Intelligent Investment

India Residential 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.

Residential

The residential sector is currently undergoing a bullish phase, characterised by a convergence of factors that foster an extremely favourable ecosystem. As we progress into 2024, we anticipate that both sales and new launches will sustain the sector's buoyancy. Despite the potential challenges posed by escalating land costs and limited funding options for early-stage projects, the robust underlying market fundamentals are expected to propel residential activity well above the average trend witnessed in the previous five years.

The year that was

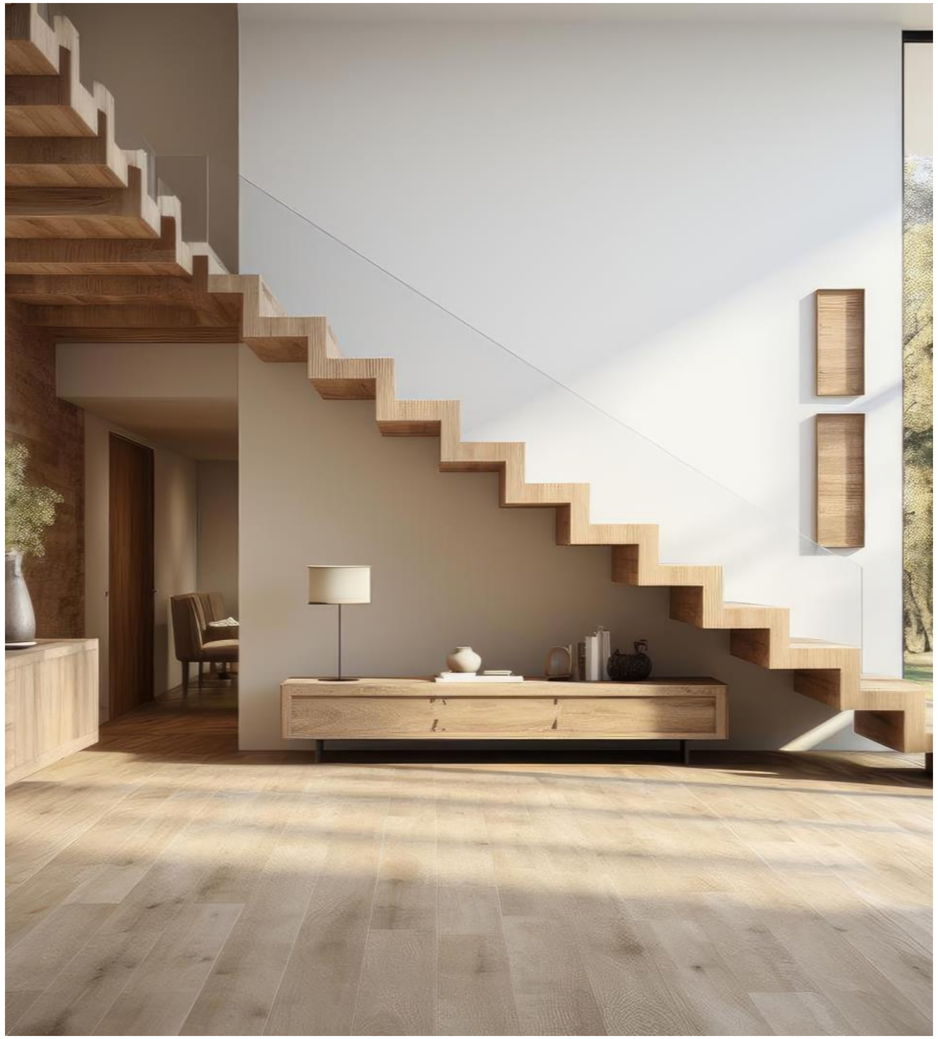
01 UNPRECEDENTED NUMBERS IN BOTH SALES AND NEW LAUNCHES

India's residential sector achieved unprecedented sales and new property launches in 2023, defying the initial apprehensions surrounding the delayed impact of monetary tightening on housing loan rates. In fact, there was a significant increase in demand for housing loans, with major banks disbursing around INR 2.7 lakh crore of credit up to January 2024, representing an annual surge of approximately 37%[1.1].

Moreover, the year concluded on a high note, with sales of housing units sold surpassing the significant threshold of 300,000, marking a decade-long record. The sector's continued robustness can be attributed to the consistent demand for homeownership from end-users, supported by healthy investor interest. To meet the strong demand, developers launched a slew of projects, propelling the housing supply and helping maintain momentum with over 300,000 new launches during the year.

02 THE ADVENT OF THE PREMIUM AND LUXURY HOUSING MARKET

Throughout 2023, India's premium and luxury real estate sector experienced exceptional activity, registering a 75% Y-o-Y growth with strong demand for properties priced at INR 2 crore or higher. This segment became an attractive investment option, especially for high-net-worth individuals (HNIs) and non-resident Indians (NRIs) looking to diversify their portfolios amidst global macroeconomic uncertainties. Leading developers showcased their market acumen by launching a range of configurations, including independent floors, villas, and penthouses, offering top-notch quality to meet the discerning requirements of buyers.



1.1. The Reserve Bank of India, March 2024

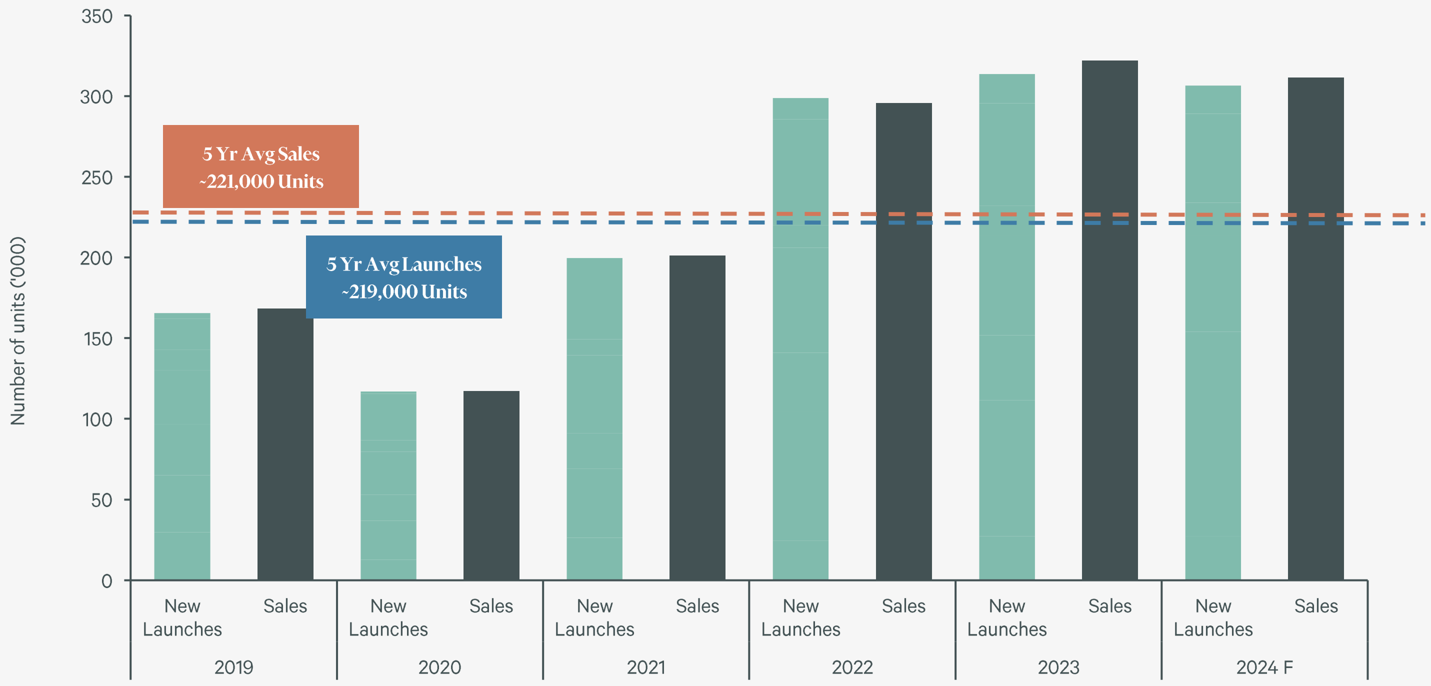
Top five trends expected to shape the residential sector in 2024

01 SALES AND NEW LAUNCHES EXPECTED TO SUSTAIN BUOYANCY

The current residential real estate cycle is characterised by an increasingly solidifying foundation driven by a strong affinity for homeownership among prospective homebuyers. Stepping into 2024, we anticipate this positive sentiment to remain buoyant, as both sales and new launches will likely exhibit sustained momentum witnessed over the last two years. Several factors, such as rising household income levels, backed by burgeoning economic growth, sustained urbanisation, and renewed interest from investors, are expected to fuel a robust performance in 2024.

In recent years, the strong sales momentum witnessed in the segment has prompted many developers to launch new projects/ new phases in existing projects. Furthermore, considering the extensive land acquisitions (~USD 7.4 billion) made by developers during 2022-23, we anticipate that the positive momentum will continue to foster apartment launches with Mumbai, Hyderabad, Pune, and Bangalore likely driving the supply infusion during 2024. However, escalating land costs amidst limited funding options for early-stage projects may challenge developers' future land acquisitions.

Figure 1.1: Supply-demand trends in India (2019-2024F)



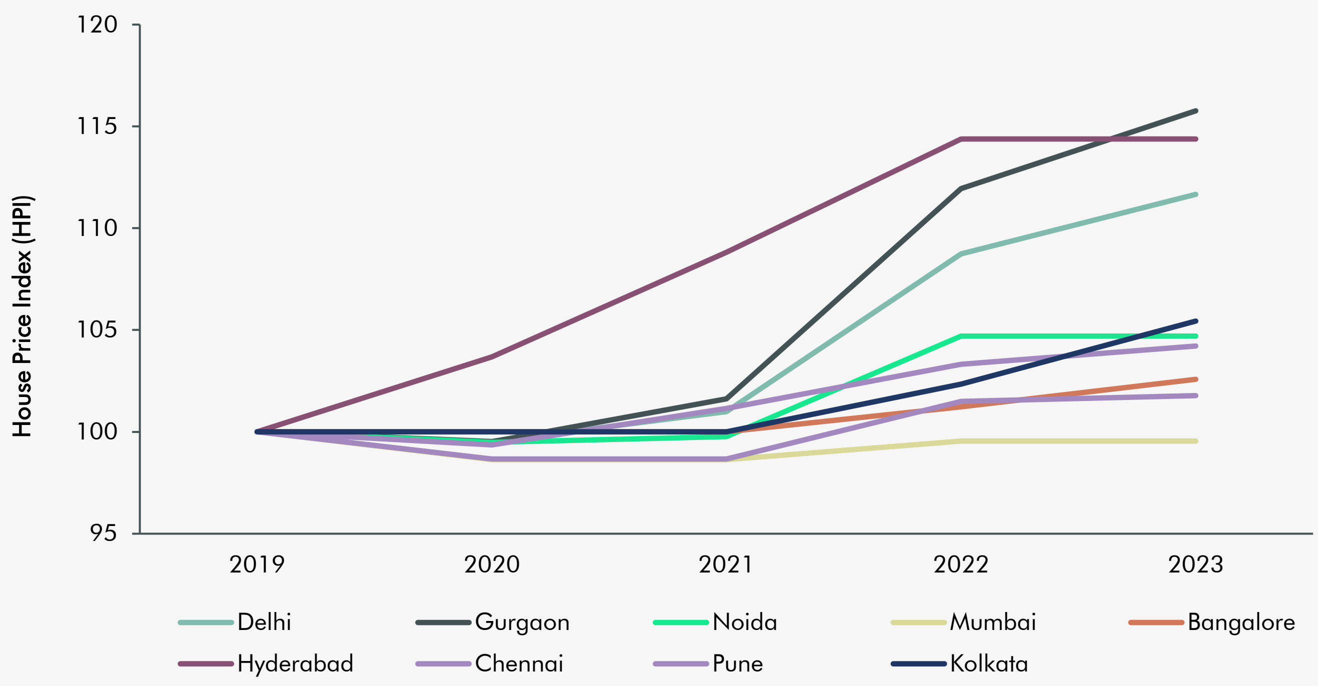
Source: CBRE India Research, Q1 2024; across top seven cities

02 CAPITAL VALUE GROWTH TO STABILISE; PROJECT FUNDAMENTALS, ACCESSIBILITY IMPERATIVE TO CAPITAL MOVEMENT

Backed by a robust sales momentum, capital values have remained on a consistent upward trajectory since the residential sector’s resurgence in 2021. However, we anticipate the sector observing divergent trends in asset pricing in 2024. These trends will largely be dictated by project quality, location, project features, and convenient access to essential infrastructure, in addition to rapid urbanisation. The appreciation could also be governed by unsold inventory levels and inventory overhang, which have dropped sharply; especially during the pandemic.

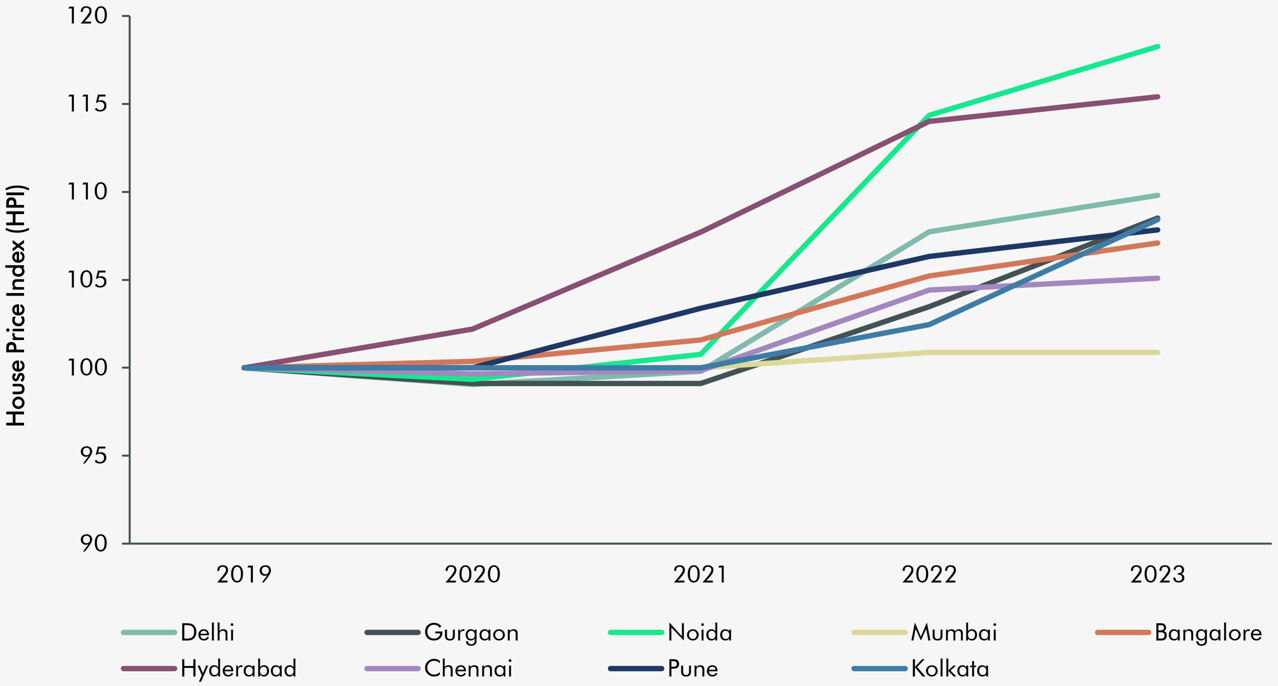
Nevertheless, developers should exercise prudence when making decisions regarding capital value appreciation, as a broad-based approach may not be suitable, especially considering the anticipated influx of supply potentially impacting the decisions of prospective homebuyers.

Figure 1.2: Capital value trends – High-end segment (2019- 2023)



Source: CBRE India Research, Q1 2024

Figure 1.3: Capital value trends – Mid-end segment (2019- 2023)



Source: CBRE India Research, Q1 2024

03 MID AND HIGH-END CATEGORIES UNDERGOING REDEFINITION; NOTICEABLE ACTIVITY EXPECTED ACROSS PREMIUM AND LUXURY CATEGORIES

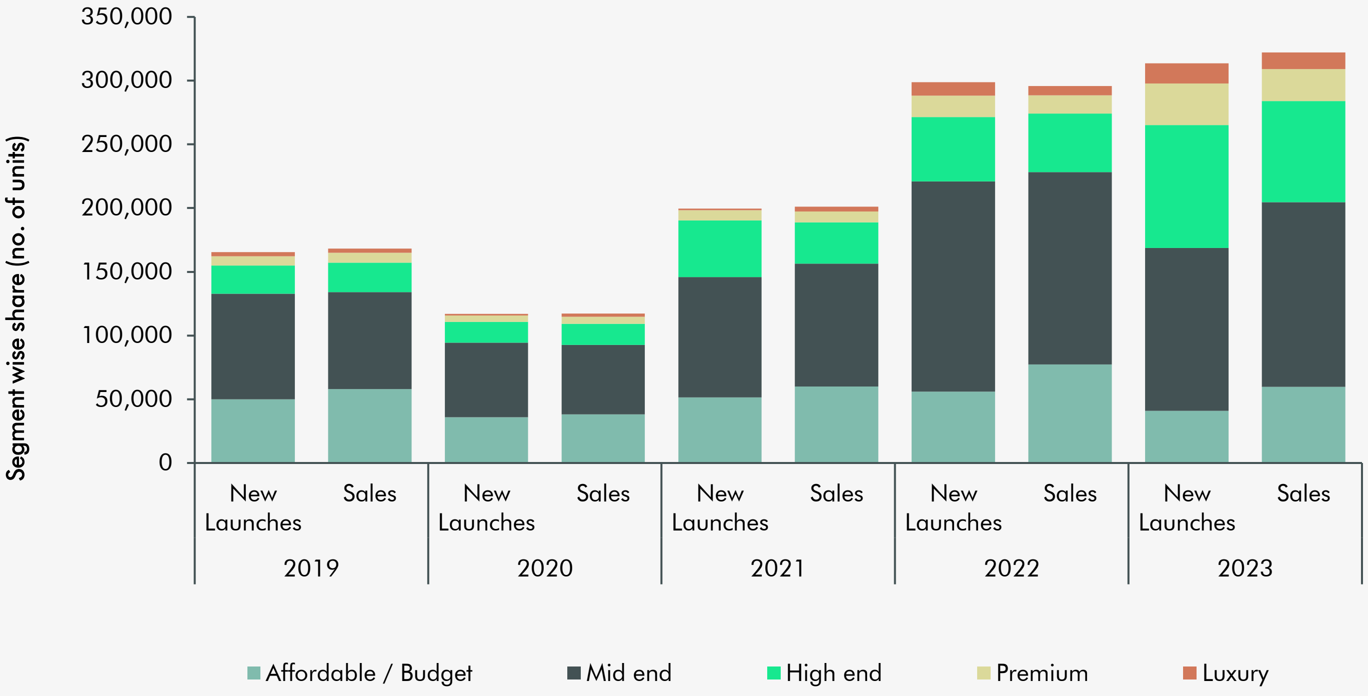
While traditionally the affordable category has been the most popular from an end-user perspective, supply in this category has remained constrained due to factors such as high land and material costs, cap on capital values, and low margins for developers. The dilution of end-user incentives for this category has also been a key reason why demand in this category continues to remain tepid.

In 2023, homebuyers exhibited a strong preference for projects in two categories: mid-end (ranging from INR 45 lakh to 1 crore) and high-end (ranging from INR 1 to 2 crore). Given the projected steady growth in household and disposable incomes in India, we expect both these categories to remain at the forefront from a demand perspective[1.2].

As demand dynamics evolve, the supply side has also been quick to respond. Rising income levels and consumer preferences for larger homes has resulted in a realignment in the erstwhile definition of mid-end and high-end projects. This blurring of ticket sizes has created a sweet spot for developers, particularly in the INR 1 - 1.5 crore range.

1.2. India's Impending Economic Boom, Morgan Stanley Research, October 2022

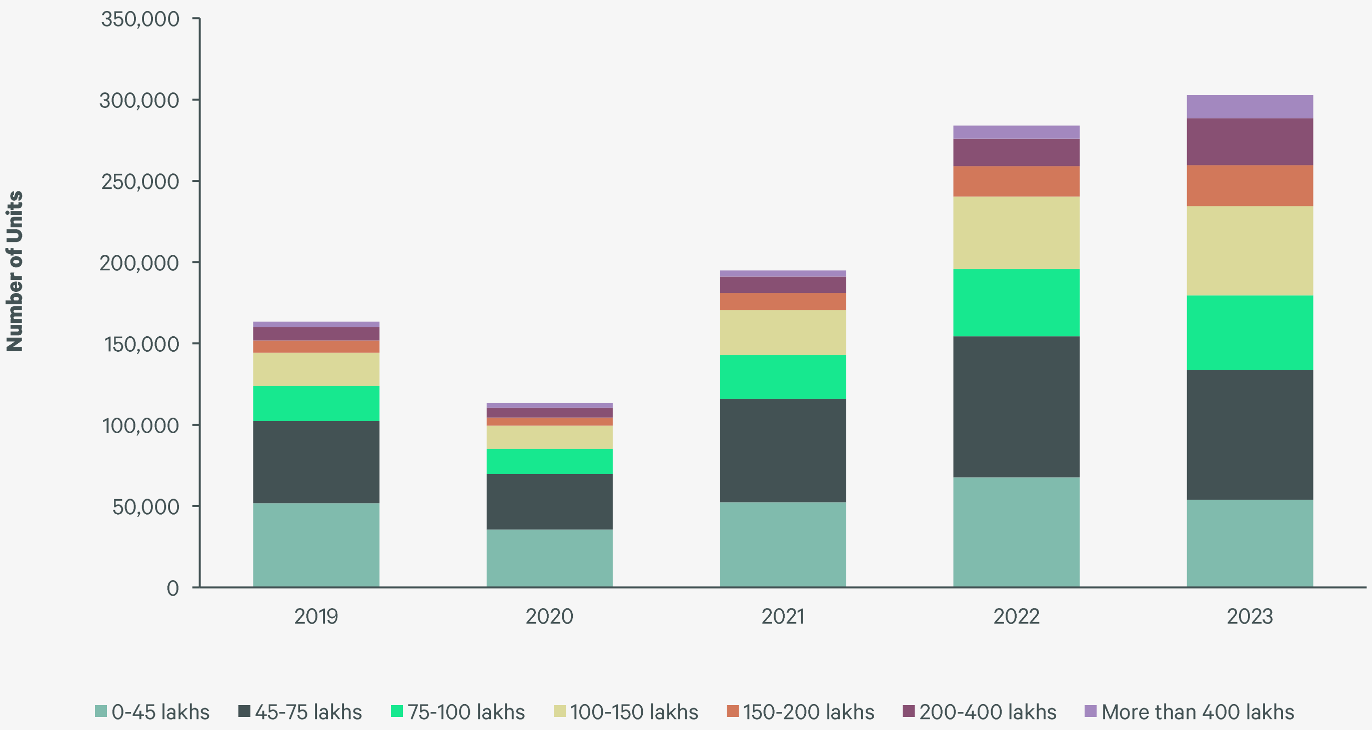
Figure 1.4: Segment-wise new launches and sales (2019-23)



Source: CBRE India Research, Q1 2024

Conversely, astute homebuyers and affluent investors aspire to acquire residences that complement their multifaceted lifestyle. This aspiration has propelled the premium and luxury segments (characterised by quoted capital values ranging from INR 2 to 4 crore and beyond) into a highly sought-after segment, thereby registering an increase in sales by about 4x in 2023 compared to the pre-pandemic levels. This trend is poised to continue throughout 2024 as an increasing number of homebuyers gravitate towards spacious and premium dwellings with ample amenities that offer convenient access to essential support infrastructure.

Figure 1.5: Sales across ticket sizes (INR, 2019-23)

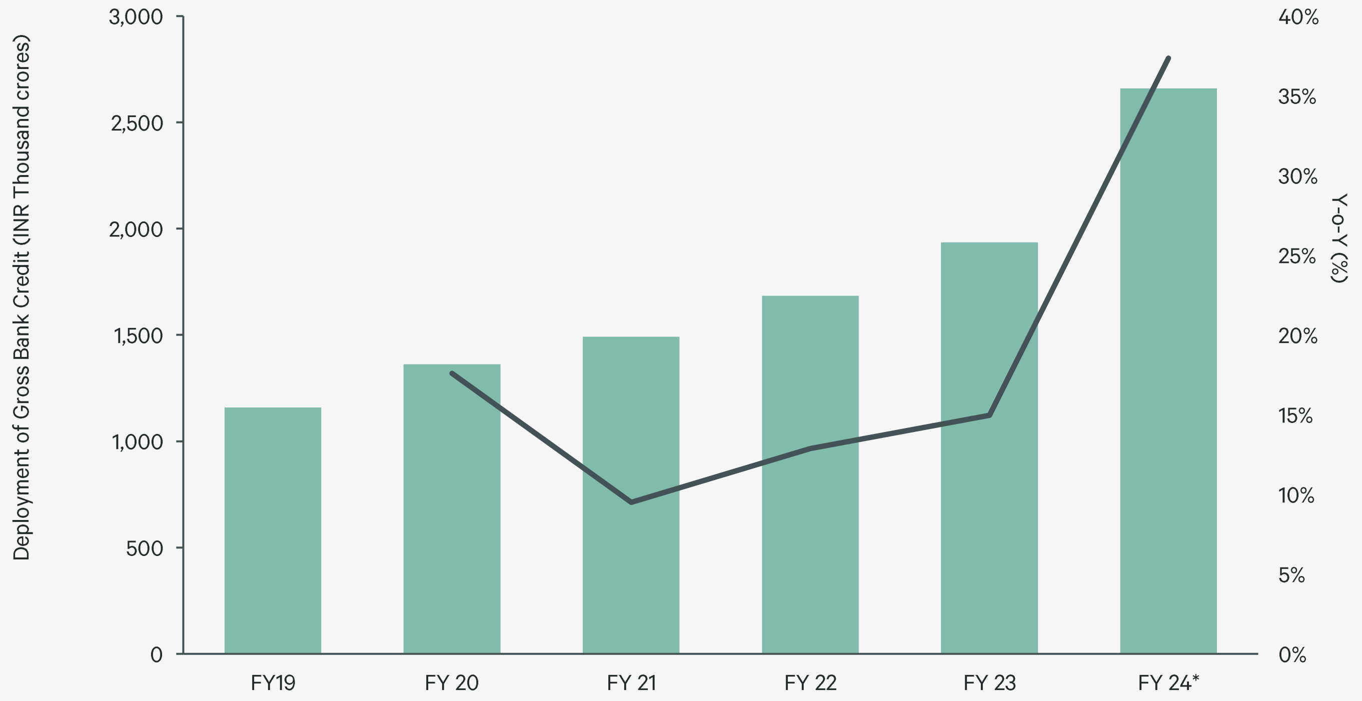


Source: CBRE India Research, Q1 2024

04 HOME OWNERSHIP RATES TO INCREASE; AVERAGE HOME LOAN TICKET SIZE ON THE RISE

Bank credit to real estate has been growing at a steady rate, with a 37% growth witnessed in FY2023-24[1.3]. The growth has been on the back of strong end user demand – a trend that we have seen across tier-I and tier-II cities. While multiple factors supported the strong demand for residential real estate, first-time homeowners have been key to driving this demand. However, as supply could not keep up pace with this strong revival in demand, capital values underwent a readjustment – however, rental values in most key cities rose much more sharply than capital values. As a result of this upswing in rental values, the differential between monthly rents and equated monthly instalments (EMI) has started to come down and in some cases even tilt in favour of an EMI. This has also been a crucial factor driving homebuyers to switch from renting to purchasing – a trend that we feel will only accelerate in the coming year.

Figure 1.6: Home loan deployment of gross bank credit



Source: Reserve Bank of India (RBI); data updated as of January 2024

1.3. The Reserve Bank of India, March 2024

Furthermore, CRIF's 'How India Lends FY 23' report sheds light on another significant shift in the housing loan landscape[1.4]. The report highlights a notable change in the proportion of home loans from lower ticket sizes (ranging from INR 5 to 35 lakh) to higher values (ranging from INR 35 to 75 lakh and above), corroborating this evolving trend. Notably, the report reveals that housing loans exceeding INR 75 lakh accounted for approximately 30% of the total housing loan market share in Q1 FY2023-24, a considerable rise from the 19% recorded in FY2019-20. This again reiterates two key points – larger homes are being preferred, and average incomes are on the rise so as to support the eligibility criteria for large-ticket loans. As inflation levels taper, housing loan rates are expected to remain stable / decline in the coming year. Resultantly, we anticipate credit trends to strengthen in 2024, spelling positive news for the bank credit industry.

Figure 1.7: Housing loans as per ticket size

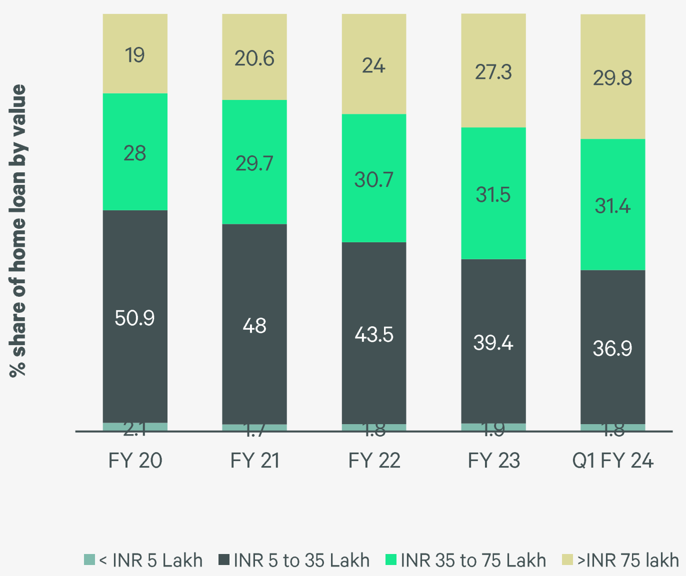
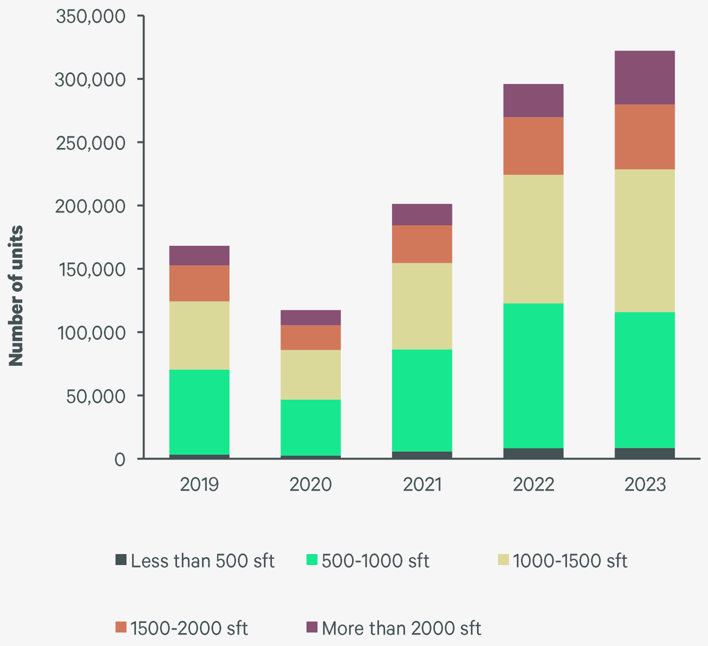


Figure 1.8: Unit size-wise sales activity over the years



Source: CRIF – How India Lends: Credit Landscape in India FY 23, CBRE Research, Q1 2024

1.4. How India Lends: Credit Landscape in India in FY 2023, CRIF, January 2024

05 LUXURY HOUSING MOVING AWAY FROM ERSTWHILE “BUNGALOWS” , LEADING DEVELOPERS DOMINATE THE LUXURY MARKET

Modern homebuyers are now equipped with comprehensive knowledge regarding a developer’s reputation, execution capability, and financial standing. This heightened awareness has led to a discerning approach when making purchasing decisions. Consequently, there has been a noticeable shift in buyer preferences when purchasing a luxury home which traditionally meant independent houses / bungalows. There is now a growing inclination towards purchasing such units launched by leading developers in the market. This trend is substantiated from our data as tier-I developers accounted for more than 70% of total sales in luxury housing in 2023, a trend expected to persist throughout 2024. Tier-I developers have asserted their dominance in new launches and sales, capitalising on their track record of success. However, in cities such as Mumbai and Delhi - NCR, we have also witnessed the entry of tier-II / local developers in this space in the past year with a view to capitalise on the success of the luxury housing market.

Many top-tier developers have already expanded or are planning to expand beyond their local markets, with some even venturing into tier-II cities to take advantage of the strong sales momentum and promising growth prospects. This trend will likely continue as reputed residential developers explore newer cities to expand their portfolio and take advantage of their brand value.

Watch out for

Infrastructure to catalyse creation of newer real estate nodes

India's infrastructure development and real estate sector share a mutually beneficial relationship. Typically, the growth of infrastructure has a significant correlation with real estate, through the creation of new locations, while driving up capital values and demand. The ongoing mega infrastructure projects in the country, encompassing transportation networks, highways, airports, and metro network, are expected to support the growth of real estate and, in fact create new nodes for residential real estate. These projects hold the potential to unlock new markets, establish satellite cities, and stimulate development in peripheral areas. Below are some of the crucial infrastructure projects and the resultant markets / micro-markets that are set to gain on account of these infrastructure developments:

Cities	Key Infrastructure Projects	Markets that will benefit
Delhi NCR	Dwarka Expressway, Jewar Airport	Dwarka Expressway, Noida, Greater Noida
Mumbai	Mumbai Trans Harbor Link (MTHL), Navi Mumbai International Airport (NMIA), Multiple Metro Projects	Navi Mumbai – Ulwe, Karanjade, Panvel. Upper Thane, Ghodbunder
Bangalore	Metro Blue line – (ORR - Airport metro) and Satellite town ring road (STRR)	North Bangalore / Bellary road, IVC road & Devanahalli
Pune	Multiple Metro Projects	Hinjewadi Phase III, Waghole, Wakad, Pimpri Chinchwad (PCMC)
Chennai	Chennai Airport - Kilambakkam Metro and Chennai Port - Maduravoyal Expressway	GST Road, ORR and Poonamallee High Road
Hyderabad	Radial Road towards Kondakal from Tellapur, Interchange Terminal at Kokapet	Neopolis & Manmolle (Tellapur)

Note: The above list is not exhaustive and includes only key infrastructure initiatives

The central government is expected to spend nearly USD 1.7 trillion (INR lakh crore) on infrastructure over next seven years until 2030, more than a two-fold rise from USD 806 billion (INR 67 lakh crore) spent during2017-2023[1.5]. The increased outlay through several infrastructure projects such as rapid train corridors, metro projects, new airports, and expressways will continue to enhance the residential attractiveness of these locations.

Source: CBRE India Research, Q1 2024 1.5. CRISIL Research, India Infrastructure Spending to Double, October 2023

Watch out for

Low-density housing and plotted developments to remain popular in the high-end / premium category; demand to start moving to urban peripheries

Encouraged by the larger trend of 'flexible-work-environments', buyers are increasingly looking for spacious private living spaces, thereby driving the demand for independent floors and plotted developments. Key features of such developments include personal open areas, modern amenities, uncrowded recreational facilities, and adequate green landscapes - all confirming to the buyers' emerging need to pursue a superior lifestyle.

Below are some of the key plotted developments launched by leading developers across leading markets:

Cities	Developer	Projects
Delhi NCR	DLF, Birla Estate, Ganga Realty, Gulshan Homes, Max Estate, M3M, Godrej Properties	DLF Privana, Birla Navya, Ganga Nandaka, Gulshan Dynasty, Estate 128, M3M Cullinan, Godrej Golf Links, Gulshan Avante
Mumbai	Hiranandani Group, Kalpataru, Wadhwa Group, Lodha Group, The Oberoi Group, Lotus Developers, Godrej Properties	Kalpataru Aria, Lodha Villa Royale, Godrej Golf side Estate, Wadhwa Wise City, Hiranandani Fortune City
Bangalore	Total Environment, Century, Prestige, Sobha, Manyata	Tangled up in Green & After the Rain , Century Season, Prestige Sanctuary, Sobha Oak shire, Earthsong by Manyata
Pune	VTP Realty, Godrej Properties, Kolte Patil Developers, K Raheja Corp	Godrej Wood Park, K Raheja Viva, VTP Velvet Villas, Life Republic
Chennai	G Square Housing, Adityaram Properties and Emerald Haven Realty	G Square Housing: Symphony, Dynasty, Atlantis; Adityaram Properties: Happinest; Emerald Haven Realty: Lake Shore
Hyderabad	My Home, Aparna Construction	My home GRAVA residences – Neopolis, My Home Akride – Tellapur, Aparna New Lands

Note: The above list is not exhaustive and includes a few key projects

However, increasing land prices and a dearth of available contiguous land parcels in the metropolitan city centres also means that the demand for such housing is likely to start shifting to urban peripheries and tier-II and tier-III cities. Several developers are increasingly diverting their focus towards low-rise, independent townships in these locations. Key cities that have captured developer's attention in North India include Panchkula, Panipat, Sonipat, Karnal and Meerut. While in South India, cities such as Coimbatore, Mahabalipuram, Ambur, and Trichy are attracting substantial interest. Growing demand for aspirational living, rapidly growing disposable incomes, and resilient macroeconomic conditions will likely continue sustaining this trend in 2024.

Source: CBRE India Research, Q1 2024

Watch out for

Housing rental yields likely to stabilise; key locations to command premiums

Diminishing housing supply in key markets, rising property prices and 'return-to-office' policies of major companies led to a sharp growth in rental housing demand in 2023, especially near major office districts. Micro-markets that are leading the rental growth include Whitefield in Bengaluru, HITECH City in Hyderabad, Hinjewadi in Pune, Sohna Road in NCR and Chembur in MMR. While we anticipate housing rental yields to hold stead, the strong growth in home -ownership rates could mean that rental yields are likely to remain largely steady in 2024. However, key locations with limited scope for new supply in its vicinity will continue to command rental premiums.

The growing trend of branded residences

The burgeoning population of ultra high-net-worth-individuals (UHNIs) and HNIs in India presents a compelling opportunity for luxury hotel chains to expand their branded residence portfolio. This aligns with a growing domestic demand for residences that mirror the world-class amenities and personalised services characteristic of luxury hotels. The wealthy clientele who has travelled and grown to appreciate a brand's style, offerings, and comforts are looking for similar luxury residential experiences. Brands such as Marriott International, Hilton, and EIH have already entered the market of branded residences, while developers are preparing to take advantage of the enormous potential by forming strategic alliances.

Thrust for sustainable homes

The definition of luxury today has become all-encompassing – it is not just limited to top-tier fittings and amenities but also includes integration with the environment. Sustainability has become a critical differentiator in real estate development, with an increasing emphasis on constructing eco-friendly and energy-efficient dwellings. As buyers in this category tend to be more aware and demanding of such features, developers are integrating energy-efficient appliances, rainwater harvesting systems, indoor air quality control, and renewable energy sources, among others, to be able to tick the boxes when catering to the demand for premium/luxury homes.

Scope for tier-II and III developers to gain ground in affordable and mid-end segments

The rapid pace of urbanisation has triggered a surge in land rates, rendering land acquisition more expensive for developers. This has presented a challenge for tier-I developers which typically offer top-notch facilities, expansive spaces, modern amenities, and more, compelling them to launch apartments at prices that are financially viable for developers. Hence, we expect leading developers to be more active in the high-end (INR 1 to 2 crore), premium (INR 2 to 4 crore) and luxury (INR 4 crore and above) categories. This could create opportunities for several tier-II and tier-III developers to cater to the affordable (below INR 45 lakh) and mid-range (INR 45 lakh to 1 crore) markets. The sector could gain further In case certain benefits for the segment are announced in the Union Budget 2024-25.

Source: CBRE India Research, Q1 2024

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

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

Shiny Singh
Senior Analyst, India Research
Shiny.Singh@cbre.com

Business Line

Vamshi Krishna
Senior Executive Director,
Head – Valuation and Advisory Services,
India & South East Asia
vamshi.krishna@cbre.co.in

Divya Goyal
Executive Director,
Head - Investment Risk Monitoring,
divya.goyal@cbre.co.in

Business Line

Sumit Arora
Associate Executive Director,
Head - National Operations & Workplace Strategy, Consulting, India
sumit.arora@cbre.co.in

Alok Kumar Puri
Associate Executive Director,
Head of Business Development & Alternate Assets
alok.puri@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

CBRE