

REPORT











BANGALORE IN THE SPOTLIGHT

KEY INSIGHTS FROM TWO DISCUSSION SESSIONS WITH
INDUSTRY LEADERS IN INDIA'S REAL ESTATE MARKET

GRI *Club*



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INTRODUCTION

For more than 25 years, GRI Club's exclusive networking events have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potential using the real estate market.

GRI Club reports provide the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

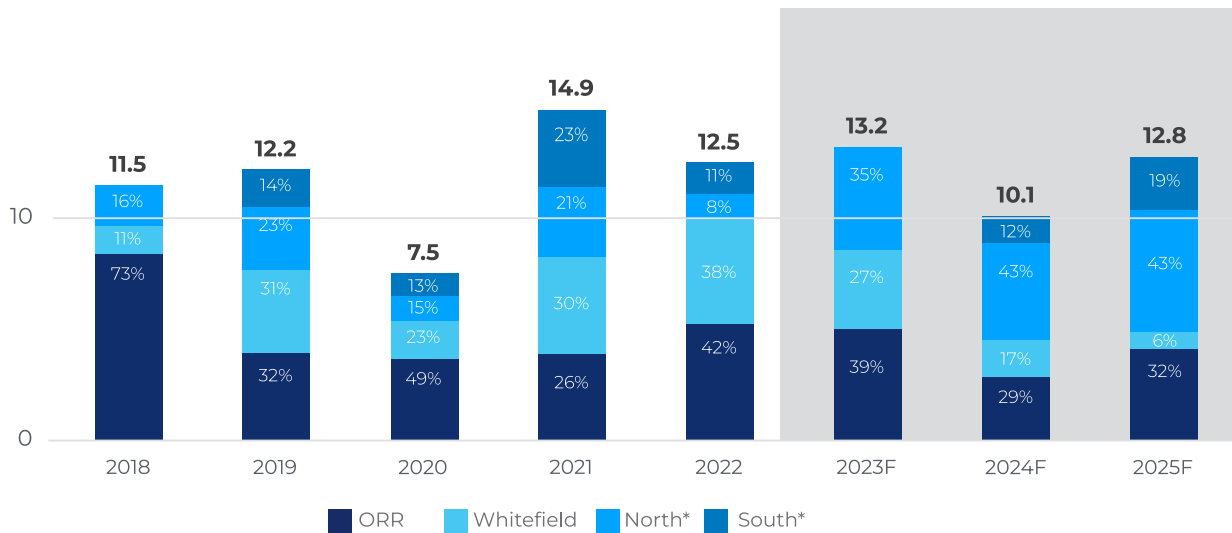
This report was compiled following the conversations that took place at the **Next Stop Bangalore's Real Estate Forum** in **India**, covering pivotal topics in **Commercial and Residential Real Estate**, including challenges like rental yields, cost rising, consumer preferences and technological advancements.

BANGALORE'S COMMERCIAL REAL ESTATE MARKET

WEATHERING THE STORM AND CHARTING NEW HORIZONS

Bangalore's commercial real estate sector is undergoing transformation due to the intricate interplay of investor preferences, workspace trends, and market dynamics. Despite challenges, there is a prevailing optimism about its growth trajectory, buoyed by favourable macroeconomic indicators and robust investor interest.

CRE - Office Supply Trends (by Micro-market)



*North includes SBD North and Peripheral North, South includes SBD South and Electronic City.

Source: PropShare, Dec/23.

A notable contrast arises when comparing the global commercial real estate market with India's. While global challenges persist, particularly in the post-COVID recovery phase, India's commercial real estate sector has exhibited resilience and continued growth.

Although there was a temporary slowdown in capital flow last year due to global factors, confidence remains high that foreign investment, including from the Middle East and Asia, will rebound.

Regulatory reforms such as RERA have played a crucial role in bolstering confidence, alongside infrastructure developments like modern airports and burgeoning commercial complexes, and favourable demographic trends.

Domestic capital inflows have also been significant, driven by increasing interest in equity investments and a shift towards higher-risk assets.

Major developers in Bangalore



13% stock

Manyata Tech Park
Embassy Tech Village



BAGMANE

12% stock

Bagmane Constellation
Bagmane WTC



Prestige GROUP
Add Prestige to your life

9% stock

Prestige Tech Park
Prestige Technostar

Brookfield Properties

8% stock

Ecospace
Ecoworld

Blackstone

6% stock

Exora Business Park
Trade Tower

Source: PropShare, Dec/23.

This surge in capital can be attributed to India’s promising economic outlook, including projections of reaching a USD 7 trillion economy by 2030 and hosting 20% of the global workforce.

Looking ahead, leasing expectations for commercial real estate in Bangalore are expected to rise, driven by ongoing developments and pre-leased projects. This positive outlook extends beyond Bangalore, with other cities like Pune and Mumbai also emerging as attractive destinations.



(Photos: GRI Club)

INVESTOR'S PERSPECTIVES AND PREFERENCES

From an investor's perspective, India continues to offer a unique and dynamic opportunity. Despite initial reservations, investors are increasingly acknowledging the potential for substantial returns in the Indian market. Factors such as the young population, cultural dynamics, and evolving amenities contribute to India's allure.

In contrast to markets like Japan or Korea, where scale may be limited, India provides opportunities for large-scale investments and relatively low value per square foot, appealing to long-term investors.

Furthermore, there's a growing trend of Asian investors establishing asset management companies in India, indicating a shift towards active participation and competition within the market.

Examining the financing landscape within the real estate sector, the notion of abundant capital awaiting deployment was challenged. Despite conferences suggesting ample funding opportunities, actual investment remains constrained by low returns.

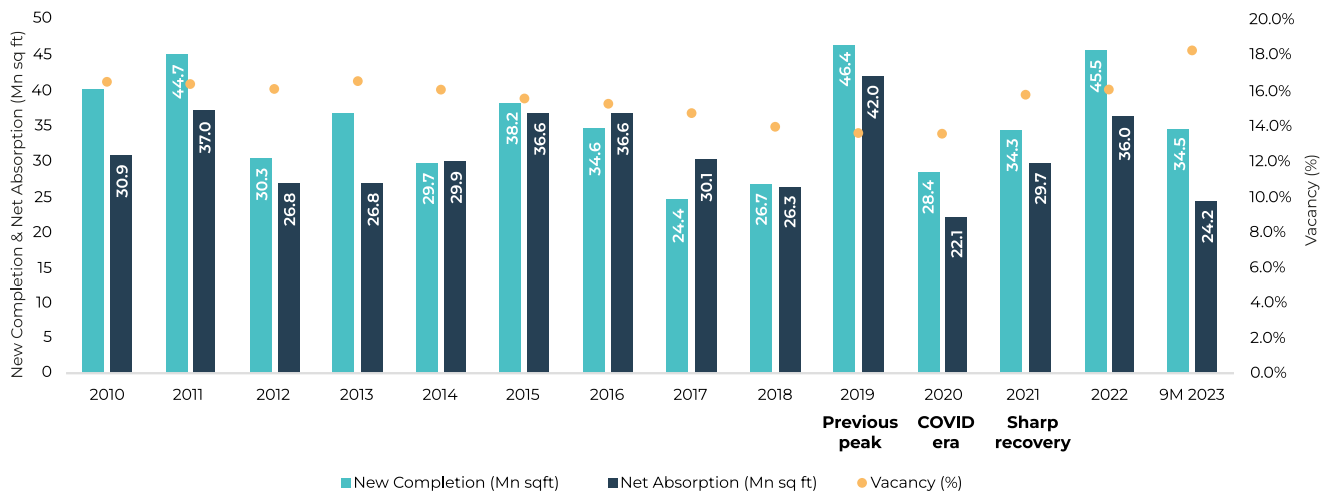
Specifically, the returns projected in financial models are considered inadequate to attract serious investors, both domestic and international. One reason for this may be the evolving demands of occupiers and investors in the commercial real estate sector, particularly in India's market.

A comparison between listed and unlisted markets reveals variations in investor expectations. While listed office REITs have demonstrated relatively favourable returns, unlisted projects require higher pre-tax IRRs to entice investors. Nevertheless, the current market witnesses limited transactions, with only a handful of significant deals occurring as sellers uphold high cap rate expectations.

When comparing the attractiveness of completed assets to greenfield investments in India's commercial real estate sector, it's observed that while global investors initially favour completed assets due to perceived risks associated with greenfield developments, there's a realisation that opportunities for completed assets are becoming scarce.

Developers are exploring ways to attract capital by presenting brownfield assets with existing approvals and contracts as alternatives. However, a cautious approach towards greenfield developments persists due to concerns regarding approval processes and potential risks.

Commercial office: Demand-supply dynamics



Note: Grade A only. Top 7 cities include Bangalore, Chennai, Hyderabad, Kolkata, MMR, NCR & Pune. Data on calendar year

Source: ANAROCK Research

When considering potential solutions to narrow the gap between bid and ask prices, a key focus is on whether a reduction in interest rates could decrease the opportunity cost of capital, thereby enhancing the attractiveness of commercial real estate investments. However, the current interest rate environment doesn't align with such investment strategies, dampening investor enthusiasm.

Participants underscored the importance of distinguishing between equity and debt instruments in real estate investment. It's noted that misrepresenting equity as debt can lead to misconceptions regarding potential capital gains. Thus, there's an urgent call for a comprehensive evaluation of recent market dynamics to accurately gauge investment prospects and mitigate associated risks.

Ultimately, the decision to invest in commercial real estate hinges on its comparative attractiveness to other investment avenues, both domestically and internationally. Without offering compelling risk-adjusted returns, the sector may struggle to draw significant capital inflows, thereby posing challenges for its growth and advancement.

THE FLEXIBLE FUTURE OF OFFICE SPACES

During the discussion, it becomes apparent that the post-COVID era and changing preferences of the new generation have significantly influenced office space design, especially in greenfield projects. While there haven't been substantial changes in hard design elements, tenants are increasingly seeking open areas and amenities such as creche spaces and gyms.

Influenced by the pandemic, occupiers now demand more flexible expansion plans from developers, reflecting a global trend towards prioritising employee well-being. This shift has prompted a renewed emphasis on office environments, with evolving workspace dynamics and amenities aimed at boosting productivity.

Moreover, the conversation delves into market dynamics affecting rental rates, drawing a distinction between supply-demand dynamics and currency fluctuations. Despite investors perceiving rental rates in dollars, actual market rates are shaped by local market factors.

70%
of the companies
are following the
Hybrid Work Model

85%
of coworking operators have
seen increased demand in
the last 5 years

2 out of 3 people
believe the demand for coworking
spaces will be better than the
demand for office spaces by 2030

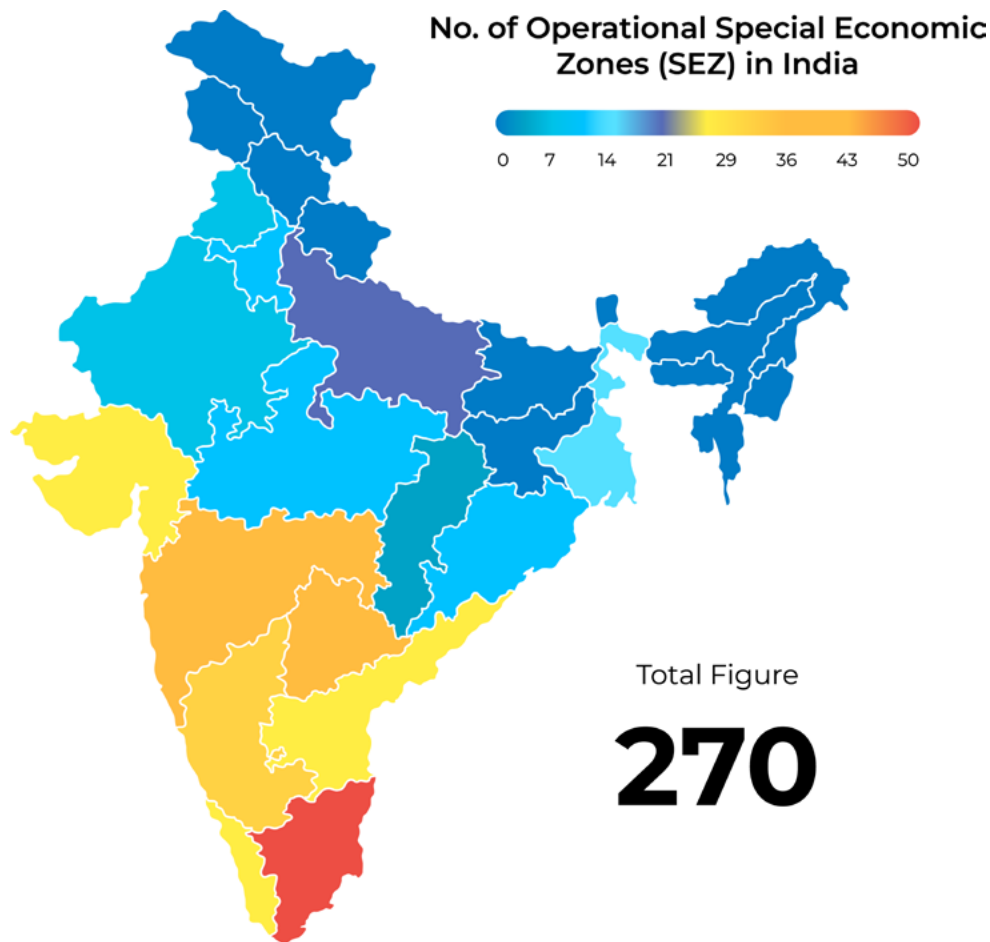
Source: myHQ Research, ANAROCK Research

Furthermore, the spotlight on ESG norms has spurred changes in mechanical, electrical, and plumbing specifications, alongside heightened attention to sustainability in building design. The incorporation of natural elements like water features and green spaces is viewed as a premium offering, potentially driving higher rents, particularly in locations with scenic views.

Overall, there's a continuous learning process and adaptation to evolving market demands in the commercial real estate sector. The integration of tenant preferences and sustainability considerations into design practices underscores the importance of aligning developments with changing market expectations.

NAVIGATING THE SEZ MAZE

Diving into the evolving dynamics of SEZs (Special Economic Zones) and non-SEZs from an occupier's perspective, it is noted that the non-SEZ space faced a shortage of quality supply, resulting in heightened demand for SEZs. However, trends are now shifting, with more SEZs being converted to non-SEZs due to changing demand patterns and occupiers' business strategies.



Source: Annual Report 2022-23, Ministry of Commerce, pp. 114-122.

Developers are grappling with decisions regarding conversions, considering factors such as rental differentials, demand-supply dynamics, and regulatory considerations. Occupiers are increasingly involved in decision-making concerning SEZs, guided by their business strategies and the potential impact of conversions on costs and benefits.

Furthermore, there's a noticeable trend towards contiguous floors and consolidation within parks, driven by tenant preferences for cohesive workplaces and convenient accessibility. This trend has led to requests for cut-outs in contiguous floors to facilitate movement between levels, departing from previous practices of staggered spaces.

BANGALORE'S RESIDENTIAL REAL ESTATE

GROWTH AND MARKET DYNAMICS

In the residential sector, remarkable growth has been observed, with turnover for 11 listed players reaching 1 lakh crore in FY24, compared to 25,000 crores four years ago. Accompanied by robust absorption rates and increased supply, prices have surged by 30% to 40%.

While the NCR market experienced a speculative boom followed by a downturn, sustained growth has been witnessed in markets like Bangalore, Pune, and certain areas of Mumbai, attributed to factors such as infrastructure development and investor migration.



Supply

54,440
units



Sales

63,980
units



Available Inventory

47,070
units



Average Price

₹6,550/sq. ft.

Source: Anarock Research, 2023.

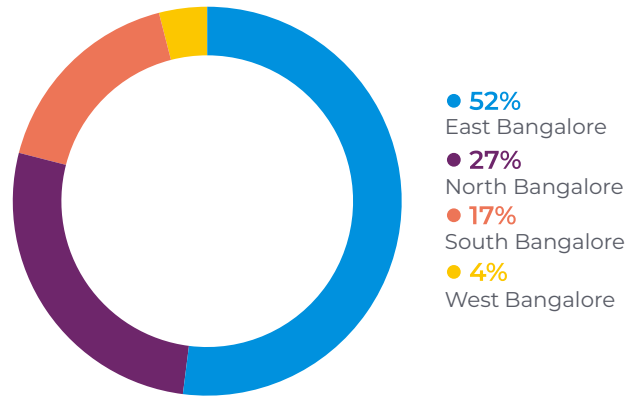
Despite the prevailing optimism, participants express caution regarding the sustainability of this growth, drawing comparisons to the global financial crisis of 2007-2008.

Potential risks are associated with increased trading activity, highlighted by the absence of transfer charges in some markets. Challenges in the market include land parcel quality and acquisition funding, with developers aggressively seeking larger parcels.

Participants emphasised the need for cautious assessment of market dynamics, including capital availability, developer behaviour, and project viability. While acknowledging the influx of wealth into the market and the resulting demand for real estate, there's a consensus on the importance of rational decision-making and prudent project selection to mitigate uncertainties associated with speculative activities and unsustainable price growth.

However, there's a general consensus that the current buoyancy in the market is positive, driven by factors such as pent-up savings, a preference for ownership over renting, and fear of missing out among investors.

Zone wise - Supply 2023



Source: Anarock Research, 2023.

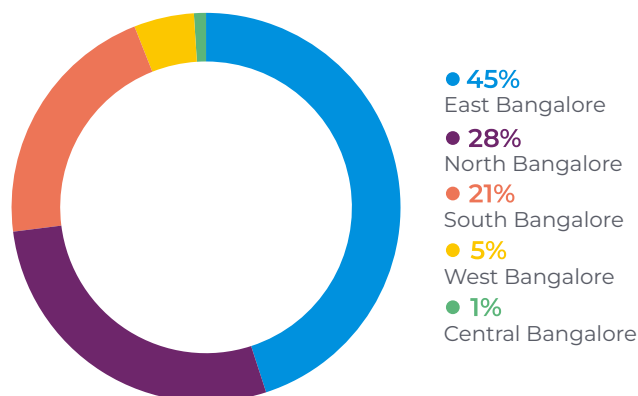
REFLECTIONS ON PRICE RESILIENCE

Comparing the current dynamics of the Pune and Bangalore real estate markets is inevitable. While Bangalore and Pune exhibit relative stability in terms of launches versus absorption rates, other markets like Hyderabad face challenges due to speculative buying.

In Bangalore, a noticeable trend of absorption surpassing supply leads to price escalation and favourable velocity. However, in certain areas of Pune, especially those with higher ticket sizes, developers encounter challenges as supply outstrips demand.

Persistent price increases raise concerns about the long-term sustainability of demand, with some participants expressing scepticism about the market's ability to maintain current growth rates over the next 2-3 years. Worries also arise about the impact of low interest rates on affordability and the potential risks associated with rapid price appreciation.

Zone wise - Sales 2023



Source: Anarock Research, 2023.

Diving into the origins of the price rise, initially stemming from cost escalations during the COVID-19 pandemic, opinions differ on what led to the trend continuing. Some attribute them to risk-adjusted numbers and unsustainable speculative behaviour driven by fear of missing out.

A primary concern is the sustainability of current pricing trends, especially for developers with lesser brand recognition. This arises from the increasing challenges faced by category B developers in effectively operating within the market.

The challenges encountered by category B developers are multifaceted, including difficulties in securing funding, acquiring land, and attracting buyers due to heightened scrutiny and a preference for reputable developers.

From the financiers' perspective, there's a noticeable shift towards funding only established and trustworthy developers, reflecting a cautious approach to risk management.

Similarly, landowners are becoming more selective in their dealings, hesitating to part with their land due to past experiences of prolonged delays and uncertainty.

Customers are also exercising greater discernment in their purchasing decisions, gravitating towards projects by developers with proven track records of timely delivery and quality construction.

Despite the strong demand and activity in the luxury housing market, the phenomenon of launching large-sized luxury units at high prices, particularly in markets like Hyderabad, raises questions about the long-term viability and affordability of such offerings.

To address these concerns, some developers are exploring alternative approaches, such as offering more affordable housing solutions without compromising on quality.

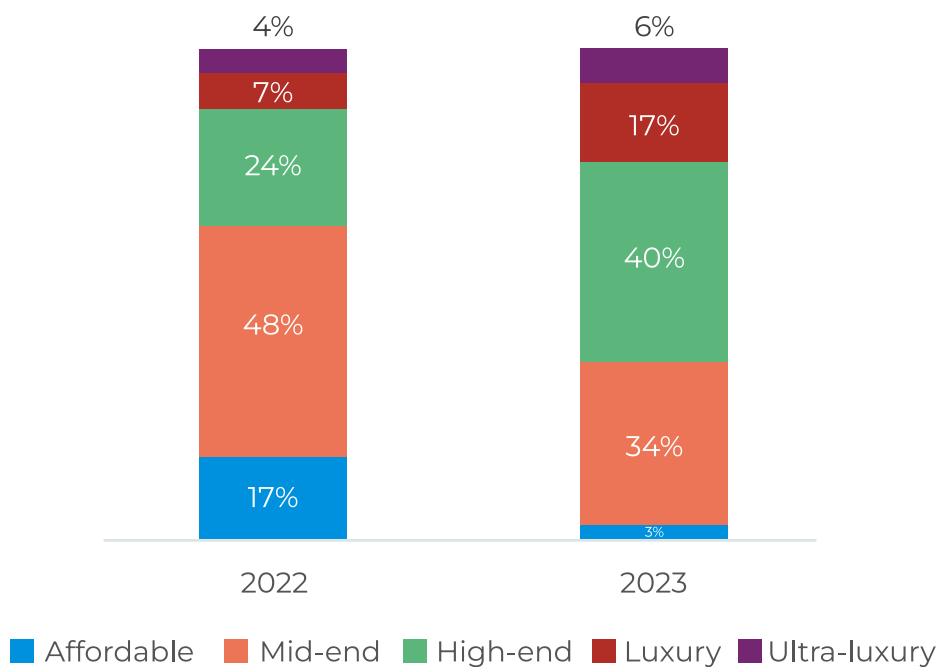
By catering to underserved segments of the market and adapting strategies to changing consumer preferences, developers aim to maintain competitiveness and ensure long-term sustainability.

UNVEILING THE NEW CONSUMER GENERATION

The surge in real estate demand amidst recent economic growth and market expansion is particularly evident in Bangalore's micro-markets, which have experienced significant traction. This influx of capital has intensified interest, attracting professionals from non-real estate sectors to residential properties and contributing to increased investment.

The pandemic precipitated a shift in home perception, with properties now serving multiple purposes, such as home offices for remote workers. This transformation, coupled with robust economic growth, has fostered a uniform real estate cycle across Indian cities, including tier 2 and tier 3 locations.

Budget-wise Supply in Bangalore



Source: Anarock Research, 2023.

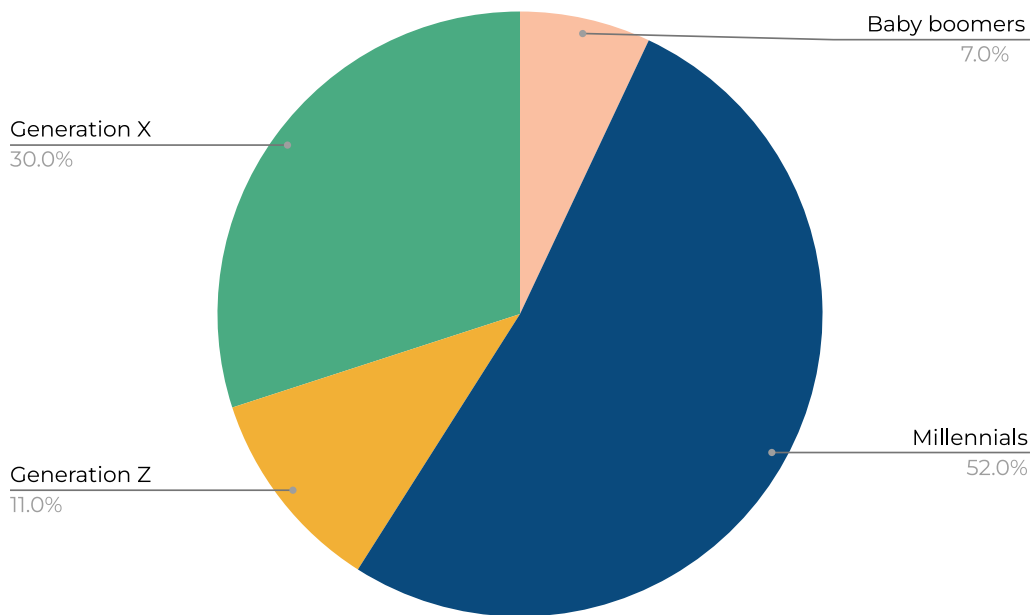
Consumer behaviour is undergoing various shifts, extending beyond home perceptions and affecting sectors like automotive and hospitality. This may suggest evolving lifestyles rather than mere temporary trends, with a notable transition from traditional home ownership views to a preference for rental properties.

The scarcity of quality rental properties in sought-after areas like Koramangala in Bangalore highlights challenges faced by those seeking rental accommodations, particularly furnished apartments.

This has spurred exploration of alternative housing solutions, including co-living arrangements, especially among individuals pursuing a luxury lifestyle.

In response to changing preferences, developers are adapting strategies to cater to emerging segments like millennials and Gen Z, who often seek affordable housing solutions. However, current market dynamics present challenges on the supply side, notably in terms of affordability and rental yields.

Millennials driving demand for real estate in India



* Age (%) break-up of those who choose real-estate as best asset class*

*Based on an online survey of nearly 4,662 participants conducted by Anarock during July-December 2022. 61% of respondents chose real estate as preferred asset class

Source: CII-Anarock report.

Efforts to address these challenges include exploring fractional ownership models and built-to-suit (BTS) properties to enhance stock availability and meet evolving consumer demands. There's also a growing emphasis on customer experience and community-building within the housing sector to differentiate offerings and attract tenants.

Despite the success of certain projects in the affordable housing segment, concerns linger regarding the sustainability of price increases and ongoing buoyancy in the market. Observations from various regions indicate that market dynamics are influenced by factors such as infrastructure development and commodity price fluctuations.

Challenges persist with projects burdened by inherent defects or structural issues. Nevertheless, optimism among developers and investors prevails, tempered by cautious underwriting and a focus on prudent risk management in the face of rapid urbanisation and demographic shifts.



(Photos: GRI Club)



Founded in 1998 in London, GRI Club currently brings together more than 16,000 senior executives spread across 100+ countries, operating in both real estate and infrastructure markets.

GRI Club's innovative discussion model allows free participation of all executives, encouraging the exchange of experiences and knowledge, networking, and business generation.

GRI Club Members also have access to our exclusive online platform to learn more about other members and their companies, correspond, schedule meetings, and receive unrestricted access to all GRI Club content.

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