REPORT

GRI OFFICES INDIA 2024

KEY TAKEAWAYS FROM GRI CLUB'S
PRIME COMMERCIAL REAL ESTATE EVENT

H1 2024

Editor: Isabella Toledo | Designer: Gabriela Carvalho | Image: R.M. Nunes / Shutterstock

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SUMMARY

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 5th edition of **GRI Offices India**, the commercial real estate event that gathered the biggest names in the industry to share insights into the most pressing issues being faced by the sector today and prepare for what lies ahead.

"India is rapidly emerging as a formidable force, asserting its presence on the global stage. Nevertheless, the rapid pace of progress leaves little margin for repeating past mistakes.

Therefore, careful planning and strategic decision-making will be crucial to ensure sustainable growth and development in the Indian real estate market. Collaboration between government bodies, developers, and investors will be essential to navigate challenges and capitalise on opportunities in this rapidly evolving landscape."

Gustavo Favaron
Managing Partner & CEO,
GRI Club

OFFICE MARKET RESILIENCE AMID GLOBAL HEADWINDS

The commercial real estate landscape has undergone significant transformation over the past 25 years, with leasing now outweighing sales and the shift from traditional business hubs to coworking spaces, and now towards managed services.

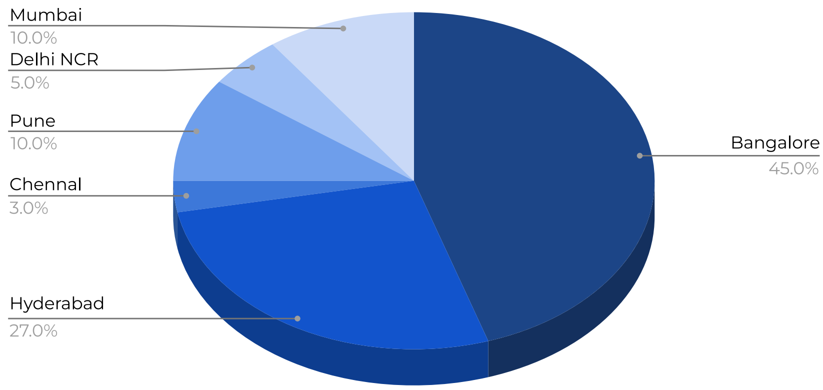
Despite facing challenges such as the rise of remote work trends resulting from the COVID-19 pandemic, the office sector in India has shown remarkable resilience, with record leasing in Q4 2023 and Q1 2024, even surpassing the performance of 2019.

SHARE OF SECONDARY MARKETS

Stock
716.3msf

Supply
Q1 2024
9.8msf — 3% YOY

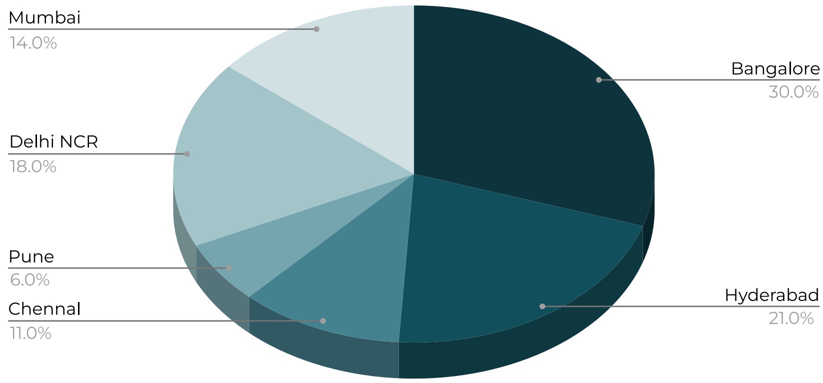
Q1 2024 Supply Share



Vacancy
17.3% 90 bps YOI

Gross Absorption
Q1 2024
13.6msf — 35% YOY

Q1 2024 Leasing Share



Source: Colliers, 2024.

◆ Quality-Driven Development Trends

Staying ahead of the curve is crucial in today's rapidly evolving real estate environment. Developers must anticipate and adapt to emerging trends and challenges, with quality and strategic positioning taking increasing precedence over cost.

Attracting and retaining talent is paramount for businesses, necessitating consideration not only of the physical attributes of properties but also of the broader ecosystem. Factors such as talent availability, housing options, and workspace commutability and accessibility are now critical considerations.

REGIONAL SHARE IN LEASING ACTIVITY

Domestic Corporates	American Corporates	EMEA Corporates	APAC Corporates
48% share in **Q1 2024**	**28%** share in **Q1 2024**	**21%** share in **Q1 2024**	**3%** share in **Q1 2024**

Source: CBRE Research, Q1 2024.

Quality infrastructure development is of utmost importance, extending beyond impressive buildings to address fundamental issues like water supply, electricity, and drainage systems, as well as transportation networks, accessibility, and connectivity.

Building quality assets on a speculative basis could offer advantages in capturing market share, particularly with the increasing demand for modern office spaces. Location choice and partnerships within the micro-market significantly impact a property's success, enhancing its appeal and value proposition.

As a result, the gap is expected to widen between top-tier assets and lower-tier properties, with quality assets commanding higher rents and lower vacancy rates. Prioritising sustainable development practices can enable developers to reduce the number or extent of retrofits required in the future to account for stricter ESG regulations.

RETROFIT & REDEVELOPMENT

Addressing the challenge of redeveloping distressed or obsolete commercial assets requires efficiency and practicality. Recognizing the importance of repurposing these assets to unlock their potential value is crucial.

While government initiatives have driven redevelopment projects in the residential sector, a similar impetus has been lacking in commercial real estate.

The discussion also focused on repurposing existing structures to meet changing demands. Examples included retrofitting buildings for mixed-use purposes and integrating offices with residential, retail, and recreational spaces.

The concept of hub-and-spoke models was explored, noting the increased potential of tier two and tier three cities to offer grade A spaces at lower costs, whilst warning of the need to avoid over-extension.

The decision to redevelop or repurpose a distressed asset ultimately depends on the feasibility of attracting tenants or users to the property.

Flexibility is crucial, with developers considering alternative uses such as logistics facilities, hospitals, or educational institutions to maximise property value.

Ultimately, addressing the issue requires making timely decisions and taking proactive steps to repurpose or redevelop distressed assets, unlocking their potential, and contributing to the overall growth and sustainability of the real estate sector.

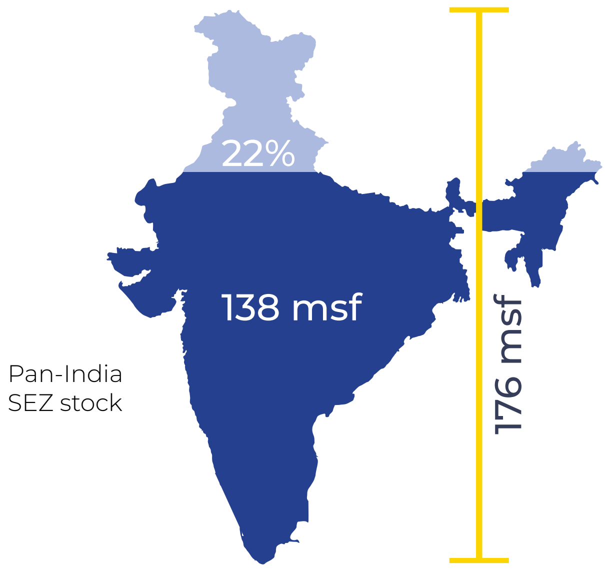
Photo: GRI Club

MARKET SEZ

Addressing the partial denotification of Special Economic Zones (SEZs) since March 2020, following the expiration of the Sunset Clause, has brought much-needed clarity after years of uncertainty in the real estate sector.

This shift, particularly the introduction of floor-wise demarcation, offers a welcome change despite certain limitations. However, navigating within the SEZ demarcation process remains a work in progress, posing ongoing challenges for developers and investors alike.

SEZ STOCK AND VACANCY AS OF 2023



Total SEZ stock 2023	Upcoming SEZ supply 2024-25
176 million sq ft	10 million sq ft

Source: Colliers | Data pertains to Grade A buildings only.
*Data pertains to top 6 cities – Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai, Pune. Others include Consumables, Logistics, E-commerce etc.

The denotification of office spaces within SEZs is expected to stimulate developers to reinvest and upgrade existing infrastructure. Many SEZ properties, dating back to their establishment around 2007-2008, are now nearly two decades old.

With a significant portion of commercial real estate comprising SEZ stock, estimated to be around 30-40% of the overall supply, this move encourages developers to modernise these spaces. Such reinvestment aims to create vibrant ecosystems that meet contemporary needs, including compliance with ESG standards and repurposing for coworking spaces or data centres.

ENHANCING EMPLOYEE EXPERIENCES

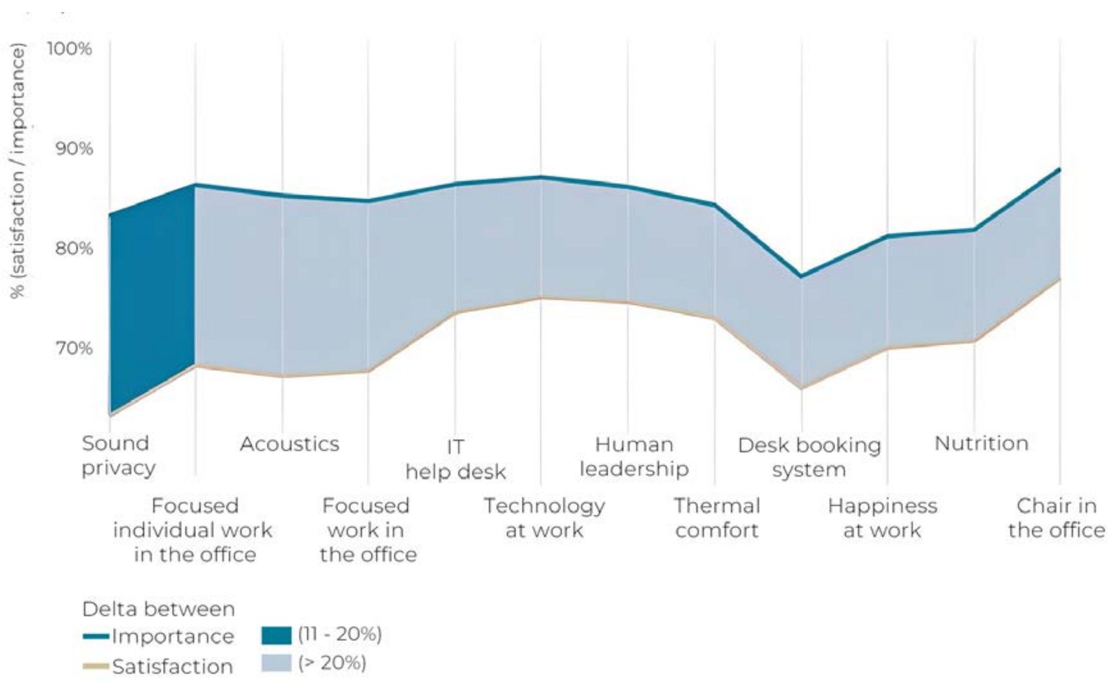
In today's corporate landscape, companies are shifting from a sole focus on cost-consciousness to prioritising quality and the employee experience. This change is evident in their willingness to invest in premium office spaces, even in prime locations.

Each client has unique objectives for their office spaces, whether it's fostering productivity, encouraging collaboration, or nurturing company culture. By providing high-quality work environments, companies aim to attract top talent and compete effectively with their global counterparts.

In India, where the average age of the workforce is 27, there's a noticeable shift in the requirements of employees. Young professionals value not only tech-savviness but also the overall work experience.

Today's employees prioritise lifestyle and convenience, making it essential to provide quality assets across housing, social infrastructure, education, and healthcare sectors to retain talent and ensure future success.

HUMAN EXPERIENCE IN THE OFFICE -
WHERE EMPLOYERS SHOULD FOCUS THEIR EFFORTS



Source: JLL Research, 2023.

Successful real estate professionals have achieved this by listening attentively to clients and maintaining a sustainable yet flexible approach to meet their needs and stay ahead of the curve. Embracing change and innovation ensures relevance and competitiveness in the dynamic real estate landscape, where evolution is constant and rapid.

While remote work trends gain momentum globally, there's an underlying sentiment in India that traditional office experiences will endure, but the goal extends beyond bringing employees back to the office; it's about creating an environment that encourages them to stay and thrive.

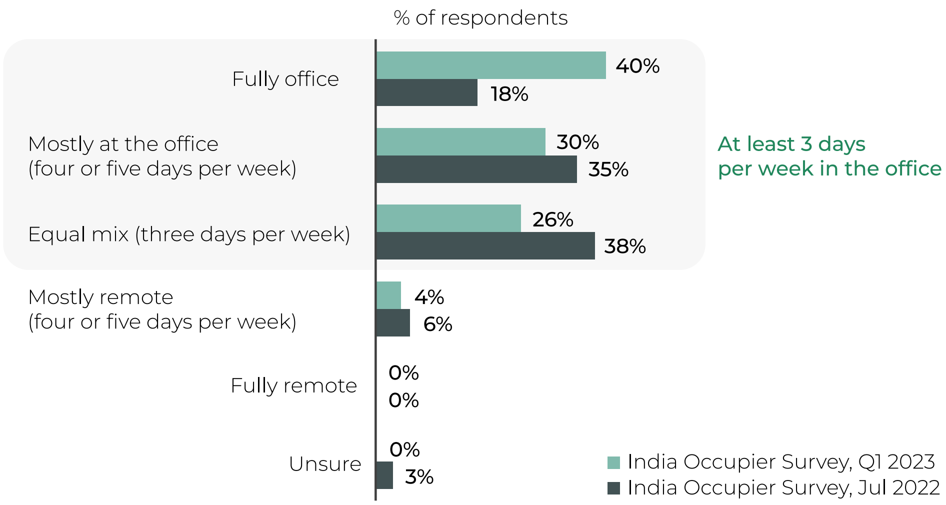
◆ Contrasting Realities: India vs. US

When comparing commercial real estate between India and the United States, it's crucial to acknowledge distinct differences in market dynamics and conditions.

Institutional funding for speculative development in the US has essentially been paused, with investors favouring secure investments like forward purchases or completed assets, especially in the residential sector. However, this cautious approach creates opportunities for those with vision and access to capital to pursue speculative development.

On the other hand, major Indian cities like Bangalore, Hyderabad, and Pune boast robust demand for office space, driven by a young workforce seeking quality work environments. Unlike the US, where remote work trends vary, Indian businesses and employees continue to embrace office life, bolstered by government initiatives to improve infrastructure and attract investments.

CULTURAL NORMS WITH REGARDS TO WORKPLACE POLICIES THAT ORGANISATIONS ASPIRE FOR IN A STEADY STATE IN INDIA



Note: Percentages may not total to 100 due to rounding.
Source: CBRE's 2023 India Office Occupier Survey, Q1 2023; CBRE's 2022 India Office Occupier Survey, July 2022; CBRE Research, Q1 2024.

FRACTIONAL OWNERSHIP VS COWORKING

While coworking spaces and fractional ownership models offer enticing opportunities, regulatory frameworks around them require careful consideration. The announcement of SEBI's MSME REITs plan further influences the demand for fractional ownership, adding another layer to the discussion.

Developers and investors must weigh the pros and cons of regulatory frameworks surrounding coworking spaces and fractional ownership. As businesses contemplate expansion, considerations for diversification become crucial, requiring a nuanced approach understanding the potential risks and rewards associated with each option in order to effectively navigate the changing real estate landscape.

◆ Fractional Ownership

Fractional ownership is not a new concept, having existed in various forms for years. However, what is novel is the emergence of online fractional ownership platforms (FOPs) and the legal frameworks governing them, including the evolving regulatory landscape and its implications.

The distribution of assets involves various mechanisms, including structures reminiscent of Chit Funds, where investors collectively pool funds for investment opportunities. Models of fractional ownership arrangements, such as the sale of individual hotel rooms to investors, often entail revenue-sharing models, with investors receiving monthly reports on occupancy and returns based on their ownership stake.

The structure of these platforms, whether formed as Limited Liability Partnerships (LLPs) or companies, determines the relationships between fractional interests and is governed by a mix of legal agreements and statutes such as the LLP Act and the Contract Act.

Despite the flexible nature of existing laws, there's debate around whether these platforms should be registered under RERA as real estate agents or regulated as collective investment schemes, raising anticipation levels for upcoming regulations.

The introduction of MSME REITs is poised to revolutionise the Indian real estate industry, offering opportunities to monetize diverse asset classes, introduce novel structures, and open the market to new investors. This transformative potential extends to assets like corporate offices, enabling creators to explore alternative monetization avenues.

SNAPSHOT OF MAJOR FOPS IN INDIA

INR 40+ billion
Assets under management (AUM)

INR 10-25 lakhs
Average minimum investment amount

20-25 msf
Grade A office area managed

9 - 15%
Gross targeted yields provided by FOPs

Source: Industry, Colliers.

Moving beyond compliance, there's a fundamental question regarding the cost of distribution, particularly in the Indian market. Offline distribution channels remain predominant due to limited trust in online platforms for real estate transactions. This raises concerns about the profitability of FOPs, especially if they are heavily reliant on offline channels for revenue generation.

Strategic targeting of premium and larger enterprises requires a pragmatic and informed decision-making process. Despite the allure of rapid growth, careful investment and relationship nurturing are recognized as pillars of success.

Challenges also arise in maintaining service quality and building standards when ownership is fragmented. Examples demonstrate the significance of unified control for property value enhancement and effective management to mitigate risks associated with future transitions.

Dynamics of lease agreements in fractional ownership and coworking spaces show competition between providers offering short-term rental agreements and those offering long-term lease agreements. Aligning lease terms between tenants and landlords is essential to avoid legal complications and maintain confidence in the agreement.

Potential solutions include adopting global institutional practices in hospitality and office spaces. Developers can sell strata units while retaining asset management control, as demonstrated by successful companies in Bangalore. This model presents a viable option for circumventing supply challenges.

Understanding the nuances of fractional ownership models, including their legal implications and compliance requirements, is essential for investors and operators alike. Diligent research and consultation with legal experts can help mitigate risks, safeguard investments, and promote sustainable growth within the industry.

◆ Coworking

Unlike startups, which prioritise flexibility and may have shorter lease terms, established brands tend to attract longer leases, emphasising stability and brand image. and consultation with legal experts can help mitigate risks, safeguard investments, and promote sustainable growth within the industry.

MAJOR COWORKING PLAYERS AND THEIR PRESENCE

Regus	wework	91SPRINGBOARD	BHIVE WORKSPACE	awfis
ESTABLISHED IN 1989	ESTABLISHED IN 2010	ESTABLISHED IN 2012	ESTABLISHED IN 2014	ESTABLISHED IN 2015
108 Centres	52 Centres	28 Centres	21 Centres	150 Centres

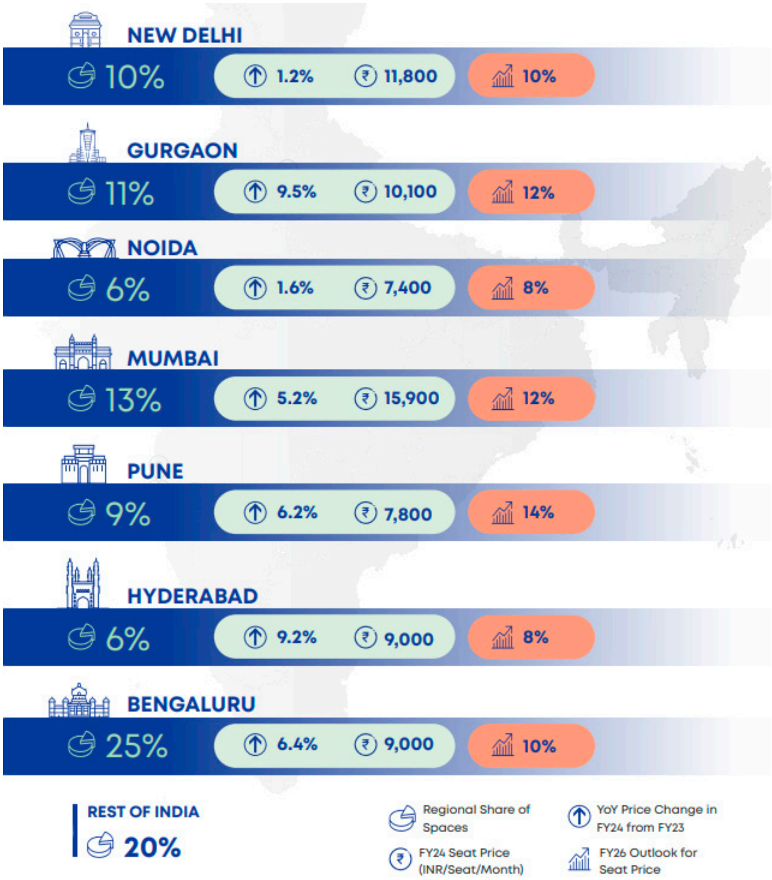
INDIQUBE GROW YOUR BUSINESS	SMARTWORKS	COWRKS	Table Space	OYO WORKSPACES
ESTABLISHED IN 2015	ESTABLISHED IN 2016	ESTABLISHED IN 2016	ESTABLISHED IN 2017	ESTABLISHED IN 2019
94 Centres	48 Centres	20 Centres	55 Centres	35 Centres

Source: Anarock Research, Jan/24.

From a coworking perspective, two scenarios emerge when considering India's urban areas. Firstly, when a property is divided among multiple individuals, it presents an opportunity to invest with less capital.

This is common practice in various companies where limits are set for investment. Zooming out to look at buildings, one might observe a similar pattern in starter-sold buildings, resembling fractional ownership.

GEOGRAPHICAL SPREAD OF FLEX WORKSPACES IN INDIA



Source: myHQ Research, ANAROCK Research.

Challenges in securing bank loans against coworking spaces compared to long-term leases were also addressed, with participants noting that lenders can be reluctant to finance coworking spaces due to perceived risks.

Over
200,000 Workstations
leased by occupier clients in flex spaces in 2023*

Flexible space stock* stands close to
64 million sq. ft.,
with more than half of the stock in Bangalore and Delhi-NCR[2.1]

Flexible space stock has the potential to touch
80 million sq. ft.
by 2024[2.2]

Source: CBRE Research, 01 2024.
Note: *Includes top nine cites - Delhi-NCR, Mumbai, Bangalore, Chennai, Hyderabad, Pune, Kolkata, Kochi and Ahmedabad.

◆ Serviced Offices

When considering the advantages offered by serviced offices (also referred to as managed offices) compared to other options, it's essential to address the question of price arbitrage and flexibility in agreements, as these factors form the core of its value proposition.

It was noted that while price arbitrage and flexible agreements are crucial, making clients feel valued and appreciated for their commitment is equally important.

In addition to these foundational elements, serviced offices are constantly exploring ways to enhance their value proposition by understanding and addressing the evolving needs and expectations of clients in the market.

The growing trend towards longer-term commitments reflects an increasing confidence in reliability and industry expertise, positioning serviced offices as strategic partners equivalent to traditional landlords.

Major managed office operators saw a

70%+

YoY revenue growth between FY22 and FY23

Source: myHQ Research, ANAROCK Research.

The decision to opt for a serviced office is influenced by the global scenario, where India emerges as a safer and more stable option compared to other regions. Companies are drawn to serviced offices due to the uncertainties in the market, seeking a flexible solution until they have clarity on their long-term plans.

Providing an exceptional experience for clients is crucial, understanding that the decision-making process involves considerations beyond just cost. Clients value the opportunity to create a professional and impressive environment for their teams, contributing to their overall brand image and employee satisfaction.

When it comes to tenant retention, there's an average stay of five years, including renewals, indicating growing trust and satisfaction over time. This shift towards longer commitments signals a transition from viewing serviced offices as a cost-saving measure to recognizing them as strategic investments in business success.

The daily challenge of ensuring high-quality service for clients was also addressed. With each client having unique expectations, maintaining consistency and meeting diverse requirements demand meticulous attention to detail and adaptability. Moreover, the constant influx of client requests poses an ongoing challenge, requiring proactive problem-solving and effective communication to manage expectations and resolve issues promptly.

Challenges in design and construction processes require intricate coordination among multiple contractors and inherent unpredictability in construction timelines. Despite the frustrations, there's recognition of the need for innovation in the building and construction sector to improve efficiency and address emerging demands.

◆ Leasing Challenges

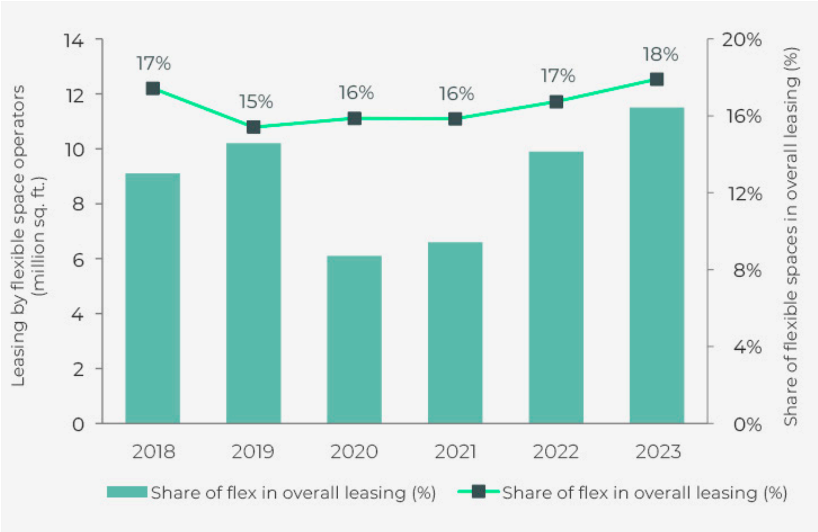
When considering fractional ownership or leasing office space in a coworking setup, the focus often shifts between short-term rental agreements and longer-term lease agreements offered by bigger players. The choice of lease agreement can significantly impact a tenant's decision-making process when selecting a space provider.

Despite efforts to extend lease terms beyond five years, achieving this milestone remains out of reach so far. However, efforts are ongoing to enhance value propositions for long-term tenants beyond mere commercial discussions.

This involves developing comprehensive models for long-term reassignments, commonly referred to as "lock-ins," to provide tenants with a sense of security and value beyond traditional lease agreements.

Photo: GRI Club

HISTORIC FLEX LEASING TREND (2018-2023)*

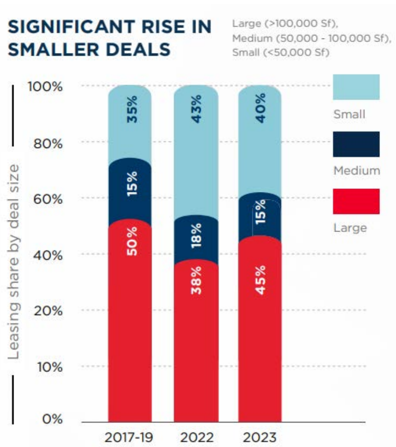


Source: CBRE Research, 01 2024.
Note: *Includes top nine cites - Delhi-NCR, Mumbai, Bangalore, Chennai, Hyderabad, Pune, Kolkata, Kochi and Ahmedabad

Requests to reduce fit-out costs and rentals after the lock-in period have been common in the market and are increasing in frequency due to rising competition and client expectations. To address such inquiries, a focus on demonstrating value-added services and improvements over the client's tenure is crucial.

Additionally, there's a trend where clients negotiate reduced rents based on future value projections, attributed to a bullish real estate market and scarcity of supply, particularly in regions like Hyderabad.

Differences in client behaviour between Indian companies transitioning from traditional leases to managed office models and multinational corporations (MNCs) are noted, with Indian companies more inclined to inquire about cost reduction post-lock-in. It's emphasised that understanding each business's unique model and goals is essential, as there's no one-size-fits-all approach in the industry.



Source: Cushman & Wakefield.

UNLEASHING INVESTMENT POTENTIAL: REITS & DIVERSIFICATION

A strategic shift towards annuity businesses signals a move towards long-term sustainability and stability. Establishing a robust regulatory framework is crucial to foster confidence and growth opportunities. SEBI's efforts in this regard are commendable, aiming to safeguard investor interests and ensure market integrity.

SEBI'S NEW REGULATIONS FOR SMALL AND MEDIUM REITS (SM REITS):

Increased Accessibility
Companies can now raise smaller capital (minimum of INR 50 crore) from investors, compared to the previous minimum of INR 500 crore for large REITs.

Independent Oversight
Ensures transparency by requiring half of the investment manager's directors to be independent (not involved with other REITs).

Focus on Investor Participation
Requires a minimum of 200 investors, making real estate investment more accessible to al wider audience.

Focus on Income-Generating Properties
The SM REITs must invest in completed properties that are already generating income (at least 95% of investments), potentially reducing investors' risk.

Experienced Management
The SM REITs must have an investment manager with a solid track record (a minimum of two years' experience) and financial stability (a net worth of at least INR 20 crore, provided that not less than INR 10 crore is in the form of positive liquid net worth).

Source: CBRE Research, 2024.

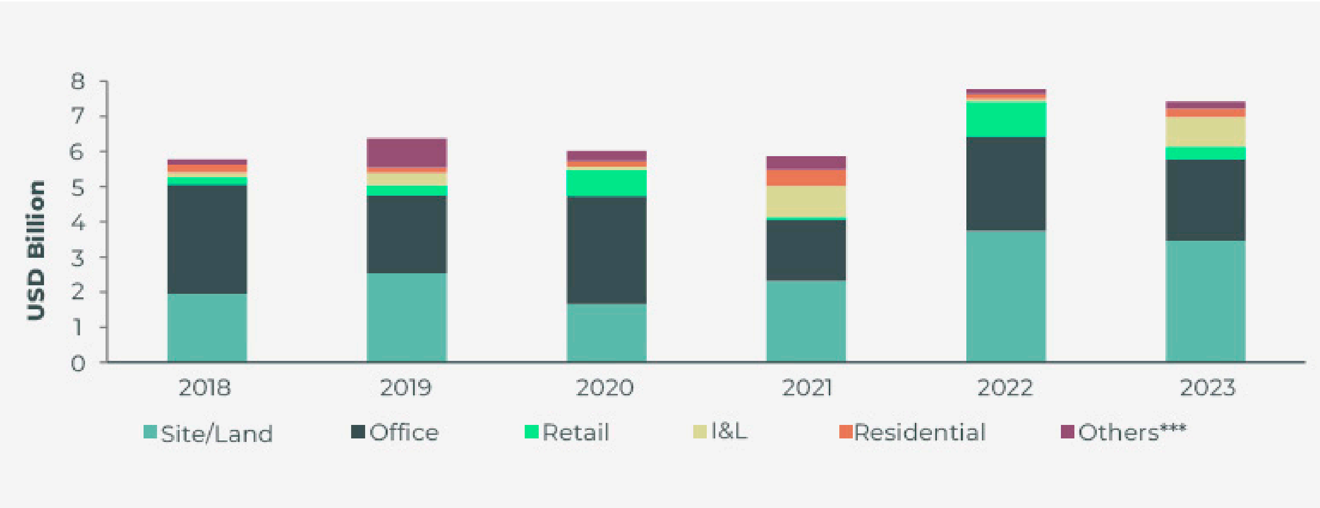
The evolution of REITs in India promises diversification into new asset classes beyond traditional commercial real estate. Hospitality REITs, data centre REITs, and other specialised categories offer expansion opportunities. As the industry embraces annuity-based models, focus shifts to creating stable income streams and maximising total returns for investors.

Widespread REIT adoption demands efforts to raise awareness and foster investor participation. Despite growth in the investor base, ongoing outreach and education are essential for broader market participation and liquidity.

Looking ahead, the initiative to form an association of industry leaders reflects a concerted effort to cultivate awareness and understanding about the role and impact of real estate investment and management. By fostering a more informed and educated environment, the aim is to empower stakeholders to make strategic decisions contributing to long-term growth and stability in the market.

Through workshops and outreach programs in smaller towns and emerging markets, there has been a noticeable uptick in investor interest and participation, signalling potential for broader market engagement.

EQUITY CAPITAL DEPLOYED ACROSS SECTORS OVER THE YEARS



Source: RCA, CBRE India Research, 01 2024;
***Others include Hotels, Mixed use developments, Data Centres, and Hospitals

In terms of capital availability, there is a palpable sense of optimism among investors, both domestic and international, regarding the Indian market. The perceived value proposition of investing in India, coupled with the relative affordability compared to other global markets, has attracted a steady influx of capital.

Yet, the prudent utilisation of this capital remains paramount. While the influx of funds presents opportunities for growth and development, there is a need for vigilance to ensure that investments are directed towards sustainable and value-creating ventures. The real challenge lies in distinguishing between prudent investment and reckless speculation.

As the market matures and investors increasingly recognize the value of annuity-based income streams, there is a shift towards prioritising stable, long-term growth over short-term gains.

REITs vs. AIFs

Over the past decade, commercial real estate investment in India has experienced significant transformation, notably with the emergence of REITs and Alternative Investment Funds (AIFs) as alternative investment avenues.

Previously, commercial real estate investment was primarily dominated by HNIs and large international players like Blackstone and Brookfield. However, with the market's evolution, domestic investors have become increasingly significant players, dominating fresh bids for commercial assets.

REITs and their impact amidst global headwinds present an intriguing topic. In India, four successful REITs exist, with three focusing on offices and one on the retail sector.

They offer steady income streams with reduced risk, primarily comprising completed assets. In contrast, private equity investments, although potentially yielding higher returns, entail greater risk, demanding more sophisticated investors with detailed insights.

THE PERFORMANCE OF INDIAN REITS SINCE INCEPTION

Company	Sector	Issue date	Issue price	YoY*	Price change since listing*	Annual Distribution yield
Embassy Office Parks REIT	Office	5th Apr 19	300	16.8%	22.2%	5.8%
Mindspace Business Parks REIT	Office	7th Aug 20	275	7.5%	25.3%	5.8%
Brookfield India Real Estate Trust	Office	19th Feb 21	275	-6.8%	-5.5%	7.8%
Nexus Select Trust	Retail	19th May 23	100	NA	28.8%	NA

*Data as on 1st April 2024

Comparing REITs and AIFs, there's often a tendency to juxtapose the two despite their differing natures. Investors perceive REITs and AIFs distinctly due to their varying risk-return profiles.

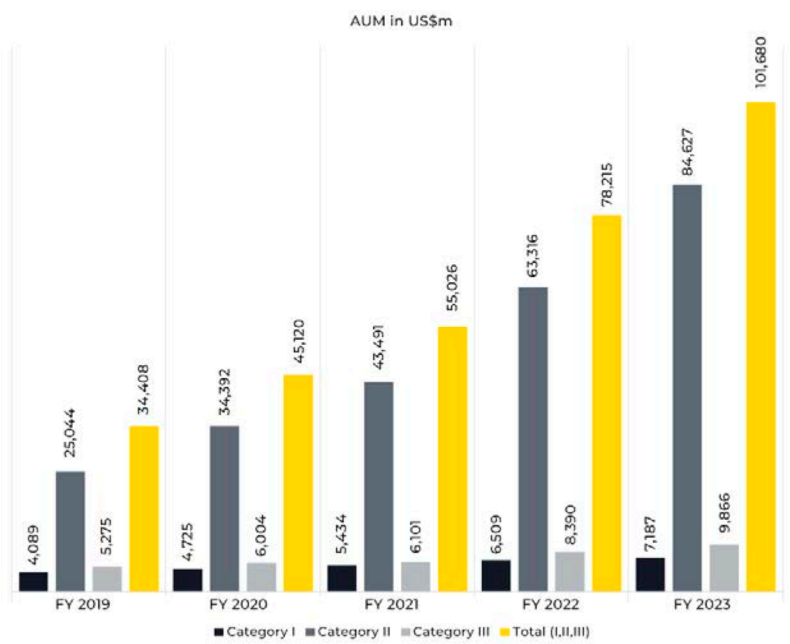
REITs, considered a blend of debt and equity, sometimes pose a challenge for investors uncertain about categorising them. Nonetheless, the market capitalization of REITs and INVITs has witnessed substantial growth, collectively amounting to around $65 billion, indicating a maturing market and increasing investor confidence.

This ambiguity, along with recent equity market successes, leads some investors to question the necessity of including REITs in their portfolios. Conversely, AIFs are viewed as high-risk vehicles offering potentially higher returns, regardless of the underlying strategy, whether real estate or private credit.

The differences between various types of REITs are a more significant focus for investors, with the current market presenting a clear dichotomy between REITs, which offer liquidity and low risk, and AIFs, which involve illiquidity and higher risk but the potential for greater returns.

However, there's emerging interest in exploring a middle ground with a "core plus" AIF fund, targeting stable income generation alongside growth potential. Such a fund could bridge the gap between the extremes of higher-risk AIFs and lower-risk REITs, catering to investors seeking a more balanced portfolio approach.

THE PERFORMANCE OF INDIAN REITS SINCE INCEPTION



Source: EY, 2023. Note: The above report is compiled on the basis of quarterly / monthly information submitted to SEBI by registered Alternative Investment Funds.
Exchange rate @US$82 was used for conversion.

AIFs have gained significant traction in the past few years, indicating the maturation and depth of the domestic market. This growth underscores the financialization of real estate, offering investors opportunities similar to those in developed markets.

The analysis underscores the trend towards real estate financialization, noting how REITs grant access to institutional-grade assets in later stages of the asset's life cycle. In contrast, AIFs serve as platforms for investors to participate in the initial phases of value creation, spanning from land acquisition to asset development and leasing.

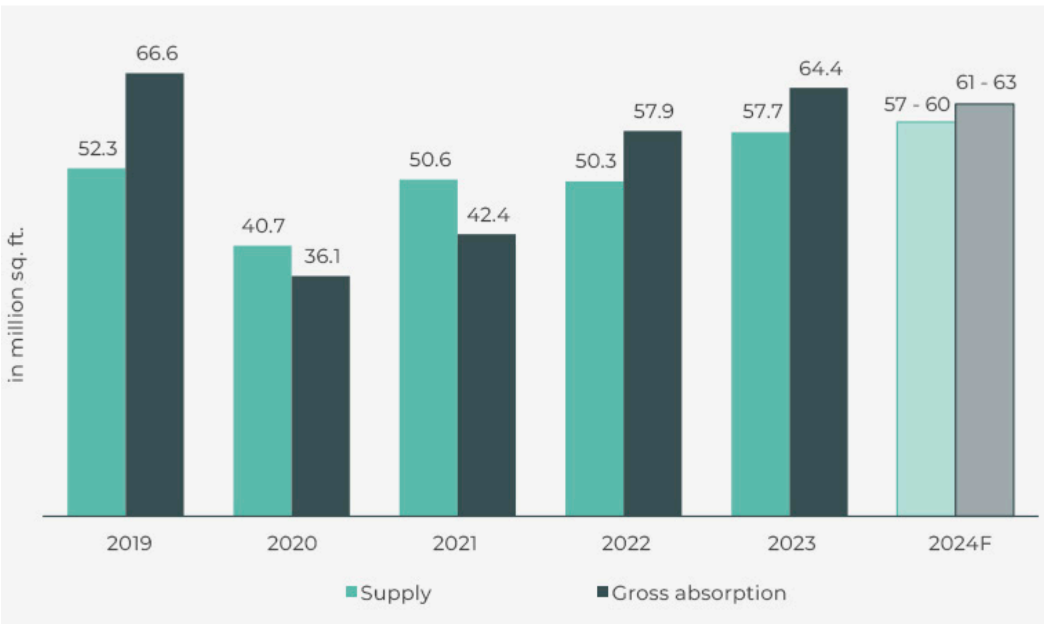
While acknowledging the elevated risk associated with AIFs due to the asset's life stage, the appeal to HNI and UHNI investors seeking exposure to the comprehensive value creation process was highlighted.

As the sector matures and more REITs are listed, there's optimism for continued growth over the next 3-5 years. However, there's a need for increased awareness and understanding of REIT products among retail investors to fully exploit this asset class's potential.

◆ Strategic Decisions in REIT Expansion

The primary concern lies in the global perception of REITs, which often paints them with the same brush based on trends in other markets, notably the US. While the US commercial real estate sector has faced significant challenges, including a net negative absorption of more than 20 million square feet in 2024, India's office market has shown resilience with a positive 11.5 million square feet absorption across the top 8 cities during Q1 2024.

OFFICE SUPPLY AND GROSS ABSORPTION IN INDIA (2019-2024F)



Source: CBRE Research, Q12024.

Looking ahead, there is promise in expanding investor participation in REITs, noting that despite India's large population, only 200,000 investors have invested in REITs compared to 250,000 distributors for mutual funds.

The industry is actively working to promote REITs through initiatives like the India REITs Association, aiming to educate and attract more investors to the asset class.

It was noted that the industry's evolution has led to a deeper market with ample liquidity, encouraging potential fundraisers to consider tapping into domestic capital. There is also an importance of responsible asset pricing to ensure investor trust and fair returns, with an optimistic outlook on the vast untapped capital awaiting deployment in the real estate sector.

In establishing a brand, prioritising governance emerges as a pivotal factor, surpassing even the influence of a reputable sponsor. Retail investors, particularly astute in their assessments, scrutinise governance standards closely, making transparency and adherence to norms imperative in cultivating investor confidence and establishing credibility.

As preparations for the next funding round ensue, careful deliberation characterises the decision-making process. Consideration spans from opting for a core or core-plus strategy to evaluating the merits of domestic versus international market entry.

Photo: GRI Club

◆ SME Trends and Individual Listing

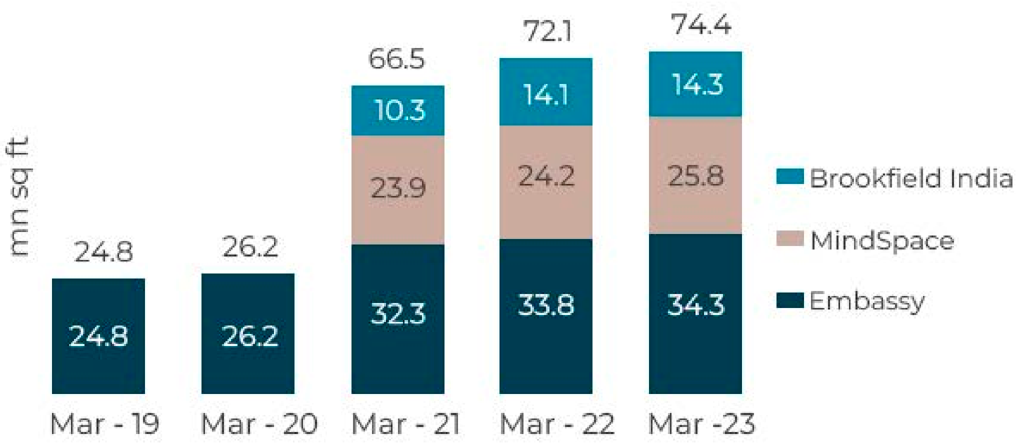
Recent regulatory changes have led developers to begin exploring SME platforms, potentially shifting real estate dynamics. SME-focused platforms could democratise investment, benefiting niche citizens with smaller ticket sizes, unlocking value in existing assets, and stimulating new project development.

Drawing parallels with the equity and mutual fund ecosystem, smaller players in the fractional ownership space are proving their potential to deliver impressive returns without the brand recognition of industry giants. Investors are primarily concerned about the returns generated rather than the sponsor's pedigree.

Listing individual assets, such as large office buildings or office parks, as standalone entities for retail investors is gaining traction. Unlike traditional REITs, which offer diversified portfolios, listing individual assets allows investors to directly associate their investment with a specific property, providing transparency and a deeper understanding of the underlying assets.

However, the decision to list individual assets through a REIT or another structure depends on factors like associated costs and regulatory requirements.

REIT OFFICE SPACE STOCK



Successful debut of 3 REITs led to ~3x growth in REITs' office stock to 74.4 mn sq ft as of 31st March 2023

Note: 1 - Grade A office stock of top 7 metros in India (Mumbai, Delhi NCR, Bengaluru, Chennai, Hyderabad, Pune and Kolkata).
Source: JLL Research, REITS investor presentations.

GLOBAL CAPABILITY CENTRES

Emerging sectors like Global Capability Centres (GCCs) are key drivers of demand in India, with projections suggesting leasing activity of about 45–50 million square feet of office space over the next two years, accounting for approximately 40% of the total office demand across the top 6 cities, according to Colliers in a recent report.

GROWTH OF GCCS OVER THE YEARS

Source: CBRE Research, Q1 2024.

While there is a constant influx of demand for GCCs, the reasons behind this sentiment are multifaceted. Initially, the allure of cost-effectiveness in India compared to the US attracted companies to set up operations in the country.

However, there's also a growing recognition of the quality and value of the IT workforce in India. GCCs are increasingly investing in areas like cybersecurity, application development, and data analysis, capitalising on the talent pool available in India.

DATA DEMANDS

Data centres are emerging as vital assets in India, aligning with the nation's digitalization and globalisation trends. The anticipation of increased absorption in 2024 stems from the growing demand driven by hyperscalers, enterprises, and co-creation data centres, fueled by the surge in AI workloads and cloud expansion.

Interest in this asset class spans various investor types, including private equity, real estate, and infrastructure funds. However, questions persist regarding the sustainability of demand sources, with a notable shift towards localised services to reduce reliance on external sources.

Despite the promising outlook, challenges such as the absence of key technologies like liquid cooling locally and foundational infrastructure needs, such as undersea cables and Cable Landing Stations (CLS) for large-scale data centres, remain. Addressing these challenges while anticipating and fulfilling pivotal demand requirements is crucial for the sector's continued growth.

◆ International and Domestic Demand

The demand landscape for data centres in India reflects a fusion of international and domestic needs, highlighting the essential role of robust digital infrastructure in supporting the country's rapid digitization drive.

Major international players like Microsoft and Amazon continue to drive significant demand, with a notable shift towards collaboration rather than competition. These industry giants are not only expanding their existing footprint but also pursuing ambitious plans for data centre capacity, emphasising high-density deployments and cutting-edge technologies.

In addition to international demand, substantial interest is anticipated to come from the government sector, propelled by initiatives such as digital payments and digitization across various domains like judiciary, archival, and Over-The-Top (OTT) services.

Government initiatives like Aadhaar, the unique identity number that can be obtained by all residents of India based on their biometrics, and digital payment systems are gaining momentum, leading to a surge in demand to support these endeavours.

Reliable Records

The Digital India Land Records Modernization Program, aimed at modernising land administration and facilitating smoother property transactions, comprises four key components.

01 The computerization of land records, enabling e-registration and boosting administrative efficiency.

02 Digitising survey maps and linking them with owner details to facilitate seamless transactions and updates.

03 Translation of land records into 22 languages across the country, addressing language barriers and promoting inclusivity.

04 Introduction of a unique 14-digit alphanumeric code for each land parcel to facilitate precise identification and streamline transactions.

These initiatives collectively strive to digitise land records, improve transparency, and enhance accessibility nationwide.

The implications of digitising land records are significant, promising to streamline the diligence process and provide quicker access to land records. This digital transformation is expected to enable developers to conduct basic diligence online, expediting overall processes.

Although progress in digitisation efforts is evident, with government websites reporting approximately 90% digitisation of records, including rights and registration documents, challenges persist in land record management.

A number of steps have been proposed to effectively address these challenges, including an emphasis on establishing a clear hierarchy within government offices responsible for digitisation, with designated senior revenue officers overseeing the process to ensure consistency across states.

The creation of dedicated land tribunals is also recommended when it comes to handling disputes arising from digitisation effectively. Improved integration among government departments and better communication channels are needed to ensure seamless transactions and accessibility of digitised records.

EFFECTIVE EXIT STRATEGIES

Despite ample opportunities for investment and expansion, stakeholders must navigate challenges such as rising construction costs, fluctuating rents, and market saturation in certain regions, leading investors to tread cautiously, especially concerning exit strategies and valuation dynamics.

Addressing exit strategies in the context of investments in the digital infrastructure sector, participants explored the complexities of exits, particularly in assets heavily reliant on operators for functionality. The pricing methodologies for exits consider factors like capacity, growth potential, and the evolving technological landscape.

In India, the absence of a full cycle exit in the digital infrastructure sector prompts a cautious approach to pricing such situations. There is a challenge of valuing assets in an industry where growth projections may not align with traditional real estate metrics.

This reflects on the role of REITs and private equity investors in driving exits, with a spotlight on private transactions over public offerings.

There are global trends in asset ownership and exit strategies, with many high-growth organisations opting for private ownership rather than public listings. This trend underscores the perceived value generation potential in the digital infrastructure sector, attracting private equity investment.

However, in the Indian context, the conversation hints at the necessity of establishing robust platforms for successful exits, emphasising the pivotal role of operators in driving value beyond the asset itself.

There's a nuanced perspective on asset valuation, with some investors likening data centres to renewable asset classes, trading at lower multiples of GDP return (10-12x), while others noted the attainment of 25-30x valuation price in places like South American and Australia.

This variance underscores the potential for value creation at the asset level, particularly through Infrastructure Investment Trusts (InvITs), although the full realisation of this strategy is contingent upon further asset development by key players in the market.

While smaller deals may suit other sectors like small office buildings or warehousing, data centres require significant scalability to operate effectively, with high barriers to entry for investors.

◆ Developing and Leasing

It was observed that tenant conversations often revolve around yield metrics rather than kilowatts, presenting both challenges and opportunities for investors. Differentiating factors, such as international connectivity and operational consistency, play a crucial role in shaping investor strategies and conversations with prospective customers.

Diving into construction methodologies, the pros and cons of separating tasks versus appointing a general contractor were weighted. While appointing a GC may streamline processes, it also entails relinquishing some control. There is a need for a balanced approach that optimises efficiency while mitigating risks associated with outsourcing.

Photos: GRI Club

GREEN OFFICES: DESIGNING THE FUTURE WORKPLACE

◆ ESG Compliance: A New Prerequisite

The evolving landscape of ESG integration reflects a convergence of financial prudence and sustainable practices, with India poised to adopt a more comprehensive framework for corporate responsibility and accountability.

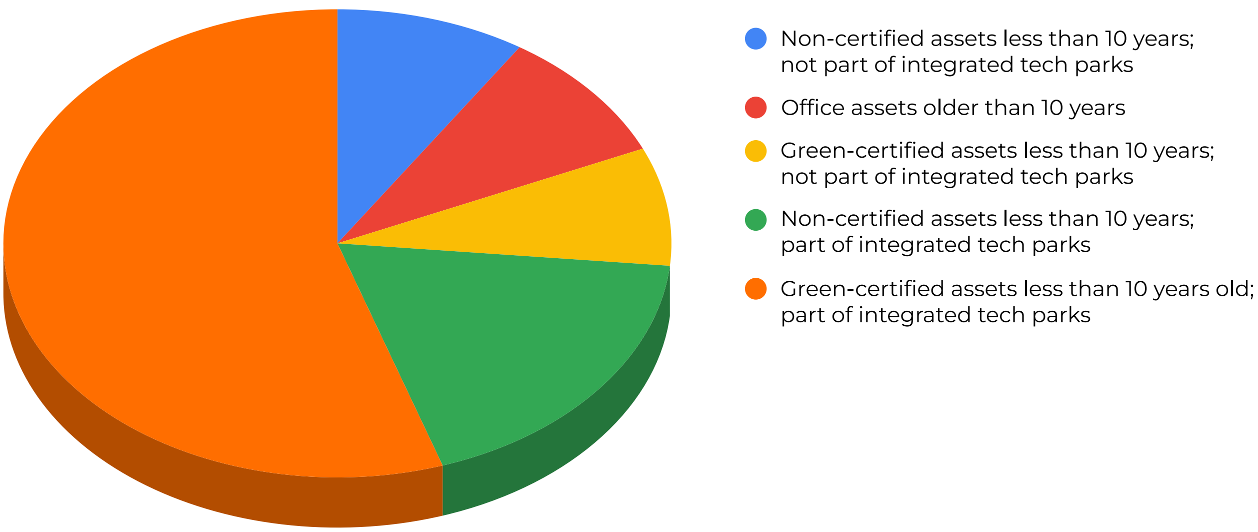
Regulation serves as a primary driver, exemplified by initiatives such as New York's carbon tax law and the EU's mandate for net-zero buildings by 2030. This regulatory environment ensures that sustainability measures remain competitive without compromising ROI.

Capital providers, including major banks like J.P. Morgan and Bank of America, are actively addressing transitional risks associated with a lower carbon economy. Collaborative efforts aim to develop algorithms for quantifying these risks and integrating them into asset portfolio valuations, indicating a shift towards tangible sustainability measures.

In India, regulations are increasingly emphasising ESG factors, leading to greater transparency and accountability. Organisations are now required to disclose ESG-related information in their balance sheets, driven by pressure from stakeholders, regulators, investors, customers, and employees.

LARGE GREEN-CERTIFIED TECHNOLOGY PARKS: TOP CHOICE FOR OCCUPIERS

Top 100 lease deals in 2022-2023



Source: CBRE Research, Q1 2024

Globally, investor mandates incorporating ESG policies are becoming more prevalent, with CBRE's 2021 survey showing that 60% of global investors have adopted such policies. In India, the journey towards ESG integration began with the government's introduction of Corporate Social Responsibility (CSR) standards in 2009, before evolving into Business Responsibility Reporting (BRR) requirements, and subsequently being replaced by Business Responsibility and Sustainability Reporting (BRSR).

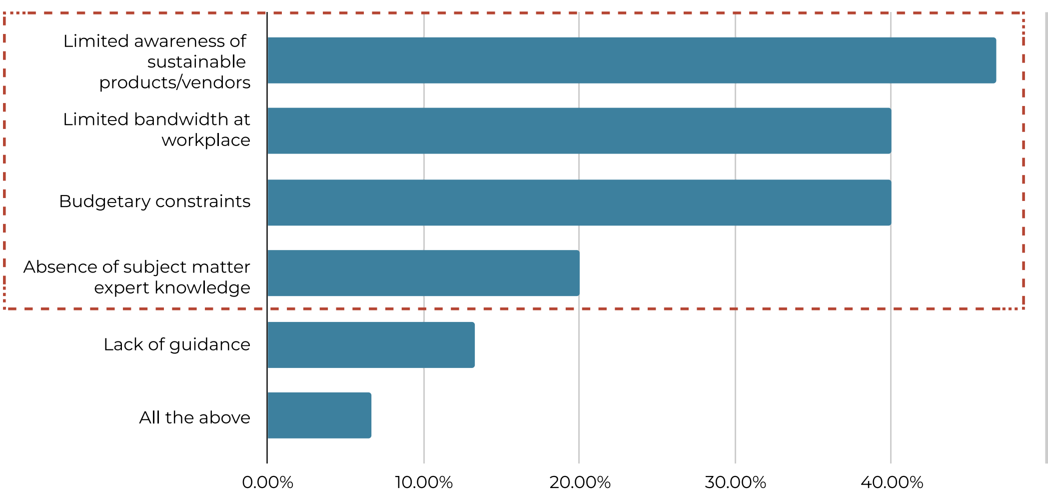
Currently applicable to the top 1000 publicly listed companies, BRSR standards may expand further to cover a broader corporate spectrum, encompassing various requirements from conducting business with integrity to promoting human rights and environmental stewardship.

Privately held firms enjoy greater flexibility in establishing and enforcing ESG standards, allowing them to adapt more swiftly compared to entities with external investors. Increasingly, clients demand compliance with these standards as a prerequisite for engagement, emphasising the necessity for organisations to align with sustainable practices to maintain competitiveness and relevance in the evolving marketplace.

ESG compliance significantly influences capital markets activity, as occupiers and investors increasingly prioritise sustainability standards. This has led to increased resource allocation towards ESG initiatives, with some organisations assigning personnel to oversee and manage ESG-related parameters.

However, there is uncertainty regarding the future trajectory of these efforts, given the complexity of the regulatory landscape and the imperative for deeper integration of sustainability principles into business practices. Challenges persist, particularly in terms of data collection and analysis, as well as in developing the necessary expertise to delve deeper into ESG metrics.

MAJOR CHALLENGES THAT OCCUPIERS ARE FORESEEING IN THE NEXT 12 MONTHS TO ACHIEVE THEIR SUSTAINABILITY GOALS



Source: JLL Occupier Sustainability Survey 2024.

◆ Eco-Friendly Building Practices

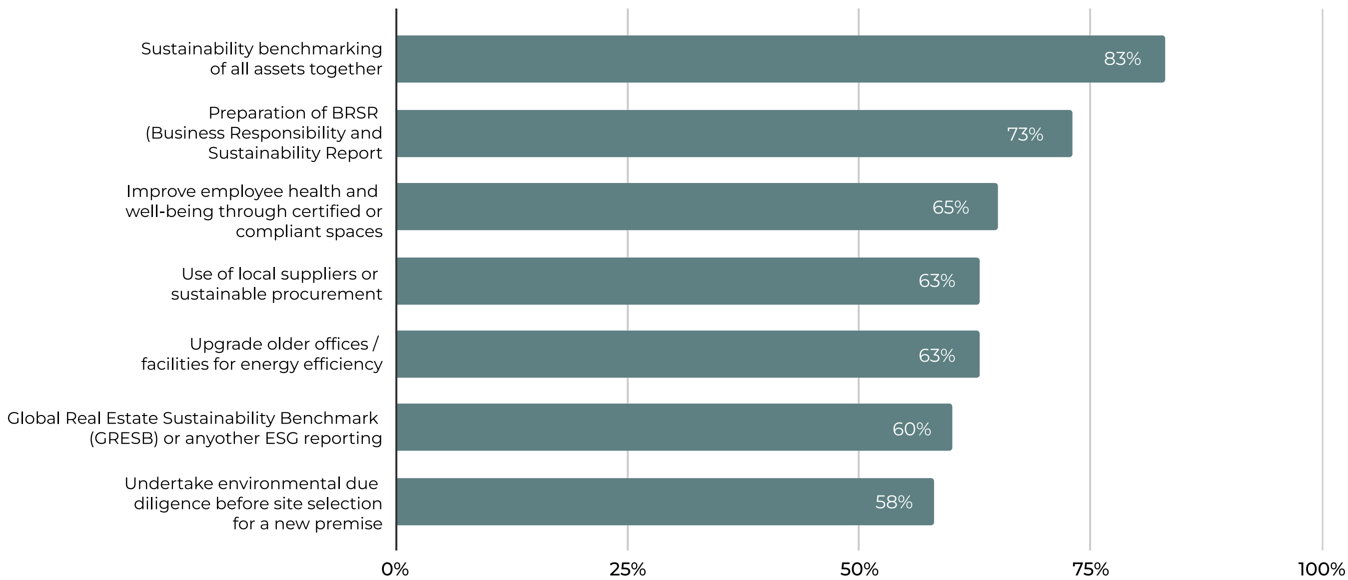
Green building adoption, particularly in major metropolitan hubs like Delhi, Mumbai, and Bangalore, has gained significant traction. While occupiers focus on operational aspects, understanding green practices during construction is equally important. The benefits can include reduced vacancy rates and rental premiums associated with green-certified offices.

Developers in commercial office projects are increasingly prioritising innovation and technology in their ESG initiatives. They conduct Life Cycle Assessments (LCAs) in both pre-construction and post-construction phases, emphasising sustainability throughout the project lifecycle.

Global certification standards indicate a broader commitment to sustainability. However, implementing ESG measures faces hurdles, with some entities prioritising checkbox compliance over substantive action. Advocates suggest shifting the narrative towards data-driven transparency, emphasising tangible outcomes and community impact beyond cost efficiency.

Recognizing the complexity of ESG standards, efforts have been made to streamline certification processes, with many buildings in India meeting green certification standards due to relatively low benchmarks. While basic certifications may not significantly increase costs, higher-level certifications could lead to cost escalations.

FUTURE SUSTAINABILITY CONSIDERATIONS FOR OCCUPIERS IN INDIA



Source: CBRE Research, Q1 2024.

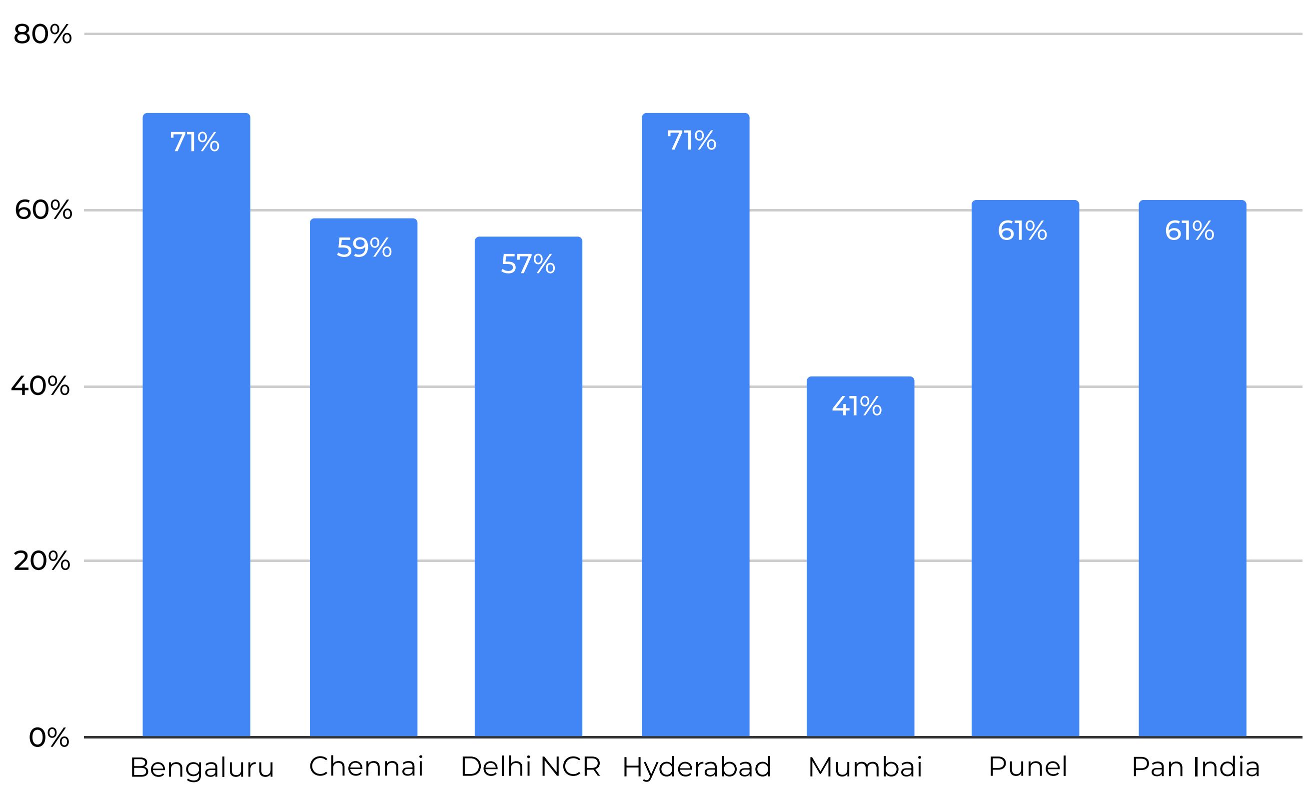
In the rapidly evolving landscape of construction, technology plays a pivotal role, offering digital platforms and AI systems that empower informed decision-making and drive cost savings.

One notable example of this technological integration is the use of construtechs to monitor building sites, detect problems, and optimise labour deployment. By leveraging such platforms, construction teams can take preemptive actions, leading to cost savings and enhanced compliance with ESG standards throughout the building process.

These technological advancements extend their benefits across both pre-construction and construction phases, resulting in substantial cost savings and efficiency improvements. Additionally, adopting green technologies like off-site power and LED lighting is highlighted as a cost-effective means of aligning with sustainability goals.

Furthermore, the ability to harness data from various sources, including building management systems (BMS), presents valuable knowledge-sharing opportunities, particularly from larger companies with established systems in place.

GREEN PENETRATION IN GRADE A OFFICE STOCK OF 6 TOP CITIES IN INDIA



Source: Colliers
Data pertains to Grade A buildings only | Data is as of Q4 2023
Percentage indicates share of green stock in total office stock

In the broader context of construction practices, there's a distinction between buildings made for long-term ownership and those built for immediate sale. Assets designed for annuity income prioritise durability, functionality, and sustainability over cheaper aesthetic enhancements.

Sustainable architectural practices encompass strategies beyond renewable energy use, including measures to reduce heat transfer and incorporate traditional cooling methods, ensuring genuine ESG compliance throughout the lifecycle of the building.

The conversation about retrofitting projects to meet green standards post-construction has sparked interest, suggesting a trend toward enhancing sustainability in buildings. While newer structures may require some investment for environmental compliance, older buildings often need extensive overhauls or retrofits to align with standards and boost their value.

Questions arise about where investment will focus, with concerns about the significant costs involved and whether such initiatives are already underway, underscoring the importance of assessing demand and occupier preferences for successful transitions.

Despite potential initial cost increases, sustainable practices offer significant long-term value and are essential for ensuring business continuity in the real estate sector. Operational and maintenance practices, such as managing embedded energy and optimising water and electricity consumption, are integral components of sustainability discussions in commercial real estate.

GRI Club

REAL ESTATE

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.

CONTACT

Anureet Kochhar
Head of India, Real Estate
anureet.kochhar@griclub.org

Rodrigo Branchini
Managing Director - APAC
rodrigo.branchini@griclub.org

GRI Club

GRI Club India GRI Club @griclub.apac

griclub.org