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CBRE

INDIA  
REAL ESTATE MARKET OUTLOOK

# RESETTING IN THE NEW NORMAL

CBRE RESEARCH | INDIA

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# INDIAN REAL ESTATE IN THE NEW NORMAL

MORE ORGANIZED



## ECONOMY

### REcover

Sharp rebound in GDP anticipated; economic indicators likely to start looking up



## OFFICE

### REcalibrate

Physical offices to stay; portfolio optimization and hybrid working anticipated to be dominant themes



## I&L

### REsilience

A networked, diversified and tech-enhanced supply chain expected to redefine the sector



## RETAIL

### REgain

Retail formats and configurations to realign; tech and e-commerce to drive change



## RESIDENTIAL

### REvival

Demand revival with strong end-user interest; government impetus and incentives by developers to ensure buoyancy



## CAPITAL MARKETS

### REbalance

Investment opportunities to abound; core, core-plus assets to hold the key



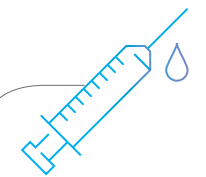
## ALTERNATIVE SECTORS

### RElevant

Cold storage and data centers to remain lucrative investment classes; student accommodation and flexible spaces to also gain steam

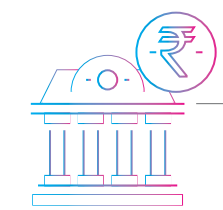
# INDIAN ECONOMY

ON THE PATH OF 'RE'COVERY



With a recovery rate of **96%**<sup>1</sup> and two locally developed vaccines, India is at the forefront of COVID-19 recovery and inoculation program. The vaccination program was kickstarted on **16 January 2021**, covering over **300 million people** in the initial phases (including healthcare workers, frontline workers, elderly and groups with comorbidities).

World economy expected to surge in 2021, as vaccination programs pick pace and mobility improves; **global GDP projected to rebound to 5.5% in 2021<sup>2</sup>, from a contraction of 3.5% in 2020.** India and China widely expected to lead global recovery.



**Central banks in APAC expected to maintain a loose monetary policy to sustain growth;** however, interest rates could increase marginally in a few markets in H2 2021. Extension of selective stimulus measures expected as governments remain focused on growth recovery and employment generation.

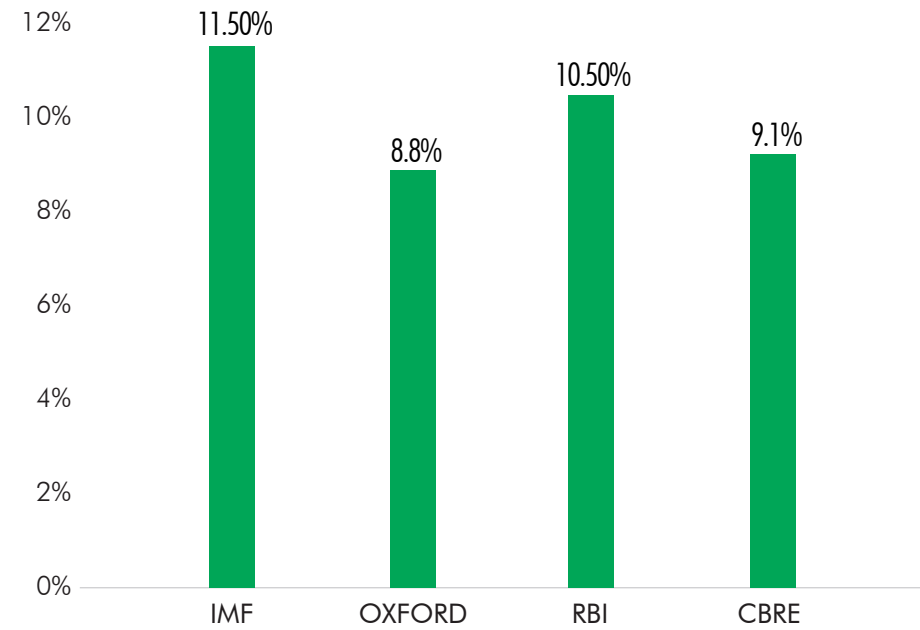


1. Union Health Ministry (as on 31 December 2020)  
2. IMF's World Economic Outlook Update, January 2021

# INDIAN ECONOMY

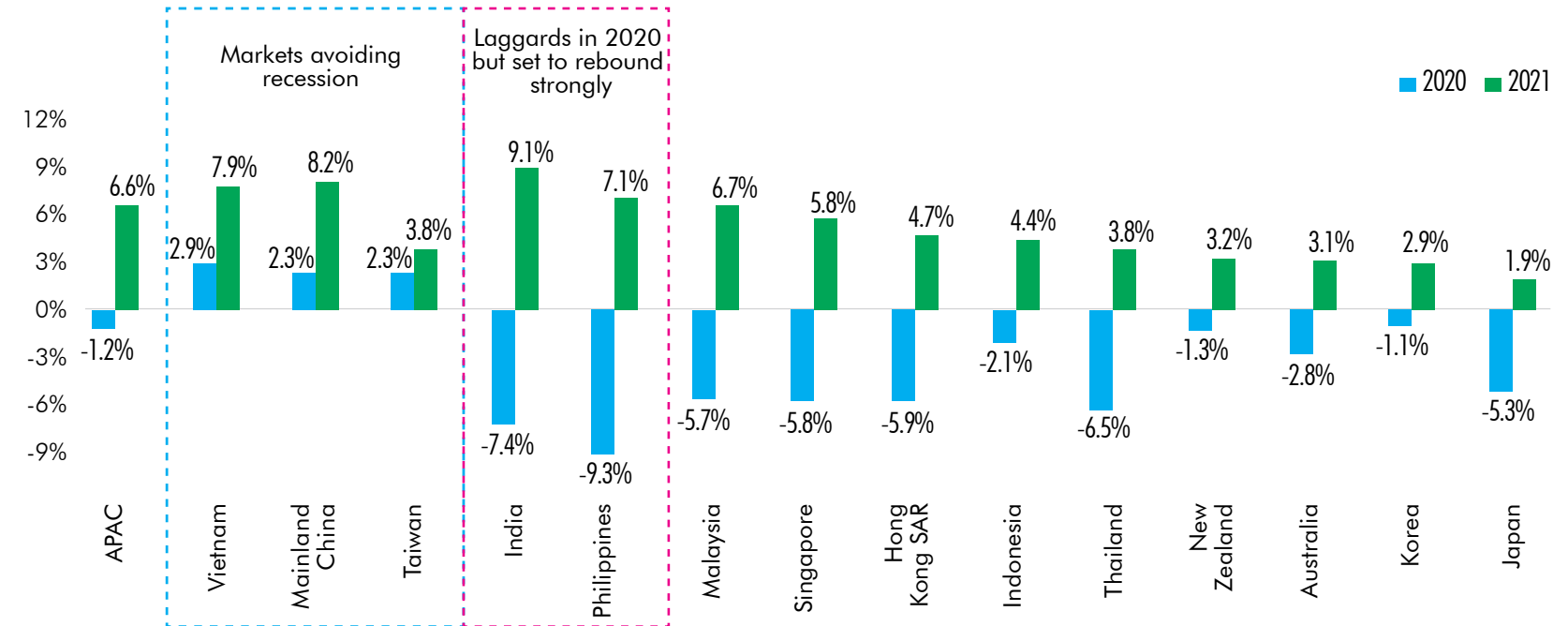
ON THE PATH OF 'RE'COVERY

Figure 1: India GDP growth projections for 2021



Source: IMF; OE; RBI (for FY 2021-22); CBRE House View (as of November 2020); CBRE Research, Q1 2021

Figure 2: GDP forecast for major APAC economies



Source: CBRE Research, November 2020

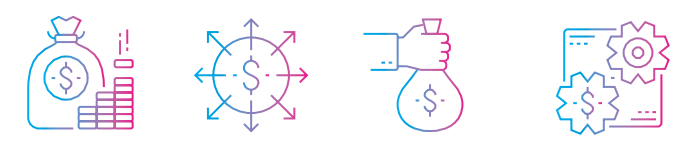
# INDIAN ECONOMY

## ON THE PATH OF 'RE'COVERY



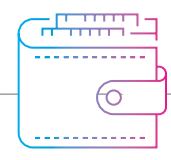
Other key economic indicators too have started to improve, with India witnessing **record high forex levels at the end of December 2020**

**Table 1: Key economic indicators through 2020**



	Forex reserves (in USD mn)*	Exports (in USD mn)	FDI (in USD mn)	Manufacturing PMI
March	475.6	21.4	18.3	51.8
June	506.8	21.9	11.5	47.2
September	542.0	27.6	28.1	56.8
December	585.3	26.9	-	56.4

Source : RBI; Ministry of Commerce and Industry; DIPP; IHS Markit; CBRE Research, Q1 2021  
 \* : Forex reserves for December are as on 1 January 2021; FDI statistics for quarter ending December 2020 not yet released by the Indian government.



- Average inflation in 2021 expected to remain above the 4% target, fueled by increased consumption.
- Inflation is projected at 5.8% for Q1 2021 and between 4.6% - 5.2% for April – September 2021.<sup>3</sup>



### Government initiatives likely to have an impact on Indian RE in 2021:

- Housing segment to remain at the top of government agenda; push via an enabling mortgage environment, catalyzing construction of affordable housing projects and affordable rental housing complexes (ARHC) and finalizing the Model Tenancy Act.
- As the industrial & logistics (I&L) segment takes centerstage, government keen to extend support via draft national logistics and industrial policies and investments in setting up industrial corridors.
- Growing need for digitization leading to increased focus on data centers (DC); formalization of the segment through a DC policy and government investments.
- E-commerce policy formulation underway; aims to address data security/privacy concerns; provide a level-playing field to all players and curb the influence of monopolistic tendencies.

3. RBI monthly bulletin (December 2020)

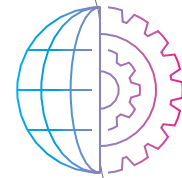
# OFFICE

'RE'CALIBRATING FOR THE FUTURE



Post COVID-19, India to remain a preferred global outsourcing destination on the back of low-cost knowledge talent; expected systematic growth of global capability centres, start-ups and gig workers.

Enhanced global demand expected for services and R&D operations of tech firms; digital transformation of services to drive demand for onshoring, nearshoring and more recently, end shoring operations towards India.



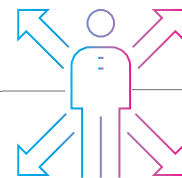
Flexibility to be critical – sustained flexibility in lease terms and tenures expected. Flexible spaces to remain attractive options in the short term.

Workplace strategies would involve repositioning spaces, amenities and services to meet changing employee needs; enhanced tech tools to transform the way commercial properties are being designed and marketed.

Environmental, Social and Corporate Governance (ESG), health and wellness likely to be at the forefront of CRE strategies; employee productivity to be key.



Evolution of a 'traditional' to 'hybrid' workforce via work-from-anywhere to ensure BCP; hub-and-spoke models may come into play selectively.



Physical offices here to stay; portfolio optimization via the right mix of traditional, flexible spaces and any relevant remote working strategy.



Hotelisation of office space via amenities and services through 'phygital' experiences; tech-enhanced spaces to serve as a differentiator of quality.

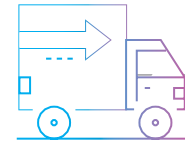


Overall office leasing volume to witness an uptick in 2021; rental recovery expected in only select assets in a few micro markets in cities such as Bangalore in H2 2021.

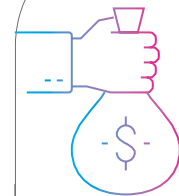


# INDUSTRIAL & LOGISTICS

REDEFINING 'RE'SILIENCE



**E-commerce and Third-Party Logistics to be the biggest catalysts for change** post COVID-19; a higher preference for larger tech-enhanced spaces (more than 100,000 sq. ft.) expected.



Supply slippages to reduce going forward; **investment-grade projects to dominate upcoming supply.**

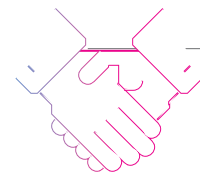
A **'networked', more resilient supply chain model likely to be adopted**; growth in the number of first mile and last mile warehouses anticipated.



**Supply chain diversification and inventory control may impact location strategies**; leasing terms to remain flexible.



**Demand resilience to boost global investor interest**; greenfield acquisitions via developer-investor partnerships to be the preferred entry route.




**Tech-enhancement of both supply chains and warehousing spaces to be key**; wider application of integrated automation and other tech solutions to drive agility.



**Overall leasing volume to increase sharply in 2021, as availability of supply improves.** Rental recovery expected in select investment grade assets backed by institutional players; stability elsewhere.



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# RETAIL

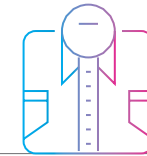
## 'RE'GAINING AND RESETTING



Prominent stakeholders to remain focused on the sector; **focus on reinventing the "experience"**; realignment of existing spaces expected as emphasis on outdoor and open areas to increase. Store size optimization expected to allow for faster recovery and better profitability.



Accelerated growth in **e-commerce** expected; **QSRs, grocery** segments to lead **retail recovery** while consumer electronics would continue to capitalize on "time at home".



Growing acceptance of online shopping is resulting in more omni-channel retail, however **preserving the "physical experience"** will be a critical component of these omnichannel strategies.



Omnichannel strategies to push retailers to streamline supply chains and focus on **workforce planning, automation, inventory management and flexibility** in production cycles. Landlords expected to cater to space in malls that act as **"fulfillment centres"**.



**Flexibility to remain key to success** – landlords with flexible lease terms, malls with flexible / convertible / open spaces to witness greater retailer interest.



**Retail transformation** to be led by technologies that improve the **customer experience**, allow **cost optimization** and **enable agility**.



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# RESIDENTIAL

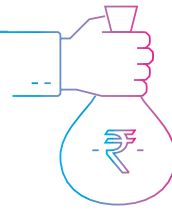
WITNESSING WINDS OF 'RE'VIVAL



**Mid-end and affordable segments** to continue driving sales; developer incentives and an enabling mortgage regime to boost momentum.



Developer **focus to remain on completing existing projects and sales conversions**; ready-to-move-in projects or those nearing completion are expected to garner greater interest from home buyers.



**Project execution capabilities and cash flow management** expected to take centerstage; stress funds to witness greater participation.



**Millennials could emerge as a key consumer class**; reconfiguration of residential spaces likely; increased demand for digitally enabled homes and larger unit sizes to accommodate home offices.



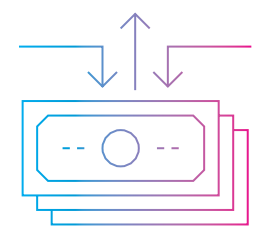
**To mitigate execution risks, developer consolidation and a higher number of JVs / JDs** likely going forward.

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# CAPITAL MARKETS

'RE'BALANCING ITS ACT

## PROBABLE INVESTOR STRATEGIES IN 2021



Investment activity expected to pick pace as investors evaluate opportunistic deals. **Overall capital flows to witness an uptick as compared to 2020.**



**OFFICE**

CORE, CORE PLUS, VALUE ADD



**I&L**

CORE PLUS, OPPORTUNISTIC, GREENFIELD, VALUE ADD



**RESIDENTIAL**

OPPORTUNISTIC



**RETAIL**

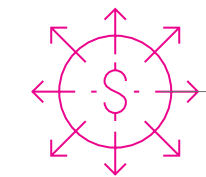
CORE, CORE PLUS, OPPORTUNISTIC, VALUE ADD



**HOSPITALITY**

CORE, CORE PLUS, OPPORTUNISTIC

Source: CBRE Research, Q1 2021



**Improvement in demand levels, especially in office and I&L, and resurgent capital flows expected;** yields expected to broadly remain stable.



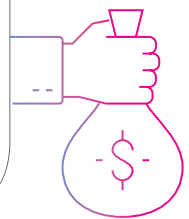
Further evolution of the Real Estate Investment Trusts (REITs) landscape likely, with a growing number of developers / **institutional investors** looking to launch their own **REIT listings** in the medium term; inclusion of varied asset classes such as I&L and DCs expected in the long term.



**Core and core plus assets to remain high on investor radar, sectors such as office, hospitality and retail expected to provide investment opportunities.** Greenfield acquisitions via developer-investor partnerships to be the preferred entry route for I&L.



**Debt to remain the key source of funding** major sectors; last-mile funding opportunities being evaluated by PE funds, primarily for residential real estate developers.



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# ALTERNATIVE SECTORS

'RE'LEVANT TO THE CORE



## FLEXIBLE SPACES

- Flexible spaces to remain key to increasing portfolio agility, providing short-term solutions and catering to headcount volatility; managed spaces to drive demand.
- Cautious expansion by operators; likely to maximize occupancy through various means such as day passes, reduced lock-ins, extended rent free periods, etc.



## DCs

- Post COVID-19, DC demand to be augmented by the increasing need for data storage, sustained policy impetus and nationwide digital initiatives; third-party colocation and cloud demand likely to witness high growth
- Domestic / global operators and investors to expand their DC footprint; DC stock expected to touch about 600 MW in 2021.



## COLD STORAGE (CS)

- CS segment to be driven by increasing demand for Online Food Delivery (OFD) services and the growth of cloud kitchens / e-grocers; CS operators to continue to expand.
- Post COVID-19, impetus to life sciences segments such as vaccine / generic drug and formulation centers to also boost CS demand; higher domestic / global investment expected.



## REIT

- New office-based REITs to be launched in the coming 12-24 months; acquisition of core and core-plus office assets for REITs.
- REITs to have better access to low-cost capital from debt / equity markets; higher liquidity to enable increased capital deployment.



## LIFE SCIENCES


- Post COVID-19, India to continue to be a manufacturing hub for generic / bulk drugs and formulation centers; likely to further boost demand for CS units.
- India would also be a key knowledge / shared services destination for US / EMEA based pharma companies, especially the cities of Mumbai, Bangalore and Hyderabad, over the next 12-24 months.



## STUDENT ACCOMMODATION / CO-LIVING

- A reconfiguration of the traditional student housing layout is expected; larger rooms/ single occupancy rooms and larger common areas to allow for compliance with social distancing norms.
- As stricter regulations on social distancing post COVID-19 come into force, universities may look to reconfigure on-campus accommodation, which might result in greater demand for off-campus Purpose-Built Student Accommodation (PBSA).
- Increased use of technology to provide virtual tours, contactless services/requests and access to premises.



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# WHAT DOES THE FUTURE HOLD?

We anticipate that the long-term outlook for all real estate sectors in India is positive but varied in terms of the cyclical i.e. short-term changes. Meanwhile, the structural (i.e. long-term) changes can be classified into two types – the acceleration of existing trends and the unforeseen trends caused purely by the pandemic.

Table 2: Impact of structural changes across RE sectors in India

Stakeholder	Acceleration of existing trends post COVID-19			New structural trends post COVID-19	
	Tech-enhanced spaces	Increased flexibility of leasing / portfolios	Heightened e-commerce penetration	Global supply chain diversification	Remote working/ WFA
OFFICE	>	✓	✓		✓
I&L	>	✓	✓	✓	✓
RETAIL	>	✓	✓	✓	✓
RESIDENTIAL	>	✓		✓	✓

Source: CBRE's 'Indian Real Estate in 2021: Reboot, Reimagine, Regain', January 2021



Figure 3: How are the mainstream RE sectors expected to fare in 2021?

Stakeholder		Supply	Demand
OFFICE	>	●	●
I&L	>	●	●
RETAIL	>	●	●
RESIDENTIAL	>	●	●

● Darker the shade, stronger the performance vis-à-vis 2020

Source: CBRE Research, Q1 2021

## CONTACT US

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