Intelligent Investment

India Market Monitor Q2 2024 - Residential

REPORT

CBRE RESEARCH

July 2024

Economy

India's gross domestic product (GDP) continues to exhibit resilience, characterised by steady progress in recent quarters. The government has revised the full-year growth estimate for FY 2023-24 upwards to 8.2%. Similarly, the Reserve Bank of India (RBI) has raised the real GDP forecast for FY 2024-25 to 7.2% from an earlier estimate of 7%, citing improving rural and urban demand buoyed by favourable monsoon forecasts, an uptick in services and the government's capex thrust. Significant growth in the manufacturing and mining sectors has also driven the country's real gross value added (GVA) for FY 2023-24 to 7.2%, compared to 6.7% in FY 2022-23. However, persistent food price pressures may necessitate a postponement of the central bank's anticipated rate-cutting cycle until later in the year.

Market Performance in Q2 2024

India Market Monitor

ECONOMY

8.2% India's GDP growth in FY 2023-24

Better-than-expected GDP growth in FY 2023-24 has prompted a few agencies to raise their FY 2024-25 growth forecasts for India, making it an outlier among major economies. Currently, most agencies peg the country's growth in the 6.6%-7.4% range.

Growth forecast for 2024-25

7.2% RBI

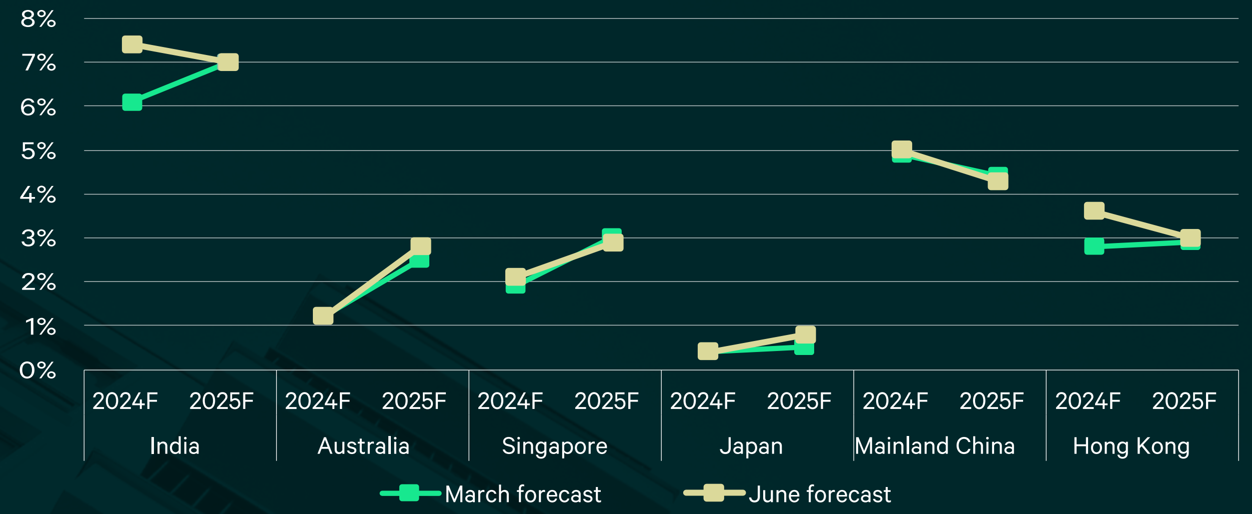
7.0% IMF

7.2% Fitch

6.6% World Bank

7.4% CBRE (CY 2024)

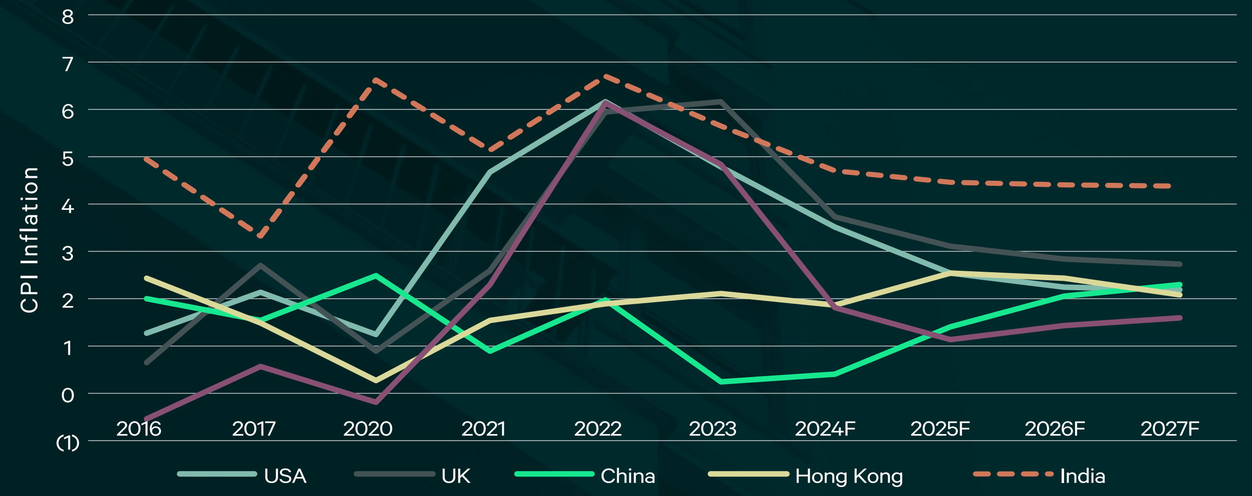
Revised GDP rates for key APAC economies



Source: CBRE House View (March 2024 and June 2024)

5.08% Retail inflation in June 2024, up from 4.75 % in May 2024.

Inflation is within the RBI's target for the past 10 months, but heightened food inflation could delay rate-easing cycle towards the end of the year.



Source: CBRE House View June 2024

India Market Monitor

6.5%

Current repo rate which has remained steady since the last hike of 25 bps in February 2023

Key policy steps in Q2 2024

Securities and Exchange Board of India (SEBI), to facilitate ease of doing business, has allowed the managers of real estate investment trusts (REITs) to convene a meeting of the unitholders by giving a shorter than 21 days' notice, subject to the prior consent of unitholders. It has also clarified to provide an e-voting option and an option to attend meetings electronically to all the unitholders for all unitholders' meetings.[1]

Haryana's Town & Country Planning and Urban Estates department has permitted stilt plus four-floor (S+4) construction throughout the state. This permission is extended to old colonies with certain conditions. A standard operating procedure has been prepared for all cases where S+4 construction has been carried out without building plan approval to date.[2]

In a move to increase retail investor participation in the corporate bond market, SEBI reduced the face value of debt securities to INR 10,000 from INR 1 lakh. Market participants are of the view that lower ticket size of debt securities may encourage more non-institutional investors to participate in the corporate bond market, which in turn may also enhance liquidity. This, however, would be subject to certain conditions, such as non-convertible debentures and non-convertible redeemable preference shares being plain vanilla, interest, or dividend-bearing instruments.[3]

Performance of key high-frequency indicators

The services purchasing managers' index (PMI) averaged 60.5 in Q2 2024. The pace of job creation in the services sector during June was the strongest in 22 months. The manufacturing PMI was also in expansion territory throughout Q2, averaging 58.2, with firms increasing hiring at the fastest pace in over 19 years.[4]

The Central Board of the RBI approved the transfer of INR 2.1 trillion as surplus to the Central Government for the accounting year 2023-24. RBI's income statement showed a 56.3% drop in expenditure and a 17% rise in income. RBI's income got a boost from interest earned from foreign securities and deposits—the former increased to INR 653.3 billion, while the latter surged to INR 376.2 billion.[5]

Bank credit deployment was up 19.8% Y-o-Y in May 2024 compared to 15.4% growth in the same period in 2023. Credit deployment in commercial real estate grew by 45.3% Y-o-Y during May 2024, while deployment in housing was also up by 38.7%.[6]

What could work for the Indian economy...

Steady current account deficit: India's current account deficit moderated to USD 23.2 billion (0.7% of GDP) during FY 2023-24 from USD 67 billion (2% of GDP) during the previous financial year on the back of a lower merchandise trade deficit. During FY 2023-24, portfolio investment recorded a net inflow of USD 44.1 billion as against an outflow of USD 5.2 billion a year ago.[7]

Declining external debt-to-GDP ratio: At the end of March 2024, India's external debt was placed at USD 663.8 billion, an increase of USD 39.7 billion over its March-end 2023 level. The external debt-to-GDP ratio declined to 18.7% at March-end 2024 from 19% at March-end 2023.[8]

Buoyant debt market: Foreign portfolio investment (FPI) in Indian debt securities is witnessing an unprecedented surge due to inclusion in JP Morgan's widely tracked Government Bond Index-Emerging Markets (GBI-EM). In H1 2024, FPIs poured in INR 686 billion in Indian debt securities, a 310% increase compared to a similar period last year.[9]

Healthy expansion in productive assets in the economy: Gross capital formation (GCF) for FY 2023-24 indicated an uptick in investment, led by the government's sustained thrust on infrastructure, coupled with liveliness in the housing sector. The ratio of real gross fixed capital formation (GFCF) to GDP rose to 34.1% in FY 2023-24 from 33.3% in the previous year. The construction sector grew by 10% in FY 2023-24, registering a gross value addition of INR 14.36 trillion.[10]

But what might not...

Food prices remain elevated: The Consumer Food Price Index (CFPI), accounting for more than half of the overall CPI basket, rose 9.36% Y-o-Y in June, up from 8.69% in May and 8.70% in April. While initial forecasts predicted above-normal monsoons, recent rainfall patterns have been erratic. If monsoon activity strengthens and precipitation returns to normal or above-normal levels, the RBI may consider easing the policy repo rate later in the year. However, despite anticipated elevated headline inflation for July, favourable base effects from last year may bring the annualised figure closer to the RBI's target of 4% by the end of the year.[11]

Pause in consumer confidence uptrend: Consumer confidence has paused on its uptrend as sentiments on all parameters, apart from spending, recorded some moderation. The RBI's current situation index (CSI) moderated to 97.1 in May 2024 from 98.5 two months ago. Consumer optimism remains elevated for the year ahead, albeit decreasing marginally, over relatively tempered sentiments on the general economic situation and employment prospects. The future expectations index (FEI) stood at 124.8 in May 2024 (125.2 in the previous survey in March). Next year, consumers anticipate a greater increase in overall spending, while a larger number of respondents anticipate a rise in both essential and non-essential expenditures.[12]

1. SEBI Board Meeting, June 2024
2. Directorate of Information, Public Relations & Languages, Haryana, July 2024
3. SEBI Circular, July 2024
4. HSBC and S&P Global, July 2024
5. Reserve Bank of India – Annual Report 2023-24
6. Reserve Bank of India – Sectoral Deployment of Bank Credit, May 2024
7. Reserve Bank of India – Balance of Payment, June 2024
8. Reserve Bank of India – India's External Debt, June 2024
9. National Securities Depository Ltd. (NSDL) – FPI Monitor
10. Provisional Estimates of Annual GDP for 2023-24 – MoSPI, May 2024
11. Reserve Bank of India – Consumer Confidence Survey, June 2024
12. UNCTAD Trade and Development Report Update, April 2024

Residential

India's housing market maintained robust momentum in the first half of 2024, with sales surpassing 156,000 units. This strong performance was supported by a consistent stream of new launches, totalling about 153,000 units.

1%
Increase in sales in H1 2024 on Y-o-Y basis

19%
Q-o-Q decline in apartment sales in Q2 2024; 8% decline on Y-o-Y basis

45%
Share of mid-end projects in sales in H1 2024, followed by high-end and affordable projects*

63%
Cumulative share of Mumbai, Pune, and Bengaluru in sales in H1 2024

62%
Total share of Mumbai, Pune, and Delhi-NCR in sales in Q2 2024

Marginal
Y-o-Y increase in unit launches in H1 2024

2%
Y-o-Y decline in new launches in Q2 2024; 16% fall on Q-o-Q basis

64%
Combined share of Mumbai, Pune, and Hyderabad in unit launches in H1 2024

62%
Cumulative share of Mumbai, Pune, and Delhi-NCR in apartment launches in Q2 2024

*Note - Definition of segments as per ticket size (INR): Aff¬ordable / Budget - Up to 45 lakh; Mid-end - 45 lakh to 1 Cr, High-end - 1 Cr to 2 Cr; Premium - 2 Cr to 4 Cr, and Luxury - Above 4 Cr

Market Performance in Q2 2024

India Market Monitor

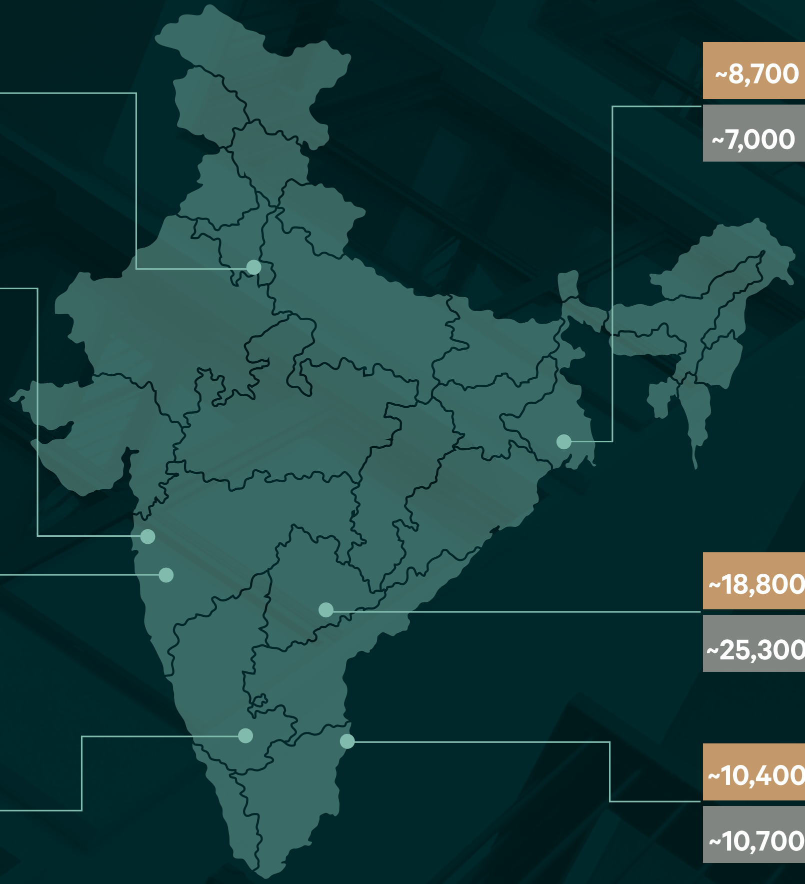
~156,000 Sales in H1 2024

~70,100 Sales in Q2 2024

~153,000 Unit launches in H1 2024

~69,600 Unit launches in Q2 2024

Q2 2024 rental indicator arrows (Q-o-Q): ▲ Increase ↕ Stable ▼ Decrease



	Sales in H1 2024	Sales in Q2 2024	Unit launches in H1 2024 (no. of units)	Unit launches in Q2 2024 (no. of units)	
Delhi-NCR	~19,450	~10,700	~15,900	~11,100	▲
Mumbai	~44,800	~21,000	~39,500	~18,000	↕
Pune	~31,200	~12,400	~33,100	~14,000	↕
Bengaluru	~23,200	~9,200	~21,600	~7,800	▲
Kolkata	~8,700	~3,800	~7,000	~2,900	▲
Hyderabad	~18,800	~7,900	~25,300	~10,700	↕
Chennai	~10,400	~5,000	~10,700	~5,100	↕

Source: CBRE Research, Q2 2024
Please note that the numbers have been rounded off and might not add up to the exact total.

*Capital values

RESIDENTIAL

Categories that drove sales

	share in Q2 2024	share in Q1 2024	
Mid-end	42%	46%	↓
High-end	26%	27%	↓
Affordable / Budget	14%	15%	↓
Premium	11%	7%	↑
Luxury	6%	5%	↑

Cities that drove sales

	share in Q2 2024	share in Q1 2024	
Mumbai	30%	28%	↑
Pune	18%	22%	↓
Delhi-NCR	15%	10%	↑
Bengaluru	13%	16%	↓

Prevailing trends in unit launches in Q2 2024

Mid-end	High-end	Premium	Mumbai	Pune	Delhi-NCR
37% share in Q2 2024	33% share in Q2 2024	11% share in Q2 2024	26% share in Q2 2024	20% share in Q2 2024	16% share in Q2 2024

*Note - Definition of segments as per ticket size (INR):
Affordable / Budget - Up to 45 lakh; Mid-end - 45 lakh to 1 Cr, High-end - 1 Cr to 2 Cr; Premium - 2 Cr to 4 Cr, and Luxury - Above 4 Cr

Outlook

A CBRE take on how the real estate dynamics can pan out in the future.

Market Performance in Q2 2024

India Market Monitor

Outlook

Office

The office sector is expected to witness sustained demand for quality space in H2 2024 as occupiers continue expanding and solidifying their presence. With a rising "office-first" approach among occupiers, higher utilisation rates and strategic leasing & portfolio adjustments would be essential for their growth plans.

India is poised to retain its status as a prominent market for global capability centres (GCCs), bolstered by its substantial engineering workforce, competitive cost advantages, and well-established business ecosystem.

While technology firms would continue to drive leasing activity, demand is expected to become more diversified, with growth likely across sectors such as BFSI, flexible workspaces, and E&M. In addition to the key gateway cities*, Chennai and Pune are poised to experience notable growth in office space absorption.

The second half of the year is anticipated to witness a consistent supply of high-quality office space. Bengaluru, Hyderabad, and Delhi-NCR are poised to remain at the forefront of project completions.

Office occupiers are prioritising enhancing workplace experiences through a multi-faceted approach. This includes strategically redesigning their employee experience programmes to attract and retain top talent.

Retail

Retailers will continue to capitalise on favourable market conditions and prioritise leasing in strategic locations. A healthy mix of primary and secondary leasing is projected to continue at a steady pace.

India's luxury retail market is experiencing significant growth, driven by the influx of global luxury brands and the country's expanding consumer base. Additionally, the increasing demand from tier-II & III cities and the proliferation of e-commerce platforms are enhancing the accessibility and popularity of luxury goods nationwide.

A growing number of direct-to-consumer (D2C) brands are recognising the importance of establishing a physical presence to complement their online operations. Developers are closely monitoring these brands with robust online customer bases and exploring opportunities to integrate them into physical retail formats.

Segments such as jewellery, mid-range fashion apparel, and gaming centres are experiencing remarkable growth, driving increased demand for retail spaces and larger format sizes. Fuelled by millennial preferences, mid-range fashion brands and gaming centres are increasingly expanding their store sizes. Organized jewellery retailers are witnessing similar trends as consumers shift their purchasing habits.

Ongoing infrastructure development and rising passenger traffic unlock a significant opportunity for nationwide transit retail expansion. While airports continue to witness considerable development, a vast portion of the retail potential at other transit hubs, such as metros, railways, highways, and bus stations, still remains untapped.

Residential

Building upon the residential sector's current growth trajectory, we anticipate a strong finish to the year, underpinned by favourable homebuying sentiments, upcoming festive season promotions, and widespread land acquisitions by developers. Collectively, these factors will likely continue striking a balance between supply and demand dynamics and boost market activity in H2 2024.

The mid and high-end categories are expected to remain the primary drivers of India's residential market. These segments are being redefined, with the price range of INR 1 to 1.5 crore becoming an ideal choice for many homebuyers. Additionally, buyers seeking homes to complement their affluent lifestyle are likely to boost the demand for premium (INR 2 to 4 crore) and luxury housing (INR 4 crore and above).

Capital value growth is anticipated to stabilise, with a heightened focus on core project fundamentals and accessibility becoming paramount considerations for capital deployment. Projects' quality, location, features, and convenient access to essential infrastructure will largely influence these trends, all set against the backdrop of accelerating urbanisation.

The country's ongoing mega infrastructure projects, encompassing transportation networks, highways, airports, and metro networks, are expected to support real estate growth and, in turn, create new residential nodes. These projects hold the potential to unlock new markets, establish satellite cities, and stimulate development in peripheral areas.

Low-density housing and plotted developments are expected to maintain their appeal within the high-end / premium residential categories. Concurrently, a trend towards urban peripheries for these housing segments is anticipated.

Investments

The momentum in investment activity is expected to continue in 2024, primarily due to the resurgence of investment inflows in built-up office assets, and strong acquisition pipelines for development sites in the residential sector.

Investment uptick is also anticipated in the retail sector due to a change in consumption patterns, which has been fuelling the growth of retail real estate. Alternate segments such as healthcare, hospitality, and data centres are expected to continue gaining steam.

Tier-I cities will continue to be be the primary recipients of equity inflows in 2024; however, we could also witness a rise in investments in tier-II locations due to a spurt in real estate development activity backed by healthy demand, particularly in the retail, residential, I&L, and hotels sectors.

The office sector witnessed a resurgence of inflows since a significant amount of dry powder was already available for India-based funds, and the overall caution around investment bets has come down. India's strong RTO trend has been a key differentiator, leading to robust occupier activity and leasing momentum. Resultantly, institutional capital is returning to the office sector, and domestic office funds are stepping in to fill any gaps.

Controlling stake emerged as a strong strategy last year and is gaining momentum in 2024. In terms of market maturity, several deals (especially in the alternate segments) involved larger, well-established players, reflecting investor confidence in unlocking value even when evaluating established players.

* Gateway cities – Delhi-NCR, Mumbai, Bengaluru, and Hyderabad

Contacts

RESEARCH

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

Vidhi Dheri
Head of North and West Research Operations - India
vidhi.dheri@cbre.co.in

Pradeep Nair
Associate Director
pradeep.nair@cbre.com

Vaishnavi Bala
Senior General Manager
vaishnavi.bala@cbre.com

Rajorshi Sanyal
General Manager
rajorshi.sanyal@cbre.com

Darwish Mammi
General Manager
darwish.mammi@cbre.com

Nitish Girotra
General Manager
nitish.girotra@cbre.com

Mohamed Atif Khan
Deputy General Manager
mohamedatif.khan@cbre.com

Tauseef Ahmad
Assistant General Manager
tauseef.ahmad@cbre.com

Mainak Karamakar
Assistant General Manager
mainak.karmakar@cbre.com

GLOBAL RESEARCH

Richard Barkham, Ph.D., MRICS
Global Chief Economist & Head of Research
richard.barkham@cbre.com

Henry Chin
Global Head of Investor Thought Leadership & Head of Research, APAC
henry.chin@cbre.com.hk

Julie Whelan
Global Head of Occupier Thought Leadership
julie.whelan@cbre.com

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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

CBRE