SPOTLIGHT
Savills Research

H1 2023

Market in Minutes: Bengaluru Industrial & Logistics

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INDIA ECONOMY

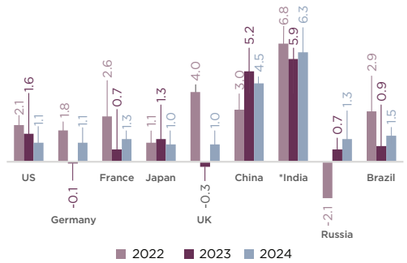
H1 2023

As the first half of 2023 closes, policymakers around the world are navigating through an uncertain if not a previously uncharted terrain. The last few years have seen overlapping crises – COVID-19, the Russia-Ukraine War, rising inflation and interest rates, and liquidity troubles after a series of bank crises. In March 2023, World Bank warned of the makings of a 'Lost Decade' for the global economy.[1]

While the fear of recession is seemingly ubiquitous, some parts look more vulnerable than others. Nevertheless, select bright spots like India stand out, with negligible chances of a technical recession. India, in fact, continues to be the fastest growing major economy (Chart-1).

INDIAN ECONOMY REMAINS LEAST VULNERABLE

Chart-1: GDP Growth Rates Around the World



Source: IMF WEO Apr 2023

* Fiscal year basis

REMARKABLE RESILIENCE

Although the global atmosphere necessitated a slight revision in India's GDP growth forecast, it still appears to be an island of low vulnerability, primarily on account of strong macro-economic indicators, demographic advantage and robust consumption. Despite this revision, World Economic Outlook (IMF's flagship report) in its April 2023 edition projected a 6.4% growth rate for India in FY24, an evidence of remarkable resilience, in the face of global headwinds.

The 'growth vs inflation conundrum' seems well managed at this point. Barring the first two months of the year, inflation is within the RBI's tolerance zone since Nov 2022 (Chart-2). In fact, at 4.25%, retail inflation hit a 26-month low in May 2023.

The general economic performance can be viewed through the lens of certain key macro-economic indicators. GST collections were the highest recorded ever, at INR 1.87 lakh crores in April 2023 (up 12% YoY). Interestingly, the revenue collections have been consistently above INR 1.5 lakh crores since March 2023. Both manufacturing and services Purchasing Managers Index (PMI) have been steadily expanding for almost 2 years. Strong sentiments in the IT sector are reflected in the 13-year high services PMI of 62 in April 2023. A 31-month high in the manufacturing sector is reflected in the manufacturing PMI of 58.7 for May 2023. Brent crude oil prices have remained comfortably below USD100 per barrel throughout 2023, enabling relative stability of the Indian Rupee reportedly at INR 80-82 to a USD, for the most part this year. Foreign exchange reserves, consequently, have increased from around USD 560 bn at the start of the year to USD 596 USD in mid June 2023.

Equity Markets: The Bellwether of Growth Phase

Equity markets often act as powerful barometers for macroeconomic sentiments. Towards the end of June 2023, both BSE SENSEX and NIFTY were trading at all-time highs of 64,000 and 19,000 respectively. More assuring are the key sectoral indices. SENSEX and key sectoral indices have recorded significant gains compared to the pre-pandemic times of early 2020. (Chart-3). As of 28th June 2023, the S&P BSE IT and Realty indices had registered gains of 87% and 82%, vis-a-vis 1st of January 2020.

Click here to read #SavillsRoundUp: A fortnightly reporting of economic and real estate news

Click here to read

1. Economic Times

Note: FY refers Fiscal Year (Apr-Mar)

This section contains figures in Indian system of lakhs and crores (refer Appendix for international conversions)

1 USD = Approx. 82.05 INR on Jun 29, 2023

POLICY ACTION

Despite demand concerns across the globe and phases of untamed inflation domestically, India's growth has remained steady. A key factor powering the upward trajectory post peak-pandemic is strong policy support from various agencies and institutions, including the RBI. While the Atma-Nirbhar Bharat Package was a decisive factor in limiting the impact of devastation during the pandemic, the RBI's role in maintaining domestic demand and liquidity has been commendable. A close look at retail inflation and repo rate movement since 2020 (Chart-2) reveals that well spaced-out and gradual hikes in benchmark lending rates were mostly successful in handling spiralling inflation, with a manageable impact on demand and growth prospects.

Budgetary Announcements

The Union Budget 2023-24 centered around creating a blueprint for the economy in 'Amrit Kaal' – a run from 75 years of independence (in 2022) till the 100th in 2047. The hon'ble Finance Minister identified 7 priority areas for this long-term growth plan, viz., inclusive development, percolation of benefits to the last mile, infrastructure and investment, potential realisation, sustainable green growth, youth empowerment and reforms in the financial sector.

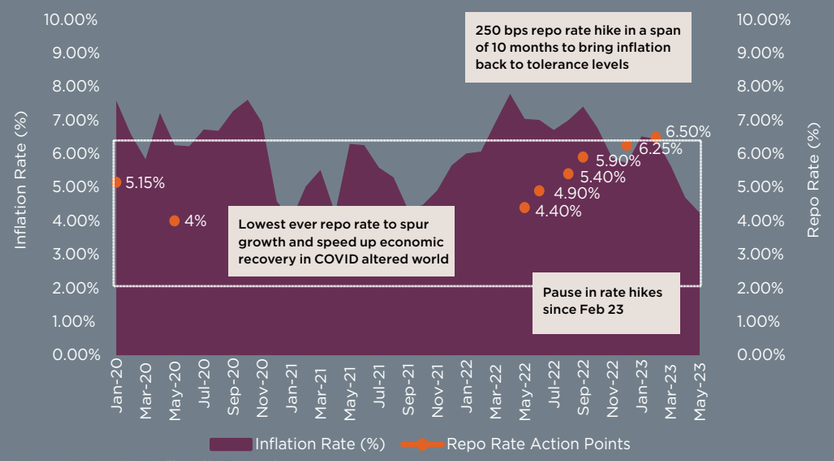
Real Estate Specific Announcements

Although direct real estate announcements were limited, the steep rise in the Capex to 3.3% of GDP continued to be the guiding force of the budget, providing a strong impetus to infrastructure and allied industries including real estate. Specifically, the INR 10,000 crore per annum allocation to the Urban Infrastructure Development Fund will enhance the proposition of tier II and III cities with developers and funds creating more commercial, residential and retail developments.

(Refer Appendix for detailed real estate specific announcements and the impact on various real estate verticals).

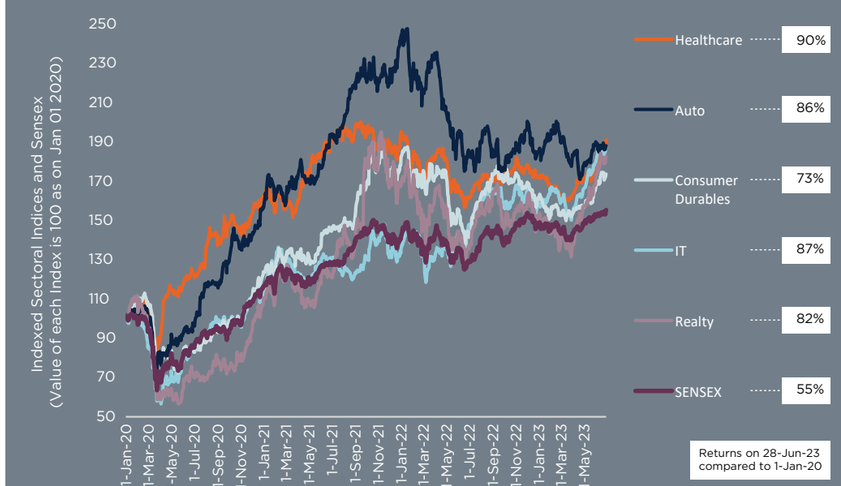
In other notable announcements of H1 2023, SEBI's proposal to regulate all online platforms that offer fractional ownership of real estate assets is expected to institutionalise the segment and help attract more capital from both domestic and offshore investors. REITs have also been at the centre of investor and retail participant attention in the first half of the year, as India's REIT offerings expanded from the office sector to retail with the listing of Nexus Select Trust REIT in May 2023. The NSE also launched India's first REIT and InvIT index to help the retail investor track the cumulative performance of such offerings listed on the NSE.

Chart-2: RBI Response to Macroeconomic Scenario



Source: FxEmpire, Savills India Research

Chart-3: Equity Markets: Sectoral Performance



Source: BSE, Savills India Research

NEAR-TERM CAUTION

Although India remains the least vulnerable major economy, it will be wise to consider that no economy is fully insulated from concerns elsewhere in today's highly globalised world. To quote the RBI governor, *"Headwinds from weak external demand, volatility in global financial markets, protracted geopolitical tensions and intensity of El Nino impact, however, pose risks to the outlook and needs to be carefully monitored."*

India will have to navigate the near-term challenges emanating from global events, but its future is quite promising, as its engines are very well geared up.

RBI's Financial Stability Report: Indian banks' gross bad loans fall to a 10-year low of 3.9% in Mar 2023

India's Current Account Deficit (CAD) narrowed sharply in the Jan-Mar quarter, helped by a smaller trade gap and increased services exports. The CAD stood at USD 1.3 Bn (0.2% of GDP) in the 4th quarter of FY 23, compared with the previous quarter's revised deficit of USD 16.8 Bn (2% of GDP).

INDIA

Industrial & Logistics Market

Key Statistics
(in mn sq. ft.)

	H1 2023 Supply	H1 2023 Absorption	H1 2022 Supply	H1 2022 Absorption	YoY Change Supply	YoY Change Absorption
OVERALL (Tier I, Tier II & Tier III)	27.4	22.4	20.2	20.9	36%	7%
TIER I CITIES	20.6	17.4	14.8	16.8	39%	4%
TIER II & III CITIES	6.8	5.0	5.4	4.1	26%	22%

Note: Tier I city includes Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai, Delhi-NCR, and Pune. Tier II and Tier III cities include Guwahati, Bhubaneshwar, Patna, Hosur, Coimbatore, Rajpura, Lucknow, Jaipur, Nagpur, Indore and Surat.

Key Trends

India witnessed absorption of 22.4 mn sq. ft. in H1 2023 including 17.4 mn sq. ft. from Tier I cities and 5.0 mn sq. ft. from Tier II & III cities

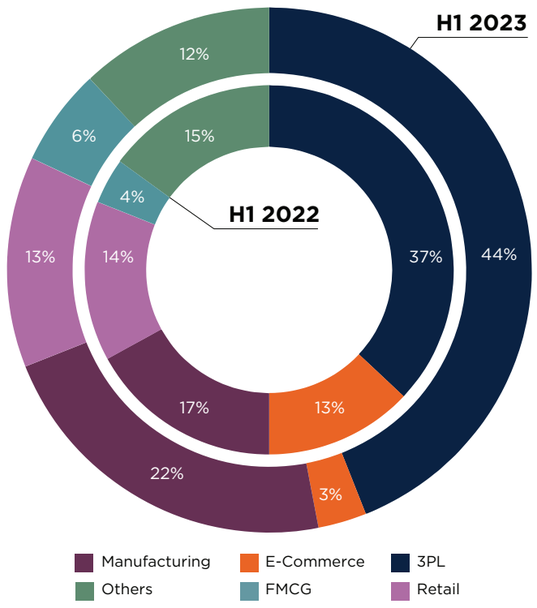
New supply of 27.4 mn sq. ft. in H1 2023 including 20.6 mn sq. ft. - Tier I cities and 6.8 mn sq. ft. Tier II & III cities has been added

3PL sector accounted for 44% of total absorption in H12023 followed by manufacturing at 22% and retail at 13%.

Mumbai MMR accounted for 18% of absorption followed by NCR (14%), Pune (10%) Bengaluru and Chennai at 9% each.

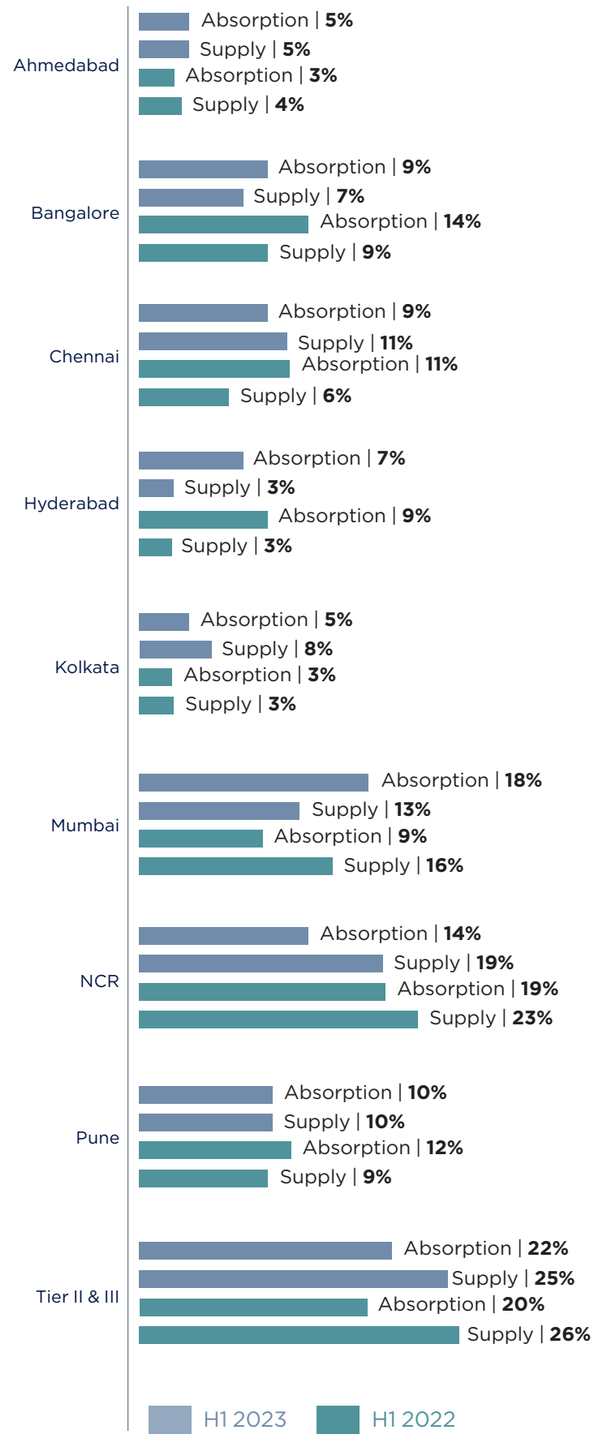
Land transaction continued to garner attention with an excess of 1,500 acres being exchanged ownerships for manufacturing and warehousing across India.

Absorption by Sector



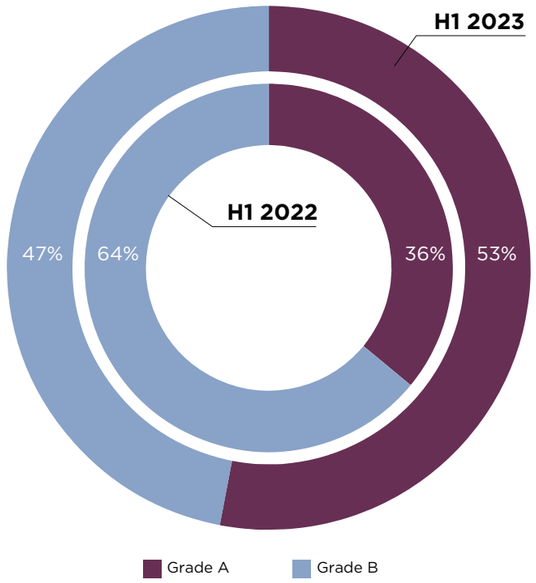
Source: Savills India Industrial Research

Supply & Absorption by City

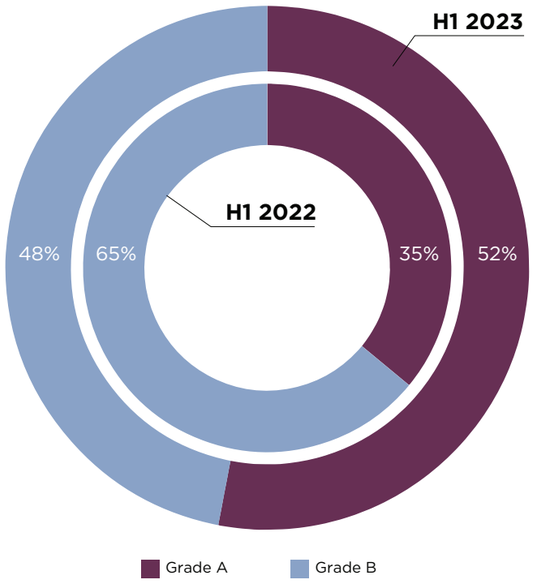


Source: Savills India Industrial Research

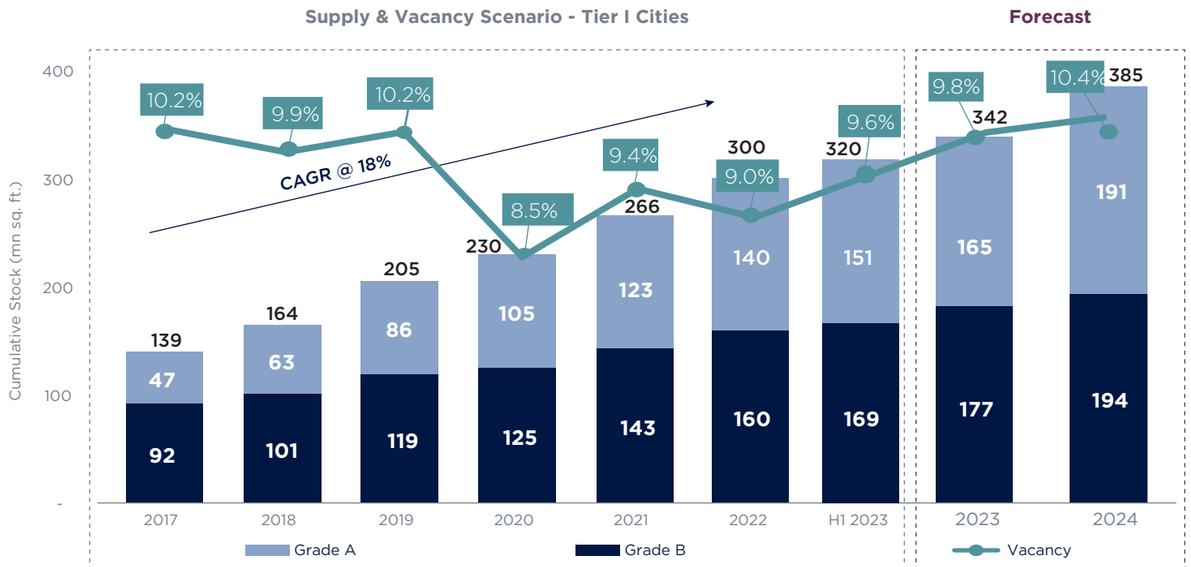
Absorption by Grade



Supply by Grade

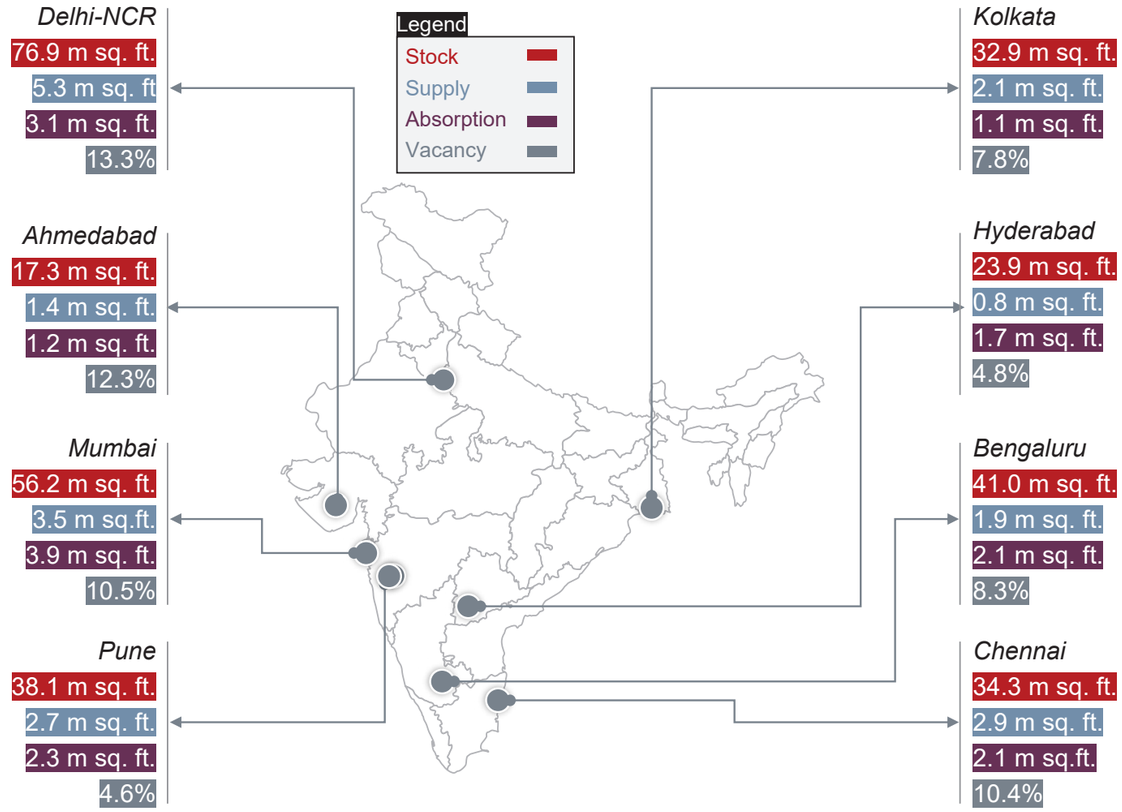


Supply & Vacancy Scenario - H1 2023



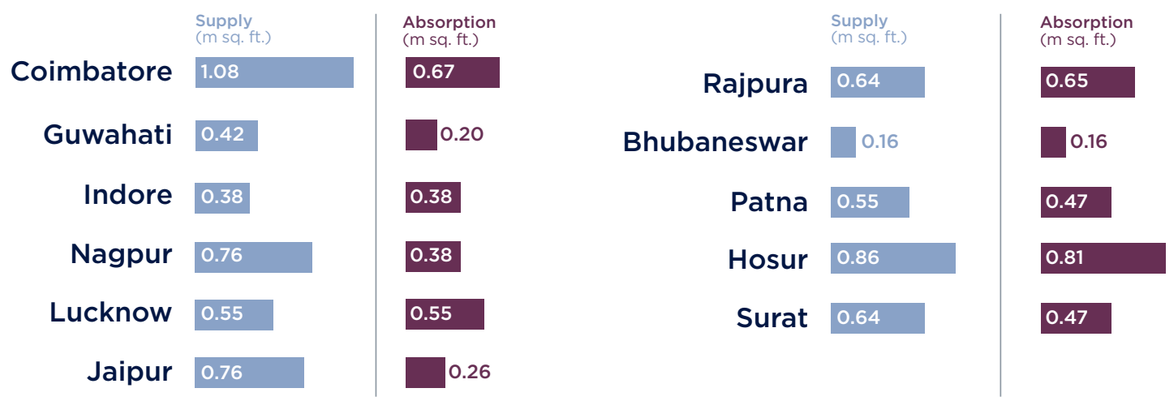
Industrial & Logistics Market – H1 2023

City Wise Stats - H1 2023



Source: Savills India Industrial Research
Note: as on H1 2023

Supply and Absorption in Tier II & III Cities



BENGALURU

Industrial & Logistics Market

Key Statistics

	H1 2023	H1 2022
SUPPLY (mn sq. ft.)	1.9	2.2
NET ABSORPTION (mn sq. ft.)	2.1	3.1
TOTAL STOCK (mn sq. ft.)	41.0	37.2
VACANCY (%)	8.3	10.7

Key Trends

Growing demand for Grade A and compliant facilities

3PL led the absorption, followed by manufacturing and retail sectors

Manufacturing clients have taken RTM spaces ranging between 50,000 sq. ft.-100,000 sq. ft.

Vacancy rates decreased marginally

Hoskote, Tumkur Road and Hosur Road remain the preferred micro markets

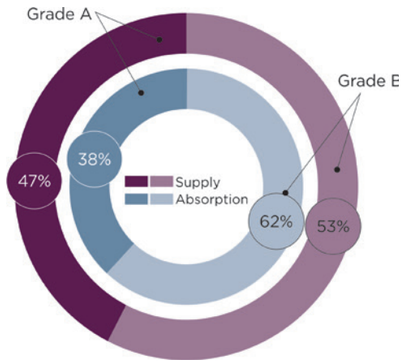
Supply, Absorption, and Vacancy

In H1 2023, Bengaluru witnessed absorption of 2.1 million sq. ft. of manufacturing and warehousing space. This accounted for 60% of the total occupancy observed in the 3PL sector, with the manufacturing sector following at 11% and the retail sector at 10%. Hoskote and Tumkur Road micro-markets accounting for dominant share in absorption, together accounted for 85% total absorption witnessed in the city in H1 2023.

Grade A space accounted for 38% of the total absorption in H1 2023, marking a significant increase from 35% in H1 2022, indicating growing demand for graded and compliant warehousing spaces.

On the supply side, Bengaluru witnessed a supply of 1.9 million sq. ft. in H1 2023 against 2.2 million sq. ft. in H1 2022. The operational stock stands at 41.0 million sq. ft. as of H1 2023, while vacancy levels decreased marginally to 8.3% in H1 2023 from 10.7% in H1 2022. Hoskote and Tumkur Road micro-markets together accounted for 76% of the total supply witnessed in the city followed by Hosur Road at 10%.

Supply & Absorption by Grade



Major Transactions

OCCUPIER | Micro-Market | Area Leased (sq. ft.)

3PL
Tumkur Road
100,000

3PL
Tumkur Road
95,000

RETAIL
Hoskote
73,000

MANUFACTURING
Bellary Road
44,000

FMCG
Hoskote
40,000

Supply & Absorption by Micro-Market

Source: Savills India Industrial Research

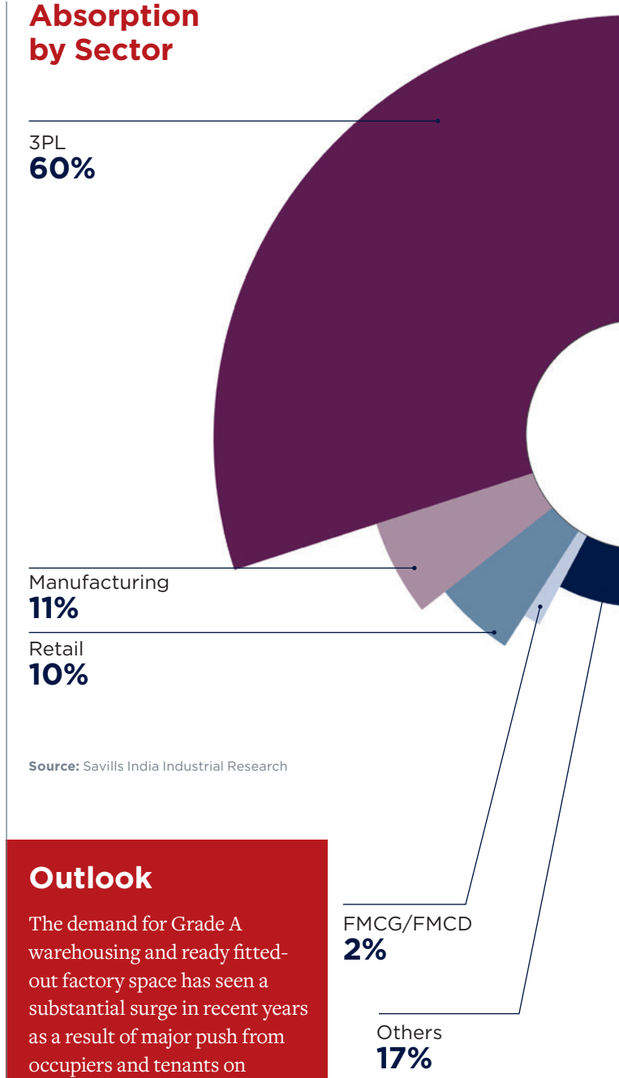
Rental Values

Rental Value Range (INR psf pm)

	Manufacturing		Warehousing	
Hoskote	26	20	18	22
Tumkur Road	36	26	17	21
Hosur Road	28	20	18	24
Mysore Road	26	18	17	22
Bellary Road	35	25	19	25

Source: Savills India Industrial Research
Note: Rental Values on Carpet Area

Absorption by Sector



Source: Savills India Industrial Research

Outlook

The demand for Grade A warehousing and ready fitted-out factory space has seen a substantial surge in recent years as a result of major push from occupiers and tenants on specifications and compliance.

In the coming year, warehouse and industrial space demand will continue to grow driven by 3PL, manufacturing and retail sectors.

Bengaluru is going to witness more of Grade A industrial and warehousing supply in prominent micro-markets. The warehousing industry is evolving, and the market is witnessing a major push from occupiers on specifications and compliance.

BURGEONING MANUFACTURING LANDSCAPE IN INDIA

Key Trends

The Indian manufacturing sector is on a high growth trajectory, the government has implemented several initiatives such as Make in India, Digital India, PLI Scheme and Startup India, which have boosted the manufacturing sector that have significantly improved the overall business environment. In addition, the manufacturing sector is expected to benefit from corporate tax rates of 15% for new manufacturing companies, lowest in Asia.

Indian manufacturing sector is projected to experience a growth rate of 6.8% in 2023-24, according to estimates by the World Bank[1]. The S&P Global India Manufacturing Purchasing Managers Index (PMI) has consistently remained above the threshold of 50 since September 2021[2], reflecting a stable growth trend in the sector.

In Budget 2022-23, the government allocated US$315 million for promoting electronics and IT hardware manufacturing[3]. During FY 2022-23 electronic goods exports were recorded at USD 23.57 Billion as compared to USD 15.66 Billion during FY 2021-22, registering a growth of 50.52%[4].

The country attracted in excess of USD 6 billion FDI inflows into Automobile, Drugs & Pharmaceuticals, Chemicals (other than fertilizers) and Metallurgical Industries[5].

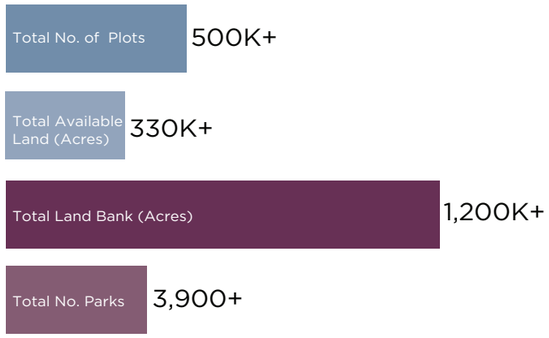
The Geological Survey of India has achieved a significant milestone by establishing inferred resources (G3) of 5.9 million tonnes of Lithium within the country[6]. This discovery is expected to provide a significant boost to industries reliant on lithium, including electric vehicles, lithium-ion batteries, semiconductors, consumer electronics, aerospace, marine, medical, and telecommunications.

The Government has identified the Defence and Aerospace sector as a focus area for the 'Aatmanirbhar Bharat' initiative with an aims to achieve a turnover of USD 25 billion by 2025[7]. This measure will lead to the establishment of indigenous manufacturing infrastructure, supported by a necessary research and development ecosystem.

In recent years, the Indian government has implemented several initiatives to augment the manufacturing sector that have significantly improved the overall business environment. In a major effort to encourage domestic manufacturing, the government of India has slashed the corporate tax rates of new manufacturing companies to 15%, making it the lowest in Southeast Asia. The sector has seen further traction backed by the roll out of Performance Linked Incentives (PLI) scheme.

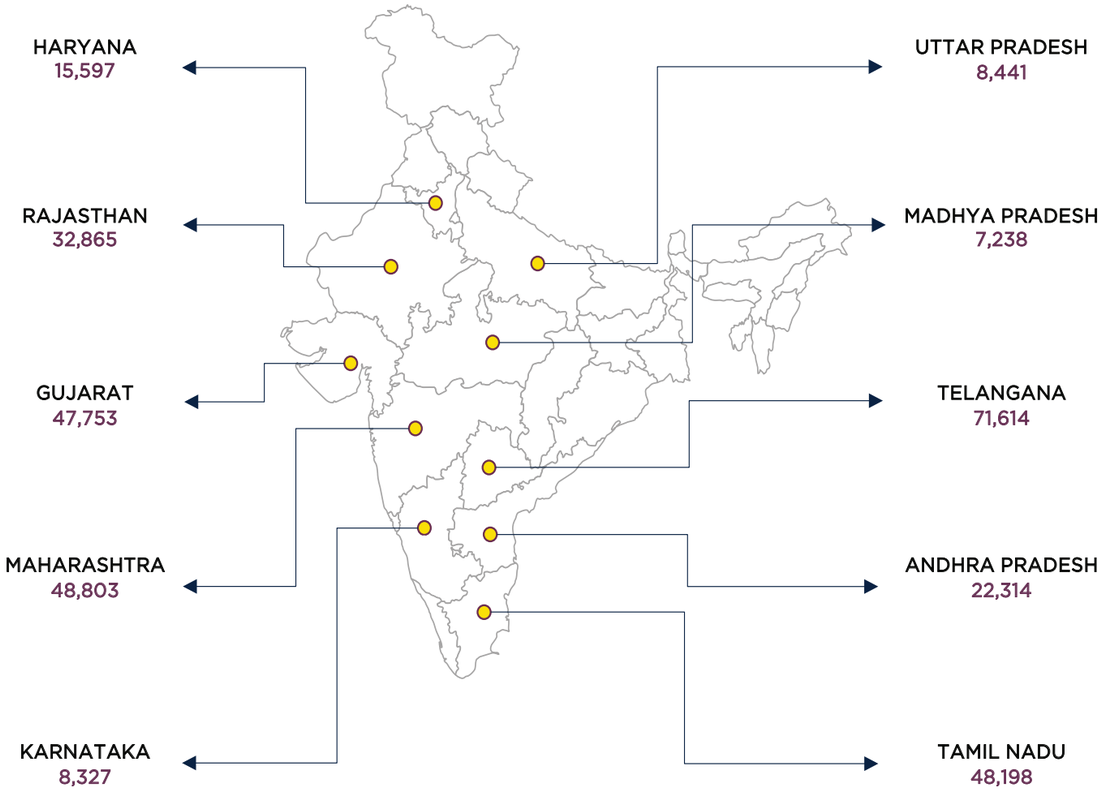
India has established multiple industrial corridors with planned Multi Modal Logistics Parks (MMLP's) along with government and private industrial parks to support and promote growth. The government of India has identified over 1,200 thousand acres of land across several states which could potentially be offered for establishing industrial & logistics hubs[8]. In H1 2023, the market witnessed transactions of close to 1,500 acres of manufacturing and warehousing land in the country of which 72% was for manufacturing purpose, 22% was for warehousing and 5% for mixed use (both manufacturing & warehousing) development. Additionally, more than 50% of the transactions were dedicated to captive usage.

The Industrial Land Bank in India



Source: DPIIT, Government of India

State wise availability of industrial land in hectares (top 10 States)



Source: DPIIT, Government of India

Land Transactions in H1 2023

Zone-wise land transactions

Zone	Acres and % share
East	23 (2%)
North	175 (12%)
South	266 (18%)
West	1,007 (68%)

Land Transactions by occupier type

Occupier Type	Acres and % share
Manufacturing	1,063 (72%)
Warehousing	331 (22%)
Mixed (Both Manufacturing & Warehousing)	77 (5%)

Land Transactions by ownership

Occupier Type	Acres and % share
Government	549 (37%)
Private	922 (63%)

Source: Savills Industrial Research

APPENDIX

KEY POLICY /SCHEME ANNOUNCEMENTS H1 2023

Prime Minister Mega Integrated Textile Region and Apparel Parks (PMMITRA) scheme: anticipated to encourage investment in the textile and apparel manufacturing industry and provide a boost to the Make in India initiative[9].

Modified Programme for Semiconductors and Display Fab Ecosystem: Fiscal Incentive of 50% of the project cost is available to companies/consortia/ joint ventures for setting up of Semiconductor Fabs in India of any node (including mature nodes). Similarly Fiscal incentive of 50% of the project cost is available for setting up of Display Fabs of specified technologies in India10.

Kerala Industrial Policy 2023: The state of Kerala has formulated a new policy to accelerate its industrial growth and create more employment opportunities.

Andhra Pradesh Industrial Development Policy Policy 2003: The Andhra Pradesh government has notified the Industrial Development Policy (IDP) for five years starting April 2023. This will likely promote industrial development in the state.

Union Budget 2023-24-Key Announcements 11

- Extending 15% corporate tax benefits to new co-operatives to commencing manufacturing till 31st March 2024.
- Customs Duty on specified capital goods/machinery for manufacture of lithium-ion cell for use in battery of electrically operated vehicle (EVs) extended to 31.03.2024.
- Customs duty exempted on vehicles, specified automobile parts/ components, sub-systems and tyres when imported by notified testing agencies, for the purpose of testing and/ or certification, subject to conditions.
- 35,000 crore outlay for energy security, energy transition and net zero objectives.
- Battery energy storage systems to be promoted to steer the economy on the sustainable development path.
- 20,700 crore outlay provided for renewable energy grid integration and evacuation from Ladakh.

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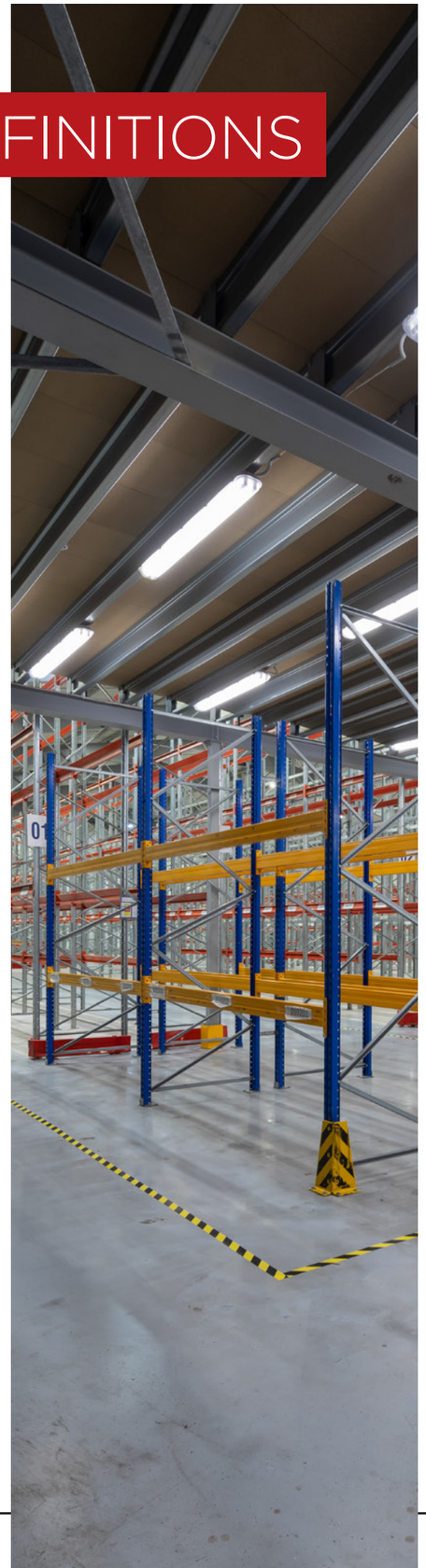
[11]https://pib.gov.in/PressReleasePage.aspx?PRID=1895315

DEFINITIONS



Supply
New building(s) which are completed in a given time frame which includes Grade A and Grade B buildings in both BTS and speculative developments.

Stock
Existing built-up area in all buildings located in a given market. Only Grade A, B+ and B buildings have been considered for computing stock in each market/micro-market.

Vacancy
Space is considered vacant till it is available for lease/sale to an end user. Vacancy is total vacant space in the market/micro-market.

Pre-lease/Pre-commitment
The agreement to lease drawn up between the owner and the tenant, prior to the completion of a building.

Built-to-suit (BTS)
A building which has been constructed by the developer, tailored for the requirements of an occupier.

Net Absorption
Total of lease transactions (excluding renewals and churns) witnessed in completed buildings in the market/micro-market in a given time frame, which includes Grade A and Grade B in both BTS and speculative developments.

Rental Value
The average of transacted rent(s) from a representative sample of same grade buildings including Grade A and Grade B in a market/micro-market.

Capital Value
The price at which a sale transaction takes place. [Capital Value= Rent per year/Yield].

Rent Computation
Rents are computed by taking a weighted average of rents in the short-listed basket of buildings wherein there are recent lease transactions, and the frequency of lease transactions is the highest.

Micro-market
A micro-market is a geographical segment of the city.

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Phoenix Market City
Viman Nagar, Pune 411 003
Maharashtra, India

Hyderabad
5th Floor, DivyaSree Solitaire, Plot No. 14 & 15
Software Units Layout, Sy No 64, Madhapur,
Serilingampally Mandal, Hyderabad 500 081
Telangana, India

Ahmedabad
INC-02, The First Commercial Complex
B/S Keshavbaug Party Plot, Vastrapur
Ahmedabad 380 015
Gujarat, India

Kolkata
Apeejay Business Centre
15 Park Street, Apeejay House
Block-A, 8th Floor, Kolkata 700 016
West Bengal, India

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