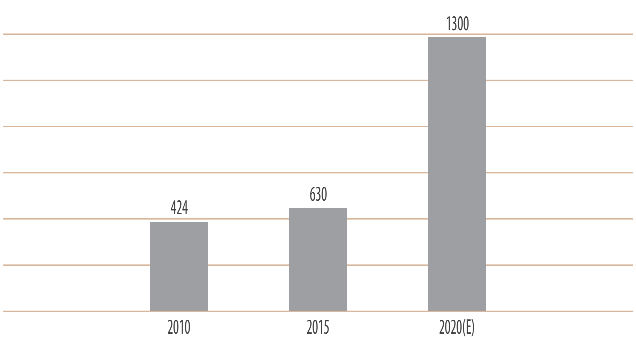
INDUSTRY OVERVIEW

India Retail

The retail sector accounts for 22% of India's GDP and contributes to 8% of the total employment. The country continues to be among the most attractive investment propositions for global retailers. It is one of the fastest growing across the globe, expected to grow to US$ 1.3 trillion by 2020, doubling from US$ 630 billion in 2015, according to a joint report by FICCI and PWC. The sector is seen registering a Compound Annual Growth Rate (CAGR) of 16.7% over 2015-20.

Market Size of India Retail (US$ Billion)



Source: IBEF, India Retail Report, January 2017

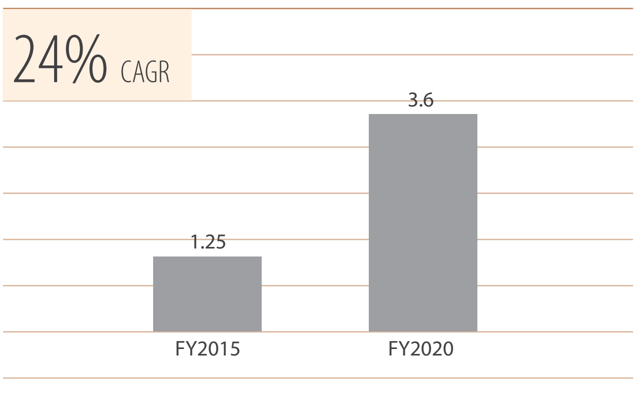
Break-up of India's Retail Market

	2015	2020 (Estimated)
Total retail market	630	1,100-1,200
Organised retail market	60	140-160
E-Commerce	8-12	45-50
Unorganised retail market	560	915-990

Figures in US$ Billion
Source: 'Retail transformation: Changing Your Performance Trajectory' conducted by CII and The Boston Consulting Group

India is the 5th largest preferred retail destination globally, and amongst the highest in the world in terms of per capita retail store availability. The retail sector is experiencing exponential growth in the country, with retail development taking place not only in metros and large cities, but also in Tier 2 & 3 towns. Healthy economic growth, changing demographic profiles, increasing disposable incomes, urbanisation, changing consumer tastes and preferences are some key factors driving growth in organised retail. According to 'Retail transformation: Changing Your Performance Trajectory', a study conducted by CII and The Boston Consulting Group, sales per square feet at Indian retail stores have much headroom to grow, compared to the international average.

Consumer Expenditure in India (US$ Trillion)



Key Growth Drivers

- India has occupied a remarkable position in global retail rankings; it has high market potential, low economic risk and moderate political risk
- India's net retail sales are quite significant among emerging and developed nations; the country is ranked third, after China and Brazil
- Overall, given its high growth potential, India compares favourably with global peers among foreign investors
- With an investment of around US$ 511.76 billion, the first half of 2016 witnessed the highest annual private equity (PE) in the retail sector, since 2008, according to a report by Cushman & Wakefield

(http://economictimes.indiatimes.com/industry/services/retail/retail-records-highest-pe-investments-in-h1-2016-since-2008/articleshow/54464645.cms)

Consumer expenditure is estimated to rise from US$ 1.25 trillion in 2015 to US$ 3.6 trillion by 2020 owing to rising income and demand for quality products.

Healthy economic growth, changing demographic profiles, increasing disposable incomes, urbanisation, changing consumer tastes and preferences are some key factors driving growth in organised retail.

Evolution of Retail in India

Pre-1990s INITIATION	1990-05 CONCEPTUALISATION	2005-10 EXPANSION	2010 onwards CONSOLIDATION
- Manufacturers opened their own outlets	- Pre-play retailers realised the potential of the market	- Substantial investment commitments by large Indian corporate	- Cumulative FDI inflow from April 2000 to September 2016, in the retail sector, reached US$ 909.12 million
	- Most of them in apparel segment	- Entry in food and general merchandise category	- Large-scale entry of international brands
		- Pan-India expansion to top 100 cities	- FDI in single-brand retail up to 100% from 51%
		- Repositioning by existing players	- Approval of FDI limit in multi-brand retail up to 51%

Growth in Organised Retail

Organised retail is a new phenomenon in India, and despite the downturns, the market is growing exponentially. Rising economic growth brings more of India's people into the consuming classes and organised retail lures existing shoppers into its open doors. By 2015, more than 300 million shoppers are said to have patronized organized retail chains. The growing middle class is an important factor contributing to the growth of organised retail in India. Even as the overall retail market is likely to grow at an annual rate of about 12%, organised retail is projected to grow by 20%, the CII-BCG study said. Organised retail is expected to account for about 12% of the retail market from 3% currently.

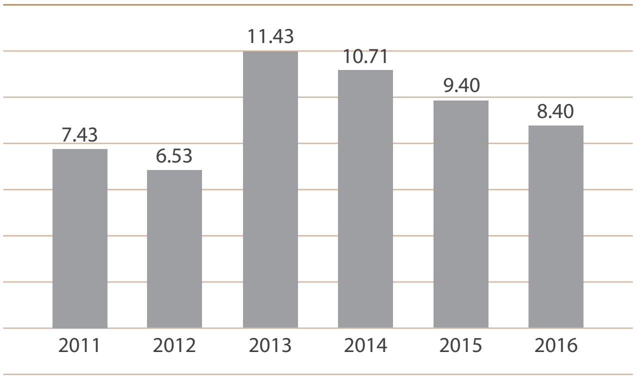
India Real Estate

The real estate sector is the backbone of India's economy and the major contributor to its economic growth, contributing 8.53% of the country's total GDP. Real estate is the 2nd largest employer after agriculture, and slated to grow at 30% over the next decade. The Indian real estate market is expected to touch US$ 180 billion by 2020, up from US$ 93.8 billion in 2014, according to India Brand Equity Foundation (IBEF). The emergence of nuclear families, rapid urbanisation, positive demographics and rising household income levels are likely to remain the key drivers for growth in all spheres of real estate – residential, commercial and retail.

The market size of this sector is seen increasing by a CAGR of 11.2% during the period FY2008-2020. The sector has witnessed high growth in recent times with rising demand for office and residential spaces. It is the 5th largest destination to attract foreign investment into India, while the construction industry ranks 3rd among 14 major sectors in terms of direct and indirect effects in all sectors of the economy. The growth of India's real estate sector is well complemented by the growth of the corporate environment and the demand for office space and for urban and semi-urban accommodation.

According to data released by the Department of Industrial Policy and Promotion (DIPP), India's construction development sector received FDI equity inflows to the tune of US$ 24.19 billion during the period April 2000-March 2016. As per another report from Cushman & Wakefield, private equity investments in Indian real estate touched their highest level in 9 years at US$ 5.97 billion or ₹ 39,900 crore in 2016, registering a 26% year on year rise. The average deal size in real estate increased to ₹ 340 crore from ₹ 280 crore, signaling increased confidence among investors to make larger investments in the sector.
(Source: http://realty.economictimes.indiatimes.com/news/industry/private-equity-2016-investments-in-indian-realty-at-9-year-high-cushman-wakefield/57170088)

FDI in Construction Development (As % of Total FDI)



Year 2016 witnessed some of the biggest changes in decades – especially on the policy front. Some significant and biggest game-changing policies such as GST and RERA cleared hurdles, and are on their way to full implementation.

India's real estate market is definitely poised for growth in the medium-to-long term on the back of higher transparency and further consolidation. India's Tier-I cities moved up to the 36th rank in Jones Lang Lasalle's biannual Global Real Estate Transparency Index in 2016. This is attributed to improvements in structural reforms and liberalisation of the foreign direct investment (FDI) policy. India came 4th in developing Asia in terms of FDI inflows as per the World Investment Report 2016 by the United Nations Conference for Trade and Development. Thanks to a proactive government, keen on improving India's ranking on different indices and strengthening public institutions, the country is poised to become a modern economy.

Policy Framework

Real Estate (Regulation & Development) Bill

The Real Estate (Regulation and Development) Act came into effect on May 1, 2017, a positive development for the Indian economy. Each state and Union Territory will have its own regulatory authority which will frame regulations and rules according to the Act. It seeks to bring in transparency, clarity and fair practices that will protect the interest of buyers and impose penalty on errant builders.

Real Estate Investment Trusts (REITs)

Real Estate Investment Trusts (REITs), an important development in the real estate sector, will help smaller investors invest in Grade-A commercial real estate across India. Budget 2016-17 exempted dividend distribution tax (DDT) on special purpose vehicles (SPVs). Rules for REITs were relaxed, and the investment cap in under-construction projects was raised from 10% to 20%. SPVs can have holdings in other SPV structures, and the limit on number of sponsors has also been removed. Currently, around 229 million sq. ft. of office space can be seen as REIT-compliant.

Benami Transactions Act

The Benami Transactions Act will curb black money flow into real estate and also render holding of property under fictitious names a punishable offence. Budget 2015-16 further announced imposition of a heavy penalty on property transactions carried out in cash.

Goods and Services Tax

The GST is the single-largest taxation reform in modern India and promises to eliminate geographical barriers for businesses by mitigating differences in indirect taxes applicable across various states. Clarity on tax credit for real estate transactions, and allowing input credit, could bring about a reduction in home prices.

Foreign Direct Investment

The Government is progressively undertaking reforms and liberalising the retail sector, thereby attracting foreign investments. The regulatory and supervisory policies are being reshaped and reoriented to meet these new challenges and opportunities. To facilitate the flow of Foreign Direct Investments (FDI) inflow, instead of having to seek FIPB approval, FDI of up to 100% is now allowed under the automatic route for cash, and carry wholesale trading and export trading. The Government of India approved 51% FDI in multi-brand retail and increased the FDI limit to 100% (from 51%) in single brand retail. It plans to allow 100% FDI in E-Commerce, under the arrangement that the products sold must be manufactured in India to gain from the liberalised regime. The policy initiative is expected to provide further fillip to the sector.

Real Estate Sub-Sectors

A. RETAIL

In 2016, strong demand for retail space was observed across high streets as many international brands opened their first outlets in India, while other brands continued to expand operations across cities, according to the CBRE Research Paper on India Retail 2016. Global retailers expanded their portfolio with multi-store openings. The Indian retail real estate market witnessed continuous foray of international brands, launch of retail developments and robust demand for space. The second half of 2016 witnessed an addition of about 1.9 million sq. ft. of supply across the seven key cities, according to the Research Paper. A majority of this supply was concentrated in the National Capital Region (NCR), Bengaluru and Mumbai. Rental trends varied across high street markets in major cities. These cities also witnessed active leasing by large foreign retailers. 2017 is likely to see the highest mall space becoming operational, second to 2011.

Steady Retail Absorption Projected for Forecast Period of 2016-18

Year	New Completions (Million Sq. Ft.)	Net Absorption (%)
2009	6.5	4.2
2010	6.9	4.0
2011	13.8	10.7
2012	4.1	4.5
2013	5.7	5.1
2014	1.3	1.6
2015	3.6	3.3
2016F	2.0	3.4
2017F	9.2	6.6
2018F	8.2	6.4

Source: CBRE Research Paper on India Retail, 2016

B. COMMERCIAL

On the demand side, the office space requirements by sectors such as manufacturing, logistics, FMCG showed positive signs in 2016, and this is expected to continue in 2017. Office space required by E-Commerce/start-ups and consulting firms shot up, as these sectors are expected to continue with headcount addition to accommodate their business growth in the years to come. Higher FDI is expected to flow into India as it improves on the 'ease of doing business' rankings and policies are made more investor-friendly.

Supply and Absorption

The overall demand for commercial real estate in 2016 amounted to 34.2 million sq. ft. on the back of healthy absorption and pre-commitments. Out of this, the net Pan-India absorption up to 3Q16 stood at 26.4 million sq. ft. Although availability of the right space at the right location remains a challenge for many occupiers, about 38-40 million sq. ft. of new space will be added in 2017.

Demand for office space is evolving and more corporates across industries will adopt innovative workplaces in the near future. Collaborative office spaces with open areas to boost employee productivity geared to attract and retain talent will gain importance from 2017. Going ahead, tech-enhanced offices with a focus on sustainability and energy-efficiency will command higher rents.

The Indian retail real estate market witnessed continuous foray of international brands, launch of retail developments and robust demand for space. The second half of 2016 witnessed an addition of about 1.9 million sq. ft. of supply across the key cities.

The implementation of RERA has led to standardisation of space. This will, in turn, help these stakeholders to render their assets REIT-compliant. Due to RERA, REITs and demonetisation, more and more office assets will become institutionalized.

Quality spaces are already available at competitive rentals in tier-II cities compared to tier-III and tier IV cities, and the former will see more supply in the years ahead. Even as vacancy lowers across key cities, the supply of good quality assets continues to diminish. Vacancy in high-quality assets is far lower than average vacancy. Assets of poorer quality or at inferior locations or which are strata-sold (in Delhi-NCR and Mumbai) have a much higher vacancy, except in the IT cities like Bangalore, Pune, Hyderabad and Chennai. Developers, private equity funds and REITs will continue to invest in premium office assets. With the implementation of RERA, there will be standardisation of space. This will, in turn, help these stakeholders to render their assets REIT-compliant. Due to RERA, REITs and demonetisation, more and more office assets will become institutionalized.

Steady Commercial Absorption Projected for Forecast Period of 2016-18

Year	New Completions (Million Sq. Ft.)	Net Absorption (%)
2009	42.0	21.6
2010	40.5	30.9
2011	44.4	37.0
2012	30.0	26.8
2013	36.7	26.8
2014	29.4	29.9
2015	38.5	36.6
2016F	37.8	34.2
2017F	38.8	32.1
2018F	38.0	34.9

Source: Real Estate Intelligence Service (JLL)
Note: Figures covered for 7 metropolitan cities – NCR-Delhi, Mumbai, Bengaluru, Chennai, Hyderabad, Kolkata and Pune

C. RESIDENTIAL

The residential real estate segment had been witnessing sluggish demand, unsold inventory levels and a slump in project launches in the last 2-3 years. In 2016, the segment showed a visible comeback. Residential assets remained the most preferred asset class as over 52% or US$ 3.1 billion of the total private equity real estate investments was witnessed in the asset class during 2016. Within residential, Mumbai was the most preferred location accounting for 34% of the total share, followed by Delhi and Bengaluru accounting for 26% and 20%.

India's cities will continue to expand, driven by urbanisation, rising disposable incomes and mounting consumption of goods and services. From the perspective of resultant pricing shifts, cities and micro-markets that are end-user driven are likely to remain stable. For intending home buyers, 2017 started on a positive note with banks lowering their lending rates. The softening of interest rates bodes well for the growth of the residential real estate sector. More borrowers are now eligible for loans and reduction in home loan EMIs, in addition to reduced tenures for existing borrowers, wherever applicable.

D. HOSPITALITY

The Indian hospitality industry is one of the key industries driving growth of India's services sector. Tourism is the foremost demand driver of India's hospitality industry. It recorded healthy growth, fuelled by robust inflow of foreign tourists as well as increased tourist movement within India and has become one of the leading players in the global industry. The travel and tourism sector's contribution to India's GDP is seen increasing from US$ 136.3 billion in 2015 to US$ 275.2 billion by 2025. Travel and tourism is the 3rd largest foreign exchange earner for India. In 2014, the country received foreign exchange earnings of US$ 19.7 billion from the sector.

The Government is making serious efforts to boost investments in the sector. In the hotel and tourism sector, 100% FDI is allowed through the automatic route. A five-year tax holiday has been offered for 2, 3 and 4-star category hotels located around UNESCO World Heritage sites (except Delhi and Mumbai). The investment in tourism sector is expected to be US$ 12.4 billion in the 12th Five Year Plan, of which the private sector is seen contributing around US$ 9.2 billion. The penetration of Internet usage and smart phones in India has led to increased booking of hotels through online portals and applications in recent times.