FICCI

CBRE

POST-COVID-19

THE FUTURE OF OFFICE AND INDUSTRIAL & LOGISTICS REAL ESTATE IN INDIA

September 2020





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Foreword



Mr. Anshuman Magazine
Chairman & CEO,
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CBRE

The COVID-19 pandemic will go down as an important epoch in the history of the global economy – one that has made alternations in human behavior at an individual level. As business sentiments recover and evolve in its aftermath, this can be viewed as a tremendous opportunity to bring about unparalleled transformation by leveraging the power of technology, concentrating on wellness, and weaving in innovation in the way we live, work and play. For the real estate sector, this would mean taking a relook at the variables that have remained on the fringes and amalgamating them with the mainstream.

If we look at the past two decades, the Indian real estate sector has shown immense resilience. There is a cautious road ahead, but India has had a one-of-a-kind growth story – with the real estate sector at the cusp of the evolution. Take, for instance, the office sector – which has witnessed much debate about its future. India traditionally has been an extremely strong office market, given its transition from being a back-office destination to being increasingly listed as software development / R&D / knowledge processing center. In 2019 alone, gross office space absorption crossed the 60 million sq. ft. mark for the first time ever and touched a historic high of 63.5 million sq. ft; registering a growth of almost 30% as compared to 2018.

In 2020, while business sentiments have been impacted due to the continued spread of the pandemic, we remain confident about the growth of the office sector in the country in the medium to long term. According to CBRE's 2020 Global Occupier Sentiment Survey (conducted in June 2020), the importance of a physical office space is likely to remain intact – 38% of respondents said that the physical office space will remain as important, if not more. Additionally, 70% of the survey respondents were also confident about setting long-term real estate strategies despite the pandemic. Another indicator of the robustness of the office sector can be the fact that the latest entry in the REIT market – Mindspace Business Parks – saw its IPO being oversubscribed by almost 13 times. India's dynamic investment landscape, continued faith of investors and sustained government support can be credited as the primary reasons for this resounding success.

Another consequence of the COVID-19 pandemic has been the changing dynamics of global supply chains – which is expected to have a direct bearing on the Industrial and Logistics (I&L) sector. In order to address the spike in demand from e-tail platforms and hyperlocal delivery models, manufacturers and brands would move from just-in-time inventory model to storage led inventory model, especially in warehouses near to the consumption centers. This is expected to then generate higher I&L demand and is likely to transform how companies store goods, plan infrastructure and serve their local customers going forward. In addition, we anticipate the implementation of tech across the supply chain to transform the existing traditional warehouse to evolve as smarter warehouse.

Further, cold storage solutions and data centres (DC) would be the next logical step forward for the I&L sector, given the growing consumer interest in the online grocery segment, along with the increased usage of smart devices and rising data consumption. The DC market, especially, is likely to expand at an unprecedented scale; our findings suggest that a substantial addition to the DC stock over 2020-21 is likely to result in the country's DC capacity crossing 600 MW.

This continued evolution has reaffirmed CBRE's core belief that the real estate sector has the ability to weather any storm. We believe that the key to this continued resilience would be how the industry incorporates aspects such as social distancing and technology and at what pace. Real estate investors are already shifting their focus from asset management to planning future investments, and there is a large volume of dry powder waiting to enter the market. How quickly the industry responds to the fast-changing dynamics of the market will determine the pace of its recovery over the next few months.

Foreword



Mr. Sanjay Dutt
Joint Chairman,
FICCI Real Estate
Committee and
Managing Director
and Chief Executive
Officer Tata Realty &
Infrastructure Ltd.

In the past, commercial office segment has grown from strength to strength and even today, in the midst of a pandemic, I firmly believe that as gradual recovery begins, things will get better and we will witness a faster recovery of the office segment. The commercial market will not take much time to bounce back, it is already showing signs of recovery.

The commercial is a very organized sector. We have India's top developers controlling 650 mn sqft. Most of us received 98%-99% rent on time. Commercial portfolios are adding approx. 40-50 million sqft of IT office space every year. It saw USD 2.8 Billion investment inflow in 2019 and employs close to 15 lakh employees in the office space management category. Hence it plays a very crucial role in making India the no. 1 ranked outsourcing destination of the world with a large number of Fortune 500 firms; IT-BPM continues to contribute highest leasing share (~43% in H1 2020). Supply and absorption across India seen significant drops (43% and 57% respectively) since the past year due to COVID 19. But, the government enabled push for digital economy led to the demand for data centres. In no time, this concept will emerge to be an altogether new segment of infrastructure development in India, creating a multi-billion-dollar opportunity.

There are a few commercial sections that are mildly affected by the pandemic, e-Commerce, Data Centres and Warehouses. Still, they will also have to restructure and remodel their spaces with factors like increased spacing and other health concerns in mind. The e-commerce sector has also picked in a significant way during this pandemic, and this is going to affect shopping malls and warehousing in different ways. The events and disruption relating to COVID-19 is a Black Swan, a once in a generation event and has caused unprecedented loss of physical life and dented business confidence. Within real estate, certain asset classes, like retail will continue to stay affected over a relatively long period, while other sectors like data centres, warehousing, cloud kitchens and the co-working sector may see an uptick in demand in the immediate to medium term.

Commercial real estate will come back more robust over the medium to long term on the back of strong fundamentals and India will maintain its competitive advantage as the preferred IT, offshore and knowledge provider location for US/ global clients. In reality and long term scope, the Indian office space is going to be a very promising space. I see a high-quality office REIT in India because of the great talent plays to strengths of India

India already has two listed REITS of 50 million sq.ft. and likely to see another 30-50 million sq.ft. by next financial year. Foreign Institutional and Domestic investors find it attractive from a steady yield and growth perspective. In fact, we at Tata Realty share a vision of 45 million sq.ft. and list REIT with 20 million sq.ft. next 2-3 years. 6.2 million fully leased and 1 million to be added by November'20 followed by 1 million to commence construction by the end of this year. Built to Suit lease contracts are also being signed and are at advance stages of negotiations.

It is my experience the commercial office markets in India are undervalued, and they have been undervalued for over the last ten years. I think one of the reason was how everybody made money because when Blackstone entered India, they were buying assets at ten caps and now it's a different play altogether. So I believe in coming two-three years yields will compress and will move further to 7.5 if not 7, for now, they will probably hold. Hence, when it comes to giving a boost to commercial properties, the answer lies in compressing yields that we have seen in the last 4-5 years.

Industrial parks, warehouses and data centres have a great future if only we get the right reforms and support from the government. Data is everywhere and we know the power of data, it is a capital intensive opportunity. As per the latest CBRE report, investments are coming into Data Centers where Mumbai leads 41% of Data centre capacity followed by 17% in Bangalore and 16% in Delhi. India is sitting on a massive opportunity. As a country, we need to leverage the advantage of skill and technological developments available to us. Digitisation of processes will help due diligence faster and help acquisition immensely and eliminate the chances of frauds.

Introduction

As the economy opens in a staggered manner, businesses (including those involved in real estate) are reporting widespread changes in their functions as they adapt to the post-COVID-19 "new normal". Within the office sector, evolving work patterns would result in newer perspectives for occupiers and developers, going forward. Meanwhile, the industrial & logistics (I&L) sector has shown tremendous strength despite supply chain disruptions. In the short term, traditional demand drivers such as manufacturing output, consumer spending and trade have been adversely impacted due to COVID-19. However, e-commerce channels have boosted demand for warehousing space as the stay-at-home directive led to increased online shopping across the country.

In the subsequent sections, we present CBRE's view on how these two sectors have evolved so far against the backdrop of COVID-19, and what could be the way forward for them.



OFFICE

Progression Amid Recovery

The Indian office sector has come a long way over the past two decades, from stakeholders operating in silos to developers, occupiers and investors becoming more cognizant of each other's requirements and working together to improve long-term efficiencies. As a result, concepts of wellness, workplace strategies and workforce agility have been gaining ground over the past few years and are likely to continue in the coming years.

Then: The Pre-COVID-19 Scenario



Now: What has changed today?



Next: The New Post-COVID-19 'Normal'



ROLL OVER TO REVEAL

RE STRATEGIES | WORKPLACE STRATEGIES | ROLE OF TECH | WORKFORCE AGILITY | TOP OCCUPIER CONCERNS | FUTURE OF OFFICE

I & L

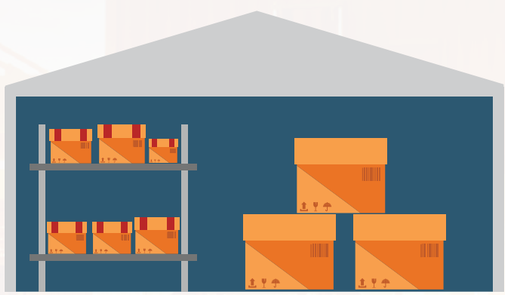
Resilient Despite Disruptions

The I&L RE sector underwent a metamorphosis after 2017 in terms of the quality of assets, mode of operations and type of investments in India. Its ongoing evolution has caught the attention of global investors, especially because of the size of the opportunity offered by this sector as quality warehousing supply still vastly lags demand. Going forward, shifts in supply chain and increasing popularity of e-tail are expected to keep this sector one of the best-performing RE assets for the foreseeable future.

Then: The Pre-COVID-19 Scenario



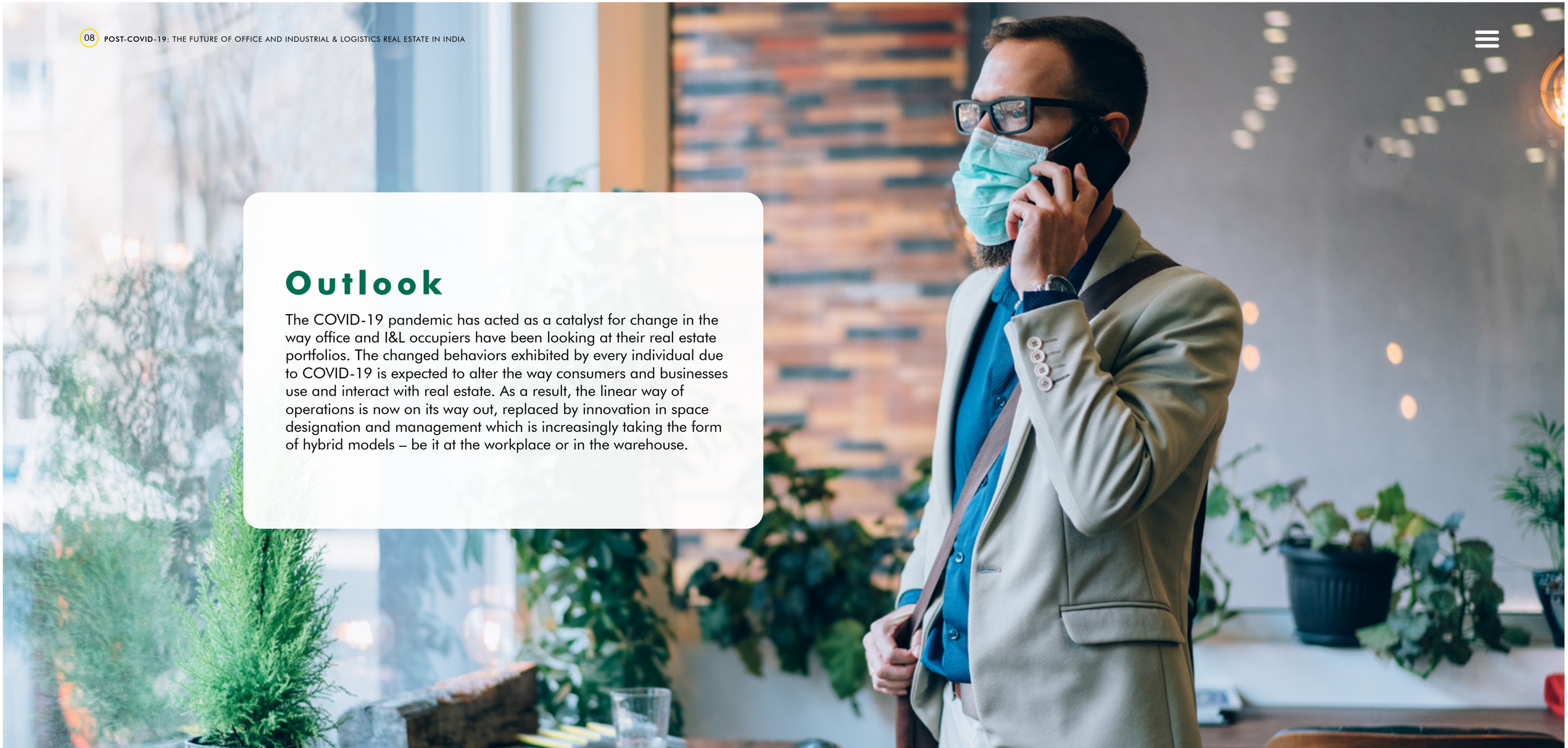
Now: What has changed today?



Next: The New Post-COVID-19 'Normal'



ROLL OVER TO REVEAL



Outlook

The COVID-19 pandemic has acted as a catalyst for change in the way office and I&L occupiers have been looking at their real estate portfolios. The changed behaviors exhibited by every individual due to COVID-19 is expected to alter the way consumers and businesses use and interact with real estate. As a result, the linear way of operations is now on its way out, replaced by innovation in space designation and management which is increasingly taking the form of hybrid models – be it at the workplace or in the warehouse.

About FICCI

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialisation, and its emergence as one of the most rapidly growing global economies. A not-for-profit organisation, FICCI is the voice of India's business and industry.

From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 250,000 companies. FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.

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About CBRE

CBRE Group, Inc. (NYSE:CBRE), a Fortune 500 and S&P 500 company headquartered in Los Angeles, is the world's largest commercial real estate services and investment firm (based on 2019 revenue). The company has more than 100,000 employees (excluding affiliates) and serves real estate investors and occupiers through more than 530 offices (excluding affiliates) worldwide.

CBRE was the first International Property Consultancy to set up an office in India in 1994. Since then, the operations have grown to include more than 10,000 professionals across 10 offices with a presence in over 80 cities in India. As a leading international property consultancy, CBRE provides clients with a wide range of real estate solutions, including Strategic Consulting, Valuations/Appraisals, Capital Markets, Agency Services and Project Management. The guiding principle at CBRE is to provide strategic solutions that make real estate holdings more productive and economically efficient for its clients across all service lines.

CBRE has been included in the Fortune 500 since 2008, ranking #128 in 2020. CBRE has also been voted the industry's top brand by the Lipsey Company for 19 consecutive years and has been named one of Fortune's "Most Admired Companies" in the real estate sector for 8 years in a row.

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CIN - U74140DL1999PTC100244

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