

Year-End 2022

Q
SPOTLIGHT
Savills Research

Market in Minutes: Hyderabad Industrial & Logistics

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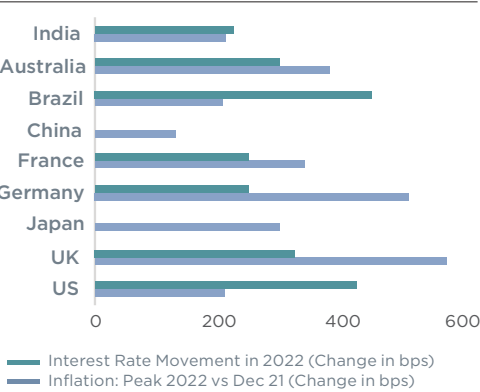
INDIA ECONOMY: 2022

As 2022 ended, it became obvious that this was perhaps the third successive year of remarkably distinct and unforeseen events. We present a brief account, in this section, of key events that shaped the economy and real estate sector in India this year.

Successfully riding out the short-lived third wave of the pandemic in January, the country watched from a distance as the war broke out in Europe next month. It disrupted supply chains globally and sent crude prices soaring. Consequently, inflation shot above the comfort zone of central banks. Predictably, interest rates shot up around the world (Chart-1). Soon, The Indian economy too began experiencing the ripple-effect of this black swan event.

GLOBAL CONCERN AREA: INFLATION

Chart-1: Central Banks’ Responses to High Inflation



Source: FxEmpire, Savills India Research

‘OASIS OF STABILITY & CALM’

India is set to be the second-fastest growing economy in the G20 in FY 2022-23 according to the OECD, despite decelerating global demand, geopolitical issues and monetary measures to manage inflationary pressures. The IMF, in its October 2022 World Economic Report, projected a 6.1% GDP growth rate for India in FY23.

For the first time since the onset of the pandemic, we witnessed a complete calendar year of manufacturing and services PMI remaining in expansionary mode (Chart-2). At 57.8, the manufacturing PMI was at a 26-month high in December 2022. Similarly, services PMI was at an 11-year high of 59.2 in June 2022.

In another remarkable event, India surpassed the UK to become the world’s fifth largest economy in the third quarter of 2022.

Union Finance Minister’s proclamation “India seems to be an oasis of stability and calm, and the challenges are being carefully firewalled.” seems to sum up the overall picture succinctly.

1. Times of India, 8th Nov 2022
2. Trading Economics
3. CMIE

Potential Pitfalls

The economic rebound, however, needs to be viewed with ample caution, as potential pitfalls may lie ahead. The Indian Rupee depreciated steadily through 2022, breaching the 80-Dollar mark in September. Current Account Deficit (CAD) at 4.4% of GDP, rose to a 9-year high in Q2 FY23. In order to stabilize the Rupee, the RBI had to dip into its forex reserves. As a result, the reserves hit a 2-year low of USD 524 Bn in October. Notably though, it has since improved to USD 564 Bn.² Unemployment rate, though relatively manageable at 6-9%³ throughout 2022, needs close monitoring given the volatile global economic environment.

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Note: FY refers Fiscal Year (Apr-Mar)
1 USD = Approx. 82.75 INR on Dec 31, 2022

POLICY ACTION

Inflation and Rupee depreciation were tackled with several measures, namely, withdrawal of accommodative stance, consecutive repo rate increases and liquidation of forex reserves.

Policy statements and socio-political messaging retained a sense of occasion in celebrating 2022 as the 75th year of India's independence; as also, in laying a foundation for the lead up to the 100th anniversary in a quarter-century.

Budgetary Announcements

Union Budget 2022-23, like the previous year's budget, focused on keeping the economy on an accelerated growth path.

- Multi Modal Logistics Parks (MMLPs)
- Replacement of the SEZ policy with a revamped Development of Enterprise & Services Hub (DESH) law, of which, the finer details are awaited
- Unveiling of National Logistics Policy

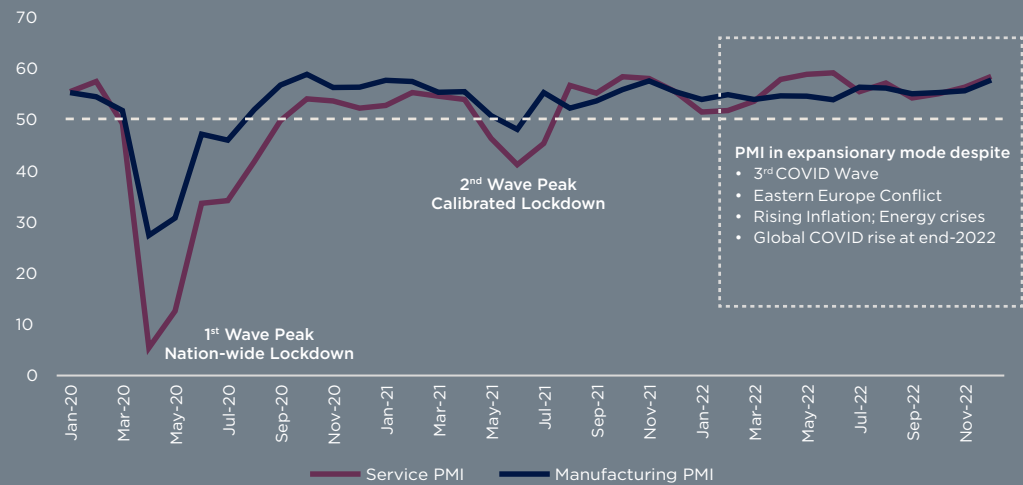
Real Estate Specific Announcements

Other direct real estate announcements included

- Infrastructure status to Data Centres
- Unique Land Parcel Identification Number to facilitate IT-based management of records
- Enhanced allocation to Pradhan Mantri Awas Yojana (PMAY)
- Steps aimed at Urban Capacity Development
- InvITs and REITs were also allowed to issue commercial papers

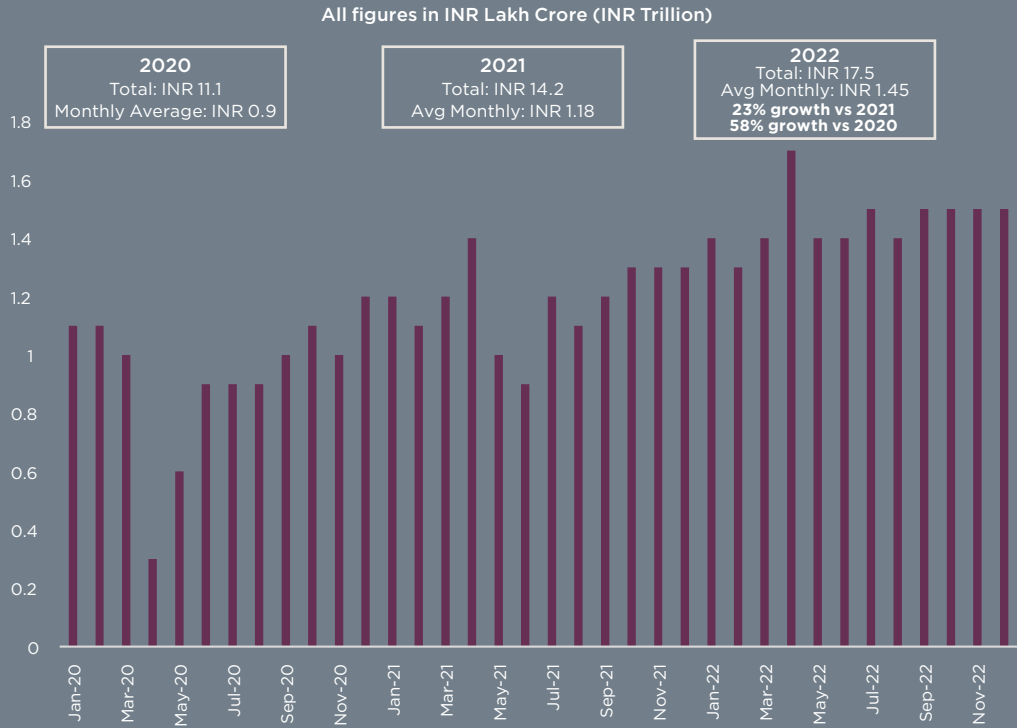
Chart-2: India: Purchasing Manager's Index (PMI) Performance

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 higher the difference from the mid-point (50), the greater the expansion or contraction.



Source: FxEmpire, Savills India Research

Chart-3: GST Collections



Source: pib.gov.in, Savills India Research

GLOBAL HEADWINDS & GROWTH

With the emergence of new virus variants towards the end of 2022 and the war in Eastern Europe dragging on, experts and analysts have cautioned of an imminent global economic slowdown in 2023. India is also likely to feel the impact – as is reflected in revisions of growth forecasts.

However, inherent domestic macro-economic strengths, as well as room for fiscal and monetary maneuverability,

has given India some advantage against upcoming uncertainties. Given that monetary policy actions take a few quarters to show the desired impact, inflation is likely to remain in controlled levels in the near term. Foreign investor confidence is also likely to remain unperturbed, in view of complex geopolitical situations in other larger economies. A watchful H1 could eventually pick up speed as 2023 progresses, is what most businesses will hope.

In the 75th year of independence, India became the 5th largest economy (by nominal GDP) and is widely expected to reach the top 3 by 2030.

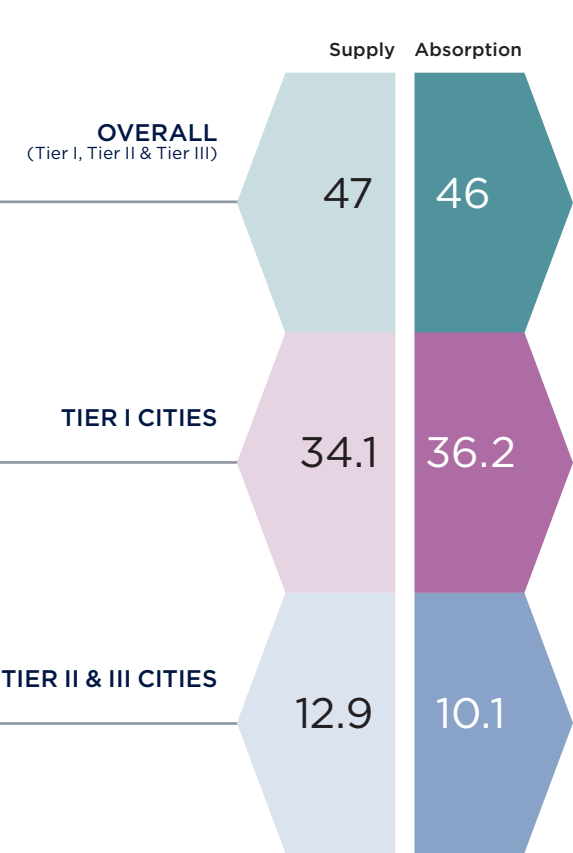
India received USD 26.9 Bn FDI Equity investments in the first two quarters of FY23 (April-September 2022). Key sectors attracting maximum FDI include the services segment, computer software & hardware, telecommunications, trading, construction development, automobile, chemicals and pharmaceuticals.



INDIA

Industrial & Logistics Market

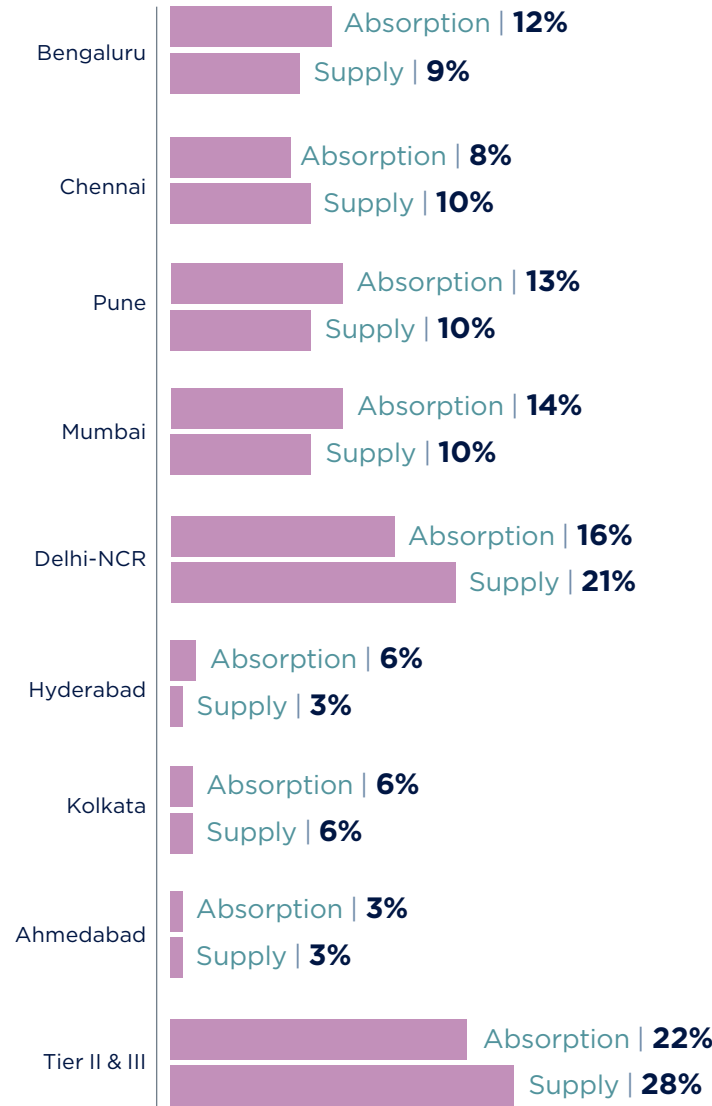
Key Statistics



Key Trends

- The market witnessed absorption of 46 mn sq. ft. in 2022 including 36 mn sq. ft. from Tier I cities and 10 mn sq. ft. from Tier II and III cities.
- India witnessed a fresh supply of 47 mn sq. ft. in 2022 including 34 mn sq. ft. from Tier I cities and 13 mn sq. ft. from Tier II and III cities.
- The 3PL and e-commerce sectors accounted for 52% of total absorption in 2022 followed by the manufacturing sector at 16%.
- The 3PL and e-commerce sectors accounted for 52% of total absorption in 2022 followed by the manufacturing sector at 16%.
- NCR accounted for 16% of absorption followed by Mumbai (14%) and Pune (13%). Tier II and III cities together accounted for 22% of the total absorption witnessed in 2022.
- The market witnessed transactions of over 3,800 acres of manufacturing and warehousing land across Tier I, II and III cities.

Supply & Absorption by City

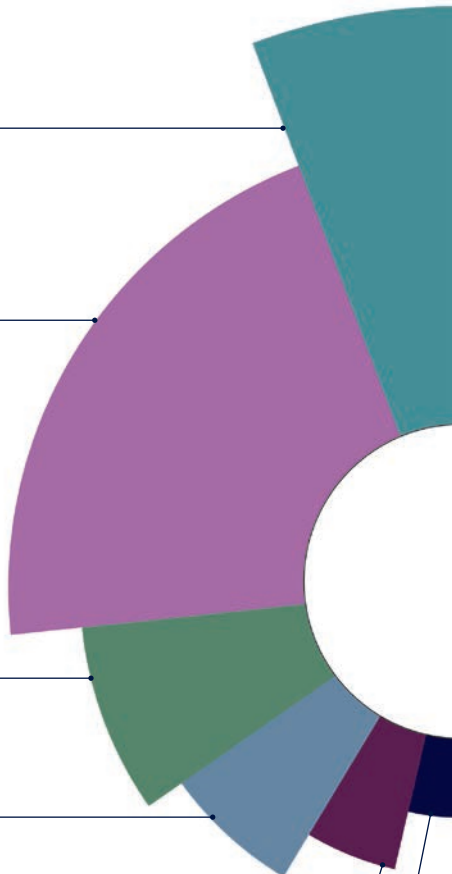


Source: Savills India Industrial Research

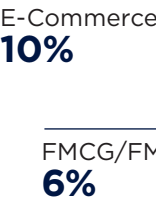
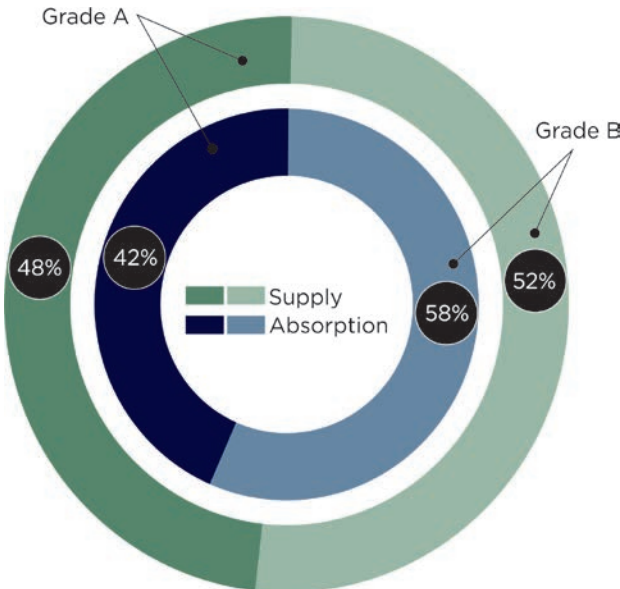
Absorption by Sector



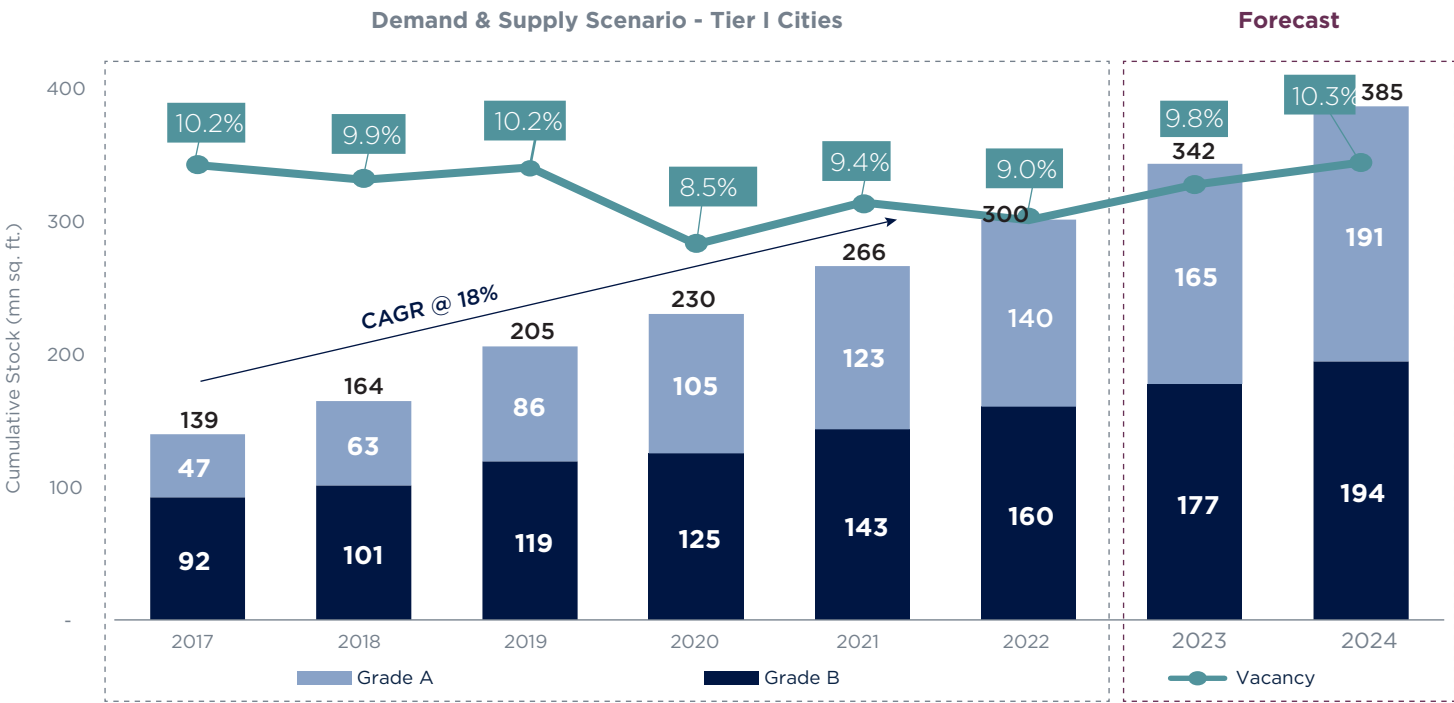
Source: Savills India Industrial Research



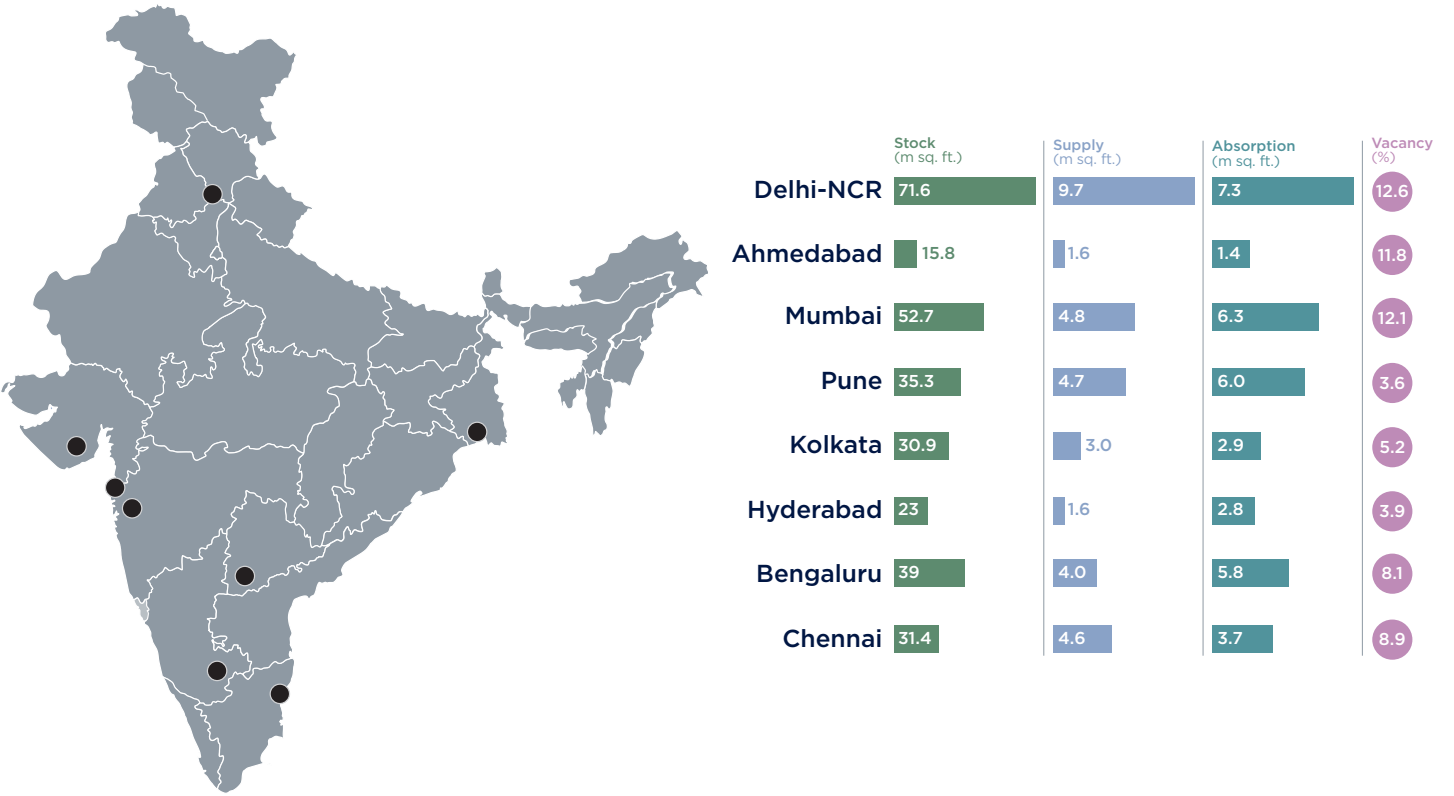
Supply & Absorption by Grade



Demand & Supply Scenario - 2022



Tier I Stock, Supply, Absorption & Vacancy - 2022



Source: Savills India Industrial Research
Note: as on end 2022



HYDERABAD

Industrial & Logistics Market

Key Trends



E-commerce, 3PL, and retail sectors are driving the demand



Medchal-Kompally is the most preferred micro-market in the city



There is a major push from occupiers and tenants on specifications and compliance

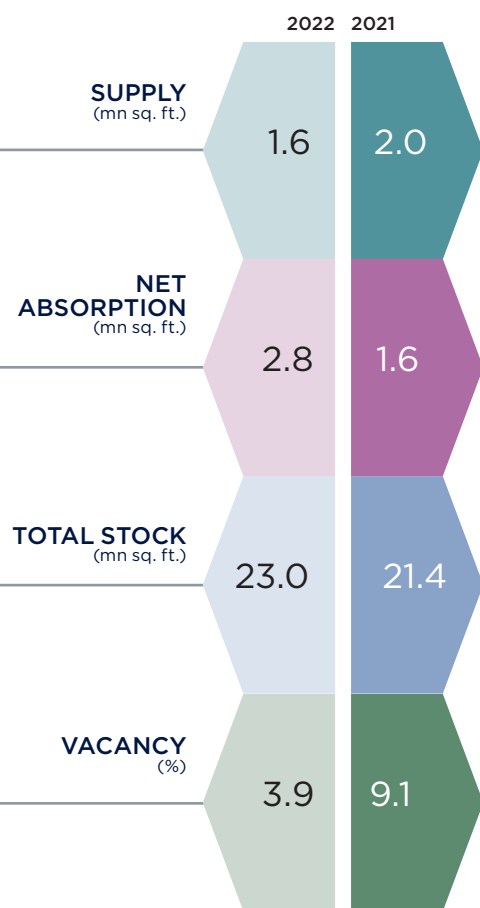


Vacancy rates have decreased



Rental values are marginally increased

Key Statistics



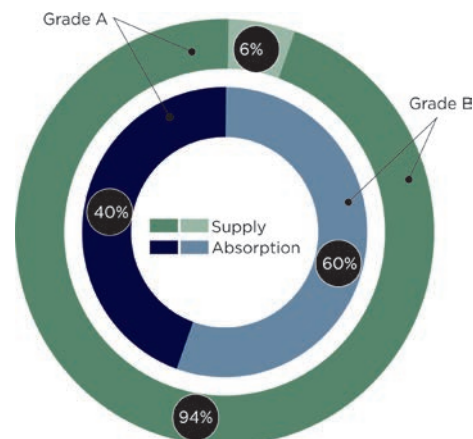
Supply, Absorption, and Vacancy

The Hyderabad market witnessed an absorption of 2.8 million sq. ft. in 2022 against 1.6 million sq. ft. in 2021. The operational stock stands at 23 million sq. ft. as of 2022 and vacancy levels decreased from 9.1% in 2021 to 3.9% in 2022.

Grade A accounted for 94% of supply and 40% of absorption respectively in 2022. 3PL and e-commerce sectors together accounted for 82% of the total absorption witnessed in the city in 2022.

The Medchal-Kompally micro-market accounted for 49% of the total absorption witnessed in the city, followed by Shamshabad (26%) and Patancheru-Balanagar at 18%.

Supply & Absorption by Grade

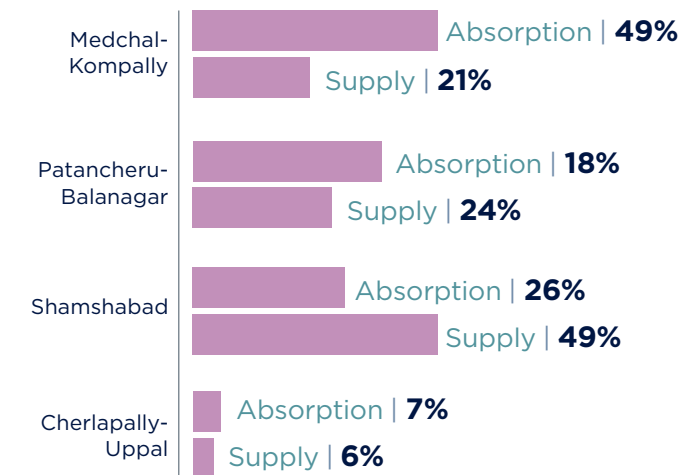


Major Transactions

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

E-COMMERCE Shamshabad 600,000	3PL Medchal-Kompally 225,000
E-COMMERCE Patancheru -Balanagar 400,000	3PL Medchal- Kompally 200,000

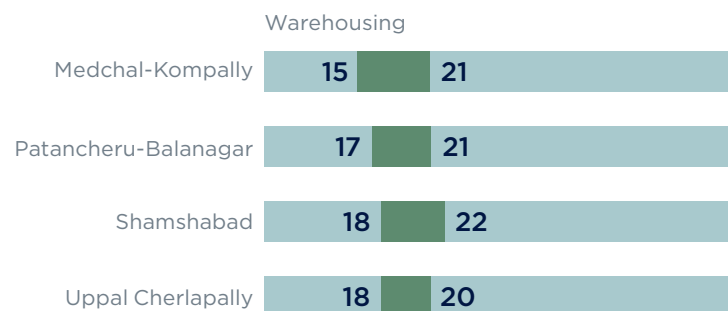
Supply & Absorption by Micro-Market



Source: Savills India Industrial Research

Rental Values

Rental Value Range (INR psf pm)



Source: Savills India Industrial Research

Note: Rental Values on Carpet Area

Absorption by Sector

3PL
66%

E-Commerce
16%

Source: Savills India Industrial Research

Outlook

Medchal-Kompally and Shamshabad micro-markets are likely to be the preferred micro-markets in Hyderabad.

E-commerce and 3PL continue to lead warehousing demand in Hyderabad in 2023.

Demand for plug-and-play compliant warehouses is likely to increase.

The city is likely to witness an absorption of over 2.5 million sq. ft. of industrial and warehouse space in 2023.

Retail
8%

Manufacturing
6%

FMCG/FMCD
4%

MANUFACTURING

Sector in India

Quick Snapshot



2nd largest cell phone **manufacturer**



2nd largest **steel** producer



3rd largest **pharmaceuticals** producer



4th largest **automotive** market by volume



5th largest exporter of **textiles**



6th largest **chemical** sales by volume

Key Trends



Overall industrial production this fiscal (April-October-2022) has grown by 5.3%.



India's manufacturing PMI continued on a steady path backed by strong output growth, new orders and exports.



Manufacturing has emerged as one of the high growth sectors in India, and has seen further traction after the roll out of the PLI scheme with major multinational players announcing their investment plans in the country.



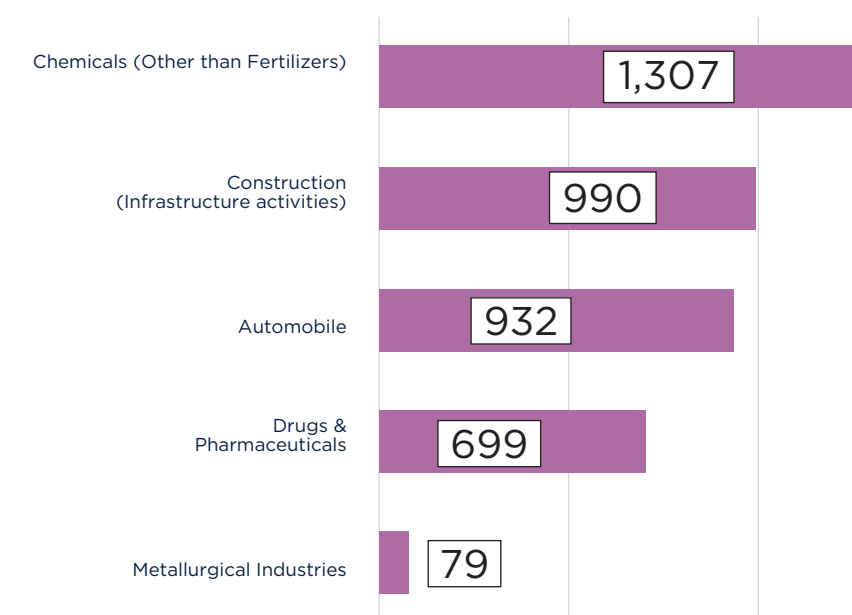
The inflow of FDI into manufacturing surged, backed by Make-in India and government initiatives. During Apr-Sep 2022, automobiles, drugs and pharmaceuticals, metallurgical industries and chemicals (other than fertilizers) together attracted FDI of \$ 3,017 million.



In 2022, the market witnessed transactions of over 3,800 acres of manufacturing and warehousing land across Tier I, II and III cities of the country. Of this, 78% was for manufacturing purpose and 18% for warehousing.

Surge in FDI Inflows

FDI equity inflows into the Manufacturing Sector (Apr 2022-Sep 2022)



Source: DPIIT, Govt. of India
*April 2022-Sep 2022

Land Transactions in 2022

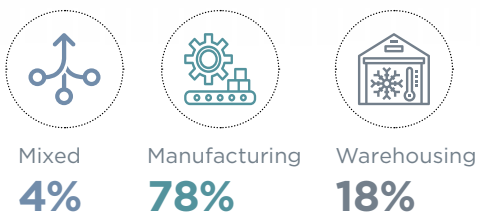
Zone-wise land transactions in 2022

Zone	% Share
East	7%
North	15%
South	38%
West	41%

Source: Savills India Industrial Research

Land transactions by occupier type 2022

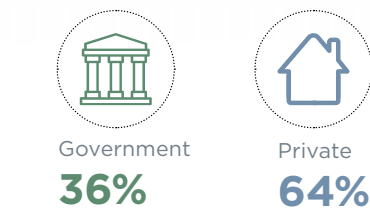
Property Type | % Share



Source: Savills India Industrial Research

Land transactions by ownership type 2022

Property Type | % Share



Source: Savills India Industrial Research



INSTITUTIONAL

Investment in Industrial and Warehousing

Key Trends

Foreign funds attracted to India Industrial and Warehousing segment



The industrial & logistics sector continues to garner investor interest. The sector raised private equity in excess of \$ 1.5 billion in 2022, although there was some impact on the financials of the asset class in the 2nd and beginning of 3rd qtrs. of the year due to rising construction costs, geopolitical issues (Russia-Ukraine war) and rise in interest rates. Normalcy returned as input costs stabilised and developers were able to optimise and adjust to the changing factors.



The huge requirements for quality Grade A space continue to attract investors, both domestic and international.



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



This asset class is likely to witness increased interest from investors in 2023 owing to inherent domestic demand and expansion of distribution networks in Tier II and III cities.



Major investments in Warehousing Sector - 2022

Asset Holder / Investee	Acquirer / Investor	Amount (USD million)
Lodha Developers	Ivanhoe Cambridge & Bain Capital	1,000
Gokaldas Warehousing Corp.	Adani Group	Undisclosed
ESR	GIC	600
Apeejay Logistics Park	Barings PE	37.5*
Vertical Infra	Blackstone	87.5
XSIO Logistics	Blackstone	50*
Mahindra Lifespaces	Actis	275*
Polytrusions Infrastructure	Flyjac Logistics	29
Kingston Logistics Park	ESR - GIC	Undisclosed
KSH Logistics Parks	Mapletree Logistics	40
Pardos Logistics	DMI Group	Undisclosed

Source: Savills India Industrial Research and Secondary Sources

*Includes Debt

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 of 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 & 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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