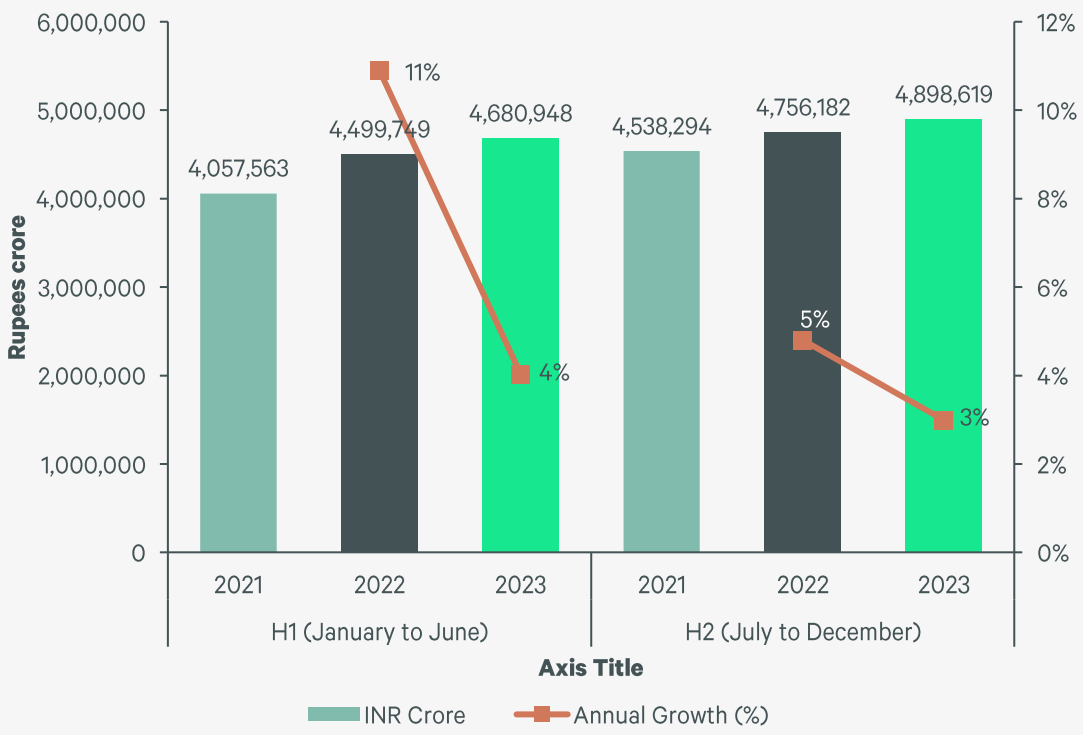
The prospect of a near-term policy pivot by the RBI remains contingent upon achieving sustained alignment with its medium-term inflation target of 4%. While achieving this objective has presented challenges despite the monetary policy committee's (MPC) cumulative 250 basis points worth of rate hikes in 2022-23, positive signs are emerging. Core inflation notably reached a four-year low of 3.5% in January 2024.[1.3]

Looking ahead, projections anticipate a further decline in the Consumer Price Index (CPI) in the coming months. This anticipated development will likely bolster the central bank's confidence to initiate a measured easing of key policy rates and reserve ratios, which would then translate into lower borrowing costs for businesses and individuals.

02 PRIVATE CONSUMPTION SET TO PICK UP AS INFLATION EASES

In the post-pandemic era, India's economy has primarily been driven by the private final consumption expenditure (PFCE). Among a few contributing factors, the most significant one was the developing latent demand that was not met during the lockdown imposed due to the COVID-19 pandemic. From Q3 FY2023, growth in the PFCE has been falling, decreasing to 3.5% Y-o-Y in Q3 FY2024 from 5.31% in Q1 FY2024 and averaging 3.5% during the previous four quarters (as opposed to an average of 10.9% in the preceding four quarters - Q3 FY2022 to Q2 FY2023). As inflation is expected to decline materially in the coming months, the PFCE will likely expand commensurately post elections by the middle of 2024.

Figure 1.3 Private Final Consumption Expenditure



Source: Ministry of Statistics & Programme Implementation; CBRE Research, Q1 2024

1.3. Department of Economic Affairs, Government of India, January 2024

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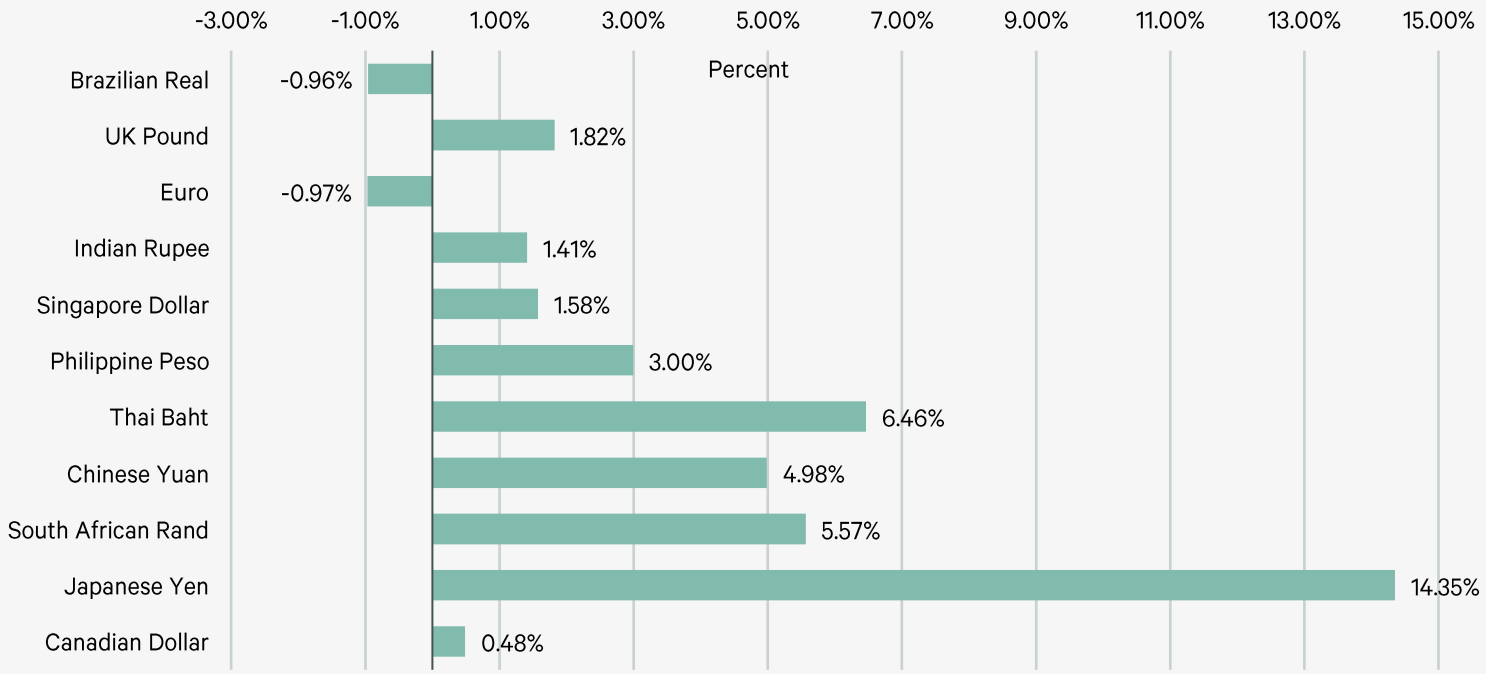
03

FOREX RESERVES TO KEEP THE RUPEE STABLE

Between April 2023 and March 2024, the Indian rupee has been one of the best-performing currencies against the US dollar, as its value declined by only about 1.4% during this period, compared to an 8.2% depreciation over the same period the previous year.[1.4] Foreign Portfolio Investors (FPI) should be drawn in by India's robust gross domestic product (GDP) trends, projected to grow by 7.6% in FY 2024 underpinned by strong investment activity.[1.5] This would expectedly help reduce the RBI's forex market intervention, given the central bank also provided a foreign exchange buffer against volatility for the rupee. As of March 22, 2024, India's foreign exchange reserves were USD 642.6 billion, enough to pay 11 months' worth of estimated imports and 99% of the country's outstanding external debt as of September 30, 2023.[1.6]

In addition, the World Bank predicts inward remittances are expected to rise by 8% to USD 135 billion in 2024, and India would continue to be its top beneficiary globally.[1.7] All these factors together will likely stabilise the rupee in 2024, with the caveat that any commodity price shocks and an unlikely full-blown geopolitical conflict could cause disturbances.

Figure 1.4 Exchange rate movement of select currencies against the USD (April 1, 2023 – March 31, 2024)



Source: Reserve Bank of India and Bank for International Settlements; CBRE Research, Q1 2024; Note: Currency depreciation occurs when, because of a change in exchange rates, a unit of one currency buys fewer units of another currency.

1.4. Reserve Bank of India, March 2024
1.5. Ministry of Statistics & Programme Implementation, Government of India, February 2024
1.6. Department of Economic Affairs, Government of India and Reserve Bank of India, March 2024
1.7. Department of Economic Affairs, Government of India, January 2024

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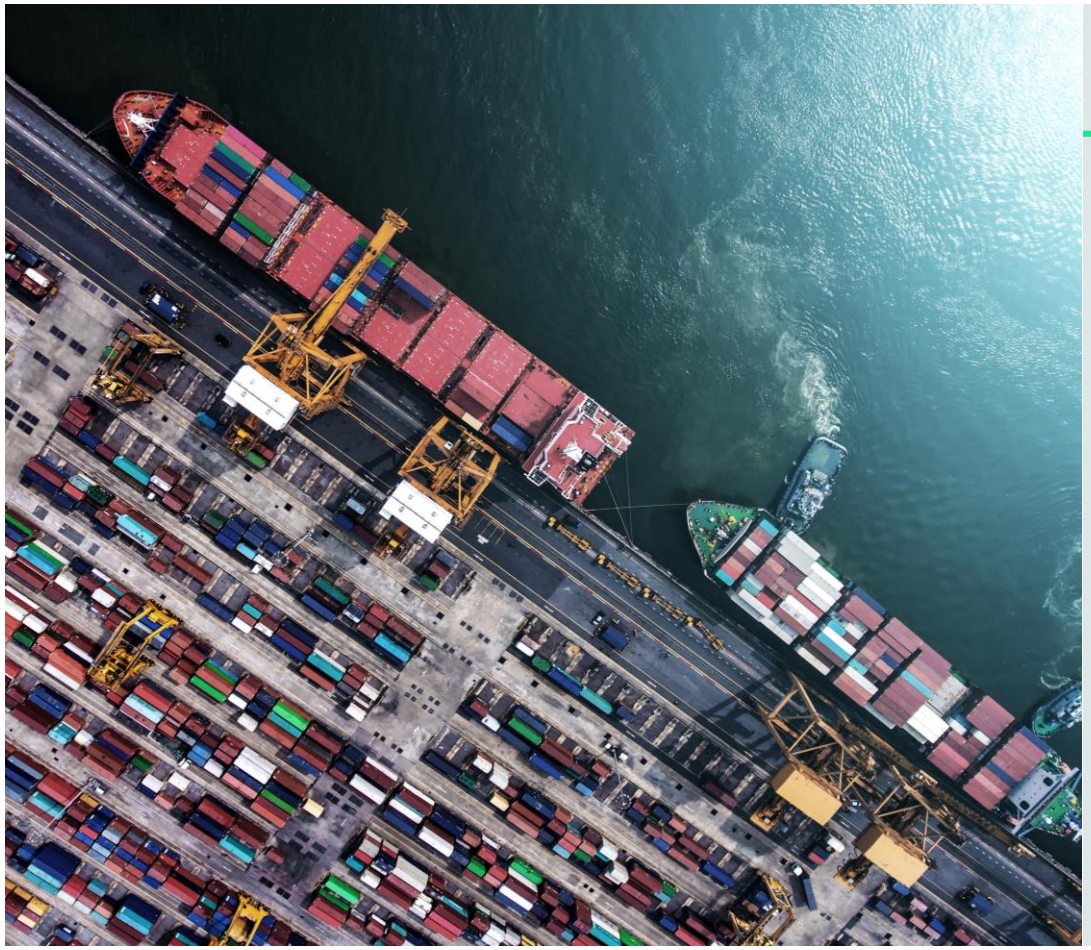

04

EXPORTS MAY REMAIN FLAT TILL GLOBAL ECONOMY RECOVERS

With a tardy pace of 0.2%, the expansion of international trade in products and services outside of global recessions increased at the slowest rate in the last 50 years in 2023. Nonetheless, the World Bank predicts that global trade would increase to 2.3% by 2024, continuing the trend in 2025.[1.8] India's trade balance improved in 2023 because of a slowdown in global demand and a faster reduction in merchandise import growth due to falling commodity prices. However, India's merchandise export growth also moderated during the year, while positive projections for both exports and imports during Q4 FY2024 were reported in the RBI's Industrial Outlook Survey of the Manufacturing Sector.

In another report, the RBI projected India's merchandise exports and imports to grow by 3.6% and 5.2%, respectively, during 2024-25.[1.9] The classification of main commodity groupings demonstrates that exports have generally decreased across all categories apart from electronic items, spices, and drugs & pharmaceuticals. However, between April 2023 and February 2024, there was a 17.8% increase in net service trade.[1.10] India's service exports may increase in the upcoming year due to improved possibilities for establishing global capability centres (GCCs), while merchandise exports shall continue to get a boost from electronic goods and pharmaceutical shipments.

1.8. Global Economic Prospects, World Bank Group, January 2024
1.9. RBI's 86th round of Professional Forecasters on Macroeconomic Indicators, February 2024
1.10. Department of Economic Affairs, Government of India, January 2024

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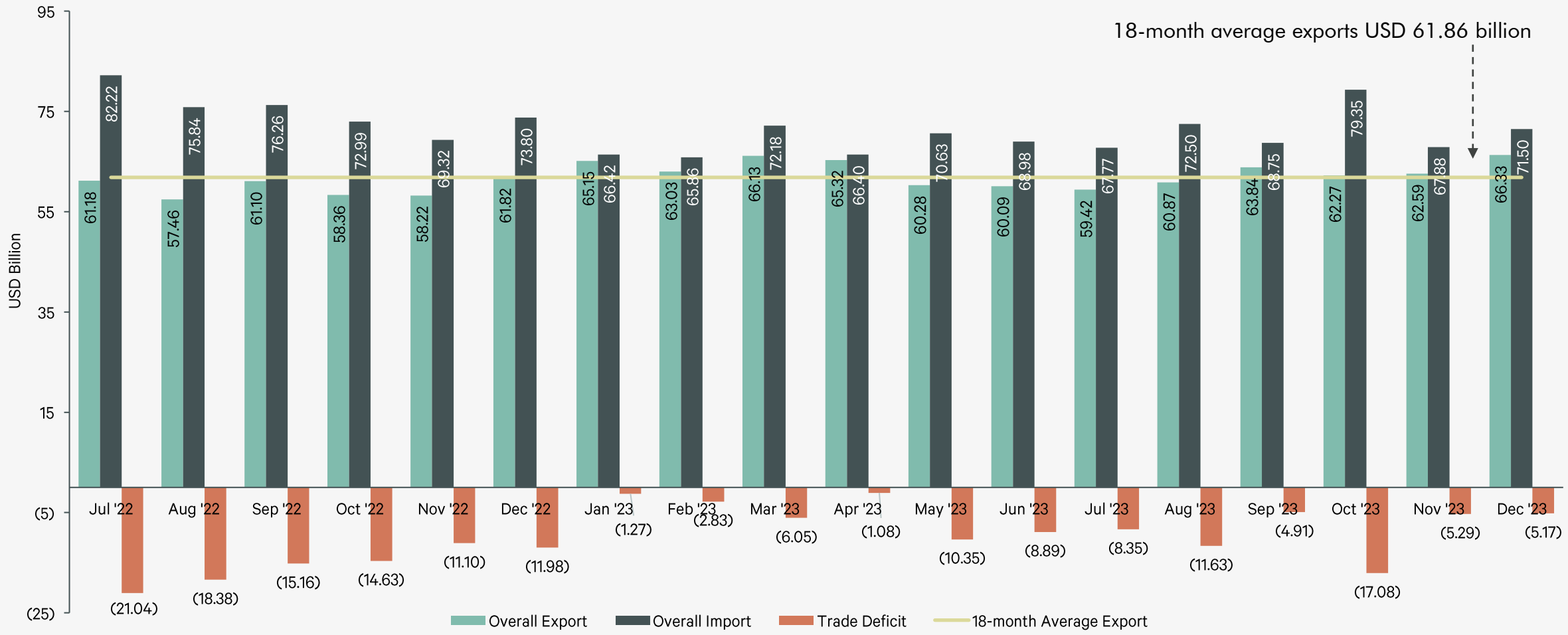
Figure 1.5 Foreign Trade Data July 2022 - December 2023



Source: Ministry of Statistics & Programme Implementation; CBRE Research, Q1 2024

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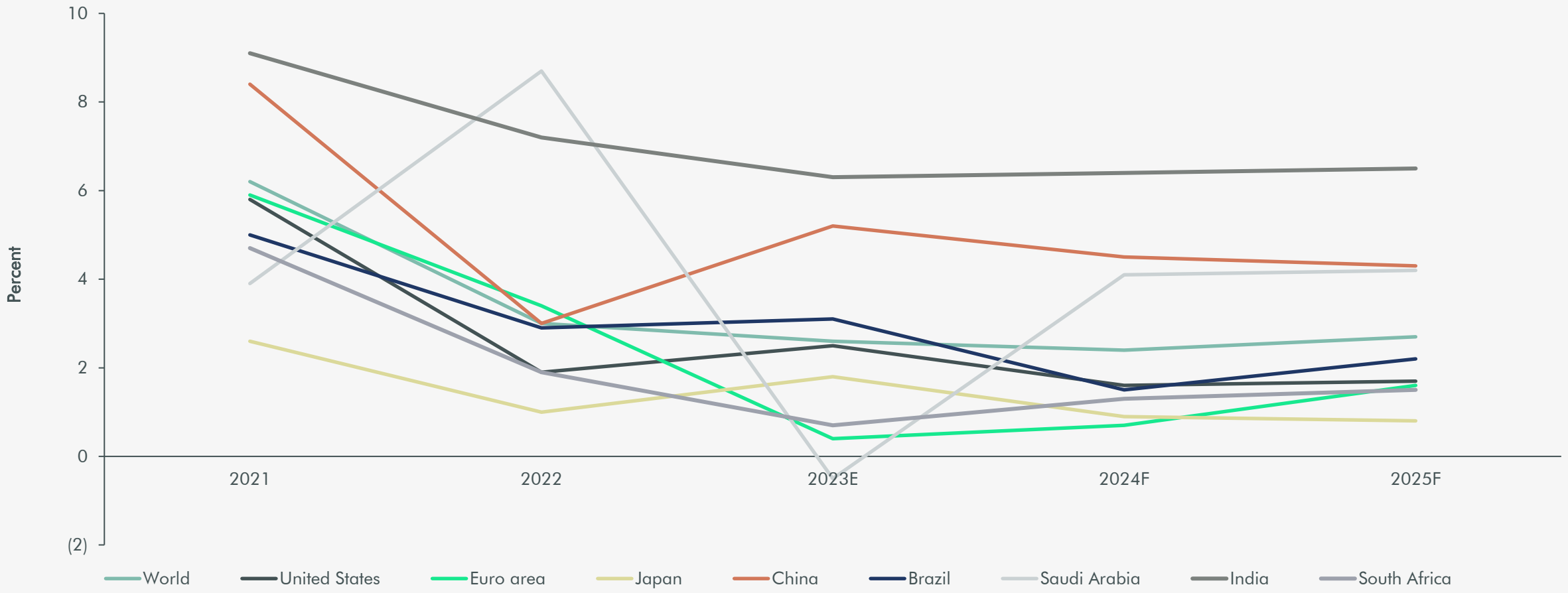
Figure 1.6 GDP growth rates of select global economies



Source: World Bank; CBRE Research, Q1 2024

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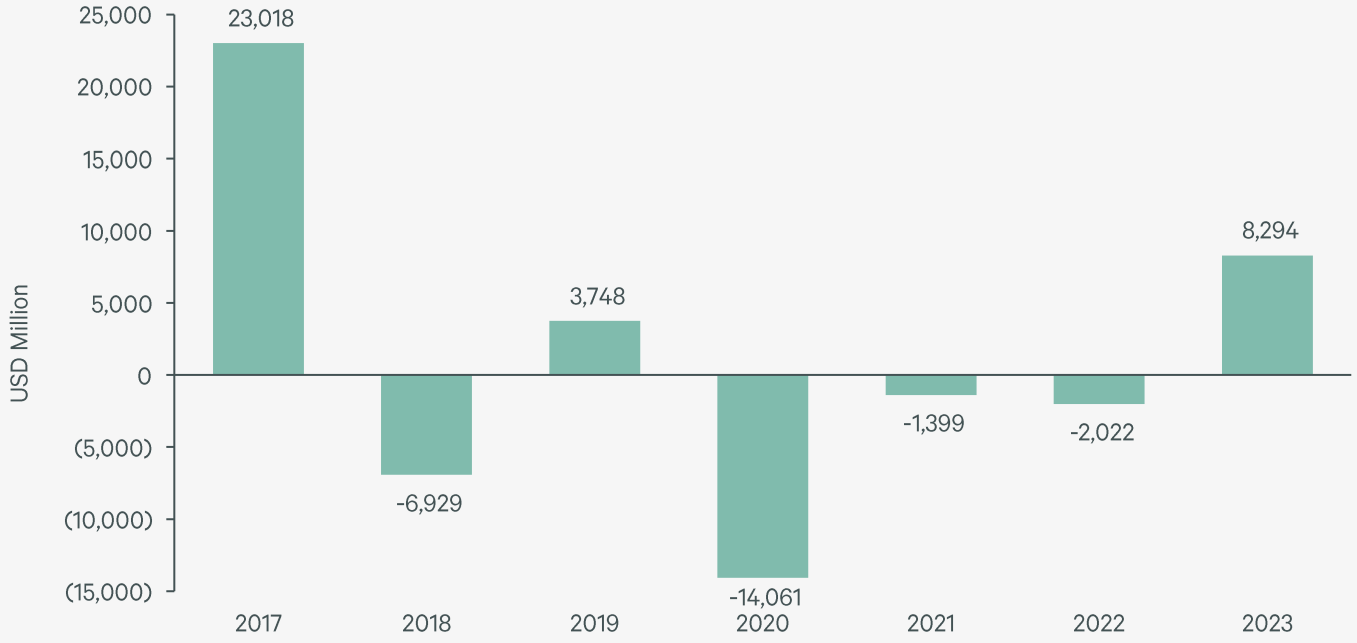
05

INDIA'S INCLUSION IN EMERGING MARKETS BOND INDEX SET TO DRIVE FPI INFLOWS

India's inclusion in the JP Morgan Government Bond Index-Emerging Markets (GBI-EM) index, commencing June 2024, is poised to attract significant Foreign Portfolio Investment (FPI). The staged integration, reaching a maximum weight of 10% by March 2025, has already spurred a notable uptick in foreign inflows, surpassing levels observed since 2017. Foreign portfolio investors have consistently acted as net buyers of Indian debt since the inclusion announcement, with a particularly strong showing in the second half of the year (nearly 75% of inflows)[1.11]. This trend is expected to continue as exchange-traded funds (ETFs) tracking these global indices rebalance their portfolios, generating additional capital inflows. The increased FPI activity is projected to influence India's base rate, potentially leading to a substantial decrease in yields. Consequently, the cost of borrowing in India is anticipated to decline in the coming years.

Figure 1.7 Foreign Portfolio Investment in Indian debt: 2017 - 2023



Source: National Securities Depository Limited, CBRE Research, Q1 2024

1.11. FPI Monitor, NSDL

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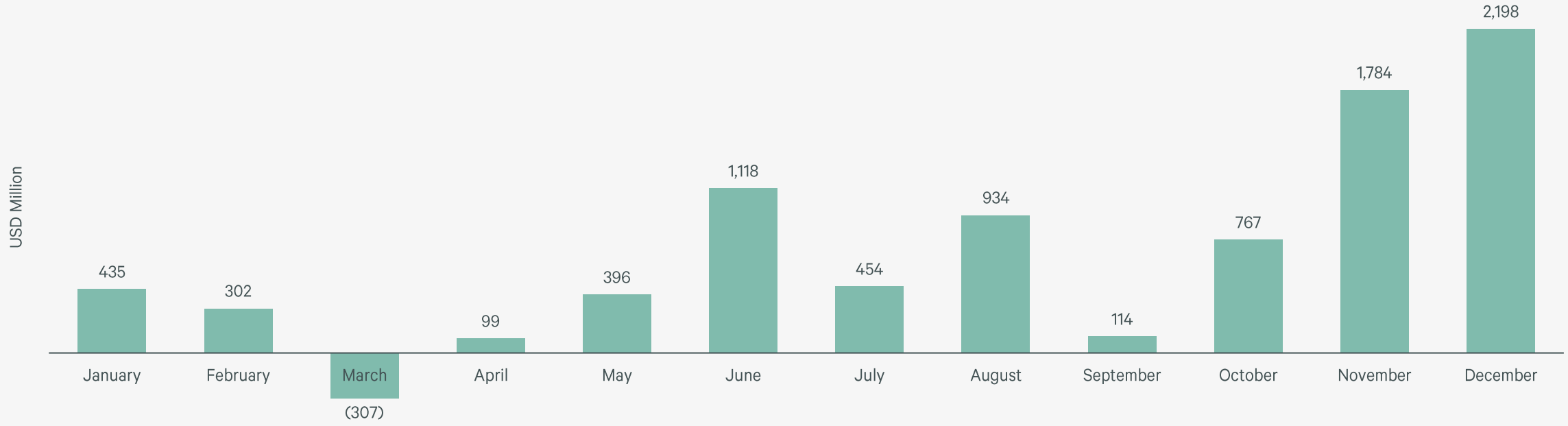
Figure 1.8 Month-wise FPI Investment in Indian debt during 2023



Source: National Securities Depository Limited, CBRE Research, Q1 2024

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Watch out for

U.S. Federal Reserve to keep markets guessing

The U.S. Federal Reserve policy rate action will be closely monitored in 2024. The Federal overnight rates at the current range of 5.25% to 5.5% are the highest in over 22 years. As per the commentary released by the Federal Open Market Committee (FOMC), the Fed remains fully committed to bringing inflation down to its 2% target.

The specific timetable of prospective rate cuts was left open at the March FOMC meeting due to February's hotter-than-expected labour market statistics and somewhat higher-than-expected inflation data; however, markets anticipate the first cut in June. Though the FOMC is expected to maintain its data-dependent methodology and take decisions on a "meeting by meeting" basis, there could be as many as two to three rate cuts in 2024.

Reduced interest rates in the US increase the availability of the US dollar, potentially encouraging investment in India and other emerging markets. The Fed's decision to reverse course and cut rates could also benefit Indian start-ups, likely facilitating a more favourable climate for business growth.

Increased capex to drive infrastructure growth

India's Interim Budget FY25 prioritises infrastructure development with an 11.1% increase in capital expenditure outlay to INR 11.11 lakh crore (3.4% of GDP). Extending the 50-year interest-free loan scheme for states' capital expenditures (INR 1.3 lakh crore) further strengthens this focus[1.12].

This pro-infrastructure commitment aligns with the positive trends in the financial sector. Bank credit growth has rebounded (16.8% by January 2024) and bad loans have declined (3.2% by September 2023) as per the RBI's December 2023 report.[1.13] Healthy financial institutions are well-positioned to support the capex cycle. The NBFC sector also shows improvement, with CRAR* (27.6%), GNPA** (4.6%), and RoA*** (2.9%) at healthy levels in September 2023, according to the RBI report.[1.13]

Meanwhile, the inclusion in global emerging market bond indices could reduce the borrowing costs for the government and corporates, possibly boosting the rupee and the country's credit rating. This, along with potentially larger debt inflows in FY25, could make it easier for India to finance its current account deficit and reduce the pressure on the rupee.

1.12. Interim Budget 2024-24
1.13. Reserve Bank of India (Financial Stability Report), December 2023
*CRAR – Capital to Risk (Weighted) Assets Ratio; **GNPA – Gross Non-performing Assets Ratio; ***RoA – Return on Assets

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