
Future of India Real Estate

Deciphering the mid-term perspective

September 2018



Preface

The growth of urbanisation in India demands comprehensive and integrated development of physical, institutional, social and economic infrastructure. The rapid urbanisation is expected to offer significant opportunities for real estate and infrastructure development in Indian cities. Reform measures including implementation of RERA, a push to affordable housing, smart cities mission and the Benami Transactions Act, have made India an investor-friendly destination for the real estate market. Government of India has taken several initiatives to encourage the development in this sector.

This sector has witnessed high growth in recent times with the rise in demand for office as well as residential spaces. It is also important to note that the real estate developers have been instrumental in changing the face of India through building state-of-the-art infrastructure, buildings, townships, shopping malls spread all over the country.

FICCI and JLL have co-created this Report on '**Future of India Real Estate: Deciphering the mid-term perspective**' that portrays a balanced picture of the growth drivers and challenges. The Report presents the trends in office, retail, residential, warehousing and student housing markets and offers some insights into the direction and growth momentum expected over the next 2-3 years.

The release of the Report at the **12th edition of FICCI Real Estate Summit** on 5th September 2018 would set the context and enrich the discussions at the conference.

I am confident, the findings of the Report would be most useful not only for realtors, but also for consumers, Government, research & academic institutes and the industry. The ideas and deliberations arising out of this Report would go a long way in addressing the regulatory challenges and reflecting on the way forward.



Sanjay Dutt

Chairman, FICCI Real Estate Committee and
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Real estate markets are poised to benefit from the government's policy push towards reforms, speedy completion of several infrastructure projects, emphasis on affordable housing, enhanced usage of technology and an over-arching 'can do' spirit riding across private as well as public sector enterprises today.

Economic forecasts paint a positive story. The RBI survey of professional forecasters (August 2018) indicates that GDP is likely to grow at 7.4% in 2018-19, up from 6.7% in 2017-18, and is expected to accelerate further by 20 basis points in 2019-20 on the back of support from private consumption and investment. CPI inflation, (which has been a concern in the recent past), is expected to remain at 4.7% in the annual forecast for median inflation (2018-19 and 2019-20).

Apart from the macro-economic indicators, inflection points observed within each category of real estate markets, indicate overall stable growth in the medium term. This paper, titled **Future of India Real Estate Deciphering the mid-term perspective** studies the current scenario in each asset class and analyzes various growth drivers which will govern momentum in the medium term.

Office markets, for instance, will witness increased absorption in the suburbs of key cities and this will be a major contributor to their future growth. Increasing participation from institutional investors, as well as expected REIT listings will also act as drivers. Retail markets will see predictive analytics driving product innovations and facilitating mall management. As per our projections, almost 18 mn sq ft of retail space is about to be absorbed during the next three years, which is nearly 96% of the total supply coming up in that period.

Residential market, the key beneficiary of big bang reforms - RERA and GST - will be driven by increased transparency, consolidation and a huge push to affordable housing. We can see that almost every real estate participant wishes today, to partake of the affordable housing pie, because that is where the future growth story lies. The paper observes that launches within the price range of INR 40 lac were the highest during 2017 and in first half of 2018 across the country.

Other sunrise sectors like student housing and warehousing will also witness healthy traction. The future for the warehousing sector looks bright, with India set to witness investments close to INR 50,000 cr for creation of warehousing facilities across the country between 2018 and 2020. In student housing, the huge unmet demand, will act as a natural growth driver.

With strong growth drivers and on-going reforms, the medium term perspective across asset classes looks healthy. We hope that this paper, which presents a detailed analysis of various asset classes and predicts their medium term growth, is both educative and enjoyable.

Happy reading!



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MARKET OVERVIEW

Structured reforms, implementation of RERA, a push to affordable housing, the Benami Transactions Act- all have made India an investment-friendly destination. The country has moved up 30 ranks to the 100th position on the World Bank's scale of countries by Ease of Doing Business for 2018. It has consistently improved its ranking on the global real estate transparency index and is now at the 35th position from 40th in 2014, driven by continuous policy reforms and liberalization of Foreign Direct Investment.

The extent to which the real estate sector has grown can be gauged from certain key numbers. While in Q4 2012, the value of investment grade real estate under construction was at USD 173.9 bn, it has touched USD 242.6 bn in Q2 2018.

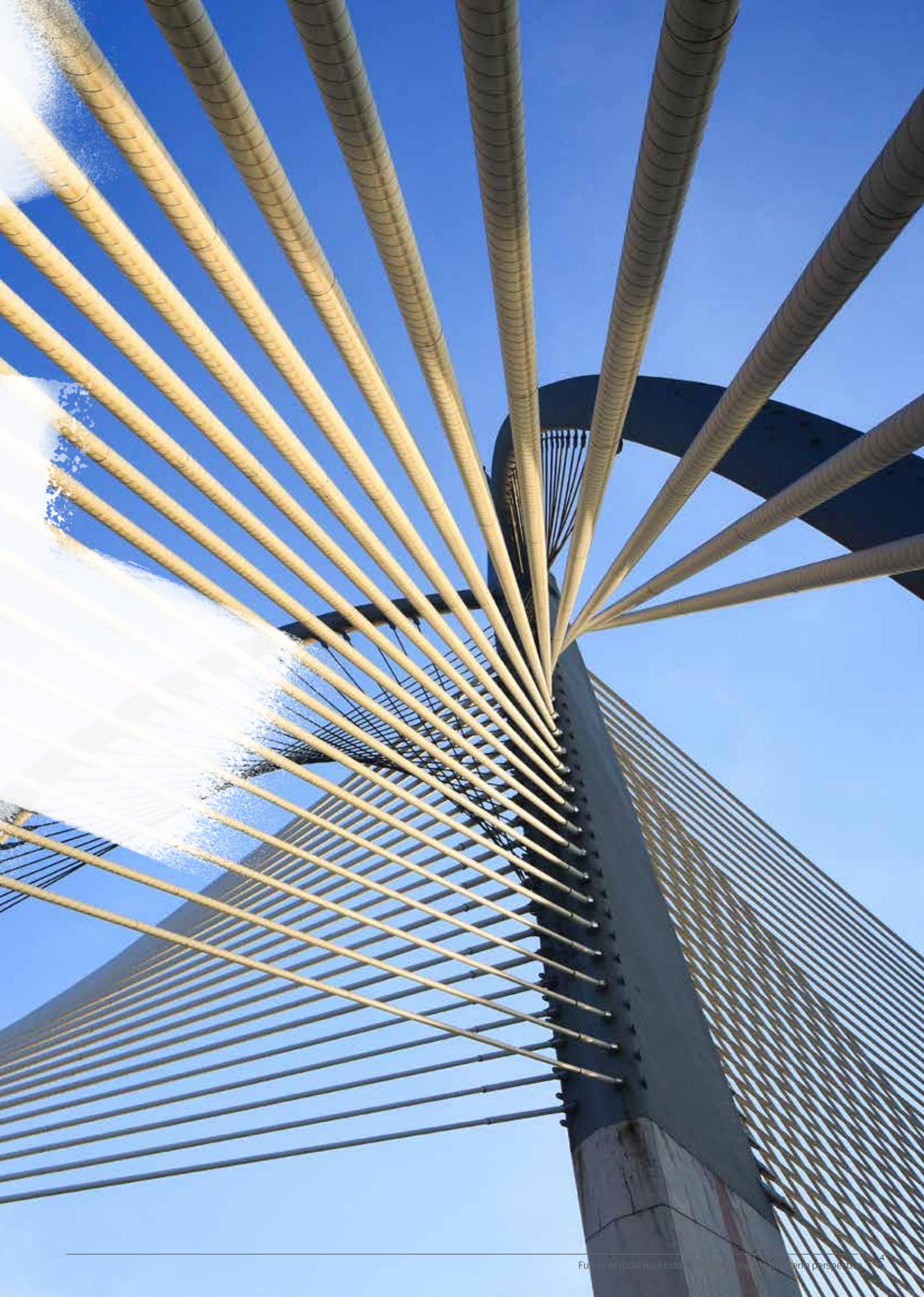
Sector specific data also reflects the growth story. With most projects being RERA registered, the residential segment is being driven by self-use purchase decisions. Residential sales were up with over 64,000 units sold in the first half of 2018 itself, compared to the previous full year's sales of approximately 96,000 units. Affordable housing as a sector is witnessing increasing traction. Demand is high for this segment and the supply numbers reflect this. Launches within the price range of INR 40 lac were the highest during 2017 and in the first half of 2018 across India.

In 2017, office markets saw new completions at over 26 mn sq ft and in 2018 we expect this number to be substantially up reaching 41.5 mn sq ft. Non-IT office developments are on the rise and interestingly traditional IT cities like Bangalore, Pune, Hyderabad and NCR are likely to deliver a significant amount of non-IT commercial space in 2018-20. Listing of REITs in India which is expected soon, will spur commercial space investment with greater availability of funds from investors looking keenly at completed commercial assets.

In retail markets, future years look bright with a healthy supply pipeline and robust absorption. In 2017, net absorption of mall spaces stood at 3.2 mn sq ft and this is likely to reach 5.2 mn sq ft by end of 2018. We expect the numbers to be even higher (6.7 mn sq ft) for 2019. Retail investors are increasingly focusing on emerging retail destinations (Tier II & III) over metros, due to higher growth prospects.

On the logistics warehousing front, with advancements in technology, the industry is undergoing rapid evolution and paving an encouraging path for what lies ahead. The overall warehouse absorption has gone up by almost 40% since 2016 to reach 19.5 million sqft in 2017. 2018-20 is expected to see substantial increase in the supply of warehouse stock, owing to the implementation of GST, infrastructure push by the government and increased interest from national and international investors.

Overall, strong economic fundamentals, proactive reforms and use of technology will continue to boost the sector. Apart from the conventional sectors, we will see the emergence of alternative sectors (senior living and student housing) and greater demand from sophisticated logistics in the warehousing space.



OFFICE

STEADY GROWTH AND STABLE VACANCY RATE

Indian office markets have shown considerable vibrancy over the past few years and total investments in the asset class have shown an improving trend since 2013. Private equity inflows into commercial and IT for 2014 to date are 150% higher than the previous seven years' inflows combined.



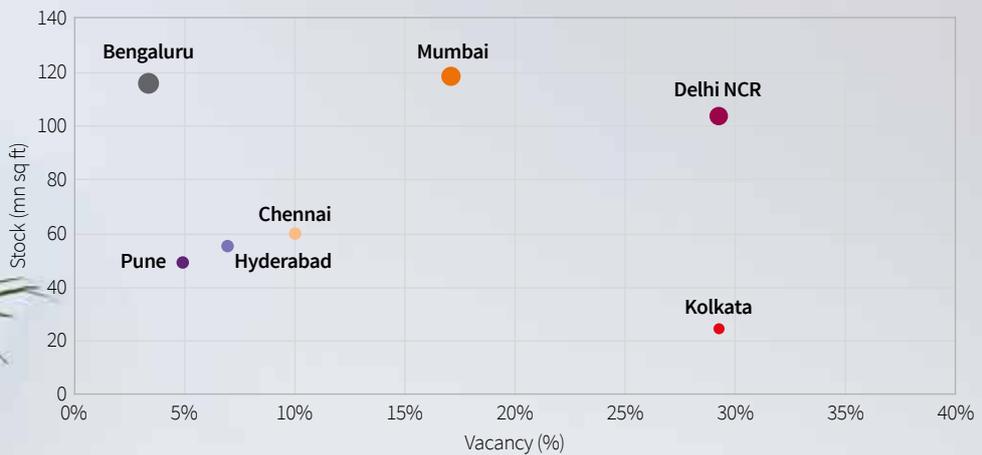
Present Scenario

Huge market size

At present, India's Grade A office real estate stands at a massive 530 mn sq ft and this is likely to surpass 700 mn sq ft by 2022. India's office market is one of the well-organised office markets in the Asia-Pacific region and the upcoming REITs structure is likely to help the sector become even more efficient.

Currently, the pan-India office vacancy rate stands at 14%. This is considered to be a natural vacancy rate level for a vast office market like India. Most Indian cities, such as Bengaluru, Hyderabad, Chennai and Pune, have very negligible vacancy rates (in single digits), while certain precincts of large diversified markets such as Mumbai and Delhi-NCR have vacancy rates in double digits.

Stock/vacancy rate in various cities as of 1H18



Source: Real Estate Intelligence Service, JLL India | 2Q18

Suburban sub-markets playing a bigger role; Contribute more to office activity

Over the years, average rents in Indian office Central Business Districts (CBDs) have been either declining or stabilising. Rents in the Secondary Business Districts (SBDs) are rising slowly, while rents in most of the suburban sub-markets are rising at a faster pace. Faster appreciation in rents in several suburban sub-markets has been driven by demand for superior Grade A assets, quality infrastructure and close proximity to talent pools. It is easier and less expensive to build world-class infrastructure in the suburbs, which will drive more occupiers to these markets, where more relocations and consolidations are expected.

The suburban sub-markets are competing with CBDs and SBDs in several key aspects:

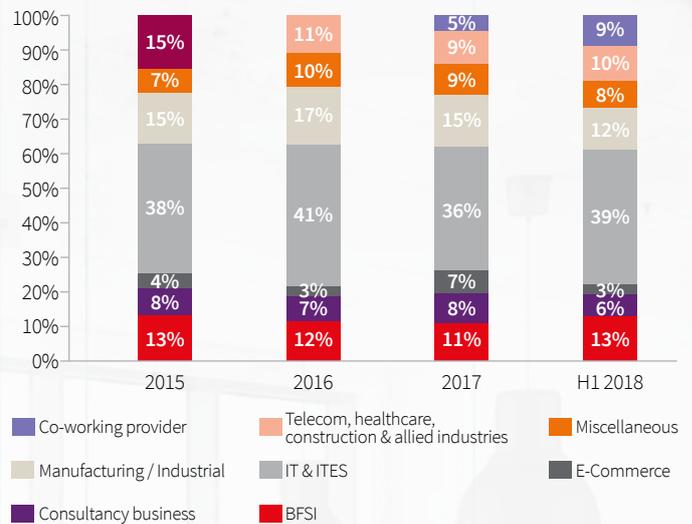
-  Non-IT occupiers are gradually going to the suburbs for the newly available quality assets
-  New entrants like e-commerce and co-working occupiers are leasing equally in suburbs as SBDs
-  Most of the superior lease-only assets taken up by leading global investors are in the suburbs
-  Competitive rents and close proximity to talent
-  Good existing physical infrastructure and the potential to build more.

During the last five years, i.e. 2013 to 2017, pan-India suburbs rents grew by a healthy 18%, compared to 13% and 0.3% for the SBDs and CBDs, respectively.

IT occupies the maximum office space; Co-working almost doubled in H1 2018 over CY2017

The contribution from IT to office absorption held strong at 39% in H1 2018. Large domestic players like Infosys, TCS and multinationals such as Accenture, Cognigant and IBM continue to expand across cities. However, flexi space is the need of the hour and many companies prefer this business model as against the traditional offices. Hence, the co-working sector is likely to drive the demand in office markets to a large extent, in the medium term. In H1 2018, the co-working sector accounted for 9% of total absorption in office markets compared to 5% for CY 2017.

Occupier industry share in office absorption



Source: Real Estate Intelligence Service, JLL India | 2Q18



Future Outlook

Demand/Vacancy

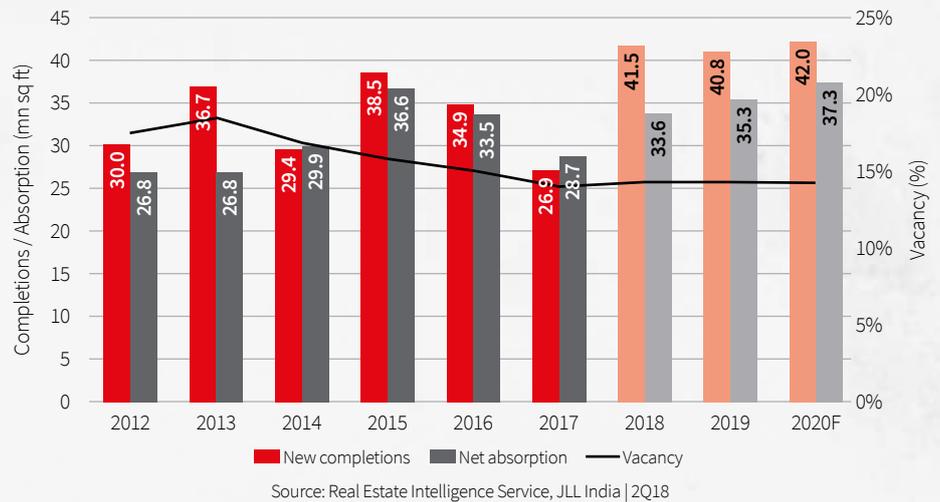
Office absorption is likely to rise steadily in the medium-term on the back of strong economic fundamentals and positive occupier and investor sentiment. This trend is further supported by the healthy pre-commitments of space in under-construction projects during the period 2018-20. Despite the huge supply that is likely to be delivered during 2018-20, the vacancy rate is anticipated to remain below 15% at a pan-India level.

Bengaluru is likely to see the highest absorption during the period 2018-20; Mumbai's absorption is forecast to surpass the supply during the same period

During 2018 to 2020, Bengaluru is likely to lead space take-up with a total of 25 mn sq ft, followed by NCR at 21 mn sq ft, Mumbai at 19 mn sq ft and Hyderabad at 17 mn sq ft. Chennai seems to be improving in terms of absorption due to new project announcements. During 2018-20, Chennai is likely to absorb 8.1 mn sq ft from its expected delivery of projects of 10.5 mn sq ft. However, it is interesting to see that Hyderabad will witness robust absorption, which is similar to the numbers of leading cities like Mumbai or NCR. This indicates a second round of office growth in Hyderabad after Bengaluru, which is gradually becoming saturated and expensive for occupiers. Mumbai and NCR, although similar in market depth to Bengaluru, will continue to see healthy demand, because of their diverse occupier base.

During H1 2018, cities such as Mumbai and Bengaluru have seen a decline in vacancy rates while NCR has remained stable at about 29%. Other smaller cities like Kolkata, Pune or Chennai witnessed a marginal rise in vacancy rates due to a good number of projects being delivered during H1 2018. Although vacancy rates are expected to vary for different sub-markets, the pan-India vacancy rate is anticipated to hover around 14% by end 2020.

Steady absorption projected for the forecast period of 2018 - 2020



Supply

New supply is expected to be robust during 2018-20, with average completion of about 40 mn sq ft each year.

NCR, Bengaluru and Hyderabad will contribute more than 60% to total supply in the coming three years

Future supply is expected to be the highest in the medium-term (2018-20) in NCR. After NCR, Bengaluru and Hyderabad are two other major markets that are likely to see huge completions in the coming three years. From a medium-to-long-term forecast perspective, we see a healthy supply pipeline for Hyderabad, which is clearly justified on the basis of strong demand from occupiers for the market. Better infrastructure, affordable rents

and good quality, large floor plates have been the driving factors for many IT and consulting occupiers to have their base in Hyderabad and Pune.

Bengaluru and NCR are expected to construct higher amount of non-IT office spaces compared to IT and IT-SEZ during 2018-20

Non-IT office developments are on the rise, ahead of sunset clause benefits that are likely to end by 2020. Interestingly, traditional IT cities like Bengaluru, Pune, Hyderabad and NCR are likely to deliver a healthy amount of non-IT commercial office space during 2018-20.

Rents

Rents are predicted to rise faster in the suburbs and select SBDs. JLL India observes that rents in the CBD (prime) dominated markets are stable, SBD (off prime) dominated markets are stabilising and Peripheral Business District (PBD) (suburban) dominated markets are rising. It is interesting to note that Bengaluru, Chennai, Pune and Hyderabad have already crossed their rent peak of Q3 2008, while Noida and Gurgaon are coming closer to their respective peaks. During Q2 2018, Hyderabad crossed its rent peak of Q3 2008. Low vacancy rates and sustained demand in the established office corridors of Bengaluru, Gurgaon, Hyderabad and Pune will see higher rent appreciation compared to other markets in the forecast period.

Future drivers of office real estate

- Innovation and technology adaption in real estate
- Increasing participation of Institutional Investors; REIT listings
- Growing Transparency in real estate
- Proactive Reforms like RERA & GST; Sustainability and Green buildings
- Large scale on-going infrastructure - metro, road links at cities
- Demand from Co-Working, Fintech start ups, IT and BFSI companies
- Resilient Economy with Strong Fundamentals

Source: Real Estate Intelligence Service, JLL India | 2Q18

RETAIL



PREDICTIVE ANALYTICS TO AID FUTURE GROWTH

Retail markets in India are growing as increasing urbanisation and consumerism continue to act as key drivers. Quality mall space is witnessing healthy absorption and we expect that the adoption of analytical tools that analyse consumer behaviour will ensure higher footfall for malls in the future.



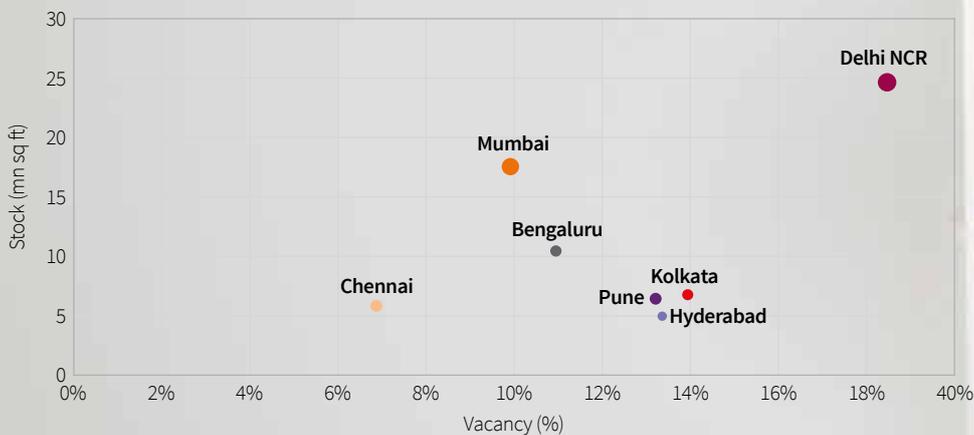
Present Scenario

Increasing Grade A retail stock

As of 1H18, India's Grade A retail completed stock stood at 77 million sq ft, and it is expected to grow 34% by 2022 to reach nearly 103 million sq ft. Delhi-NCR accounts for almost 32% of total retail space in India, followed by Mumbai at 23% and Bengaluru at 14%. Delhi-NCR has a Grade A retail stock of 24.6 million sq ft, while Mumbai has Grade A stock of 17.6 million sq ft and Bengaluru has completed stock of 10.5 million sq ft.

Currently, the Pan-India retail vacancy rate stands at 13.4%. With increased leasing activity in recently completed malls in Chennai, Delhi-NCR and Mumbai, the overall vacancy rate dropped from 15.0% in 3Q17 to 13.4% in 2Q18. Delhi-NCR is witnessing the highest vacancy rate, followed by Kolkata, Hyderabad and Pune, mainly because of higher vacancy rates in malls, which are located on the outskirts of the city. Only Chennai and Mumbai are seeing single-digit vacancy rates.

Stock/vacancy rate in various cities as of 1H18



Source: Real Estate Intelligence Service, JLL India | 2Q18

On a half-yearly basis, net absorption in 1H18 for retail space has seen a rise of over 75% y-o-y, recording total absorption of 1.9 million sq ft, with a majority of it being good quality. During the same time, new completions declined about 25% y-o-y with total completion of new mall space recorded at approximately 2.1 million sq ft in 1H18 over 2.8 million sq ft in 1H17.



Future Outlook



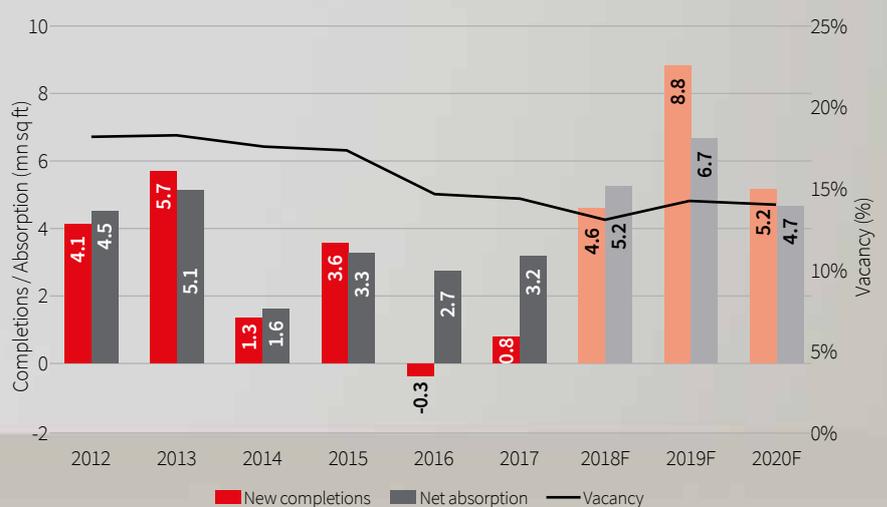
Demand/Vacancy

Net absorption of retail space is projected to increase notably in the near-to-medium-term, i.e. during 2018-20, on the back of good quality supply, which is coming up across various cities. These cities are also witnessing healthy pre-commitments of space in projects that are slated to complete during the forecast period of 2018-20. As per JLL REIS projections, nearly 18 mn sq ft of retail space will likely be absorbed during the next three years, which is nearly 96% of total supply coming up in the same period. With increased supply and demand in the forecast period, the pan-India vacancy rate will hover around 14% during 2018-20

Delhi NCR is likely to witness the highest absorption during the period 2018-20 closely followed by Hyderabad; Mumbai and Kolkata's absorption level to surpass the supply during the same period

During the 2018-20 Delhi-NCR is expected to absorb nearly 4.5 mn sq ft, which is 25%, of overall absorption across all seven cities, followed by Hyderabad at 4.1 mn sq ft, Mumbai at 3.2 mn sq ft and Bengaluru at 17 mn sq ft. Chennai is likely to absorb 1.9 mn sq ft from its expected delivery of projects spread across 2.1 mn sq ft. Pune and Kolkata are expected to witness absorption of 0.8 mn sq ft and 0.7 mn sq ft, respectively.

Rising new supply and absorption projected for the forecast period of 2018-20



Source: Real Estate Intelligence Service, JLL India | 2Q18

Supply

Hyderabad will witness the maximum supply in the near-to-medium-term (2018-20), with a contribution of nearly 29% to overall supply in the period. Delhi-NCR will follow Hyderabad in terms of new supply with a share of 28% of overall supply in the next three years, followed by Bengaluru with 15% of overall supply. We expect the under-construction projects coming up in the medium-term to witness healthy demand, resulting in a stabilised vacancy rate for the forecast period.

Rents

Rents are expected to rise marginally across all cities with Mumbai leading the charts

During the last year, Chennai, Pune and Mumbai have witnessed maximum rent growth due to quality completions that are fetching higher rents compared to overall rents for the sub-markets. We expect decent rent growth to continue in the medium-term, with positive consumer sentiment, rising demand for space from global and domestic retailers, and an influx of quality supply over the forecast period.

During the forecast period, rent growth is likely to be marginal across all top seven cities. Mumbai is expected to witness the highest rent growth in the medium-term on the back of the quality supply coming up, which will attract higher rents. Pune and Kolkata will follow Mumbai in terms of rent growth.

Analytics to drive strategy in the retail sector in the future

Quality malls are consistently clocking occupancy levels of over 90%, steady rent growth and a steady increase in trading densities. To sustain this momentum, they are now moving past the ordinary methods of just improving the tenant mix or ad hoc brand refresh. There is now a strong school of thought that is looking at consumer analytics as an important tool that allows them to customise their mall strategies to enhance the customer experience.

Predictive analysis is holding sway, as analysing consumer buying behaviour and mall circulation patterns are determining brand recall. It is also being used to enhance customer experience, which plays an important role in determining footfall. Analytics aids retailer brands in understanding consumer patterns without any arduous and aimless consumer surveys.

In the age of big data, some of the popular technological tools that quality malls are either using or are planning to make use of are beacons, visitor tracking programmes and analytics through mobile apps, and loyalty programmes. Consumer feedback through such technological tools is also finding greater traction with retailers, as they use this feedback to improve in-store merchandise as well as the overall buyer browsing movement.

Already, some prominent retailers, such as Aditya Birla Fashion and Retail Limited, Shoppers Stop and Big Bazaar, are focusing on optimising the experience of the consumer through data and analytics. Similarly, video analytics can help in better merchandise placement, offering greater visibility for popular brands by putting them in mall areas that are considered the most active based on a heat map analysis of the mall itself.

Going forward, the emphasis on technology-driven analytics is bound to increase in malls. With advances in artificial intelligence and the Internet of Things, malls could offer an enhanced experience for consumers, predicting their needs before the consumers themselves realise it. Rigorous analytics will act as a moat against future threats to the concept of shopping centres.



RESIDENTIAL

A hand holding a large, glowing key against a background of a city skyline at night. The key is the central focus, with a bright, golden glow emanating from its head. The background shows a blurred cityscape with lights, suggesting an urban environment. The overall tone is optimistic and forward-looking.

AFFORDABLE HOUSING HOLDS THE KEY

The residential markets are slowly witnessing a revival, post the slowdown witnessed last year. This has been on account of the uncertainty regarding implications of the Real Estate (Regulation and Development) Act 2016 (RERA) and the Goods & Services Tax (GST) gradually settling. The government's policy push to affordable housing is helping this segment gain traction and developers across the country are showing a keen interest in participating in this sector's growth story.

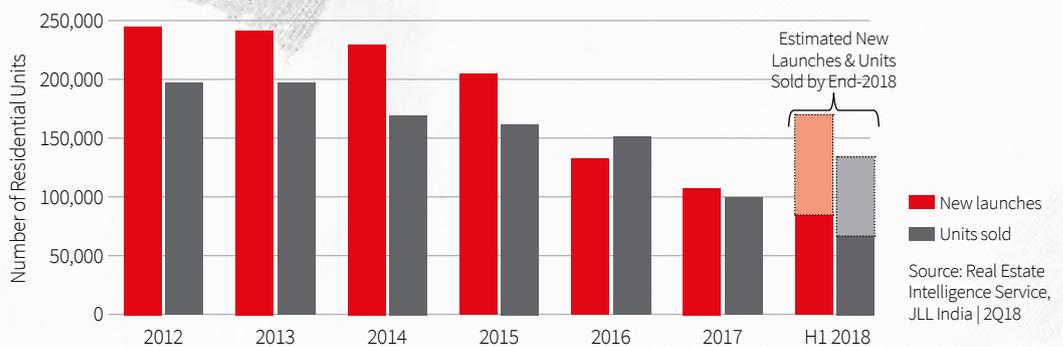


Present Scenario

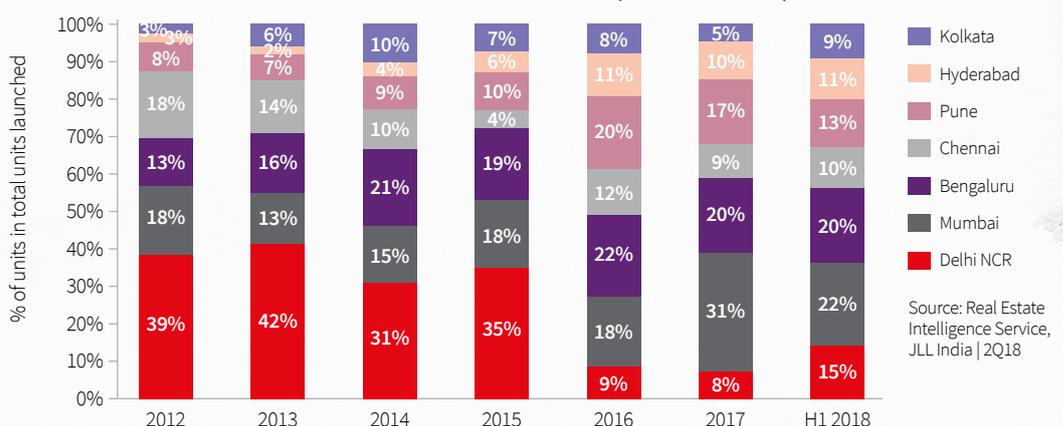
Key trends

- **Residential launches up:** The number of new launches crossed the 40,000 unit mark after eight quarters in Q2 2018. Bengaluru and Mumbai remain the major contributors to new residential launches. Bengaluru contributed 20-22% to total new launches over the past 2-3 years, while Mumbai was the largest supplier in 2017 (31%).
- **Increased sales momentum:** Apart from launches, residential sales were up with over 64,000 units sold in H1 2018, compared with CY 2017 sales of approximately 96,000 units.
- **Weighted average capital values rose marginally in select cities:** While prices remained under pressure, average capital values in Q22018, rose marginally in Delhi-NCR, Hyderabad, Mumbai, Chennai and Bengaluru in the range of 0.1-1.2% q-o-q.
- **Price sensitivity witnessed:** Launches within the price range of INR 40 lac were the highest during 2017 and in H1 2018 across the country. Developers continued to offer compact size homes in order to meet the budget of homebuyers.
- **All-inclusive or box pricing trend:** RERA has changed the dynamics of the residential market, with developers making offers on an all-inclusive basis. This box pricing is making it easier for buyers to evaluate the total cost of the house and whether it fits within their budget.
- **Greater traction for completed projects:** Completed projects witnessed higher traction due to the non-applicability of GST on completed inventory, which made the overall purchase cost more attractive. However, under-construction or newer projects by well-known players also found tangible interest.
- **Developers were offering indirect discounts:** Developers were seen offering schemes like paying just 5% upfront and the balance on possession, which helped push sales. These schemes were also seen for ready to move into properties and these along with easier bank funding helped sales.

Supply and Absorption of Residential Units (2012-1H2018)



Market share of residential launches (2012 - H1 2018)



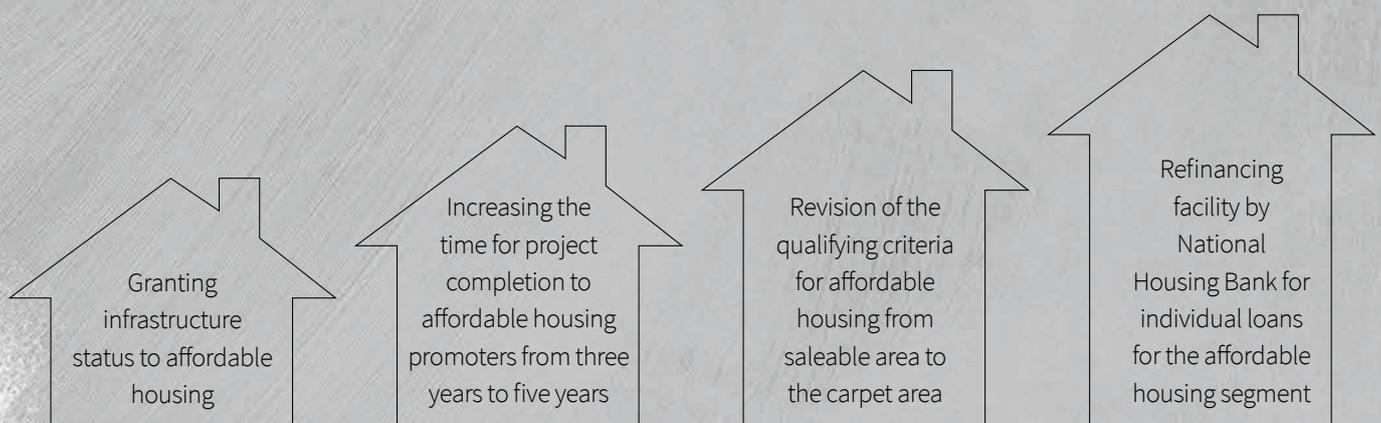
Affordable housing trends

Increased interest in affordable housing is being witnessed due to the Central Government's policy push, innovative technology as well as increased participation from the private sector. Easier availability of land in the extended suburban sub-markets, along with improved infrastructure connectivity, is also helping drive this housing segment.

The policy push

The Pradhan Mantri Awas Yojana (PMAY-Urban) aims at "Housing for All", which has to be achieved by 2022. A housing shortage of 20 mn is envisaged to be addressed through the PMAY-U.

The Union Budget 2017-18 announced a number of measures to boost affordable housing:



Technological advancements

The endeavour towards the creation of affordable housing requires the adoption of durable, environment-friendly, strong, ecologically appropriate, energy efficient and yet cost-effective materials and appropriate technology in the field of construction. The use of precast technology, where precast reinforced concrete (RC) planks supported over partially precast joists, has been adopted in several affordable housing projects. Reinforced concrete (RCC) door frames and window frames have been used as a substitute for wood, as it is cheaper than wooden door frames. The use of prefab technology has also been seen in several affordable housing projects. The manufacture of construction material utilising alternative products that are available locally has helped bring down the high costs associated with standard building materials. Going forward, the success of affordable housing will largely depend upon innovations in alternative technology, which will help achieve cost-efficient mass production at a faster pace.

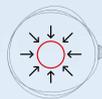
The Public Private Partnership (PPP) initiative

The new PPP policy for affordable housing, introduced in September 2017, allows extending central assistance of up to INR 2.50 lac per house to be built by private developers even on private land, besides opening up the immense potential for private investments in affordable housing projects on government land in urban areas. The other PPP model introduced, extends central assistance of about INR 2.50 lac per house as interest subsidy on bank loans as upfront payment under the Credit-Linked Subsidy Component of the PMAY-U.



Future Outlook

We see affordable housing as being a key growth driver for residential markets in the near future. Apart from this, we are set to witness:



Continuous consolidation in the markets



Accelerated transparency



Steady sales momentum across most cities



The emergence of new sectors like senior living and student housing



Increased private equity investments



Affordable housing: The big opportunity

We see affordable housing as a sector that will continue to be a key driver for residential markets and provide a big opportunity for both developers as well as investors in the coming few years.

Key drivers for affordable housing:

- As per the 2011 census, over 30% of India's population lives in urban areas and by 2030, this number is expected to grow to 40% of the country's population.
- Affordable housing finance is estimated to be an INR 6 lac crore business opportunity by 2022, by when the government seeks to achieve housing for all citizens.
- The Ministry of Housing estimated a housing shortage of 18.78 mn houses during the 12th plan period, with 99% in the economically weaker section and lower income groups. The country's total urban housing shortage is projected to be about 30 mn by 2022.
- Nearly 1 mn households are living in non-serviceable kutchra houses, while over half a million households are homeless.

Large-scale budget housing projects are, without a doubt, the need of the day to address the shortfall in the housing sector.



- **Continuous consolidation in the markets:** As the policy push sees increased weeding out of non-compliant developers, we will continue to witness consolidation in the markets. The fittest will be those who adhere to the norms, follow ethical practices and quickly adopt corporate governance principles.



- **Accelerated transparency:** JLL's biennial survey, the Global Real Estate Transparency Index (GRETI) 2018, ranked India at the 35th position. This is an improvement of five positions since 2014. Improved market fundamentals, policy reforms (LARR Act, Liberalisation of FDI into the realty sector) and the strengthening of information in the public domain contributed to accelerated transparency. We see further improvements in transparency in the future for real estate markets.



- **Steady sales momentum across most cities:** Seeing the trend of sales and supply additions across cities, we expect similar sales momentum to continue. In fact, as reforms pave the way for increased transparency, investors may find their way back to the residential markets.



- **New sectors will gain momentum:** New sectors like student housing and senior living will gain momentum. The unmet demand for student housing is very high in India. The ten leading states in terms of the number of students in the higher education space experience an unmet demand of 30-60%, as per official statistics. While currently the market is small and unorganised, cities like Hyderabad, Indore and Kota look attractive for this asset class. Here, land prices are reasonable and unmet demand from students is high. Senior Living will also see increased activity, as the estimated senior population is 98 mn in India and is expected to touch 240 mn by 2050.



- **Increased private equity investments:** Currently, debt structures dominate the fund inflows in residential markets. Most developers are over-leveraged, but with RERA, a conducive environment for the return of equity participation has been created. We expect the return of equity to residential markets in the future.

LOGISTICS & WAREHOUSING

THE EVOLUTIONARY LEAP FORWARD

India's logistics and warehousing sectors are rapidly transitioning through a revolutionary phase. Multiple initiatives associated with large investments (both domestic and international) within this segment, clearly underscore the upcoming trend.

INR 15,000 cr in private equity investments in warehousing space has been witnessed since 2014. While this made up around 10% of total private equity investment in 2017, the share is now expected to grow further.



Present Scenario

Industry trends



• **Automation:** Globally tenants are looking for technological solutions for achieving greater efficiency and optimisation of space in warehousing, such as:



- **Digitalisation and network collaboration** to enable efficient capacity planning and demand forecasting for warehousing.



- **Application of automation** through the use of physical robots that replicate manual tasks and increase efficiency.



• **Last mile delivery:** Last mile delivery is providing a wide range of products to end-consumers along with the option of same or next day delivery



• **Consolidation of space:** The implementation of GST has had a positive effect on warehousing activity in India due to diminishing state boundaries and has made way for the cost and operationally efficient Hub & Spoke Model of warehousing. Tenants are looking forward to shifting from low-quality redundant warehouses to big box, good quality Grade A warehouses.



Future Outlook

Large infrastructure projects like DFC, DMIC, Sagarmala and Bharatmala would impact growth by offering better connectivity and accessibility across the country. With warehousing being granted infrastructure status, the availability of longer tenure financing facilities at a reduced cost of debt will support the development of much-needed, large-scale logistics parks in the country.

Stock

- Total cumulative stock of 138.5 mn sq ft was recorded in 2017 for Grade A and Grade B for eight primary locations.
- Going forward, in the medium-term we expect the stock to nearly double over the next three years. Interestingly, Grade A stock would grow by more than two times its existing 2017 level.

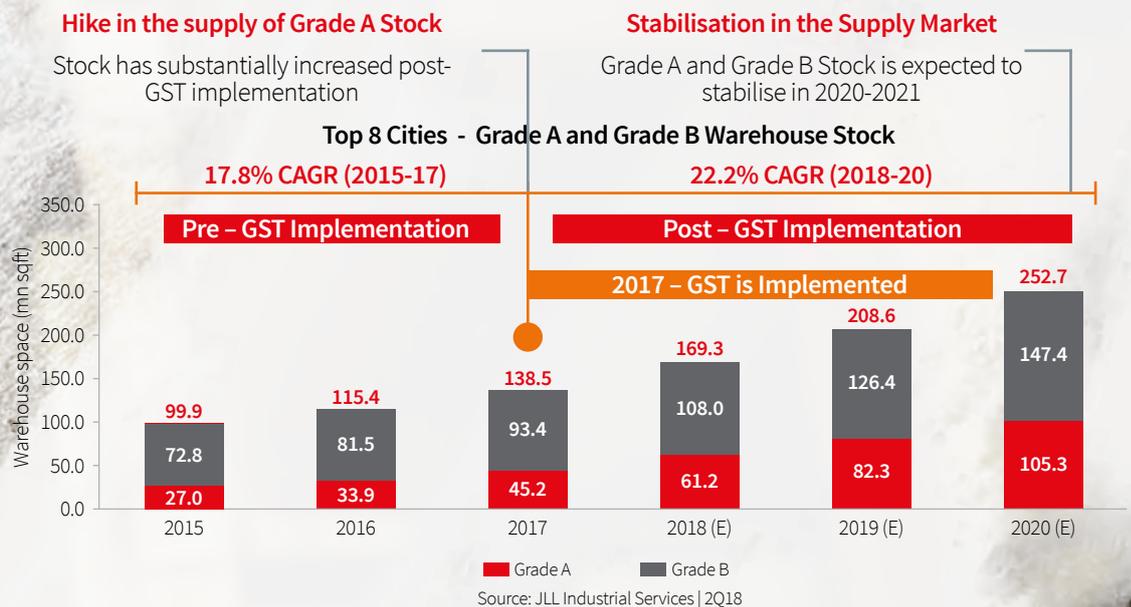
Absorption

- The overall warehouse absorption has gone up by more than 35% since 2016 to reach 19.5 mn sq ft in 2017.
- While third-party logistics players have remained the major contributors, there has been a significant demand from e-commerce followed by automobile, electronic & engineering, retail & Fast Moving Consumer Goods (FMCG).
- We expect absorption to remain buoyant in the medium-term, supported by multiple factors such as the expansion requirements of tenants, large-scale consolidation in top warehousing stock and infrastructure developments across the country, with better accessibility to most of the locations.

Rents

- Supported by the rapidly growing demand for space, rents will likely move upwards in most of the markets.
- However, in a few select corridors, growth may be moderate on the back of the large upcoming supply.

The future for the warehousing sector looks bright, with India set to witness investments close to INR 50,000 cr for the creation of warehousing facilities across the country between 2018 and 2020.

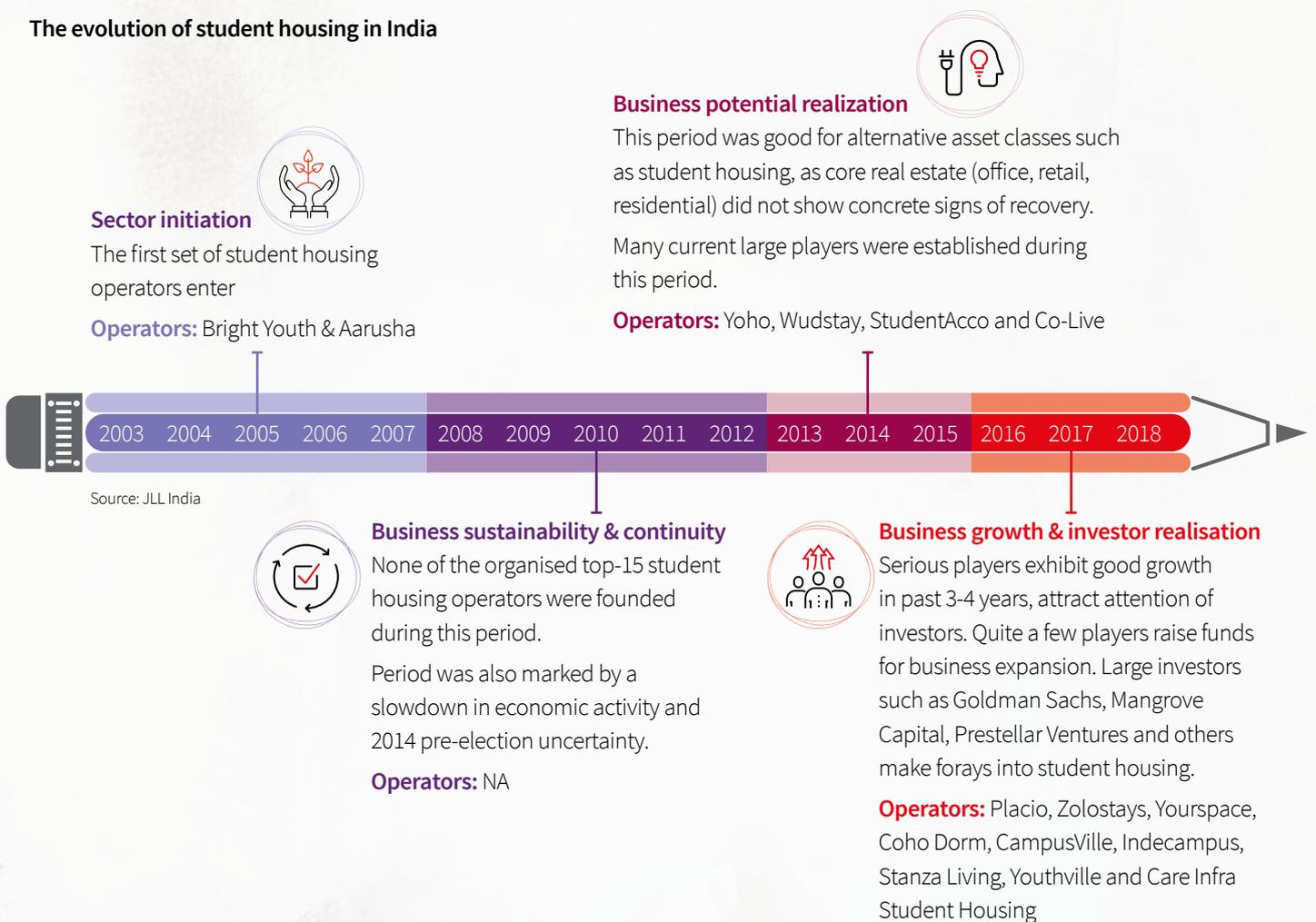


STUDENT HOUSING

AN EMERGING SECTOR

Student housing, the new bright star on the alternatives sector horizon, is set to shine brighter in the future. The 2011 census data reveals that approximately 8 mn students in India are migrants who require student accommodation in close proximity to their university campuses. A large part of this population currently lives in sub-optimal housing and this underlines the huge unmet demand in this sector.

The evolution of student housing in India



Ongoing phase: Business growth & investor realisation

The business growth & investor realisation phase began in 2016, by which time, student housing had earned a reputation of being an asset class that is not only counter-cyclical to the core real estate asset classes, but also a somewhat recession-proof and high-yielding emerging asset. A plethora of student housing operators entered in this phase from diverse fields and backgrounds - management, entrepreneurs, investment banking, hospitality, etc. From merely restricting itself to a few large cities such as Bangalore, Pune, Chennai and Mumbai, organised student housing started spreading to cities such as Delhi NCR, Kota, Manipal, Indore and Dehradun. Newer models of operation, ranging from ownership, aggregator and lease-only models, came into being. Investor interest is currently high and operators who demonstrate clarity of vision, have a professional background with experience of successfully running a project, and have sound market knowledge are in a position to attract investments.

The background of the page is a photograph of a modern student hostel room. It features wooden walls and wooden bunk beds with white bedding. The room is well-lit, with warm lighting visible. The text is overlaid on this image.

Present Scenario

Existing capacity and focus cities

The student housing market continues to remain a nascent one with the top 15 players (which includes tech-based aggregators) dominating the organised space, and together they operate around 84,500 beds (this includes count of beds operated by tech-based aggregators). On average, if we assume INR 150,000 annual fees charged to students per bed (average fees for mid-premium accommodation and most operators currently operate in this space), it would equate to an annual income potential of about INR 1267 crs (USD 183 mn). Besides, the core commercial sector's market yield expectations remain range-bound between 7 and 10%; against that, the student housing sector has the potential to earn much higher (>12%) yields.

Existing demand and supply situation

According to University Grant Commission (UGC) data, there are 789 universities in India affiliated with nearly 50,000 colleges and institutes. Together, these institutes have an enrolment of 34 mn students in the higher education segment. An extrapolation from the 2011 census data reveals that approximately 8 mn students are migrants who would require student accommodation facilities in proximity to the university campus. As of 2017-18, total occupancy recorded in hostels within college campuses across India was only 3.6 mn students. That means the remaining demand from 4.4 mn students is currently served by the private / unorganised sector - PG accommodation and rental houses, etc. The gap between demand and supply in India is equivalent to double the total number of higher education students in the UK.

Future Outlook

Lack of regulation of accommodation standards: Currently, while there is so much discussion going on to incorporate standards into affordable homes in India with respect to area provision and policies, similar measures can be laid out for student housing. As a result, student housing will be treated with importance and can also be segregated from other types of residential asset classes for incentivising purposes. Also, several accommodation facilities that currently do not follow basic standards of safety, hygiene and liveability will be compelled to fall in line with the standards. Currently, such standards exist only for women's hostels in India.

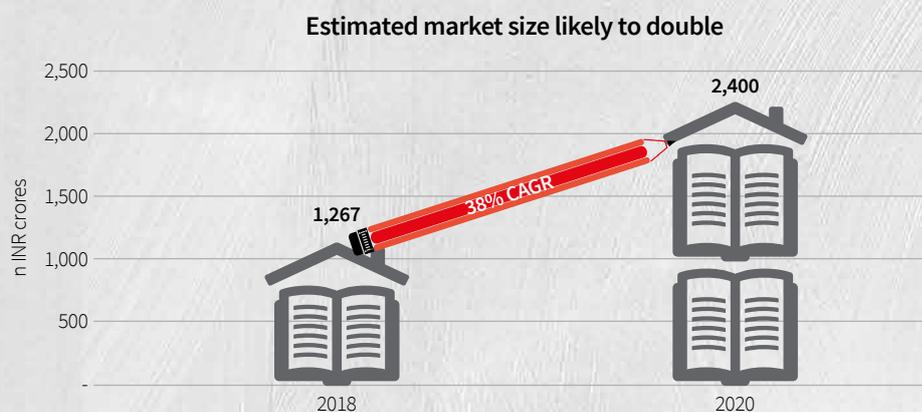
Taxation and utilities charged at commercial rates: Currently, the student housing operators are treated as private operators and charged with commercial rates for taxation and utilities such as electricity and water charges. However, there is a need to treat this sector as a facilitator for the education sector. A draft policy by the name of National Urban Rental Housing Policy has taken up the issue of considering such accommodation on a par with residential premises. While this draft policy is yet to be implemented, once enacted, it could reduce the utility cost applicable to the student housing operators by around 40%.

Industry size estimate: The current demand-supply gap is only expected to widen if we take into consideration the target set by the Ministry of Education to raise the *gross enrolment ratio** to 30% by 2020 from the latest reported enrolment ratio of 25.2% (2016-17). With this, the student population in the higher education space is poised to increase by another 5 mn, to 40 mn students, by 2020.

Given that the demand is high and rising, along with the fact that there is a clear need for professionally managed entities to operate in this sector, the space looks quite appealing. The top 15 student housing operators that JLL spoke with clearly reflect this sentiment, as each operator aspires to increase supply to well over double the existing capacity in the next three years.

In a survey of the top 15 student housing operators conducted by JLL, we understand that the current capacity of all operators combined is 84,500 beds, with a majority of them operating in the mid-premium category. Assuming a fee of INR 150,000 per annum, the current market size of leading organised players stands at INR 1267 crs (USD 183 mn). Further, taking into account the expansion plans of each operator, we foresee a combined supply of 160,000 beds from the same players by 2020. Therefore, with a conservative estimate by keeping the fee constant, market size is expected to increase at a whopping 38% CAGR until 2020, to INR 2,400 crs (USD 348 mn).

And numbers speak sufficiently of the opportunity this asset class presents in the future.



Source: JLL survey, June 2018

*Gross Enrolment Ratio: The total enrolment within a country, at a specific level of education, expressed as a percentage of the population corresponding to this level of education.

CONCLUSION

India's recovery from the effects of demonetization and GST is reflected in its clocking an impressive 7.7 per cent GDP growth in the March quarter 2018. Robust performance by manufacturing, construction and service sectors and good farm output pushed GDP growth to this seven-quarter high, helping it retain the fastest growing major economy tag.

Backed by this growth engine, the sun will shine bright for the real estate sector in the medium term. The real estate numbers are all indicative of real demand - whether it be office, retail, residential, student housing or warehousing. New users of office spaces (Non-IT players and co-working) will gain strength. Affordable Housing will be key in residential markets and Retail markets will see PropTech as a major driver.

Stray clouds in the form of slow implementation of RERA by states, lack of regulatory framework for Student housing, the challenge of slow equity investments in residential markets remain. We hope however, that as the sector matures towards greater regulation and transparency, each sector will meet these challenges successfully and attain new heights.

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 JLL India

JLL is India's premier and largest professional services firm specializing in real estate. With unaudited revenues at INR 3,400 crores for FY 2017-18, the Firm has grown from strength to strength over the last 20 years in the country. JLL India has an extensive geographic footprint across 10 major cities (Ahmedabad, Delhi, Mumbai, Bengaluru, Pune, Chennai, Hyderabad, Kolkata, Kochi and Coimbatore), presence in over 130 tier 2 & 3 locations with cumulative strength of over 10,000 staff. It provides investors, developers, local corporates and multinational companies with a comprehensive range of services. This includes research, strategic advisory & consultancy, capital markets, transaction management, project & development services, integrated facilities management and property & asset management. These services cover various asset classes such as commercial, residential, industrial, retail, warehouse and logistics, hospitality, healthcare, senior living and education.

JLL India won the Five-Star Award for Best Property Consultancy at the International Property Awards Asia Pacific 2018 -19. The Firm is also recognised amongst the Top 100 Best Places to Work in India for two consecutive years in 2017 & 2018 in the annual survey of 'India's Best Companies to Work For' - a joint study conducted by Great Place to Work® and The Economic Times. It has also been acknowledged as 'Property Consultant of the Decade' at the 10th CNBC-Awaaz Real Estate Awards 2015. For further information, please visit www.jll.co.in

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