

## Real Estate Strategic Outlook: India

### Demographics and Services to drive Growth

#### Economic Resilience: Robust Growth, Stable Inflation, Sustainable Fiscal and Current Account Policies

In 2024, India's economy has shown robust growth, stable inflation, and proactive policies, remaining on track to become the world's 3<sup>rd</sup> largest economy by 2030. The Reserve Bank of India has maintained the repo rate at 6.5% for the past nine months, aimed at anchoring inflation expectations and macroeconomic stability. The recent uptick in core inflation (breaching 6% target) due to rising food prices seems manageable but may drive small rate cuts in Q1 2025.

#### Real Estate Capital Markets: Growing and evolving

Over the past decade, transaction volumes in India have surged, reaching nearly USD \$11 billion annually by early 2024<sup>1</sup>. Mumbai, Bangalore, and Delhi account for 50% of all transactions. Increased activity and lower borrowing costs have compressed prime real estate yields, with prime office yields decreasing by around 150 basis points to 8-8.5%<sup>2</sup> since the early 2010s.

#### Logistics: Structural Demand and shortage of Quality Spaces

India's logistics sector is rapidly transforming and is undersupplied, with warehouse stock per capita significantly lower than countries like the US, UK, and China. Additionally, there is a shift towards Grade A warehouses, driven by demand for operational efficiency and rising ecommerce growth, pushing vacancy rates to around 5%. Government initiatives like the National Logistics Policy aim to reduce logistics costs, improve transportation networks, and encourage strategically located warehouses.

The Grade A logistics market is anticipated to remain robust, with low and stable vacancies supporting annual rental growth of 5%-5.5%

#### Office: Occupiers (MNCs) Propel 'Flight to Quality'

The Indian office market has an above-average vacancy rate of around 17%, primarily in older and suburban non-prime stock. This reflects both the level of new development and a

shift in demand towards higher quality spaces, particularly from the rapidly growing BFSI and tech sectors. In H1 2024, office net absorption in India reached a historic peak of 34.8 million sq. ft., driven by the IT Business Process Management and BFSI sectors amid a mandated return-to-office. Record absorption was seen in Hyderabad, Mumbai, and Pune as well.

We anticipate Grade A rents to grow over the next five years, averaging 4%-5% per annum, with Bangalore and Mumbai likely to outperform other major markets.

#### Data Center: Indian Data Center Market Set for Rapid Growth

The Indian Data center market is set for significant growth of 19% CAGR from 2024 to 2029, reaching 5,000 MW<sup>3</sup>. Currently, Mumbai ranks third globally in IT load under construction. Despite robust growth, significant expansion potential remains, with India contributing 15% of global data traffic but only 6% of global capacity.<sup>4</sup>

While India real estate may offer the potential for higher returns, investors should pay attention to avoid potential pitfalls through selecting appropriate local partners and carrying out due diligence checks through qualified industry experts.

#### Total Returns Forecast (2025-2029F), p.a.



Source: DWS, December 2024  
Forecasts are not a reliable indicator of future performance. Forecasts are based on assumptions, estimates, views and hypothetical models or analyses, which might prove inaccurate or incorrect.

<sup>1</sup> MSCI, June 2024

<sup>2</sup> JLL, June 2024

<sup>3</sup> CBRE, December 2023

<sup>4</sup> DWS estimates from Care Rating, Biswagner Anarock, May 2024

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