SPOTLIGHT
Savills Research

Year-End 2023

Market in Minutes:
Delhi-NCR Industrial & Logistics

savills



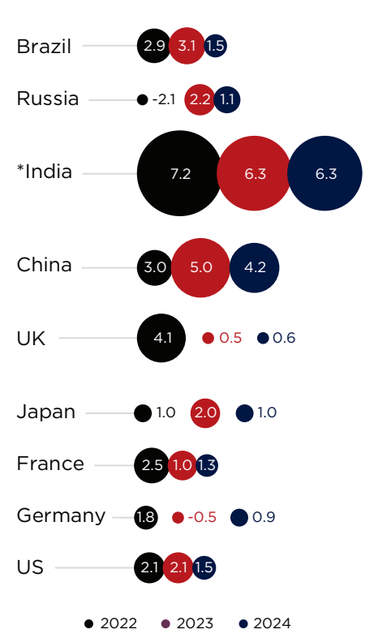


INDIAN ECONOMY 2023

As 2023 ended, India continued with its distinctive appearance on the global economic horizon, where otherwise, geopolitical tensions and inflationary issues remained largely unbated from the last year. As most large economies, gasping from elevated inflation levels, toiled to maintain their growths (Chart -1), India outperformed estimates, holding onto the upward trend post-Covid, a testament to its resilience.

Indian Economy – Growth Story

Chart 1: GDP Growth Rates



Source: Savills India Research

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. 83.25 INR on Dec 31, 2023

INDIA REMAINS FASTEST GROWING ECONOMY

As the pressure of inflation extended from the previous year into the initial months of CY23, RBI stepped in assertively, hiking the benchmark lending rate by 25 bps in February. Subsequently, as inflation cooled, its focus shifted to 'Withdrawal of accommodation' while keeping the repo rate unchanged at 6.5%. This blend of cautious control and optimism seems to have facilitated a robust growth of 7.2% in FY23. Consequently, RBI has revised upwards the projection for the current financial year from 6.5% to 7.0%. It now expects the average retail inflation for FY24 at 5.4%, which is within the central bank's tolerance band of 2%-6%.

In yet another testimony to India's economic solidity, IMF has revised its growth forecasts for FY24 to 6.3%, a 20-bps increase, in October 2023.

While there are numerous indicators, we present two examples to illustrate the growth picture, viz., through manufacturing sector performance and GST collections.

The PMI index which picked up in 2022 has accelerated in 2023, as Manufacturing PMI saw a 31-month high at 58.7 in May 2023. It remained above 55 for the complete calendar year. Similarly, IIP has witnessed a healthy performance through the year and registered a growth of 11.7% in October 2023, a 16-month high. This resulted in manufacturing posting the highest growth of 13.9% amongst all sectors, during Q2 of FY24.

Record GST collections indicated the buoyancy in domestic consumption. GST collections in 2023 grew by 12% YOY to INR 19.6 lakh crore while monthly GST collections crossed INR 1.6 lakh crore mark in 11 months (Chart-2). This continued growth will aid the government to firm up their capex plans.

Realty Index outperforms equity markets

Equity markets were trading at all-time high levels in both NIFTY and SENSEX towards the closure of 2023. Remarkably, real estate stocks turned in a stellar performance with Realty Index delivering 78% returns (Chart–3), against an 11% drop in 2022. Strong factors such as robust demand and rise in property prices have propelled the stock prices of leading developers. Additionally, stable repo rates through most part of the year have resulted in record residential sales in the country, which is expected to stretch into the upcoming year owing to strong economic growth and improving income levels.

REITs have also been at the centre of investors' focus and caught retail participants' attention. India's REIT offerings got expanded from office to retail sector with the listing of Nexus Select Trust REIT in May 2023.

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STEADFAST POLICY

Monetary policy action in 2023 bore the signs of a measured approach, aiming to balance inflation and growth. This offered a period of stability for financial markets and domestic consumers in the country. Although wayward inflation kept rearing its head intermittently through 2023, RBI's handling of the situation can be credited for achieving high growth, while keeping the repo rate unchanged at 6.5% since February 2023. This did play a role in improving confidence, especially in real estate, as evidenced in high sales.

Budgetary Announcements

The Union Budget 2023-24 focused on growth, easing taxes, and driving consumption, as the economic survey highlighted India's steadfast progress. The budget focused on creating a blueprint for the economy in 'Amrit Kaal' – a run up to India at 100 in 2047. It 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 announcements for real estate were limited, a steep rise in the Capex to 3.3% of GDP was an important feature 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 Urban Infrastructure Development Fund will enhance the proposition of tier II and III cities. It will aid the developers and funds in creating more commercial, residential and retail developments. Furthermore, a 66% jump in allocation for PM Awas Yojana aims at promoting new residential supply in affordable segment. (Refer Annexure for detailed real estate specific announcements and the impact on various real estate verticals).

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.

2024: ANTICIPATION OF TWO HALVES

With interest rates still high across major economies, alongside continued geopolitical tensions, global growth is expected to remain moderate, at around 2.9% in 2024. This could possibly cast a shadow on India's growth prospects, in case it leads to a dip in exports. Moreover, as over 50 countries including major democracies – India, the USA, the UK, et al – gear up for national elections, 2024 does appear susceptible to witnessing its caesura moment, momentarily.

The good news is that economic activity has already picked up pace in 2023, which should provide the necessary momentum during the uncertainties of the pre-election period. It is quite likely, therefore, that the Indian economy will move strongly in the second half of 2024. Expected rate cuts in Q3 2024[1] and inherent domestic macro-economic strengths, lend India a strong advantage against upcoming uncertainties. And, to reiterate, the expectation of modest retail inflation at 4%-5% in 2024 should help sustain the domestic demand.

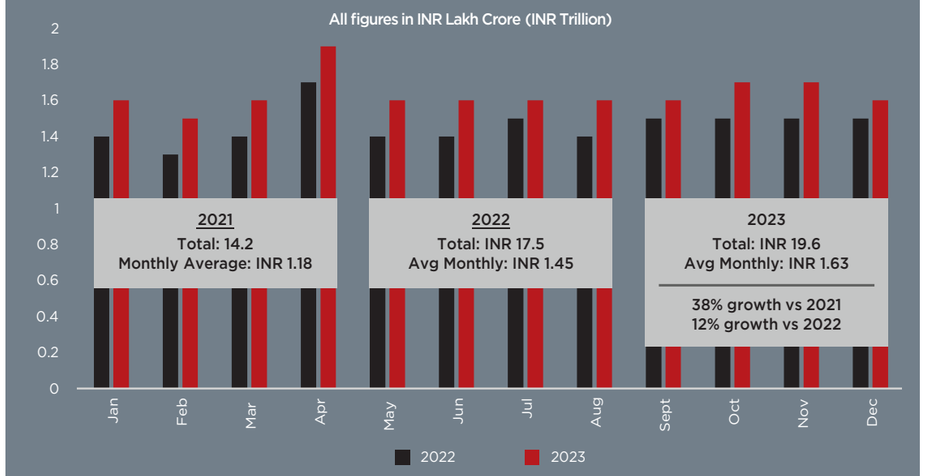
1) https://www.reuters.com/world/india/rbi-hold-rates-650-through-mid-2024-cut-seen-q3-2023-12-01/



SEBI approved amendments to REITs (Real Estate Investment Trusts) Regulations, 2014, to create a regulatory framework for the facilitation of SM REITs, with an asset value of at least INR 50 crore vis-a-vis minimum asset value of INR 500 crore for existing REITs. This will help expand the market significantly for retail investors.

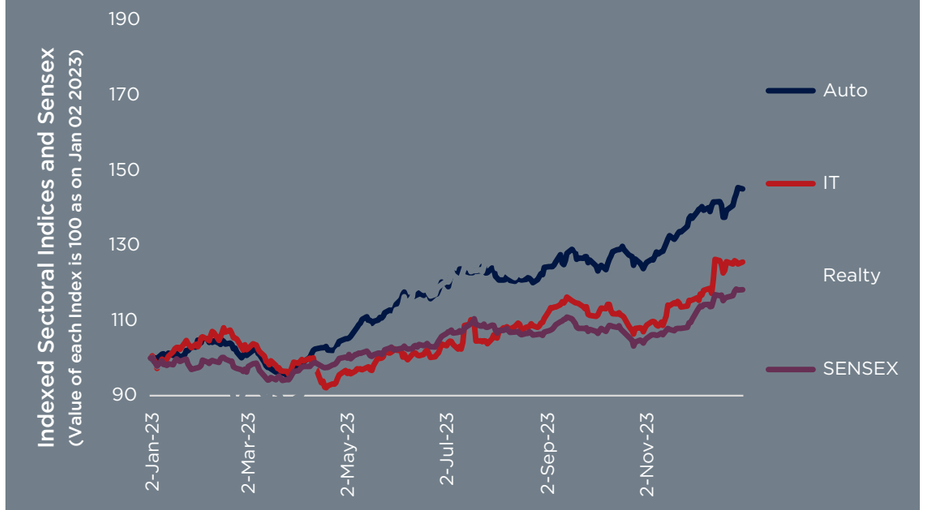
Delhi-NCR Market Watch | Industrial & Logistics | Year-End 2023

Chart-2: GST Collections



Source: pib.gov.in, Savills India Research

Chart-3: Equity Markets: Sectoral Performance



Source: BSE, Savills India Research

Ministry of Commerce amended the SEZ rules allowing partial denotification of IT/ITeS SEZ units in the country, after repaying the availed tax benefits for the area proposed for demarcation. While the new rules permit demarcation of an entire floor, they prohibit a part of the floor availing the benefit.



INDIA

Industrial & Logistics Market

Key Statistics



	2023 Supply (mn sq. ft. & % of total)	2023 Absorption (mn sq. ft. & % of total)	2022 Supply (mn sq. ft. & % of total)	2022 Absorption (mn sq. ft. & % of total)	Supply (YOY Change)	Absorption (YOY Change)
Overall	62.0	49.6	47.0	46.3	31.9%	7.1%
Tier I	46.2 (75%)	37.2 (75%)	34.1 (72%)	36.2 (78%)	35.5%	2.8%
Tier II & II	15.8 (25%)	12.4 (25%)	12.9 (28%)	10.1 (22%)	22.5%	22.8%

Note: Tier I cities include 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, Surat, Indore, Kochi, Hubli, Vizag, Belgaum and Anantapur

Key Trends

Absorption: In 2023, the sector witnessed absorption of 49.6 million sq. ft. indicating a 7.1% increase compared to the 46.3 million sq. ft. absorption in 2022. The tier I cities witnessed 75% of the absorption while tier II and III cities accounted for the remaining 25%.

Supply: The sector witnessed a fresh supply of 62 million sq. ft. in 2023, of which 46.2 million sq. ft. (75%) was from tier I cities and 15.8 million sq. ft. (25%) was from tier II and III cities. The surge in supply was due to the delivery of projects across cities by major developers in response to growing demand.

Supply & Absorption by Grade: The overall Grade A space accounted for 53% of the supply in 2023 up from 48% in 2022, while overall Grade A absorption accounted for 54% in 2023, up from 42% in 2022.

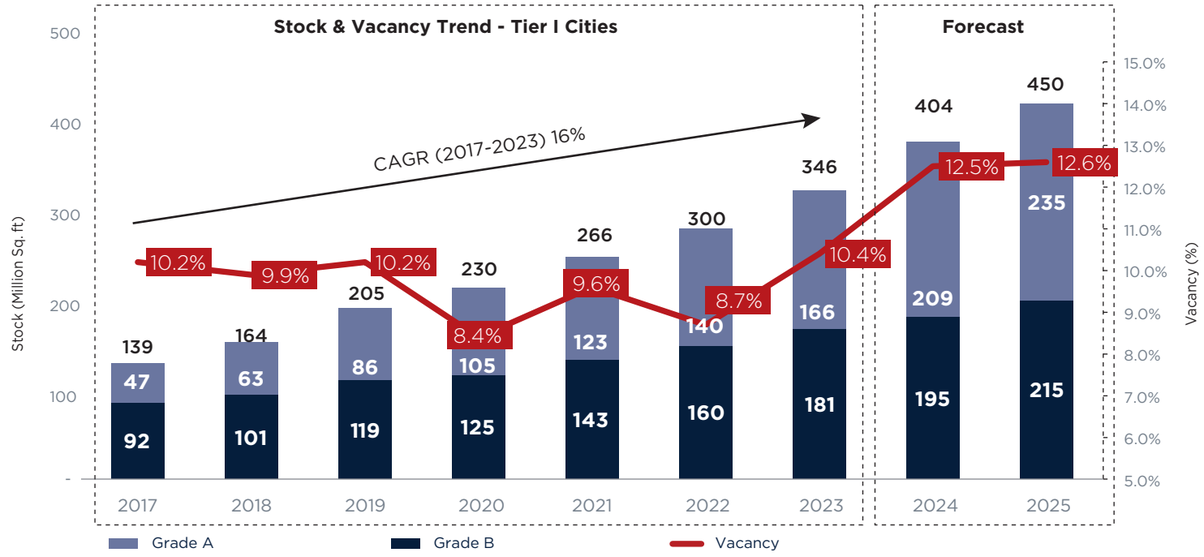
Stock and Vacancy: The operational stock in Tier I cities stands at 346 million sq. ft. in 2023, while the vacancy rate increased marginally to 10.4% from 8.7% in 2022.

Sectors Driving the Demand: The manufacturing sector's contribution to overall absorption has experienced impressive growth, increasing from 16% of total absorption in 2022 to 24% in 2023. The 3PL sector accounted for 39% contribution to total absorption, retail sector was 14%, while FMCD/FMCG sector accounted for 6%.

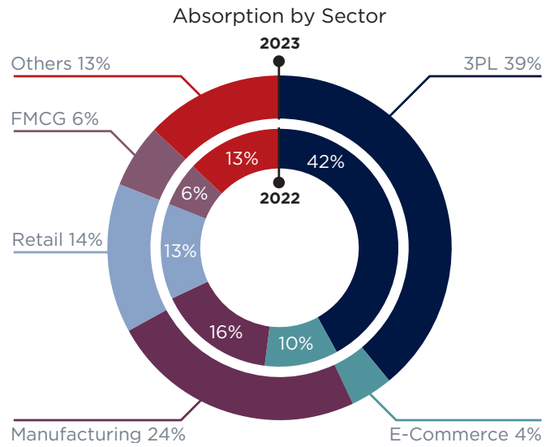
Supply & Absorption by City: In 2023, Delhi-NCR remained at the top with the highest contribution of 21% to total supply, closely followed by Mumbai with 11%. Pune and Bengaluru were at 10% each. In terms of absorption, Delhi-NCR accounted for the highest contribution of 15% in 2023, followed by Mumbai at 13%, and Bengaluru and Pune, each at 12%.

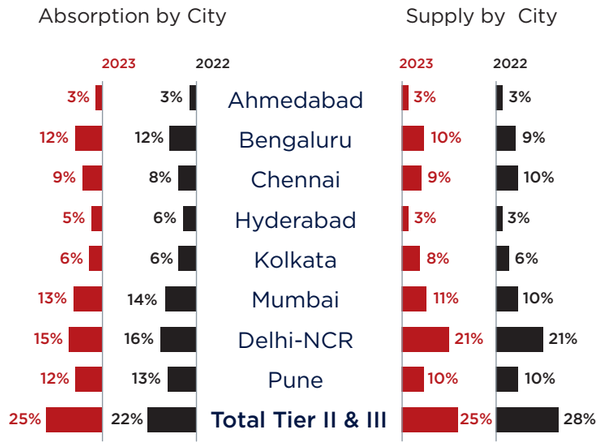
Rental Values: Rental values increased marginally for compliant buildings across cities, with yields remaining stable.

Stock & Vacancy

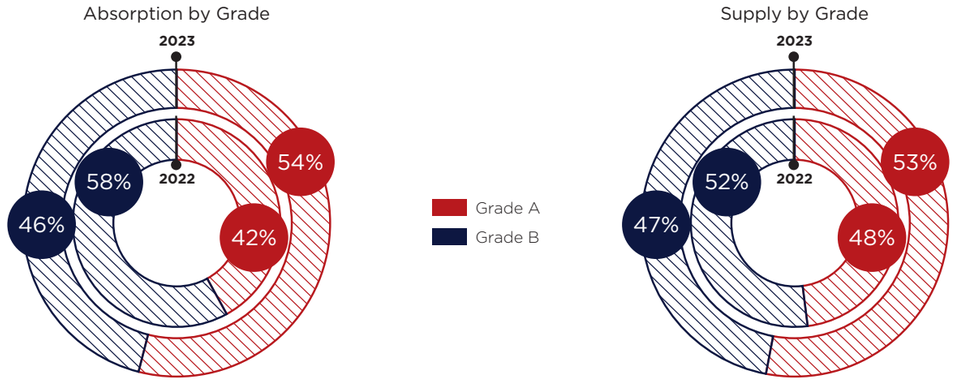


Absorption by Sector and City



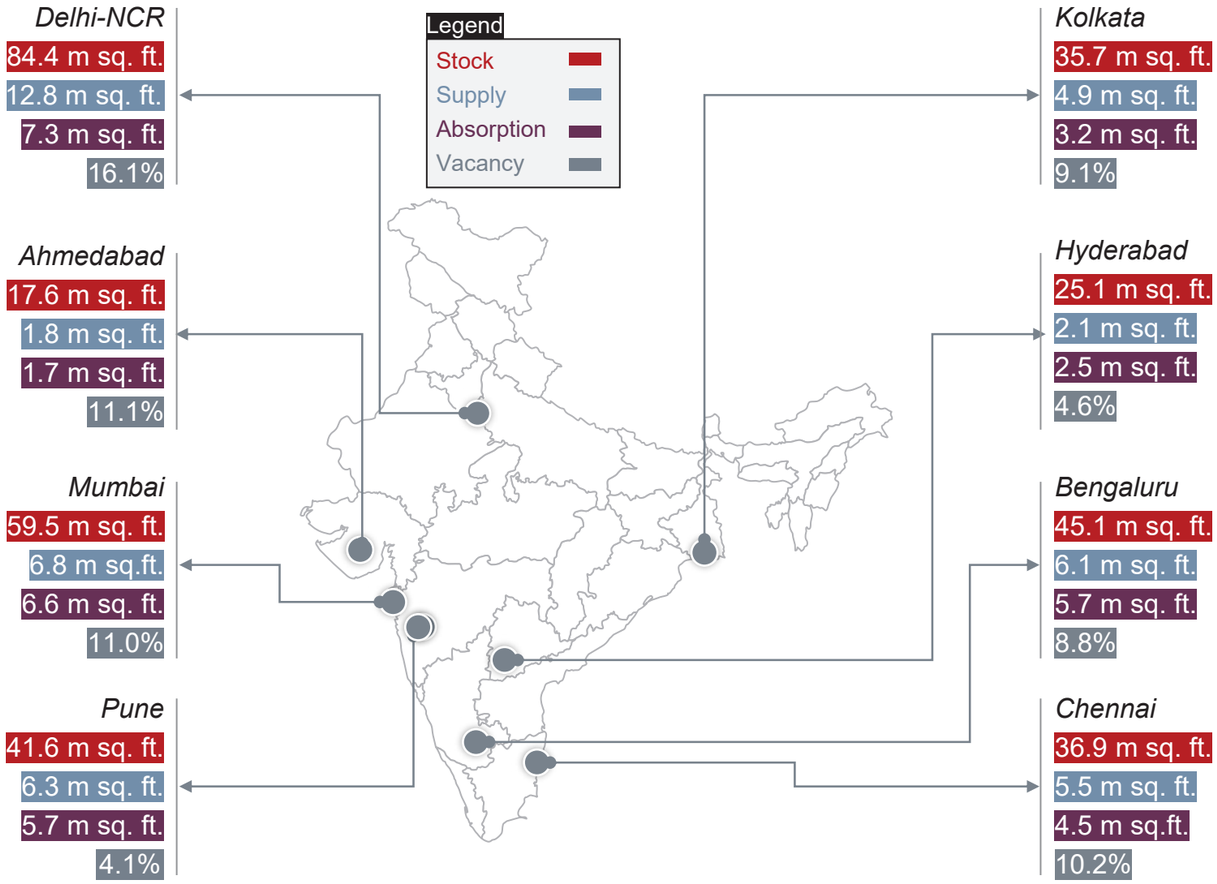


Absorption and Supply by Grade

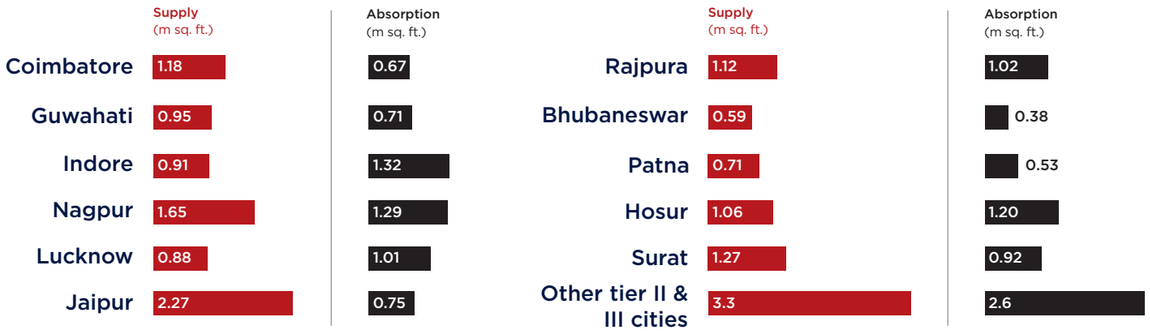


Source: Savills India Industrial Research
Note: Outer Circle is for 2023 and inner Circle is for 2022

City-Wise Stats - 2023 India



Supply and Absorption in Tier II & III Cities



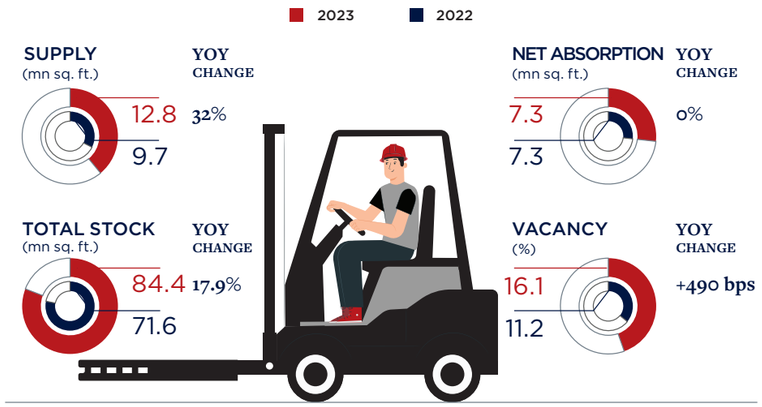




DELHI-NCR

Industrial & Logistics Market

Key Statistics



Source: Savills India Industrial Research

Key Trends

Delhi-NCR witnessed the highest-ever supply.

3PL sector driving the demand.

Gurugram continued to be the preferred micro-market.

Overall vacancy rates increased.

Supply, Absorption, and Vacancy

Delhi-NCR witnessed an absorption of 7.3 million sq. ft. in 2023. The 3PL sector contribution to overall absorption was at 44% in 2023. Delhi-NCR is a preferred location for 3PL players as it serves as a distribution hub for many nearby cities and is well-connected.

The market witnessed the highest-ever supply of 12.8 million sq. ft. in 2023 bringing the operational stock to 84.4 million sq. ft., the highest in the country. The overall vacancy rate increased to 16.1% in 2023 from 11.2% in 2022 as a result of stable demand and increased supply.

Grade A space accounted for 45% of overall absorption and 31% of overall supply witnessed in 2023.

Gurugram continued to be the preferred micro market, accounting for over 70% of both the total supply and total absorption witnessed in 2023. Supply and absorption were concentrated in locations such as Tauru Road, Farukhnagar, Kulana, and Bilaspur-Pataudi Road within the Gurugram micro-market.

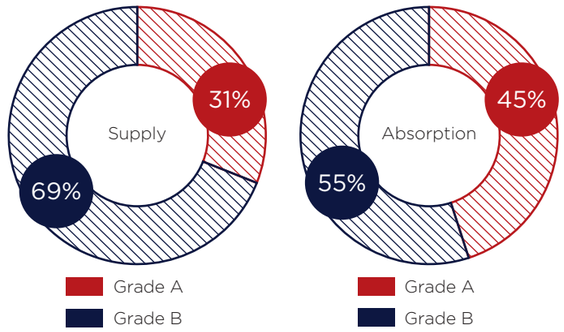
Major Transactions

3PL	Gurugram	500,000
3PL	Gurugram	332,000
Retail	Gurugram	210,000
MANUFACTURING	Gurugram	150,000
E-COMMERCE	Gurugram	150,000

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

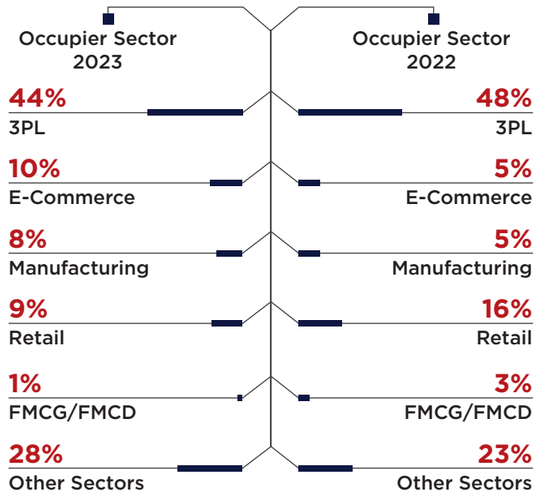
Source: Savills India Industrial Research

Supply & Absorption by Grade



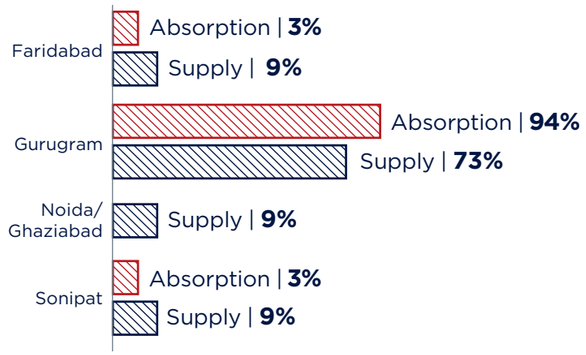
Source: Savills India Industrial Research

Absorption by Sector



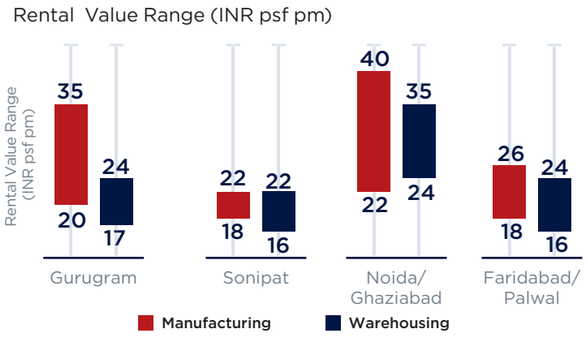
Source: Savills India Industrial Research
Note: Other Sectors include space take-up by cold storage, chemicals, FTWZs, ICDs, agriculture warehousing, self-storage and manufacturing storage.

Supply & Absorption by Micro-Market



Source: Savills India Industrial Research

Rental Values



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

Outlook

In 2024, the Delhi-NCR market is expected to witness absorption exceeding 8.0 million sq. ft. Palwal, Sohna and Sonipat are emerging micro-markets in the region, poised to contribute significantly to upcoming supply and absorption.

The demand for warehousing in the Delhi-NCR region will be primarily driven by the 3PL and retail sectors.

The overall vacancy levels are expected to increase further in 2024 due to increased supply and stable demand.

Manufacturing Sector on an Upswing

Key Trends



- Make in India is encouraging investment, innovation and sustainable manufacturing development.
- The PLI Scheme boosts manufacturing by offering incentives based on companies' increased sales from products made in India.
- The corporate tax rate of 15% for new manufacturing companies, the lowest in Asia, is encouraging investments.
- The policies of the central and state governments, along with various sector-specific policies and incentive schemes, are encouraging investments in the sector.
- Integration with global supply chains and outsourcing opportunities make India an attractive destination for manufacturing. Tier II and III cities are also contributing significantly to the manufacturing absorption.

Investment Scenario

Key Trends

The industrial and logistics sector has experienced a substantial surge in recent years, mainly driven by inherent domestic demand and the expansion of distribution networks in tier II and tier III cities.

The significant demand for quality Grade A space presents an attractive opportunity for investors.

A growing market and attractive investment yields of 7.5% to 8.0%, compared with 4.5% to 5.5% in developed countries, provide opportunities for investors.

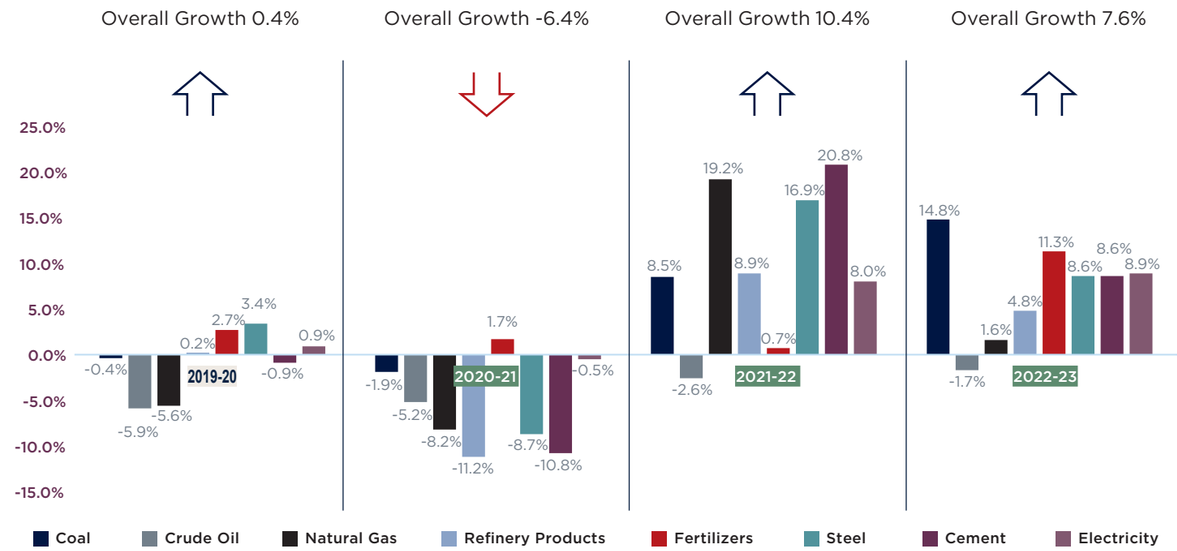
There is a trend of institutional investors taking up development of warehousing assets through innovative structuring to achieve higher returns.

Major Investment Transactions in 2023

ASSET HOLDER/ INVESTEE	ACQUIRER/ INVESTOR	LOCATION	AMOUNT (INUSD)	Type
KINGSTON LOGISTICS PARK	ESR-GIC	Bhubaneshwar	8 Mn	Core Development
PRAKHHYAT DEVELOPERS	Mirae Asset	Mumbai	16 Mn	Core Development
BGR GROUP	Mirae Asset	Mumbai	22 Mn	Core Development
GMR GROUP	Indospace	Hyderabad	24 Mn	Core Development

Legend

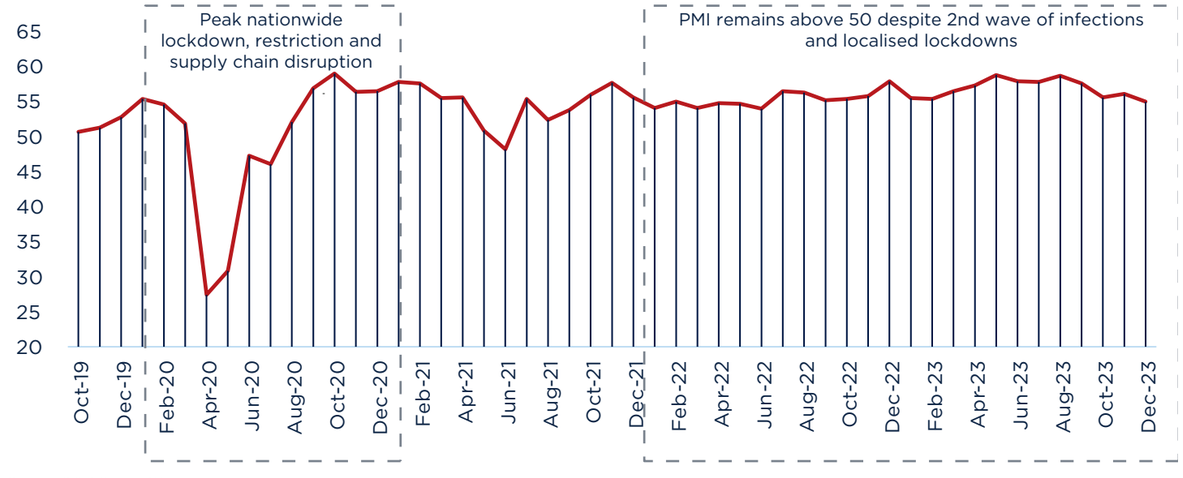
Performance of the Eight Core Sectors (YOY)



- The core sectors experienced a downturn, with growth falling to 0.4% in FY 2019-20 and further by -6.4% in FY 2020-21 due to Covid-19 disruptions. However, the market rebounded strongly, achieving growth rates of 10.4% and 7.6% in FY 2021-22 and FY 2022-23, respectively, surpassing the past 8-year average annual growth rate of 2.4%.
- Coal output surged 14.8% in FY 2022-23, up from 8.5% in FY 2021-22. Similarly, fertilizer production rose to 11.3% in FY 2022-23, compared to 0.7% growth in FY 2021-22. The output of steel and cement increased by 16.9% and 20.8% in FY 2021-22 compared to the previous year, while the growth in FY 2022-23 was 8.6% for each.

Source: : Ministry of Commerce & Industry

Manufacturing PMI Upbeat



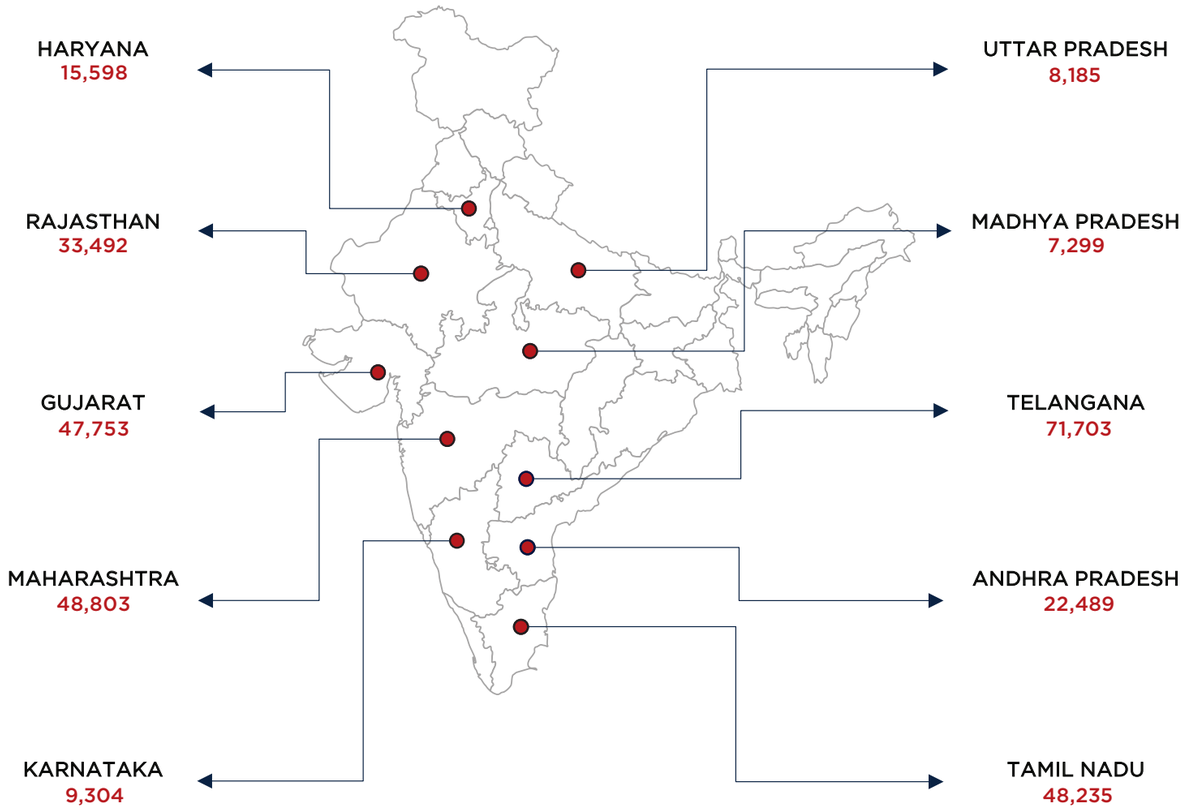
Source: S & P Global PMI

Purchasing Managers' Index (PMI) is an indicator of business activity - both in the manufacturing and services sectors. A figure above 50 denotes expansion in business activity. Anything below 50 denotes contraction.

The manufacturing PMI has remained consistently above 50 since June 2021. This indicates the significant improvement, supported by an upturn in new orders, a healthy demand environment, and favourable market conditions.

Manufacturing Sector in India

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



Source: DPIIT, Government of India
Note: As of Dec-2023

Industrial Landbank Availability Snapshot



Total No. of Plots

500K+



Total No. of Parks

3,900+



Total Land Bank
(Acres)

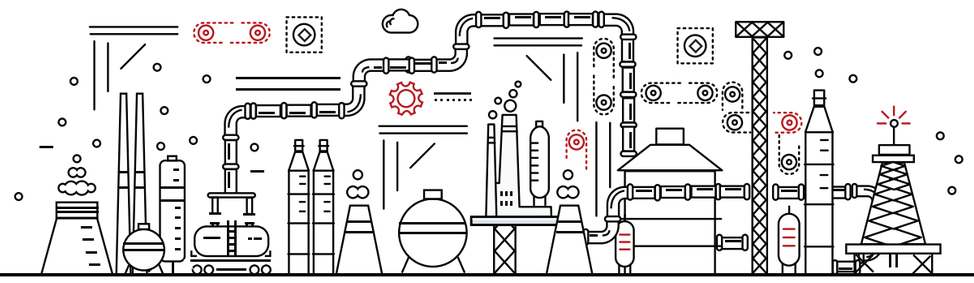
1,200K+



Total Available Land
(Acres)

330K+

Source: DPIIT, Government of India
Note: As of Dec-2023

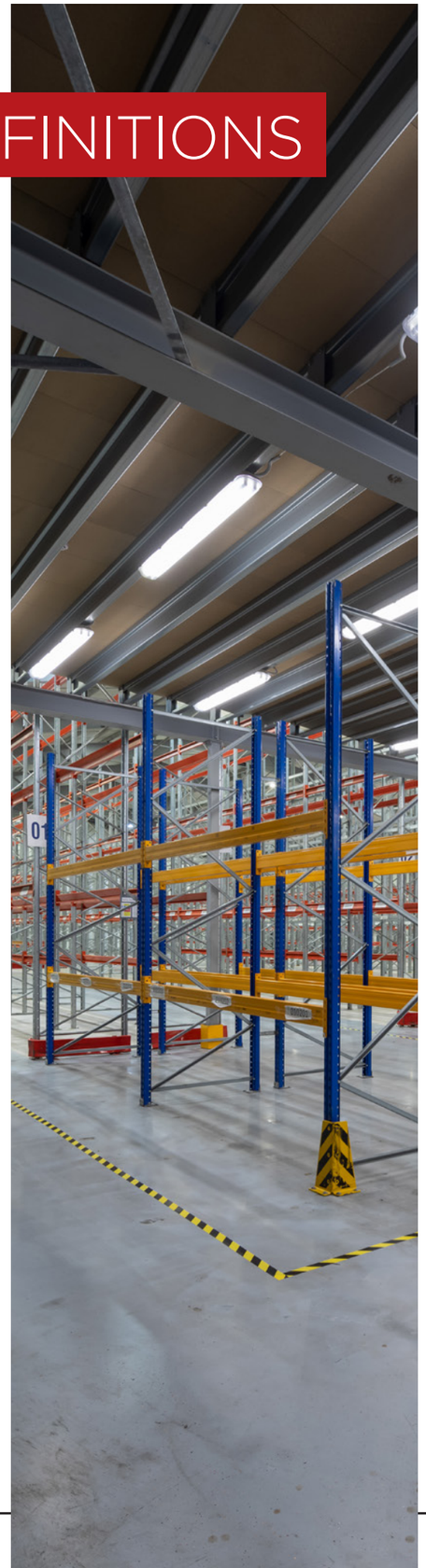


Delhi-NCR Market Watch | Industrial & Logistics | Year-End 2023

Savills Insights

Key Trends	Outlook
Fueled by rising domestic demand and expanding distribution networks in tier II and III cities, the industrial and logistics sector is on a growth path.	We anticipate an absorption of over 55 million sq. ft. each in 2024 and 2025, and a supply surpassing 70 million sq. ft. each in 2024 and 2025.
The manufacturing sector has gained momentum due to increased activity backed by various incentive schemes.	Make in India and the PLI scheme positions the manufacturing sector for robust leasing demand, with a projected contribution of over 30% to total absorption in the next two years.
E-commerce penetration into tier II and- III cities and the adoption of new business models are likely to result in exponential growth.	We expect e-Commerce sector contribution is set to surpass 12 to 15 million sq. ft. between 2025 and 2030 with a significant portion originating from tier II & III cities.
Increased partnerships between 3PL, e-commerce, and manufacturers allow for streamlined supply chains.	The 3PL sector is expected to play a pivotal role, contributing over 40% to total absorption in the next two years.
Tier II and III cities grow significantly as sourcing hubs, aiding efficient distribution.	Tier II and III cities shall contribute 12 million sq. ft absorption and 15 million sq. ft supply in the next two years.
Growing EHS standards and transition from grade C & D space to grade A.	The migration of 900 million sq. ft of grade C & D (~ 70% of total stock) space to grade A in the country offers short and long-term investment opportunities.
Attractive investment returns.	A growing market and attractive investment yields of 7.5% to 8.25%, compared with 4.5% to 5.5% in developed countries, provide opportunities for investors.
Growing rental values.	Rental values increased marginally across cities for compliant and grade A buildings and are likely to grow further marginally across the cities. The magnitude of growth will be in the range of 2% to 6% depending on the location and city.
Emerging subsectors like Cold Storage, Chemicals, FTWZs, ICDs, Agri, and Self-storage.	Expect to lease more than 8 million sq. ft. in the next 2 years.

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.

Savills

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Savills India

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Savills India provides services across office leasing, project management, capital markets, valuations, research, consulting, industrial and logistics and residential services. Started in India in 2016, the company employs over 600 professionals.

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DLF Cyber City, Phase 3
Sector 24, Gurugram 122 002
Haryana, India

Mumbai

403, Tower B, Level 4, The Capital
Street 3, G Block, Bandra Kurla Complex
Bandra East, Mumbai 400 051
Maharashtra, India

Bengaluru

15th Floor, SKAV SEETHALAKSHMI
Corporation No.21, Kasturba Road
Bengaluru 560 001
Karnataka, India

Bengaluru

Vaishnavi Tech Park, WM9C+995
Sarjapur Main Rd, Bellandur
Bengaluru 560 103
Karnataka, India

Chennai

Savills, 5th Floor, North Wing
Harmony Square, New No. 48 & 50
Praksam Street, T. Nagar
Chennai 600 017
Tamil Nadu, India

Pune

Unit #4, 13th floor
Phoenix Fountainhead Tower 2
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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