

H1 2023

SPOTLIGHT
Savills Research

Market in Minutes: Ahmedabad Industrial & Logistics



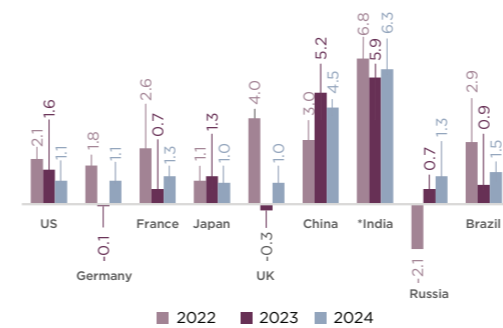


As the first half of 2023 closes, policymakers around the world are navigating through an uncertain if not a previously uncharted terrain. The last few years have seen overlapping crises – COVID-19, the Russia-Ukraine War, rising inflation and interest rates, and liquidity troubles after a series of bank crises. In March 2023, World Bank warned of the makings of a ‘Lost Decade’ for the global economy.¹

While the fear of recession is seemingly ubiquitous, some parts look more vulnerable than others. Nevertheless, select bright spots like India stand out, with negligible chances of a technical recession. India, in fact, continues to be the fastest growing major economy (Chart-1).

INDIAN ECONOMY REMAINS LEAST VULNERABLE

Chart-1: GDP Growth Rates Around the World



Interest Rate Movement in 2022 (Change in bps)
 Inflation: Peak 2022 vs Dec 21 (Change in bps)

Source: IMF WEO Apr 2023
 * Fiscal year basis

REMARKABLE RESILIENCE

Although the global atmosphere necessitated a slight revision in India’s GDP growth forecast, it still appears to be an island of low vulnerability, primarily on account of strong macro-economic indicators, demographic advantage and robust consumption. Despite this revision, World Economic Outlook (IMF’s flagship report) in its April 2023 edition projected a 6.4% growth rate for India in FY24, an evidence of remarkable resilience, in the face of global headwinds.

The ‘growth vs inflation conundrum’ seems well managed at this point. Barring the first two months of the year, inflation is within the RBI’s tolerance zone since Nov 2022 (Chart-2). In fact, at 4.25%, retail inflation hit a 26-month low in May 2023.

The general economic performance can be viewed through the lens of certain key macro-economic indicators. GST collections were the highest recorded ever, at INR 1.87 lakh crores in April 2023 (up 12% YoY). Interestingly, the revenue collections have been consistently above INR 1.5 lakh crores since March 2023. Both manufacturing and services Purchasing Managers Index (PMI) have been steadily expanding for almost 2 years. Strong sentiments in the IT sector are reflected in the 13-year high services PMI of 62 in April 2023. A 31-month high

in the manufacturing sector is reflected in the manufacturing PMI of 58.7 for May 2023. Brent crude oil prices have remained comfortably below USD100 per barrel throughout 2023, enabling relative stability of the Indian Rupee reportedly at INR 80-82 to a USD, for the most part this year. Foreign exchange reserves, consequently, have increased from around USD 560 bn at the start of the year to USD 596 USD in mid June 2023.

Equity Markets: The Bellwether of Growth Phase

Equity markets often act as powerful barometers for macroeconomic sentiments. Towards the end of June 2023, both BSE SENSEX and NIFTY were trading at all-time highs of 64,000 and 19,000 respectively. More assuring are the key sectoral indices. SENSEX and key sectoral indices have recorded significant gains compared to the pre-pandemic times of early 2020. (Chart-3). As of 28th June 2023, the S&P BSE IT and Realty indices had registered gains of 87% and 82%, vis-a-vis 1st of January 2020.

[Click here to read #SavillsRoundUp: A fortnightly reporting of economic and real estate news](#)



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Note: FY refers Fiscal Year (Apr-Mar)
 This section contains figures in Indian system of lakhs and crores (refer Appendix for international conversions)
 1 USD = Approx. 82.05 INR on Jun 29, 2023

¹ Economic Times

POLICY ACTION

Despite demand concerns across the globe and phases of untamed inflation domestically, India's growth has remained steady. A key factor powering the upward trajectory post peak-pandemic is strong policy support from various agencies and institutions, including the RBI. While the Atma-Nirbhar Bharat Package was a decisive factor in limiting the impact of devastation during the pandemic, the RBI's role in maintaining domestic demand and liquidity has been commendable. A close look at retail inflation and repo rate movement since 2020 (Chart-2) reveals that well spaced-out and gradual hikes in benchmark lending rates were mostly successful in handling spiralling inflation, with a manageable impact on demand and growth prospects.

Budgetary Announcements

The Union Budget 2023-24 centered around creating a blueprint for the economy in 'Amrit Kaal' – a run from 75 years of independence (in 2022) till the 100th in 2047. The hon'ble Finance Minister identified 7 priority areas for this long-term growth plan, viz., inclusive development, percolation of benefits to the last mile, infrastructure and investment, potential realisation, sustainable green growth, youth empowerment and reforms in the financial sector.

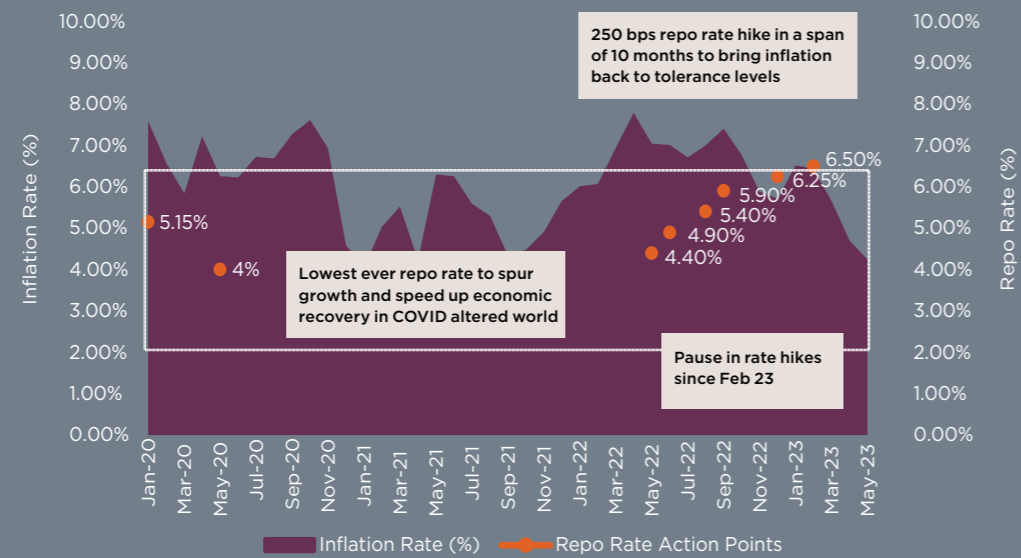
Real Estate Specific Announcements

Although direct real estate announcements were limited, the steep rise in the Capex to 3.3% of GDP continued to be the guiding force of the budget, providing a strong impetus to infrastructure and allied industries including real estate. Specifically, the INR 10,000 crore per annum allocation to the Urban Infrastructure Development Fund will enhance the proposition of tier II and III cities with developers and funds creating more commercial, residential and retail developments.

(Refer Appendix for detailed real estate specific announcements and the impact on various real estate verticals).

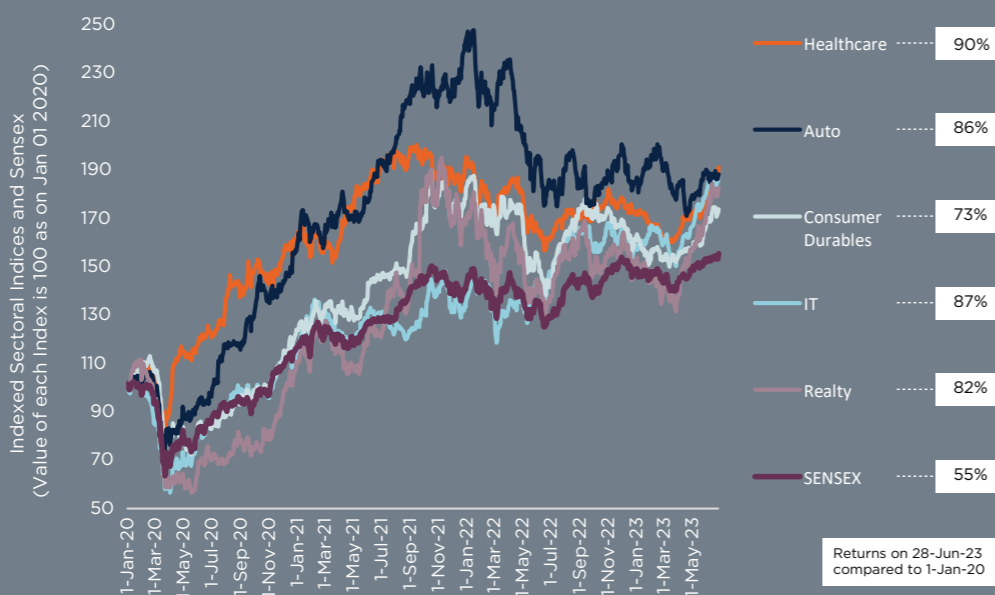
In other notable announcements of H1 2023, SEBI's proposal to regulate all online platforms that offer fractional ownership of real estate assets is expected to institutionalise the segment and help attract more capital from both domestic and offshore investors. REITs have also been at the centre of investor and retail participant attention in the first half of the year, as India's REIT offerings expanded from the office sector to retail with the listing of Nexus Select Trust REIT in May 2023. The NSE also launched India's first REIT and InvIT index to help the retail investor track the cumulative performance of such offerings listed on the NSE.

Chart-2: RBI Response to Macroeconomic Scenario



Source: FxEmpire, Savills India Research

Chart-3: Equity Markets: Sectoral Performance



Source: BSE, Savills India Research

NEAR-TERM CAUTION

Although India remains the least vulnerable major economy, it will be wise to consider that no economy is fully insulated from concerns elsewhere in today's highly globalised world. To quote the RBI governor, "Headwinds from weak external demand, volatility in

global financial markets, protracted geopolitical tensions and intensity of El Nino impact, however, pose risks to the outlook and needs to be carefully monitored."

India will have to navigate the near-term challenges emanating from global events, but its future is quite promising, as its engines are very well geared up.



RBI's Financial Stability Report: Indian banks' gross bad loans fall to a 10-year low of 3.9% in Mar 2023

India's Current Account Deficit (CAD) narrowed sharply in the Jan-Mar quarter, helped by a smaller trade gap and increased services exports. The CAD stood at USD 1.3 Bn (0.2% of GDP) in the 4th quarter of FY 23, compared with the previous quarter's revised deficit of USD 16.8 Bn (2% of GDP).

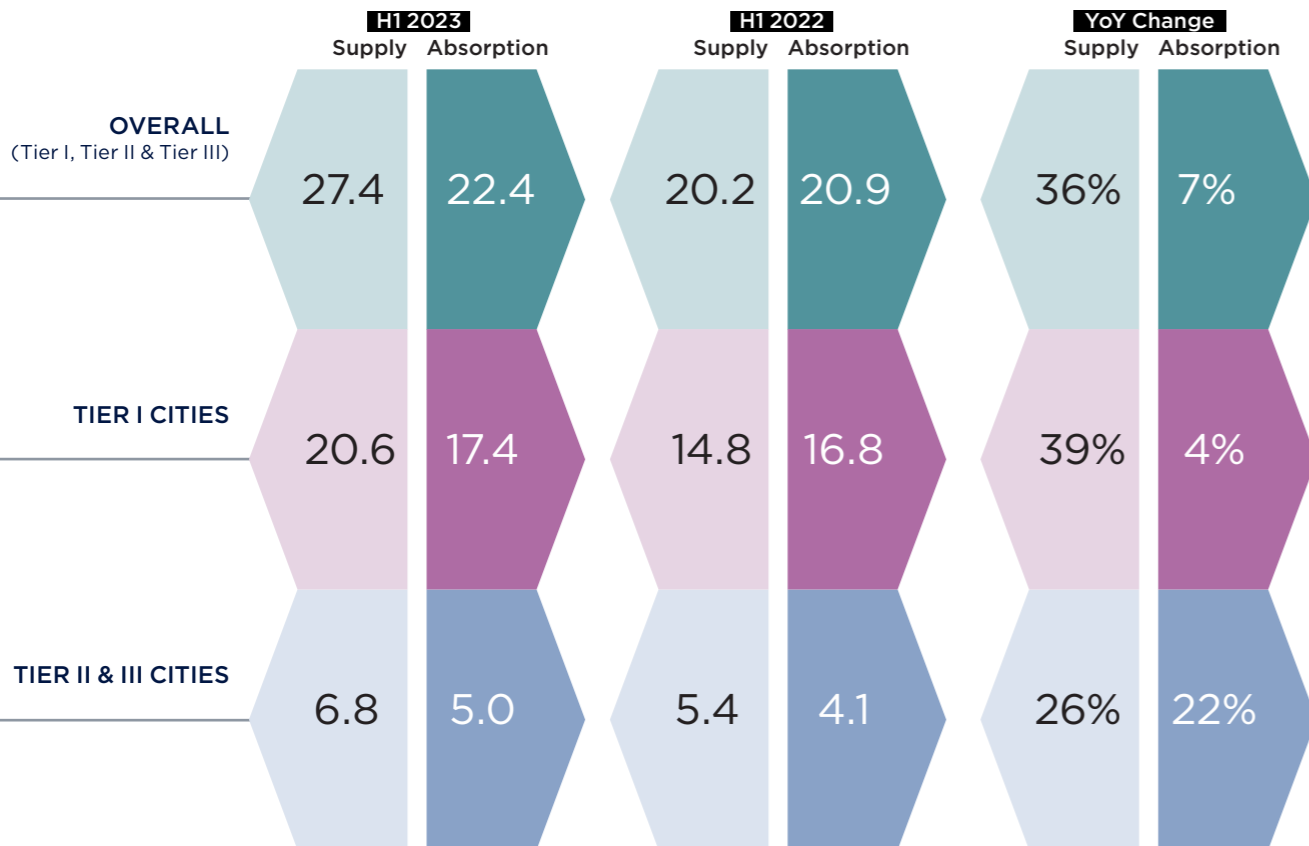
INDIA

Industrial & Logistics Market



Key Statistics

(in mn sq. ft.)

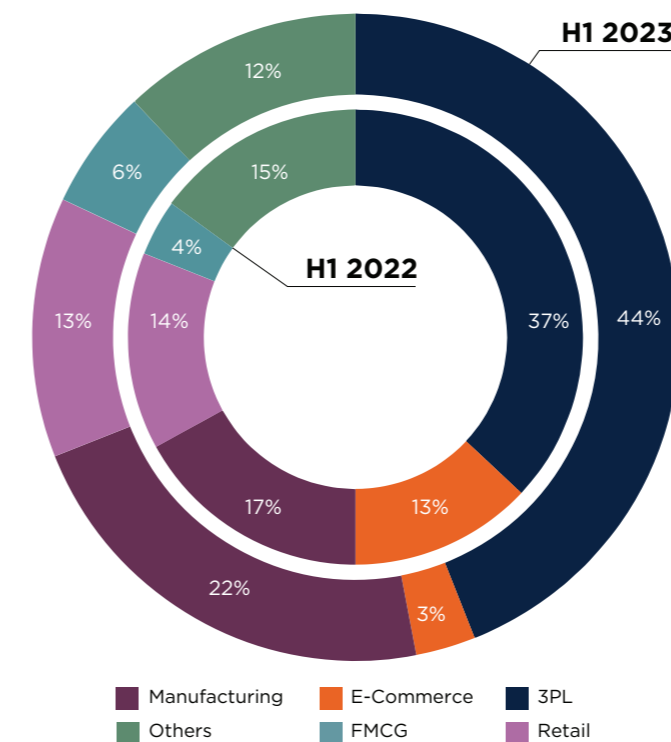


Note: Tier I city includes Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai, Delhi-NCR, and Pune. Tier II and Tier III cities include Guwahati, Bhubaneswar, Patna, Hosur, Coimbatore, Rajpura, Lucknow, Jaipur, Nagpur, Indore and Surat.

Key Trends

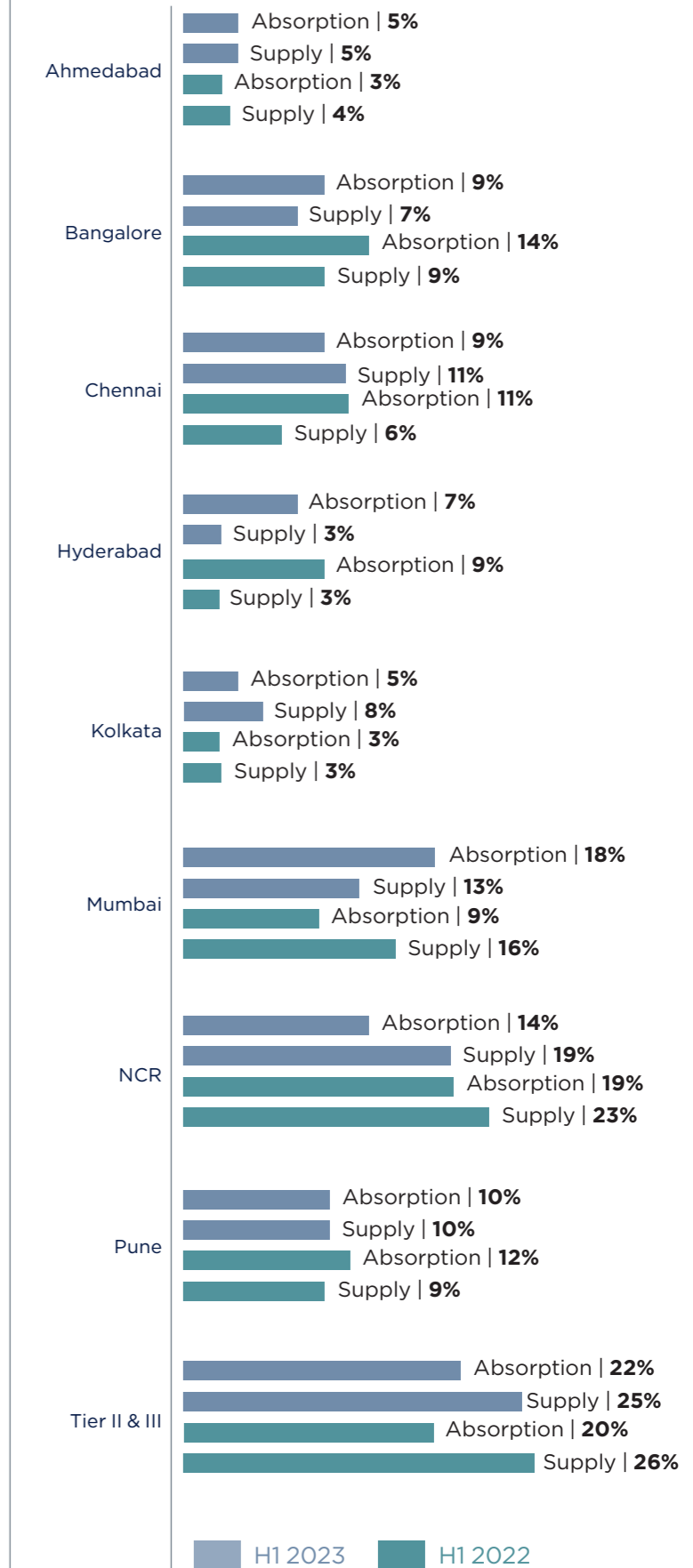
- India witnessed absorption of 22.4 mn sq. ft. in H1 2023 including 17.4 mn sq. ft. from Tier I cities and 5.0 mn sq. ft. from Tier II & III cities
- New supply of 27.4 mn sq. ft. in H1 2023 including 20.6 mn sq. ft. - Tier I cities and 6.8 mn sq. ft. Tier II & III cities has been added
- 3PL sector accounted for 44% of total absorption in H12023 followed by manufacturing at 22% and retail at 13%.
- Mumbai MMR accounted for 18% of absorption followed by NCR (14%), Pune (10%) Bengaluru and Chennai at 9% each.
- Land transaction continued to garner attention with an excess of 1,500 acres being exchanged ownerships for manufacturing and warehousing across India.

Absorption by Sector



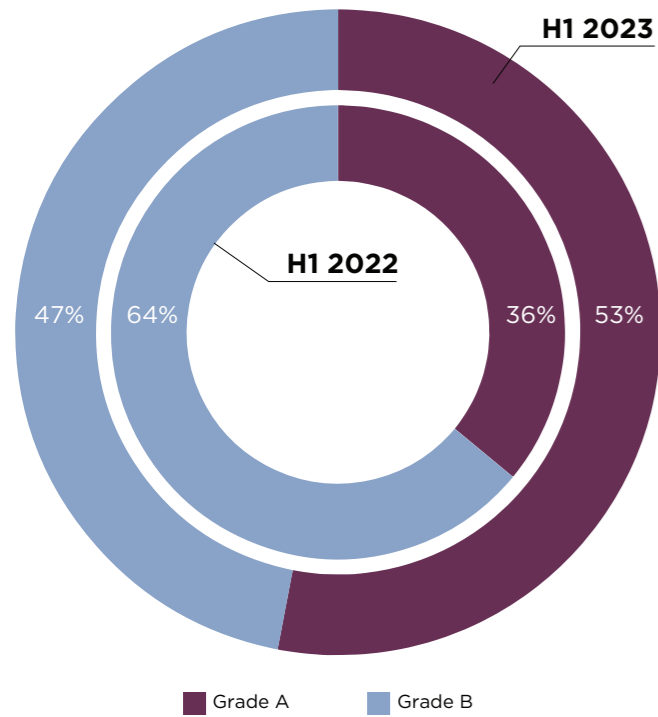
Source: Savills India Industrial Research

Supply & Absorption by City

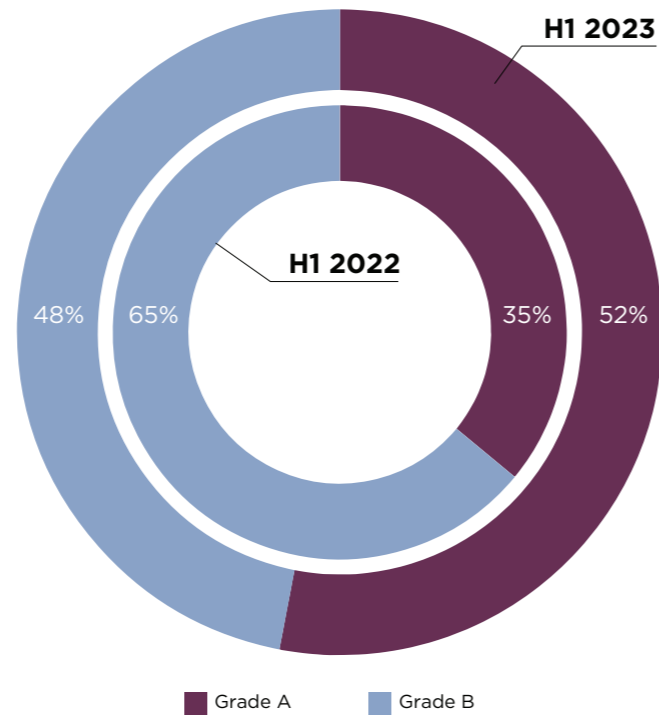


Source: Savills India Industrial Research

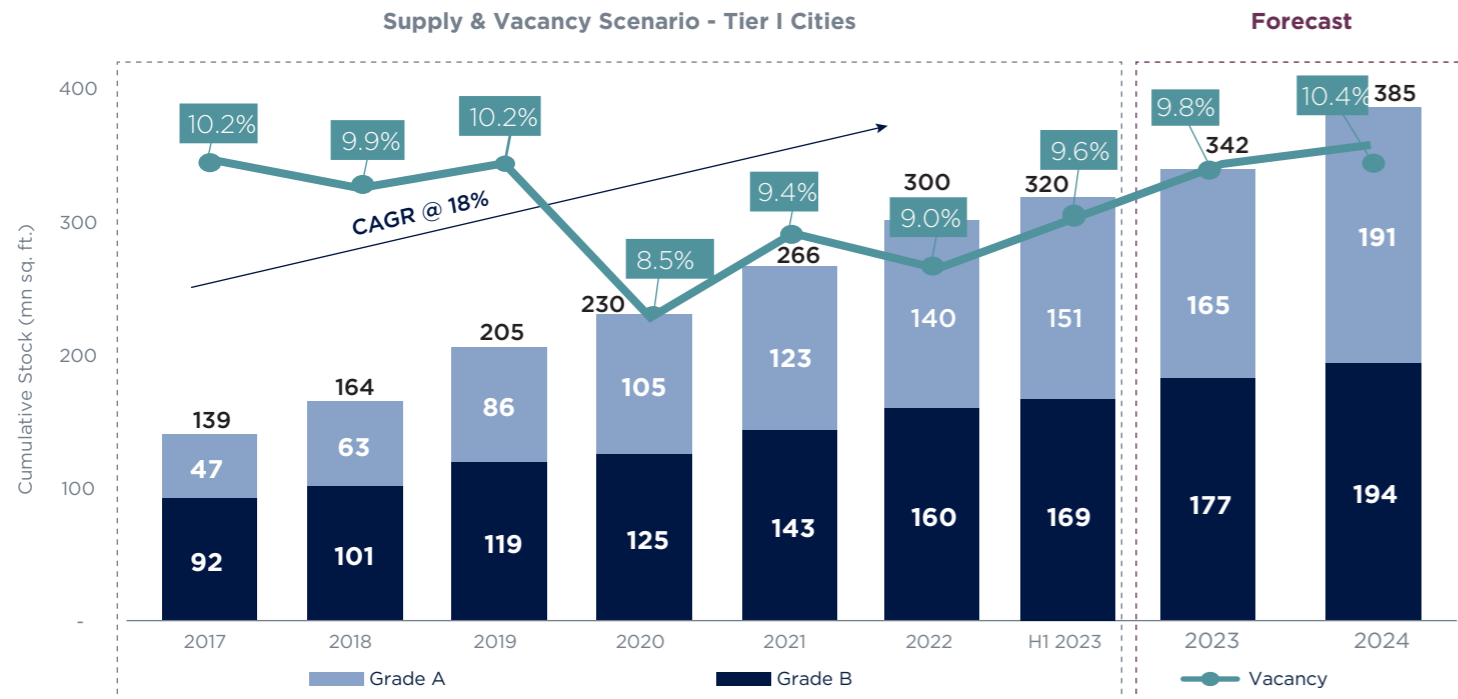
Absorption by Grade



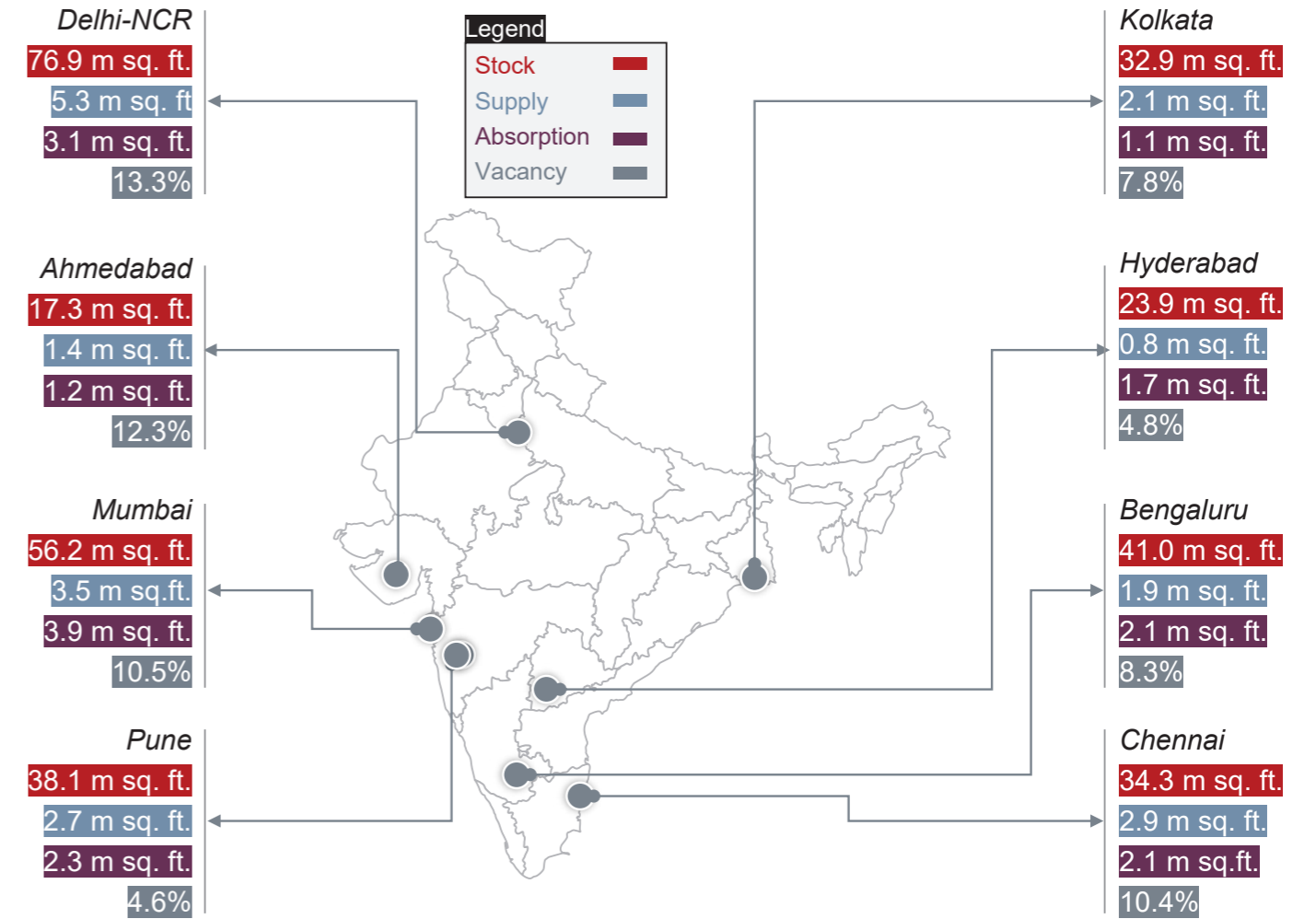
Supply by Grade



Supply & Vacancy Scenario - H1 2023

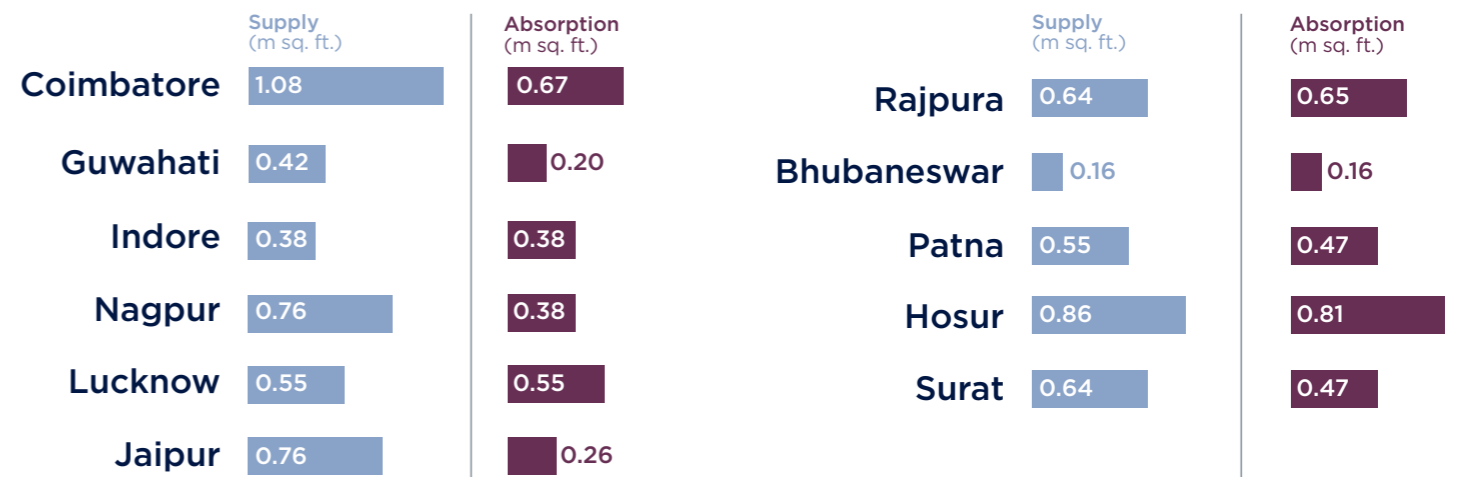


City Wise Stats - H1 2023



Source: Savills India Industrial Research
Note: as on H1 2023

Supply and Absorption in Tier II & III Cities

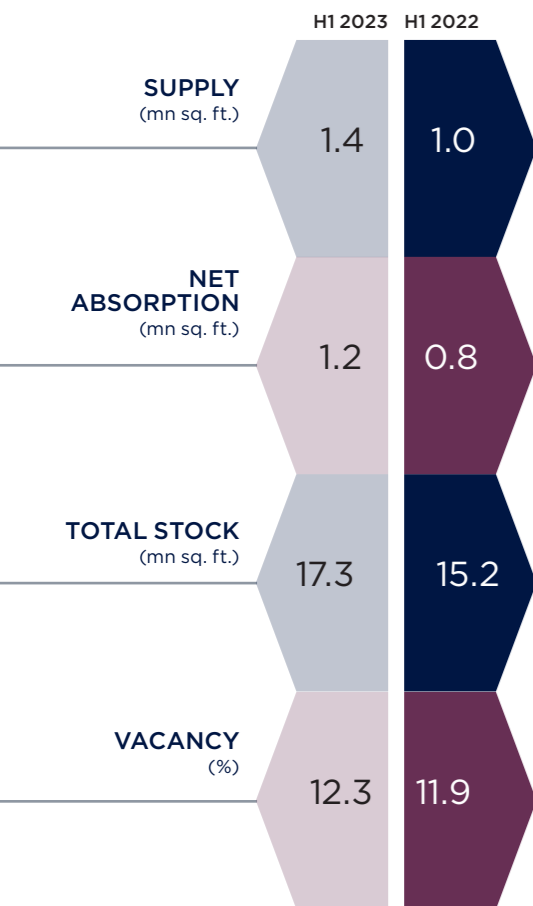


AHMEDABAD

Industrial & Logistics Market



Key Statistics



Key Trends



Automobile sector has leased majority of the space specifically in Sanand micro-market



Occupier preference for compliant and quality Grade A facilities is driving the rental growth for the major corridors of Grade A projects



Vacancy rates marginally increased

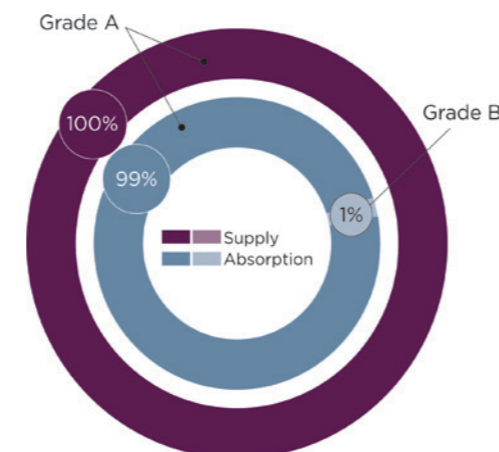
Supply, Absorption, and Vacancy

Ahmedabad city witnessed absorption of 1.2 million sq. ft. in H1 2023 in comparison with 0.8 million sq. ft. in H1 2022 mainly driven by manufacturing, 3PL and retail occupiers. Sanand and Changodar-Bavla micro-markets together contributed 70% of the total absorption. Automobile and auto ancillary occupiers have recently engaged in significant leasing activities in micro-markets like Sanand and Jalisanna.

The manufacturing sector led with 72% of the total absorption, followed by the retail sector at 17% and FMCG/FMCD at 9% in H1 2023. Furthermore, Grade A space accounted for 99% of the total absorption during the same period.

In H1 2023, the market witnessed a supply of 1.4 million sq. ft. against 1.0 million sq. ft. in H1 2022. The operational stock stands at 17.3 million sq. ft. as of H1 2023 and the overall vacancy levels increased from 11.9% in H1 2022 to 12.3% in H1 2023.

Supply & Absorption by Grade

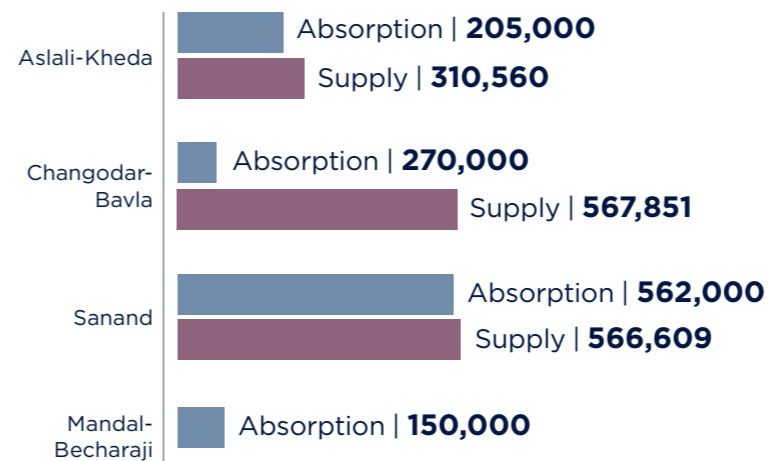


Major Transactions

■ OCCUPIER ■ Micro-Market ■ Area Leased (sq. ft.)

3PL	MANUFACTURING
Jalisanna 150,000	Sanand 112,000
Changodar 120,000	Kheda 160,000

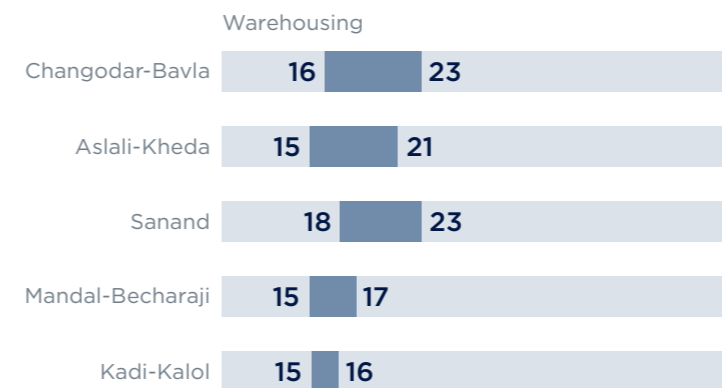
Supply & Absorption by Micro-Market



Source: Savills India Industrial Research

Rental Values

Rental Value Range (INR psf pm)



Source: Savills India Industrial Research
Note: Rental Values on Carpet Area

Absorption by Sector

3PL
3%

Manufacturing
72%

Source: Savills India Industrial Research

Outlook

Considering the uptick in manufacturing and warehousing leasing activity in H1 2023 and on the back of strong government push for local production, Ahmedabad is likely to have robust leasing demand for H2 2023 as well. We foresee ~ 2.5 million sq. ft. of industrial and logistics space getting absorbed in Ahmedabad City.

Sanand, Aslali-Kheda and Changodar-Bavla remain the preferred locations for warehouse occupiers.

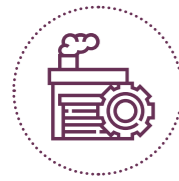
Sanand, Surat and key micro-markets expect substantial land transactions due to manufacturing occupiers' preference. In H1 2023, Sanand micro-market witnessed a transaction of 89 acres of industrial land. Rental values are expected to increase marginally for compliant graded buildings.

Retail
17%

FMCG/FMCD
9%

BURGEONING MANUFACTURING LANDSCAPE IN INDIA

Key Trends



The Indian manufacturing sector is on a high growth trajectory, the government has implemented several initiatives such as Make in India, Digital India, PLI Scheme and Startup India, which have boosted the manufacturing sector that have significantly improved the overall business environment. In addition, the manufacturing sector is expected to benefit from corporate tax rates of 15% for new manufacturing companies, lowest in Asia.



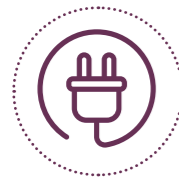
Indian manufacturing sector is projected to experience a growth rate of 6.8% in 2023-24, according to estimates by the World Bank¹. The S&P Global India Manufacturing Purchasing Managers Index (PMI) has consistently remained above the threshold of 50 since September 2021², reflecting a stable growth trend in the sector.



In Budget 2022-23, the government allocated US\$315 million for promoting electronics and IT hardware manufacturing³. During FY 2022-23 electronic goods exports were recorded at USD 23.57 Billion as compared to USD 15.66 Billion during FY 2021-22, registering a growth of 50.52%⁴.



The country attracted in excess of USD 6 billion FDI inflows into Automobile, Drugs & Pharmaceuticals, Chemicals (other than fertilizers) and Metallurgical Industries⁵.



The Geological Survey of India has achieved a significant milestone by establishing inferred resources (G3) of 5.9 million tonnes of Lithium within the country⁶. This discovery is expected to provide a significant boost to industries reliant on lithium, including electric vehicles, lithium-ion batteries, semiconductors, consumer electronics, aerospace, marine, medical, and telecommunications.



The Government has identified the Defence and Aerospace sector as a focus area for the 'Aatmanirbhar Bharat' initiative with an aim to achieve a turnover of USD 25 billion by 2025⁷. This measure will lead to the establishment of indigenous manufacturing infrastructure, supported by a necessary research and development ecosystem.

In recent years, the Indian government has implemented several initiatives to augment the manufacturing sector that have significantly improved the overall business environment. In a major effort to encourage domestic manufacturing, the government of India has slashed the corporate tax rates of new manufacturing companies to 15%, making it the lowest in Southeast Asia. The sector has seen further traction backed by the roll out of Performance Linked Incentives (PLI) scheme.

India has established multiple industrial corridors with planned Multi Modal Logistics Parks (MMLP's) along with government and private industrial parks to support and promote growth. The government of India has identified over 1,200 thousand acres of land across several states which could potentially be offered for establishing industrial & logistics hubs⁸. In H1 2023, the market witnessed transactions of close to 1,500 acres of manufacturing and warehousing land in the country of which 72% was for manufacturing purpose, 22% was for warehousing and 5% for mixed use (both manufacturing & warehousing) development. Additionally, more than 50% of the transactions were dedicated to captive usage.

The Industrial Land Bank in India

Total No. of Plots 500K+

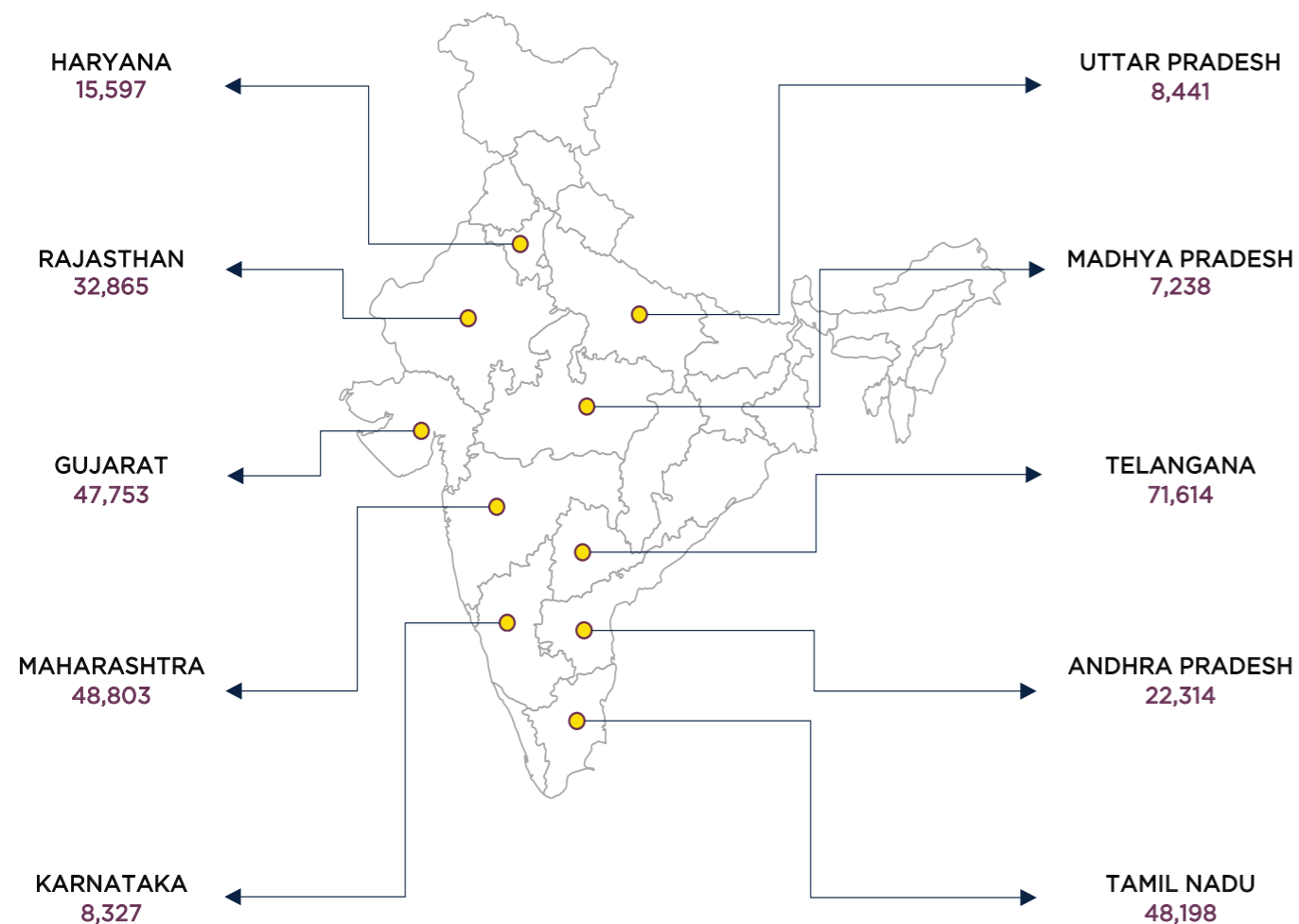
Total Available Land (Acres) 330K+

Total Land Bank (Acres) 1,200K+

Total No. Parks 3,900+

Source: DPIIT, Government of India

State wise availability of industrial land in hectares (top 10 States)



Source: DPIIT, Government of India

Land Transactions in H1 2023

Zone-wise land transactions

Zone	Acres and % share
East	23 (2%)
North	175 (12%)
South	266 (18%)
West	1,007 (68%)

Land Transactions by occupier type

Occupier Type	Acres and % share
Manufacturing	1,063 (72%)
Warehousing	331 (22%)
Mixed (Both Manufacturing & Warehousing)	77 (5%)

Land Transactions by ownership

Occupier Type	Acres and % share
Government	549 (37%)
Private	922 (63%)

Source: Savills Industrial Research

APPENDIX

KEY POLICY /SCHEME ANNOUNCEMENTS H1 2023

Prime Minister Mega Integrated Textile Region and Apparel Parks (PMMITRA) scheme: anticipated to encourage investment in the textile and apparel manufacturing industry and provide a boost to the Make in India initiative⁹.

Modified Programme for Semiconductors and Display Fab Ecosystem: Fiscal Incentive of 50% of the project cost is available to companies/consortia/ joint ventures for setting up of Semiconductor Fabs in India of any node (including mature nodes). Similarly Fiscal incentive of 50% of the project cost is available for setting up of Display Fabs of specified technologies in India¹⁰.

Kerala Industrial Policy 2023: The state of Kerala has formulated a new policy to accelerate its industrial growth and create more employment opportunities.

Andhra Pradesh Industrial Development Policy 2003: The Andhra Pradesh government has notified the Industrial Development Policy (IDP) for five years starting April

2023. This will likely promote industrial development in the state.

Union Budget 2023-24-Key Announcements 11

- Extending 15% corporate tax benefits to new co-operatives to commencing manufacturing till 31st March 2024.
- Customs Duty on specified capital goods/machinery for manufacture of lithium-ion cell for use in battery of electrically operated vehicle (EVs) extended to 31.03.2024.
- Customs duty exempted on vehicles, specified automobile parts/ components, sub-systems and tyres when imported by notified testing agencies, for the purpose of testing and/ or certification, subject to conditions.
- 35,000 crore outlay for energy security, energy transition and net zero objectives.
- Battery energy storage systems to be promoted to steer the economy on the sustainable development path.
- 20,700 crore outlay provided for renewable energy grid integration and evacuation from Ladakh.

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³<https://www.indiabudget.gov.in/doc/eb/sbe27.pdf>

⁴<https://pib.gov.in/PressReleasePage.aspx?PRID=1916220>

⁵<https://dpiit.gov.in/publications/fdi-statistics>

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⁷<https://www.makeinindia.com/sector/defence-manufacturing>

⁸<https://iis.ncog.gov.in/parks/login1.jsessionid=CF5073FD86E8E8B890E7B39BA854DAB9>

⁹<https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1908052>

¹⁰<https://www.meity.gov.in/esdm/Semiconductors-and-Display-Fab-Ecosystem>

¹¹<https://pib.gov.in/PressReleasePage.aspx?PRID=1895315>



DEFINITIONS

Supply

New building(s) which are completed in a given time frame which includes Grade A and Grade B buildings in both BTS and speculative developments.

Stock

Existing built-up area in all buildings located in a given market. Only Grade A, B+ and B buildings have been considered for computing stock in each market/micro-market.

Vacancy

Space is considered vacant till it is available for lease/sale to an end user. Vacancy is total vacant space in the market/micro-market.

Pre-lease/Pre-commitment

The agreement to lease drawn up between the owner and the tenant, prior to the completion of a building.

Built-to-suit (BTS)

A building which has been constructed by the developer, tailored for the requirements of an occupier.

Net Absorption

Total of lease transactions (excluding renewals and churns) witnessed in completed buildings in the market/micro-market in a given time frame, which includes Grade A and Grade B in both BTS and speculative developments.

Rental Value

The average of transacted rent(s) from a representative sample of same grade buildings including Grade A and Grade B in a market/micro-market.

Capital Value

The price at which a sale transaction takes place. [Capital Value= Rent per year/Yield].

Rent Computation

Rents are computed by taking a weighted average of rents in the short-listed basket of buildings wherein there are recent lease transactions, and the frequency of lease transactions is the highest.

Micro-market

A micro-market is a geographical segment of the city.


Savills

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Central Management

Anurag Mathur
CEO - Savills India
anurag.mathur@savills.in

Arvind Nandan
Managing Director
Research and Consulting
arvind.nandan@savills.in

Srinivas N
Managing Director
Industrial & Logistics
srinivas.n@savills.in

Author

Srinivasa Reddy
Director
Industrial Research & Advisory
srinivasa.reddy@savills.in

Industrial & Logistics Contacts

Namit Kanchan
Director - Chennai
Industrial & Logistics
namit.kanchan@savills.in

Saurbh Katyal
Senior Director - Delhi NCR
Industrial & Logistics
saurbh.katyal@savills.in

Ajay Joshi
Senior Director & Head
Industrial & Logistics
ajay.joshi@savills.in

Shoueb Chishti
Senior Director - Mumbai
Industrial & Logistics
shoueb.chishti@savills.in

Sumit Ghosh
Director - Pune
Industrial & Logistics
sumit.ghosh@savills.in

Business Development

Namrata Kher
Senior Manager
Business Development
namrata.kher@savills.in

Industrial Investment Services

Sandeep Narayan Singh Deo
Senior Director & Head
sandeep.singhdeo@savills.in

Project Management Services-Industrial

Velprakash K
Executive Director
Project Management
velprakash.k@savills.in

Media Queries

Chinmoyee Kalita
Corporate Communications Lead
chinmoyee.kalita@savills.in

Marketing & Design

Ranjit Kumar
Associate Director
ranjit.kumar@savills.in

Mallika Cincar
General Manager
mallika.cincar@savills.in

Naveen Giri
Assistant Manager
naveen.giri@savills.in

Gurugram

3-A, Second Floor, Building 9B
DLF Cyber City, Phase 3
Sector 24, Gurugram 122 002
Haryana, India

Bengaluru

Vaishnavi Tech Park, WM9C+995
Sarjapur Main Rd, Bellandur
Bengaluru 560 103
Karnataka, India

Hyderabad

5th Floor, DivyaSree Solitaire, Plot No. 14 & 15
Software Units Layout, Sy No 64, Madhapur,
Serilingampally Mandal, Hyderabad 500 081
Telangana, India

Mumbai

403, Tower B, Level 4, The Capital
Street 3, G Block, Bandra Kurla Complex
Bandra East, Mumbai 400 051
Maharashtra, India

Chennai

Savills, 5th Floor, North Wing
Harmony Square, New No. 48 & 50
Praksam Street, T. Nagar
Chennai 600 017
Tamil Nadu, India

Ahmedabad

INC-02, The First Commercial Complex
B/S Keshavbaug Party Plot, Vastrapur
Ahmedabad 380 015
Gujarat, India

Bengaluru

15th Floor, SKAV SEETHALAKSHMI
Corporation No.21, Kasturba Road
Bengaluru 560 001
Karnataka, India

Pune

Unit #4, 13th floor
Phoenix Fountainhead Tower 2
Phoenix Market City
Viman Nagar, Pune 411 003
Maharashtra, India

Kolkata

Apeejay Business Centre
15 Park Street, Apeejay House
Block-A, 8th Floor, Kolkata 700 016
West Bengal, India



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