

Year-End 2021

SPOTLIGHT
Savills Research

Market in Minutes: Industrial & Logistics

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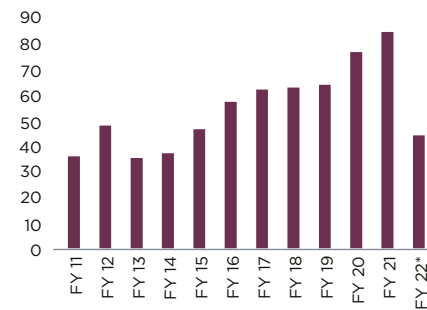


Hyderabad

INDIAN ECONOMY 2021

Although India was hit hard by COVID-19 during the dreadful second wave, the recovery on the economic front stayed on course. In fact, leading credit rating agencies and institutions such as IMF have maintained their stance on India being the fastest growing major economy in 2022.

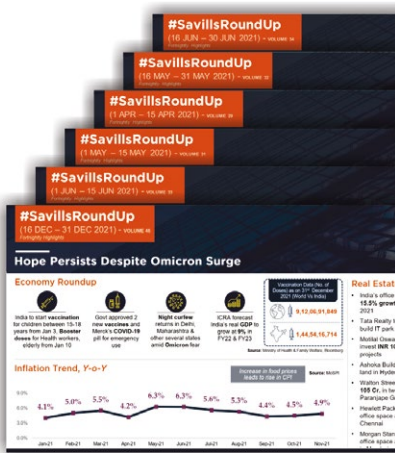
Investor Confidence in India Remains Strong



Source: DPIIT

*FY 22 is till Sep. FY 20,21 and 22 are provisional
Note: FY refers Fiscal Year (Apr-Mar)

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Note: This section contains figures in Indian system of lakhs and crores (refer Appendix for international conversions).
1 USD = Approx. 75.60 INR on December-21, 2021



RECOVERY UNDERWAY

The year started with the hope of rebuilding a damaged economy. The daily infections had fallen to below 10,000 after witnessing a peak in Q3-2020. Vaccination for medical and frontline personnel began in January 2021, as social restrictions and supply chain bottlenecks were eased. These measures led to a positive GDP growth of 1.6% during Q1 2021.

However, lockdowns and strict social codes returned as the second wave began in March and reached devastating proportions by May, when the daily infection rate overshot the 4-lakh mark (which was over 4 times the peak of the first wave in 2020). This period represents the toughest phase since the pandemic started last year. Nonetheless, the learnings from 2020 regarding the steering of economy, were in evidence too as Q2 and Q3 growth rates remained high at 20.1% and 8.4% respectively.

The second wave began a downward trend in late May, plateauing in July-August. However, it kept 'thick-tailing' at a relatively slow pace, reaching 10,000 daily cases only in November. The force of economic recovery, however, retained its course during this phase. India's PE investment clocked USD 43 Bn inflow during April-Sep 2021, and is on course to match the USD 82 Bn investments in FY 21.

On the vaccination front, India has performed commendably, crossing the 100-crore vaccination milestone in October, having already overtaken the US much earlier in June 2021. At the current date, eight vaccines are approved for emergency use in India: Covishield, Covaxin, Sputnik V, Janssen (Johnson & Johnson), Moderna, ZyCoV-D, Corbevax and Covovax. Antiviral drug Molnupiravir was also approved for emergency oral use towards the end of the year.¹

Improvement in macroeconomic indicators and sectoral performance is evident from the fact that all sectors, including the stressed hospitality segment have recorded growth in H2-2021, when compared to last year. It is an important development as this was one of the most strongly hit sectors.

Business Sentiment, Indices and Indicators in 2021

Optimism was clearly reflected in manufacturing activity for most of 2021. Further, services PMI² was at a decadal high of 58.4 in October (refer Chart-3). India's GST collections also remained at over INR 1-lakh crore for 9 out of the first 11 months of 2021. Stock markets have remained upbeat with the Sensex breaching 50,000 and 60,000 marks in February and October, respectively. The year witnessed more than 50 IPOs and one office REIT getting listed.

POLICY SUPPORT

The central government's annual budget had considerable focus on infrastructure, affordable housing, disinvestments, monetisation of assets, stressed asset resolution and tax holiday extensions. PLI scheme of INR 2 lakh crores was also a prominent announcement for providing impetus to manufacturing and allied sectors. They cover a wide gamut of industries such as pharmaceuticals, IT hardware, white goods, textiles, automotive, drones and semiconductors. (Please refer annexure for announcement and approval details).

In a major structural reform, the Government of India launched a Retail Direct Scheme in November for individuals looking to invest directly in the sovereign bond market. This is expected to widen the investor base and provide additional avenues to diversify investment.

Two other notable developments were the **Model Tenancy Act** and INR 1 lakh crore national master plan for **Multi Modal Connectivity**.

A. **The Model Tenancy Act** lays a comprehensive rental framework for landlords and tenants. In the Model act, issues such as subletting, property damages, notice period before eviction or rent increase, compensation terms, grievance redressal mechanism are dealt with efficiently. This has the potential to create a viable rental housing market in India. Together with the AHRC guidelines of 2020 (detailed in our 2020 Year-end Market Watch), these can lay the foundations for residential REITs in the future.

B. **The GatiShakti national multi-modal connectivity plan**, focuses on creation of a nationwide digital platform responsible for integrated planning and coordinated execution between various ministries of the government. The plan can be looked at in conjunction with the National Infrastructure Pipeline and has the potential to reduce logistic costs, increase cargo handling capacity, reduce turnaround time and boost the entire economy.

Institutional Support from RBI and SEBI
The RBI kept the benchmark lending rate unchanged at 4% throughout the year. It has played a key role in bringing the home loan rates in the range of 6.4-6.6%, the lowest in two decades. Through effective passthrough by banks, home loans are arguably at their best in a long time (please refer annexure for trend on home loans). Further, the RBI also approved a transfer of INR 99,122 crores as surplus to the government, which provides a boost to eventual consumption and liquidity improvement.

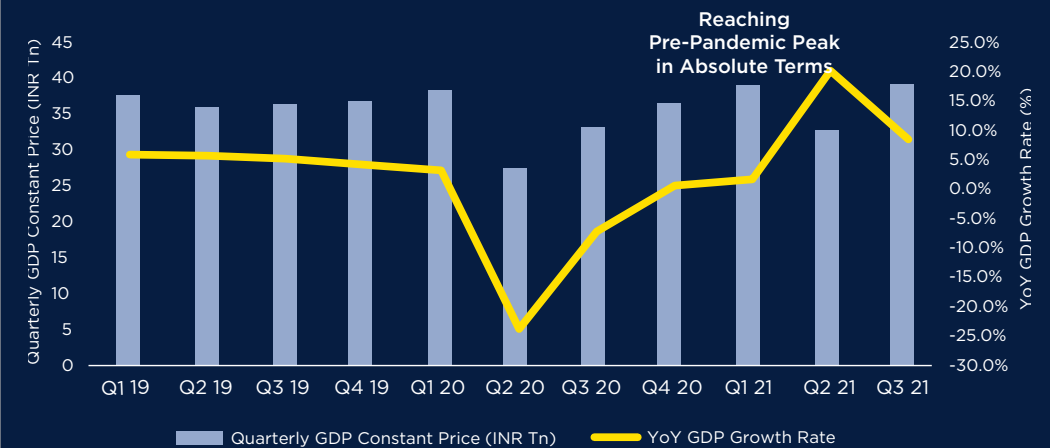
SEBI, on its part, had allowed certain relaxations in timelines for compliance with regulatory requirements in the wake of the ongoing pandemic. A key change was the reduction in application value for REITs and InvITs from INR 50,000 and INR 1 lakh to INR 10,000 and INR 15,000 respectively. Also, the trading lot size was reduced to one. This change is expected to significantly increase the adoption of real estate-based derivatives by domestic investors and ultimately open additional funding avenues for developers as well.

ANOTHER ALARM AT END-2021

However, near the close of the year, a new strain of the virus, called Omicron, surfaced resulting in renewed apprehensions. Currently, its eventual scale and impact remain unknown. Despite lurking uncertainties, it is now established that policy initiatives will continue to buttress demand.

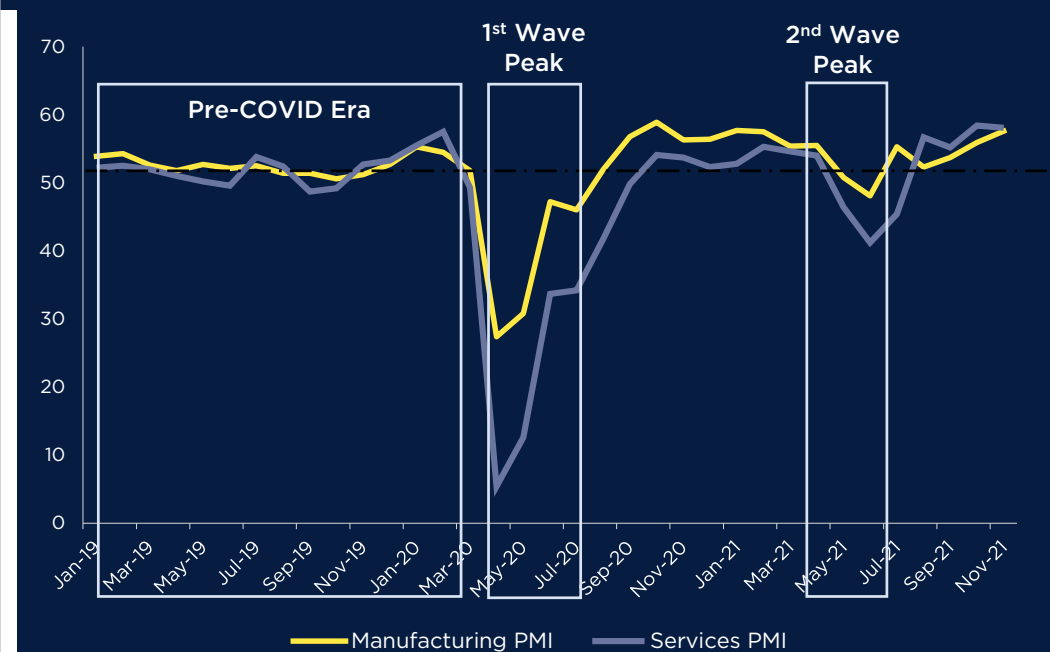
All sectors, including real estate, will factor in unpredictability and incorporate caution in near term plans. The general sentiment, nevertheless, remains that of cautious optimism for 2022.

Chart 2: GDP Statistics



Source: MoSPI, FxEmpire

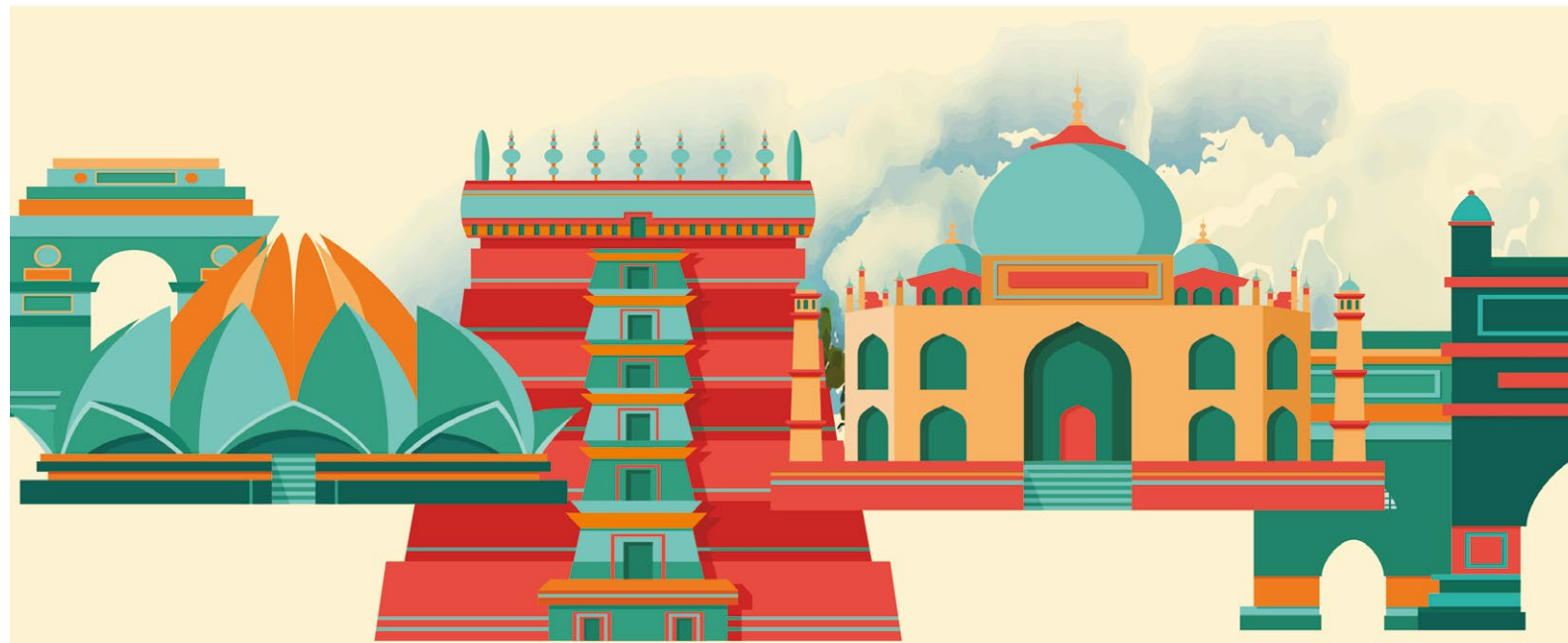
Chart 3: Purchasing Manager's Index



Source: Markit Economics, FxEmpire

The IMF has projected a GDP growth rate of 8.5% for India in FY 22; as the country is poised to retain the tag of fastest growing major economy after the economic slide in 2020.

Production linked incentives, bulk drug parks, Model Tenancy Act and GatiShakti multi-modal connectivity plan signify continuous policy push, laying robust economic foundations for the future.



INDIA

Industrial & Logistics Market Update

Key Statistics: 2021

Overall (Tier I, Tier II & Tier III)

- Supply **45 mn sq. ft.** (Grade A & B)
- Absorption **44 mn sq. ft.** (Grade A & B)
- Land Transactions in excess of **4,200 acres** (Manufacturing & Warehousing)
- Investments in excess of **\$ 1.5 billion**

Source: Savills India Industrial Research

Tier I cities

- Supply **36 mn sq. ft.** (Grade A & B)
- Absorption **35.1 mn sq. ft.** (Grade A & B)

Tier II & III cities

- Supply **8.9 mn sq. ft.** (Grade A & B)
- Absorption **8.6 mn sq. ft.** (Grade A & B)

Key Trends

- The market witnessed absorption of 44 mn sq. ft. across 2021 including 35.1 mn sq. ft. from Tier I cities and 8.6 mn sq. ft. from Tier II & III cities.
- Despite construction activities getting affected due to the lockdown, India witnessed a fresh supply of 45 mn sq. ft. in 2021 including 36 mn sq. ft. from Tier I cities and 8.9 mn sq. ft. from Tier II & III cities.
- 3PL and e-commerce sectors accounted for 62% of total absorption in 2021 followed by manufacturing at 14%.
- NCR accounted for 18% of absorption followed by Pune (15%) and Mumbai (14%). Tier II & tier III cities together accounted for 20% of the absorption.
- Overall vacancy increased and rental values remained stable in 2021 across the major cities.

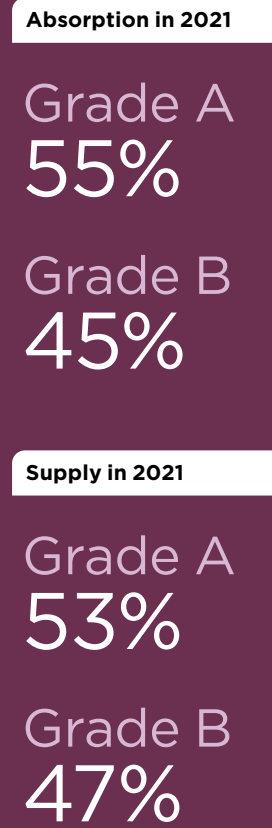
Industrial & Logistics Sector Performance in 2021

Absorption in 2021 (sector-wise share)



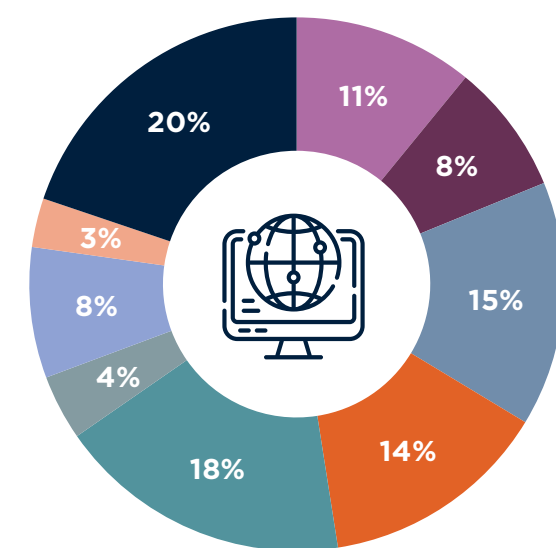
Source: Savills India Research

Supply & Absorption by grade 2021



Source: Savills India Industrial Research

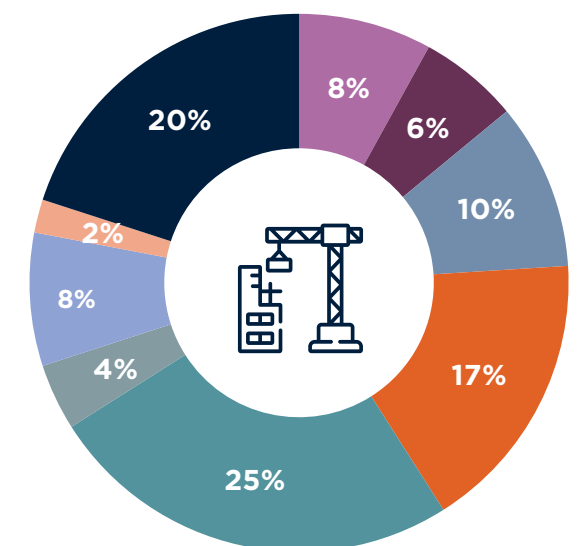
Absorption by City in 2021



- Bengaluru
- Chennai
- Pune
- Mumbai
- Delhi-NCR
- Hyderabad
- Kolkata
- Ahmedabad
- Tier II and III Cities

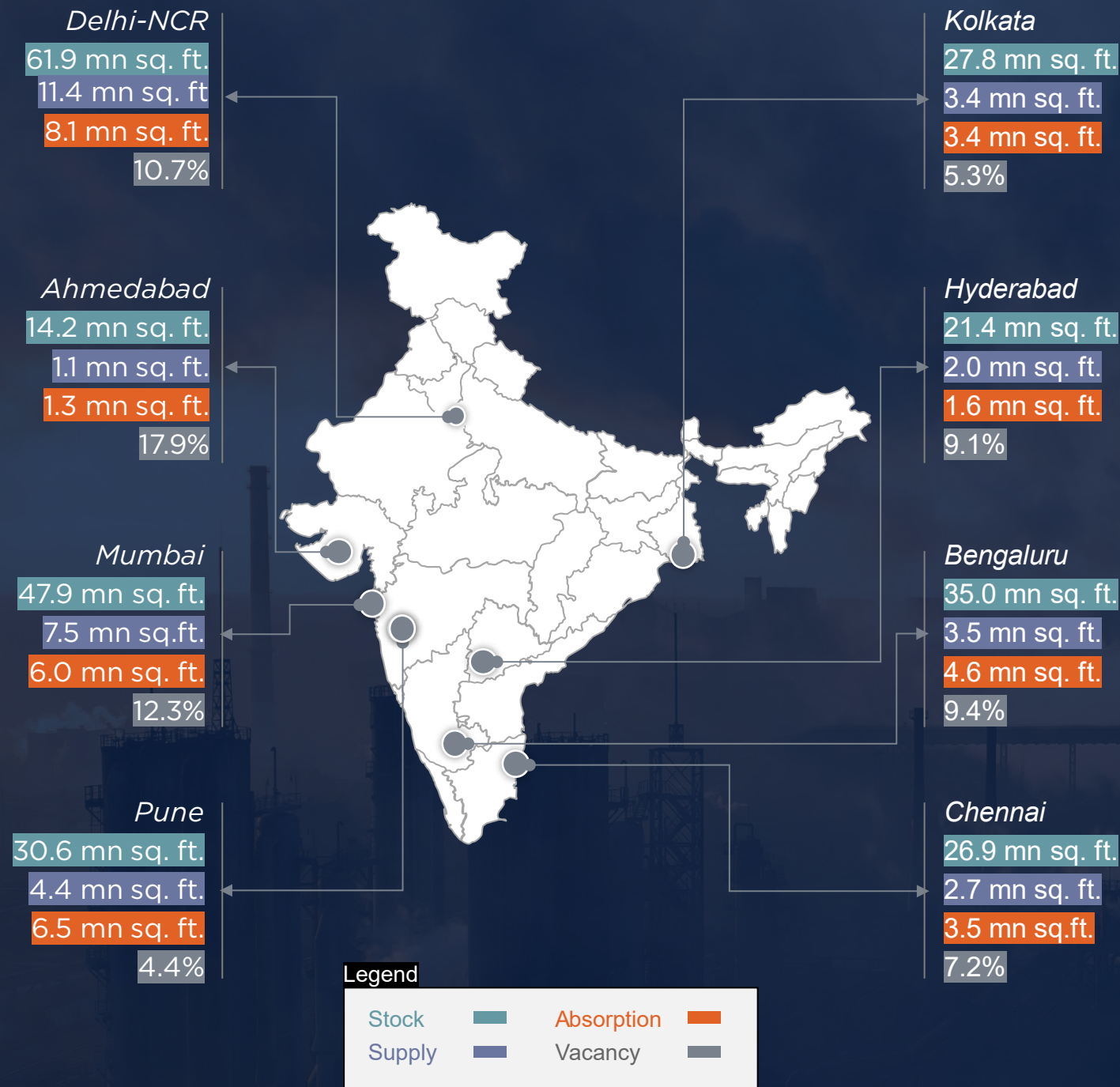
Source: Savills India Industrial Research

Supply by city in 2021



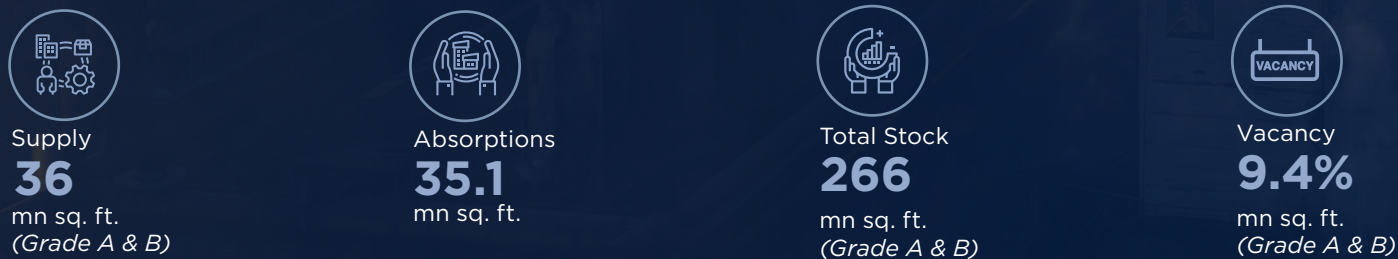
- Bengaluru
- Chennai
- Pune
- Mumbai
- Delhi-NCR
- Hyderabad
- Kolkata
- Ahmedabad
- Tier II and III Cities

City Wise Stock & Vacancy of Tier I Cities-2021

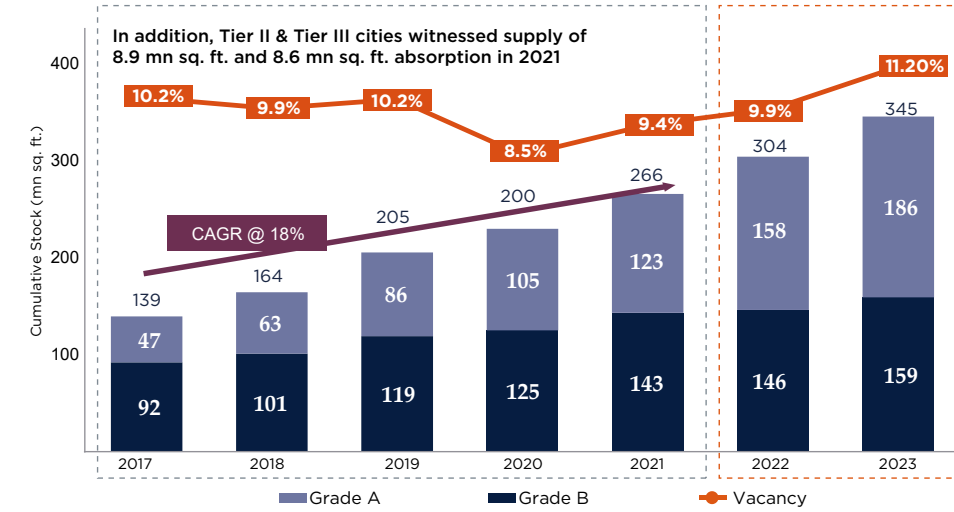


Source: Savills India Industrial Research

Key Statistics: Tier I cities

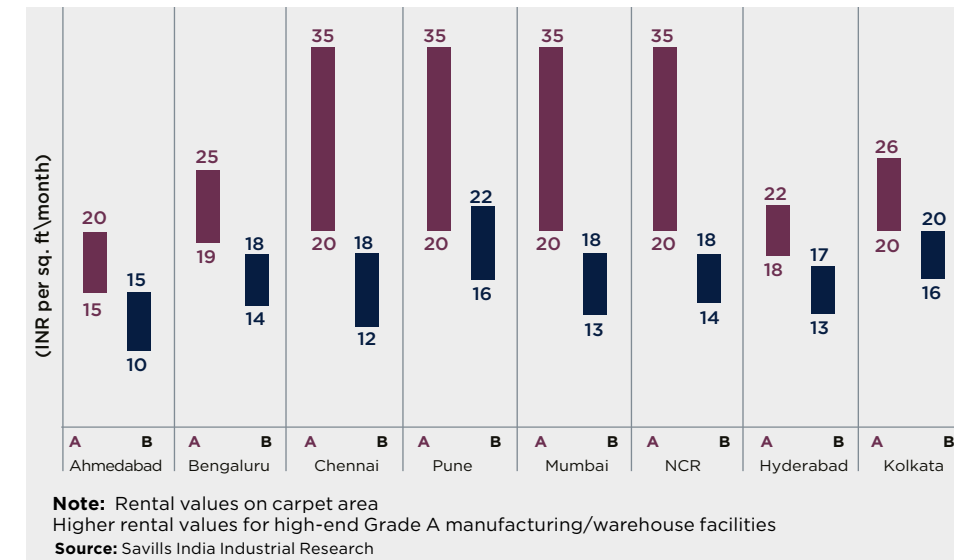


Demand & Supply Scenario of Tier I Cities-2021



Source: Savills India Industrial Research

Warehousing Rental Values in 2021



Supply & Absorption in 2021-Tier II & Tier III Cities

City	Absorption (mn sq. ft.)	Supply (mn sq. ft.)
Coimbatore	1.34	1.29
Guwahati	0.67	0.79
Indore	0.93	0.45
Nagpur	1.15	1.53
Lucknow	1.09	1.09
Jaipur	0.42	0.52
Rajpura	1.18	1.27
Bhubaneswar	0.05	0.03
Kochi/Ernakulam	-	0.28
Patna	0.49	0.39
Hosur	1.29	1.29

Source: Savills India Industrial Research



HYDERABAD

Industrial & Logistics Market Update



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Key Statistics: 2021



Supply (mn sq. ft.)

2.0
1.5



Net Absorption (mn sq. ft.)

1.6
2.0



Total Stock (mn sq. ft.)

21.4
19.4



Vacancy (%)

9.1
8.0

Source: Savills India Industrial Research

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 major push from occupiers and tenants on specifications and compliance.
- Vacancy rates have increased.
- Rental values are stable across the micro-markets.

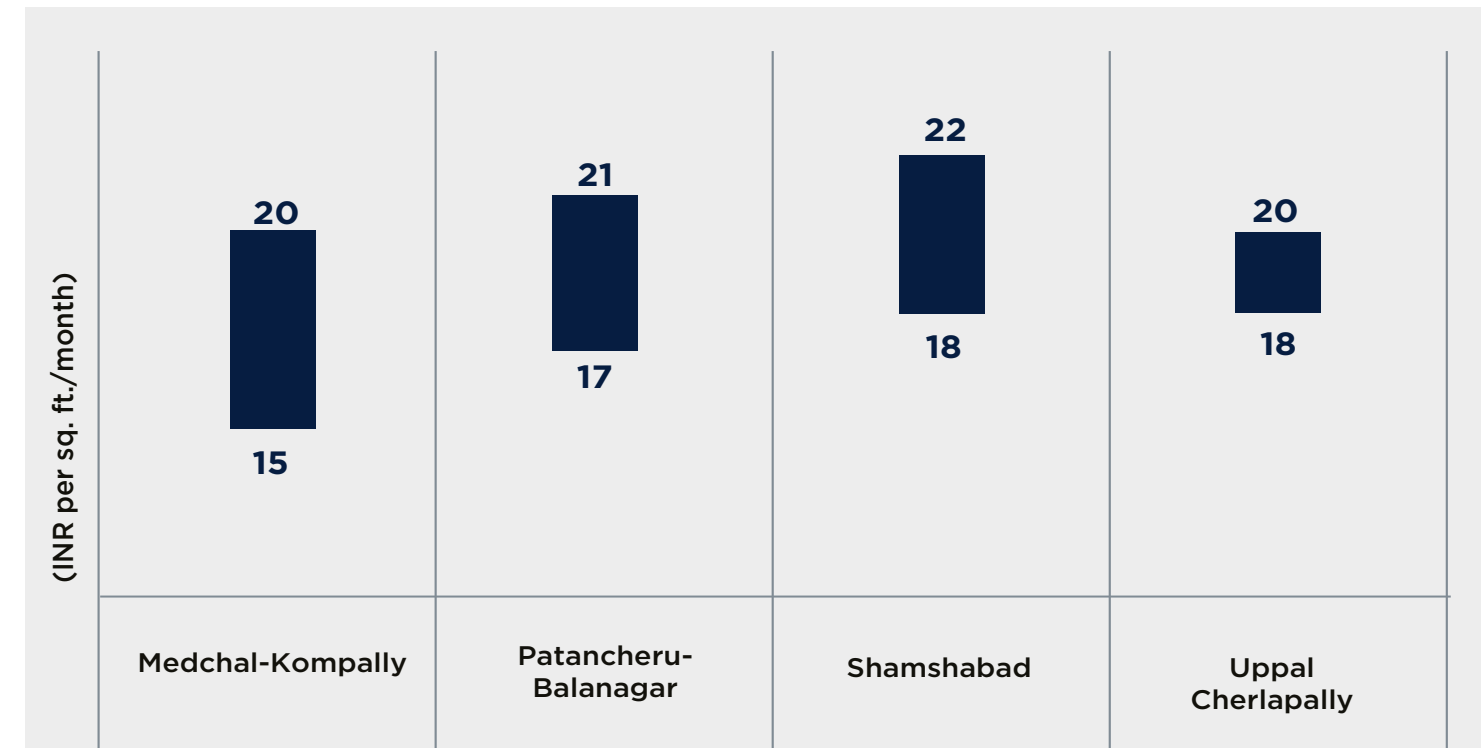
SUPPLY, ABSORPTION AND VACANCY - 2021

The Hyderabad market witnessed 1.6 million sq. ft. of absorption and 2.0 million sq. ft. supply in 2021. The operational stock stands at 21.4 million sq. ft. as of 2021 and vacancy levels increased from 8.0% in 2020 to 9.1% in 2021.

Grade A accounted for 64% of supply and 58% absorption respectively. 3PL, e-commerce and retail sectors accounted for 68% of the total absorption witnessed in the city in 2021.

The Medchal-Kompally micro-market accounted for 49% of the total absorption witnessed in the city, followed by Shamshabad (46%) and Patancheru-Balanagar at 5%.

Warehousing Rental Values in 2021



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

Supply & Absorption by micro market in 2021

Micro market	Absorption	Supply
Medchal-Kompally	49%	76%
Patancheru-Balanagar	5%	8%
Shamshabad	46%	16%

Source: Savills India Industrial Research

Major Transactions in 2021

Occupier	Micro market	Area leased (sq. ft.)
Retail	Medchal-Kompally	150,000
3PL	Shamshabad	120,000
FMCG	Medchal-Kompally	70,000
Manufacturing	Patancheru-Balanagar	100,000

Source: Savills India Industrial Research

OUTLOOK

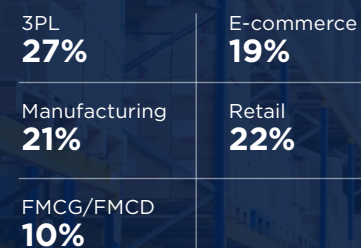
Investment activity in pharmaceuticals and high yielding assets are likely to see an uptick.

E-commerce and 3PL will continue to

lead warehousing demand in Hyderabad in 2022.

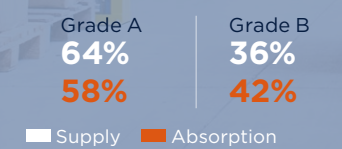
Rental and land values are expected to remain stable 2022.

Absorption by sector in 2021



Source: Savills India Industrial Research

Supply & Absorption by grade in 2021



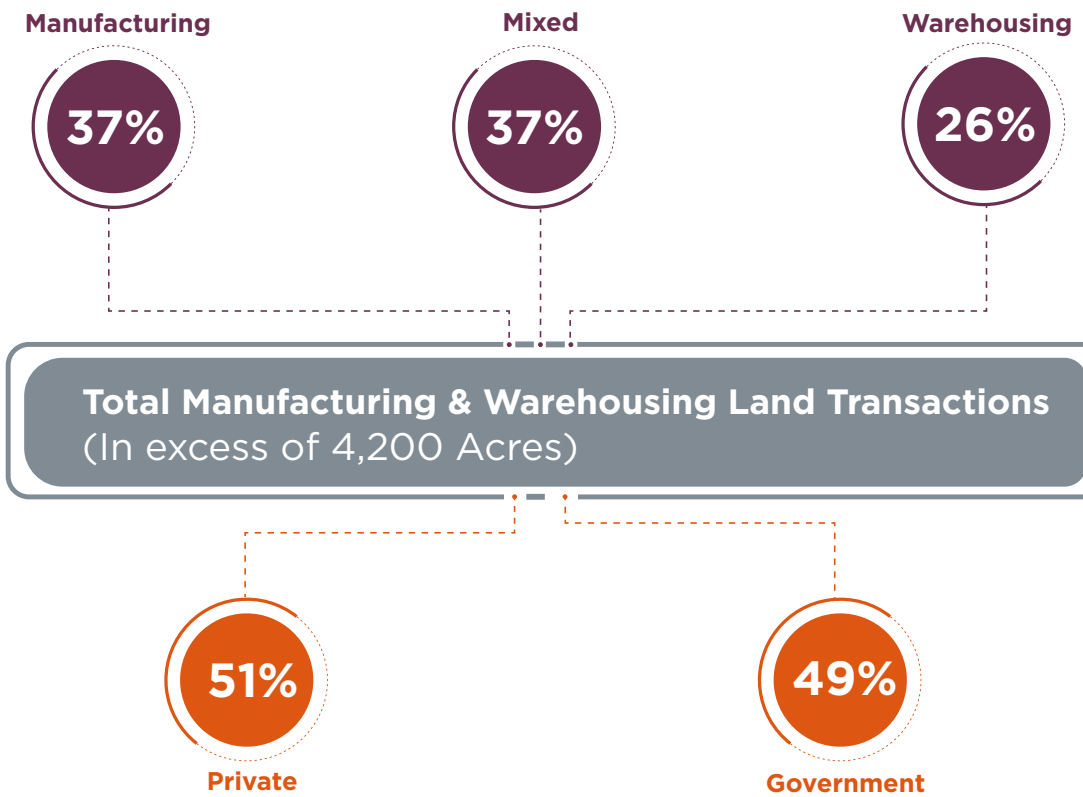
Source: Savills India Industrial Research

MANUFACTURING SCENARIO 2021

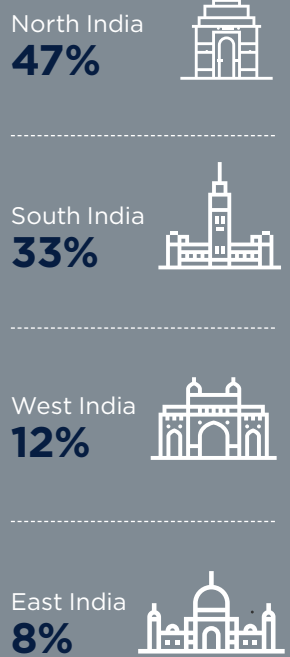
Quick Snapshot

-  **15%** share of Manufacturing in current **GDP** (FY20)
-  **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

Manufacturing & Warehousing - Land Transactions in 2021

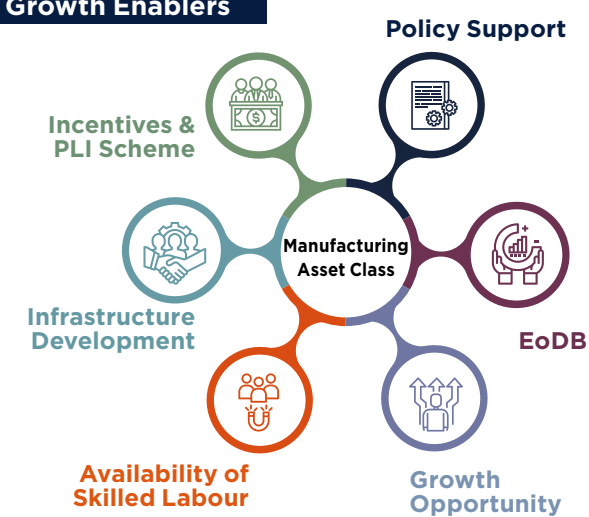


Region-wise Land Transaction



Source: Savills India Industrial Research

Growth Enablers



Approved Financial Outlay for PLI over a Five-Year Period

Sector	Approved Financial Outlay (\$ MN)
Automobiles & Auto Components	7,708
Advance Chemistry Cell (ACC) Battery	2,446
Pharmaceuticals drugs	2,027
Telecom & Networking Products	1,648
Food Products	1,473
Textile Products: MMF segment and technical textiles	1,444
Speciality Steel	854
White Goods (ACs & LED)	843
Electronic/Technology Products	676
High Efficiency Solar PV Modules	608

Source: Cabinet Decision released by Press Information Bureau, Delhi, Nov 2020.
Note: Exchange rate: USD 1 = INR 74

Sub-Sectors of Manufacturing attracting highest FDI Equity Inflows (Apr 2020 to Sep 2021)

Sector	FDI (\$ MN)
Automobiles	700
Chemicals	28
Drugs & Pharmaceuticals	40
Metallurgical Industries	135

Source: Ministry of Commerce and Industry, Government of India

INVESTMENT SCENARIO 2021



KEY TAKEAWAYS

- The year 2021 had a good start from the investment perspective with a flurry of deals. It slowed down in the middle due to the 2nd wave of Covid-19, but gathered momentum again in the 3rd quarter, owing to improved business activities.
- The industrial and logistics sector attracted US \$ 1.5 billion in 2021, the highest after the office sector. Continued interest in this asset class was due to its growth potential and stable returns. The market is likely to witness increased interest from investors in this asset class in 2022 as well.
- There is a trend of willingness on part of institutional investors to take development risk and to mitigate approvals/regulatory risk at the same time through innovative structuring and achieve higher returns.
- There are signs of consolidation visible which will become clearer in the next 2-3 years showing the emergence of 4 to 5 strong pan-India institutional players.

Major Investments in Logistics - 2021

Developer	Investor	Amount (\$ MN)
Embassy	Blackstone	700
Bagnan	Xander	28
TRAC	Blackstone	40
KSH	Indospace	135
Lodha	Morgan Stanley	80
Welspun	AIF	67
Jai Mata Dee	Xander	45
Mapletree	Morgan Stanley	62.7
Casa Grande	Ascendas Firstspace	29

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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