Intelligent Investment

India Market Monitor Q1 2024 - Residential

REPORT

CBRE RESEARCH

April 2024

Economy

India's economy continues to grow at the fastest pace among all major economies. Inflation has come down for almost all major goods and services except for food items. Private consumption is expected to pick up as inflation eases in the coming months. Further decline in the Consumer Price Index (CPI) in the coming months would strengthen the Reserve Bank of India's (RBI) confidence to initiate a measured easing of key policy rates and reserve ratios. The government's fiscal consolidation roadmap, coupled with the central bank's cautious monetary policy, has established a strong footing for continued economic expansion.

Market Performance in Q1 2024

India Market Monitor

ECONOMY

8.4% | India's GDP growth in Q4 2023

Better-than-expected GDP growth in Q4 2023 prompted a few agencies to raise their financial year (FY) 2023-24 and FY 2024-25 growth forecasts for India, making it an outlier among major economies. Currently, most agencies peg the country's growth in the

6.4-7% range.

Growth forecast for 2024-25

7.0% RBI

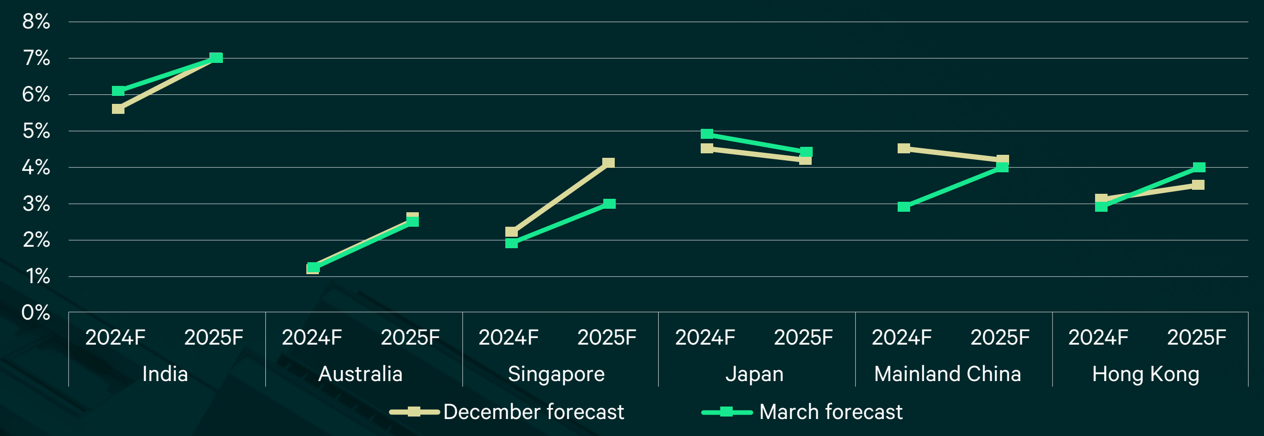
6.5% IMF

7.0% Fitch

6.4% World Bank

6.8% Moody's
(CY 2024)

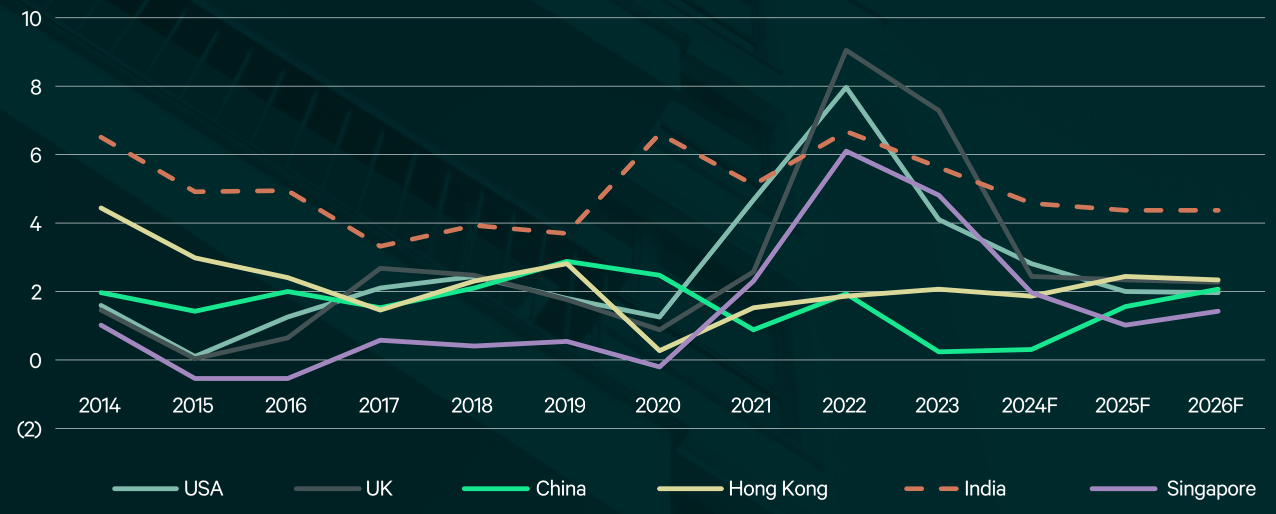
Revised GDP rates for key APAC economies



Source: CBRE House View (December 2023 and March 2024)

4.85% Retail inflation in March 2024, down from 5.09% in February 2024.

Inflation is within the RBI's target for the past seven months and is expected to cool further in the coming months.



Source: CBRE House View March 2024

Market Performance in Q1 2024

India Market Monitor

ECONOMY

6.5%

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

Key policy steps in Q1 2024

The Securities and Exchange Board of India (SEBI) has specified guidelines for alternate investment funds (AIFs) regarding the holding of investments in dematerialised form along with the appointment of a custodian. The new framework mandates any investment made by an AIF after October 01, 2024, must be held in dematerialised form. However, there is an exemption for AIF schemes with tenures ending on or before January 31, 2025, and those in extended tenure as of the circular's date[1].

The Insolvency and Bankruptcy Board of India (IBBI) has amended the IBBI (Liquidation Process) Regulations, 2016. Wherever the corporate debtor has given possession to an allottee in a real estate project, such asset shall not form a part of the liquidation estate of the corporate debtor[2].

SEBI has introduced the Small and Medium Real Estate Investment Trusts (SM REITs) framework, allowing investors to own rent-yielding real estate assets with a minimum investment of INR 10 lakh. The value of real estate assets or properties in each SM REIT scheme shall be at least INR 50 crore[3].

The Corporate Insolvency Resolution Process (CIRP) has been modified by the Insolvency and Bankruptcy Board of India (IBBI). Following the committee of creditors' (CoC) approval, the resolution professional (RP) may request a resolution plan for each real estate project or collection of projects owned by the corporate debtor. The RP must maintain a different bank account for each real estate project undertaken by the firm that is undergoing insolvency.

Performance of key high-frequency indicators

Services purchasing managers' index (PMI) averaged 61.2 in Q1 2024, while the January figure of 61.8 came in at a six-month high. The manufacturing PMI was also in the expansion territory throughout Q1, averaging 57.5, with the March figure coming in at a 16-year high of 59.1.[4]

The foreign portfolio investment (FPI) into Indian debt reached a nine-year high of INR 1.21 trillion in 2023-24. The FPIs have consistently acted as net buyers of Indian debt since the country's inclusion in the JP Morgan Government Bond Index-Emerging Markets (GBI-EM), with a particularly strong showing in the second half of the financial year (nearly 75% of inflows).[5]

Bank credit deployment was up 20.5% Y-o-Y in February 2024 compared to 15.5% growth in the same period in 2023. Credit deployment in commercial real estate grew by 37.9% Y-o-Y during February 2024 while deployment in housing was also up by 21.6%[6].

What could work for the Indian economy...

Stable current account deficit and forex reserves: India's current account deficit (CAD) narrowed to USD 10.5 billion or 1.2% of GDP in Q4 2023 from USD 11.4 billion in the previous quarter.[7] India's foreign exchange reserves stood at an all-time high of USD 645.6 billion as of March 2024. The current level of forex reserves is enough to pay nine months' worth of estimated imports and 100% of the country's outstanding external debt as of September 30, 2023.

Buoyant tax collections: Direct tax collections for the FY2023-24 show that net collections stood at INR 19.6 trillion, compared to INR 16.6 trillion in the the preceding FY, representing an increase of 17.7%.[8] The goods and services tax (GST) collection for FY2023-24 stood at INR 18.1 trillion, an increase of 12% compared to FY2022-23 collections.[9]

Robust increase in productive assets: The gross fixed capital formation (GFCF), a measure of the growth of productive assets in the economy, has increased from a low of 30.7% of GDP, amounting to INR 32.8 trillion in FY2014-15 to 34.1% of GDP amounting to INR 58.9 trillion in FY2023-24. This is the highest pace of asset formation in the Indian economy since 2009.[10]

Services, electronics, and pharmaceutical exports expected to grow: Between April 2023 and March 2024, there was a 13.10% increase in net service trade.[11] India's services exports are projected to increase in the upcoming FY due to improved chances for establishing global capability centres (GCCs), while merchandise exports shall continue to get a push from electronic goods and pharmaceutical shipments which have grown by 23.7% and 9.7%, respectively, between April-March (FY2023-24), compared to similar period in previous FY.[12]

But what might not...

Food prices could have an adverse impact on the overall inflation: The CPI averaged 5.4% in FY2023-24.[13] Irregular food price shocks continue to provide significant volatility to the inflation trajectory. However, core inflation (i.e., CPI excluding food and fuel) has been steadily declining. In February 2024, it fell to 3.4%[14] , among the lowest levels in the current CPI series. Receding levels of water reservoirs below the decadal average and lower production of cereals, pulses, and oilseeds in 2023-24[15] than a year ago impart uncertainty to the outlook on food prices. Significant upside risks to the global food price outlook also emerge from the unprecedented heat wave currently sweeping the planet.

Geopolitical issues and U.S. Fed rate action: The Indian economy has built a buffer for a sporadic and short-lived adverse geopolitical event. However, a full-blown conflict in and around essential trade routes could hamper supply chains and economic activity. The specific timetable of prospective rate cuts by the U.S. Fed was left open at the March FOMC meeting due to February's hotter-than-expected jobs data and somewhat higher-than-expected annual inflation of 3.2%.[16] The U.S. CPI print of March at 3.5%[17] has possibly trimmed the number of expected rate cuts in 2024, and, as a result, the chances of shallower rate cuts have gone up.

1. Securities and Exchange Board of India, January 2024
2. Insolvency and Bankruptcy Board of India, February 2024
3. Securities and Exchange Board of India, March 2024
4. S&P Global and HSBC
5. National Securities Depository Limited
6. Reserve Bank of India
7. Reserve Bank of India
8. Ministry of Finance, Government of India
9. Ministry of Finance, Government of India
10. Second Advance Estimates of National Accounts, Central Statistical Office
11. Ministry of Commerce, Government of India
12. Ministry of Commerce, Government of India
13. Ministry of Statistics and Programme Implementation, Government of India
14. Reserve Bank of India
15. Second Advance Estimates of National Accounts and Reserve Bank of India
16. The US Bureau of Labor Statistics
17. The US Bureau of Labor Statistics

Residential

Tailwinds from the preceding year translated in continued buoyant residential sales as around 85,000 units were sold in Q1 2024, registering an 8% Y-o-Y rise. The supply of new housing units remained robust as well, with developers launching approximately 80,000 units during the quarter, at a marginal decline of about 2% Y-o-Y.

2%
Decline in sales in Q1 2024 on Q-o-Q; 8% increase on Y-o-Y basis

47%
Share of mid-end projects in sales during Q1 2024, followed by high-end and affordable projects

69%
Total share of Mumbai, Pune, and Hyderabad in new unit launches in Q1 2024

64%
Y-o-Y increase in launches of luxury apartments; 58% increase on a Q-o-Q basis

65%
Cumulative share of Mumbai, Pune, and Bangalore in sales during Q1 2024

2%
Y-o-Y decline in new launches in Q1 2024; 11% decline on a Q-o-Q basis

10%
Increase of sales in luxury segment on Y-o-Y; 10% increase on a Q-o-Q basis

Market Performance in Q1 2024

India Market Monitor

Sales in Q1 2024 (no. of units)

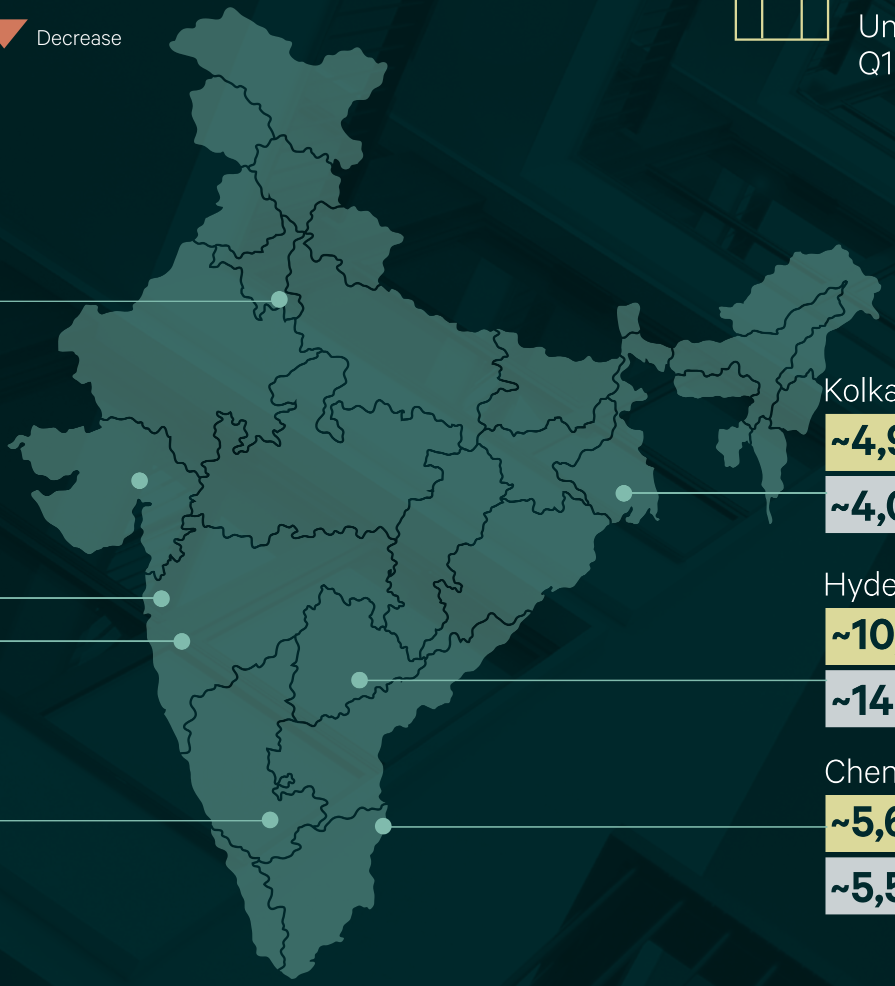
Unit launches in Q1 2024 (no. of units)

CV* indicator arrows (Q-o-Q)

Increase | Stable | Decrease

~85,000 Sales in Q1 2024

~80,000 Unit launches in Q1 2024



City	Sales in Q1 2024	Unit launches in Q1 2024	CV indicator
Delhi-NCR	~8,700	~4,800	Increase
Mumbai	~23,800	~21,500	Stable
Pune	~18,700	~19,000	Increase
Bangalore	~12,100	~10,300	Increase
Kolkata	~4,900	~4,000	Stable
Hyderabad	~10,800	~14,600	Stable
Chennai	~5,600	~5,500	Stable

Source: CBRE Research, Q1 2024
Please note that the numbers have been rounded off and might not add up to the exact total

*Capital value

Source: CBRE Research, Q1 2024

RESIDENTIAL

Categories that drove sales*

Category	Share in Q1 2024	Share in Q4 2023
Mid-end	47%	42%
High-end	25%	26%
Affordable / Budget	15%	18%
Premium	7%	10%
Luxury	5%	4%

Cities that drove sales

City	Share in Q1 2024	Share in Q4 2023
Mumbai	28%	21%
Pune	22%	24%
Bangalore	14%	14%
Hyderabad	13%	15%

Prevailing trends in unit launches in Q1 2024

Mid-end	High-end	Premium	Mumbai	Pune	Hyderabad
40% share in Q1 2024	31% share in Q1 2024	8% share in Q1 2024	27% share in Q1 2024	24% share in Q1 2024	18% share in Q1 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 would pan out in the future.

Market Performance in Q1 2024

India Market Monitor

Outlook

Office

Occupiers would prioritise flight-to-quality leasing to expand and consolidate their operations while pursuing cost efficiencies. Additionally, the year is likely to witness further pent-up demand, fuelled by the growing return-to-office trend.

India would continue to attract a high number of global capability centres (GCCs), aided by its large engineering workforce, competitive costs, and an established technology ecosystem. GCCs are expected to maintain their dominant leasing share at 35-40%, driven by the expansion of existing operations and the entry of smaller firms that are attracted by the country's value proposition.

With a strong supply influx, a significant amount of investment-grade office space is expected to enter the market in 2024. Developers are focusing on creating modern facilities with amenities that cater to evolving business needs. Newly completed developments are expected to prioritise features such as easy access to public transportation, green spaces, optimal air quality, and F&B options.

With about 64 million sq. ft. of stock across the top nine cities, flexible workspaces have emerged as a cornerstone for modern workplaces. The demand for quality flexible workspaces, offering an evolving and all-encompassing 'experience-quotient' to employees, would continue to rise. Strategically located workspaces with flexible lease terms and the ability to offer customised solutions would continue garnering demand.

Developers would continue exhibiting their efforts towards sustainability as well as refurbishing existing assets; close to half of the newly completed developments in 2023 were green-certified (LEED or IGBC). The share of such assets in new completions is likely to increase, led by developers' sustainability commitments and occupiers' preference for such properties. Furthermore, occupiers are likely to expand their considerations to include employee well-being, regular measurement of environmental metrics, and benchmarking of emissions.

Industrial & Logistics

Despite global economic headwinds, leasing activity in the warehousing segment is anticipated to remain stable and rangebound of the 2023 absorption levels. Going forward, leasing momentum is expected to be governed by the pace of supply addition.

The bulk of warehousing space demand is expected to originate from multiple sources, including third-party logistics (3PL) players handling distribution for businesses, engineering and manufacturing firms driven by government initiatives, and e-commerce companies seeking smaller warehouses as they consolidate their operations by relocating to more efficient spaces.

Sustainability is poised to become a fundamental aspect of the I&L sector; developments that prioritise sustainable practices throughout their operations will be well-positioned to attract potential tenants. Through early adoption of features such as energy efficiency, waste management, use of low-embodied energy materials, etc., these developments can enhance brand reputation and goodwill, thereby gaining a competitive edge in the market.

Supply addition in the upcoming quarters of 2024 is expected to remain rangebound of the 2023 levels. A marginal slowdown is anticipated in the completion of new warehousing projects in the short-term due to increased capex, which, in turn, could lead to longer acquisition times.

The ongoing and planned investments in highways, railways, airports, and dedicated freight corridors are likely to directly contribute to the growth of new-age warehousing. These infrastructure developments will provide access to new markets and reduce current bottlenecks, thereby creating a more attractive warehousing market for investors in the long term.

Retail

The latest RBI consumer confidence survey has indicated positive sentiments with an improved outlook on discretionary spending, suggesting a conducive environment for retail activity[18].

Amidst maintaining a watchful stance on expansion plans, retailers are positioned to capitalise on favourable market conditions, particularly in strategic locations. A healthy mix of secondary and primary leasing is projected to continue at a steady pace.

Going forward, F&B, driven by coffee shops and casual dining restaurants, along with fashion, are expected to remain the most active retail categories. Demand in the luxury category will continue to be led by top-performing brands. The entertainment category is also expected to grow, driven by technology advancements, changing consumer preferences, and the increasing demand for diverse and immersive experiences.

Accelerating demand for high-quality assets is expected to enhance the performance and attractiveness of retail assets. Consequently, developers will likely continue focusing on the positioning and ambience of individual properties. Modest rental growth is anticipated across prime retail properties on the back of strong leasing demand.

A growing number of D2C brands are acknowledging the significance of establishing a physical presence alongside their online operations, aiming to offer customers a seamless multi-channel shopping experience. Developers are closely monitoring D2C brands with a robust online customer base and are actively exploring opportunities to venture into offline formats.

Residential

The residential sector is expected to exhibit positive momentum in both sales and new launches, building upon the sustained growth of the past two years.

Data from 2023 indicates end-users displaying a strong preference for mid-end (INR 45 lakh to 1 crore) and high-end (INR 1 to 2 crore) residential properties. Considering India's anticipated growth in household and disposable incomes, we expect continued robust demand within these segments.

Discerning buyers seek residences that elevate their lifestyles. This has fuelled demand in the premium and luxury segments (INR 2 crore+), with sales quadrupling in 2023 compared to pre-pandemic levels, a trend which is expected to persist in 2024.

Following rising capital values since the residential sector's resurgence in 2021, we anticipate divergent asset pricing trends in 2024. This will likely be dictated by project fundamentals and convenient access to support infrastructure.

India's ongoing mega infrastructure projects, encompassing transportation networks, highways, airports, and metro networks, are expected to support real estate growth and catalyse the creation of new residential nodes.

Investments

Investment activity is expected to gain momentum in 2024, primarily due to the strong acquisition pipeline for development sites in the residential and I&L sectors; alternate segments such as healthcare and hospitality are expected to continue gaining steam.

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

A number of global investment funds have exhibited restraint amidst an uncertain macroeconomic scenario in leading economies. This has opened a window of opportunity for several mid-sized segment investment funds to try and gain access to smaller yet high-quality office assets. This trend is expected to strengthen with the introduction of Small and Medium REITs (SM REITs) by SEBI in India, focusing on smaller, quality assets.

IPO listings in real estate and allied sectors such as hotels, healthcare, logistics, and supply chains have added depth to India's capital markets. We expect more developers, hotel operators, and BFSI firms to tap this route in the coming months.

Controlling stake emerged as a strong strategy in 2023 and is expected to gain momentum in 2024. In terms of market maturity, a number of deals (especially in the alternate segments) involved larger, well-established players, reflecting investor confidence in being able to unlock value even when evaluating established players.

18. Consumer Confidence Survey, RBI, April 2024

Contacts

RESEARCH

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

Pradeep Nair
Associate Director
pradeep.nair@cbre.com

Rajorshi Sanyal
General Manager
rajorshi.sanyal@cbre.com

Darwish Mammi
General Manager
darwish.mammi@cbre.com

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

Raghav Sand
Senior Analyst
raghav.sand@cbre.com

Vidhi Dheri
Director, National Operations, Research
vidhi.dheri@cbre.co.in

Uttara Nilawar
Associate Director
uttara.nilawar@cbre.co.in

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

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

Mainak Karmakar
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

FOLLOW US

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,
Head-Project Management Advisory, Asia Pacific
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

CIN - U74140DL1999PTC100244