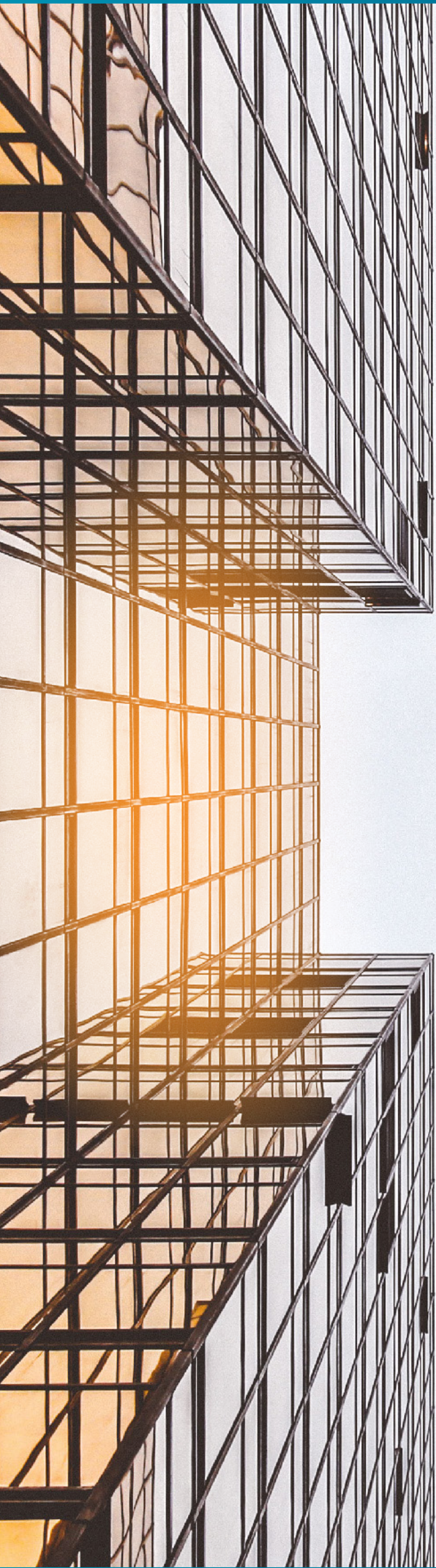
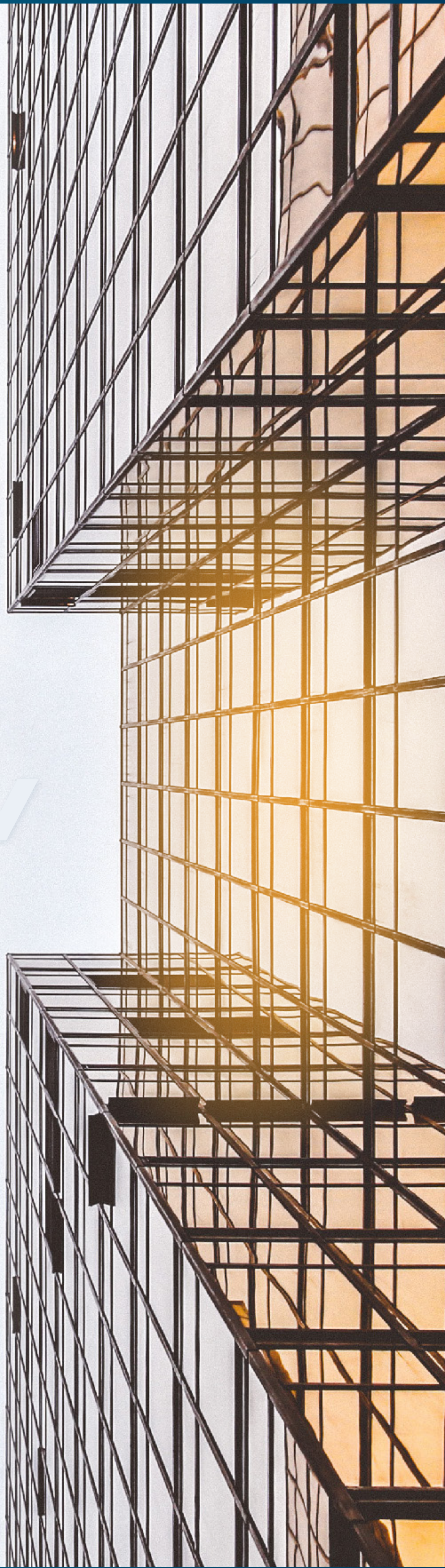


CUSHMAN & WAKEFIELD

INDIA OFFICE MARKET

REPORT - Q3 2022



KEY HIGHLIGHTS

1

Gross Leasing Volume stood at 17.6 msf across top-8 cities in India, much higher than the quarterly average leasing witnessed over last 8-10 quarters, though on a q-o-q basis it was 24% lower.

2

Tier-I megapolis cities of Bengaluru, Delhi-NCR and Mumbai accounted for 64% of the overall GLV for the quarter. Mumbai recorded a recent period high leasing volume of 4.2 msf, driven by large number of fresh deals.

3

The top-3 sectors that contributed the most to leasing volume were IT-BPM (28%), BFSI (15%) and the Engineering & Manufacturing (14%) sectors, closely followed by the flex space operators.

4

Third quarter recorded highest amount of supply in recent period history with close to 15.5 msf been added to the overall Grade-A inventory. Hyderabad, Bengaluru and Delhi NCR cumulatively accounted for a significant 74% of new supply during the quarter.

5

Net absorption stood healthy at 8.8 msf in Q3. While it is a decline of 17% decline over previous record quarter but a 165% jump as compared to Q3 2021.

Office real estate activity maintained its momentum in the third quarter with the gross leasing volumes at healthy levels in top cities, largely driven by fresh leasing. While Q3 quarter volumes were relatively lower than the record-high volumes witnessed in Q2, although it was 23% higher than the same quarter last year. As more number of employees returned back to workplace since the second quarter, occupiers demand for expansion of space continued to remain strong. Healthy pre-commitments were observed in cities such as Bengaluru, Hyderabad and Pune, where bulk of the new supply was coming from.

Occupier sentiments remain strong and developers are moving ahead with speculative projects, unlike last year when projects with substantial precommitments were being expedited. However, the ongoing Russia-Ukraine conflict, supply chain disruptions and the consequent sharp rise in global inflation and interest rates pose near term risks to the Indian office market. On the other hand, despite the global economic outlook being clouded with uncertainty in the near term with recession fears in the US and Europe, India's economic prospects in the near to medium term remains relatively healthier. While caution is warranted due to the possible impact of any near term global recession on leasing decisions by global multinationals, the office market's fundamentals remain sound and is likely to ride out any temporary slowdown. The IT-BPM sector, a key driver of office demand, continues to perform well and return to work is gaining momentum with a fairly high proportion of employees already back in offices. Vacancies in prime office corridors are tight and rentals are stable given that supply is moving in line with demand for office space. However, in the case of any near-term temporary slowdown in leasing activities, rentals across certain micro markets in the top cities, particularly those with high supply, might possibly show a downward trend. Overall, medium term outlook for the office market remains optimistic on the back of digital transformation activities by multinationals in India and higher business confidence.

LEASING TRENDS

Gross Leasing Activity

Pan India GLV across the top eight markets was recorded at 17.6 msf, a 23% growth over Q3 2021 and higher than the quarterly average since Q1 2020. YTD leasing volumes stood at close to 55 msf and has already surpassed the full year figure for 2021. At the current rate, annual GLV this year is likely to reach the 2019 figure, when office market had witnessed record leasing activity. Mumbai led the way in Q3 with around 4.2 msf, highest recorded in over past several quarters, and the city accounted for nearly a quarter of pan India GLV. Delhi NCR witnessed the highest leasing volumes since Q2 2020 while Bengaluru and Hyderabad, the traditional tech markets, also saw large volumes, albeit lower than the previous quarter when leasing activity had surged.

Fresh leasing accounted for the highest proportion of quarterly leasing on the back of robust occupier sentiments and organizations calling for larger proportion of employees to return in offices. Closure of some large deals across the top cities, expansion/consolidation by major occupiers and healthy hiring trends by global multinationals, especially in technology, engineering & manufacturing and BFSI sectors have translated into strong office space uptake. Fresh leasing increased by over 60% on an annual basis and accounted for around 63% of quarterly GLV.

Rentals remained largely stable across all cities as supply kept pace with the strong demand seen in recent quarters. That said, prime micro markets across cites continue to report tight vacancies and high demand in these locations have translated into higher rentals in some markets. Active demand has remained healthy throughout the year until Q3, thereby giving confidence to developers to maintain regular supply in the market.

Office real estate market activity remains healthy as fresh demand for space boosts overall leasing volume. Gross leasing volume recorded a 23% growth y-o-y and stood much higher than a 10-quarter average quarterly volume of ~14 msf. Faster return to work of employees and strong hiring plans of leading occupiers were primary drivers of office demand. Prime micro markets enjoy low single digit vacancies with strong demand from marquee tenants.

Gross Leasing (msf)	Q2 2022	Q3 2022	% Change
Mumbai	2.99	4.23	41%
Delhi NCR	3.42	3.63	6%
Bengaluru	6.82	3.48	-49%
Chennai	2.67	1.90	-29%
Pune	2.93	1.66	-44%
Hyderabad	3.43	2.22	-36%
Kolkata	0.32	0.29	-9%
Ahmedabad	0.52	0.23	-55%
PAN India	**23.11**	**17.64**	**-24%**

Gross Leasing (msf)	Q3 2021	Q3 2022	% Change
Mumbai	3.15	4.23	34%
Delhi NCR	2.49	3.63	46%
Bengaluru	5.06	3.48	-31%
Chennai	1.82	1.90	4%
Pune	0.75	1.66	120%
Hyderabad	0.78	2.22	186%
Kolkata	0.12	0.29	147%
Ahmedabad	0.17	0.23	39%
PAN India	**14.33**	**17.64**	**23%**

Term Renewals

Term renewals stood at 3.7 msf during the quarter, which is a relatively tepid number compared to previous quarter. With 3.7 msf of term renewals recorded during the third quarter, the YTD term renewal volume stood at 11.1 msf. This is relatively lower than the 13.6 msf volume of renewals recorded in the same period last year. Large part of the gross leasing volume was driven by fresh leasing, the share of which was dominant at 63%.

Mumbai, which saw the highest volume of gross leasing during the quarter, led the way with a share of 39% in overall term renewals. Hyderabad and Chennai followed Mumbai with a share of 22% and 21%, respectively. All three cities had a high share of term renewals (35-40%) in their respective quarterly GLV numbers.

Preleasing activity

Pre-leasing was recorded at around 2.9 msf in Q3, a growth of around 14% on a quarterly basis and close to 6x jump as compared to the same period last year. Pan India pre-leasing accounted for a 16% share in overall GLV as compared to 11% share recorded in the previous quarter. YTD pre-leasing stood at over 8.0 msf, a 47% growth on a yoy basis. Bengaluru led pre-leasing in the quarter with the city accounting for nearly 63% of pan India pre-leasing activity. Pune and Mumbai followed with shares in the range of 12-13%.

Net Absorption

Net absorption was recorded at around 8.8 msf during the quarter, a 3x jump over the same period last year though a 17% decline on a qoq basis. Healthy fresh leasing contributed to the strong absorption levels in the quarter. With return to office in force across most sectors as occupiers bring back a larger proportion of employees to office, absorption levels are likely to remain stable going forward. Bengaluru accounted for around 39% of pan India net absorption in the quarter with Delhi NCR and Hyderabad's contributions in the range of 14-15%.

Net Absorption (msf)	Q2 2022	Q3 2022	% Change
Mumbai	0.78	0.68	-13%
Delhi NCR	1.32	1.33	0.1%
Bengaluru	5.15	3.46	-33%
Chennai	0.28	0.76	167%
Pune	0.82	0.89	10%
Hyderabad	1.52	1.22	-19%
Kolkata	0.19	0.27	38%
Ahmedabad	0.55	0.23	-58%
PAN India	**10.61**	**8.83**	**-17%**

Net Absorption (msf)	Q3 2021	Q3 2022	% Change
Mumbai	0.20	0.68	235%
Delhi NCR	0.79	1.33	68%
Bengaluru	1.11	3.46	211%
Chennai	0.27	0.76	179%
Pune	0.13	0.89	617%
Hyderabad	0.58	1.22	109%
Kolkata	0.08	0.27	237%
Ahmedabad	0.17	0.23	36%
PAN India	**3.33**	**8.83**	**165%**

At 8.8 msf, net absorption remains healthy as many occupiers look to expand their office portfolio given the rising number of employees returning to office. Several IT-BPM firms and start-ups have had strong hiring in recent quarters that has also contributed to the demand for office space. About 63% of gross leasing volume is contributed by fresh leases alone.

OCCUPIER TREND

The ever dominant IT-BPM sector continues to account for the highest share in gross leasing at 28%, driven by the overall growth in digital adoption globally. This was followed by the BFSI sector that accounted for 15% share in quarterly leasing. Flex space and Engineering & Mfg. sectors accounted for ~14% share each, thereby forming the top sectors during the quarter. At 14.4%, flex space sector saw its highest share in GLV, carrying on the strong momentum it has seen over last 6-8 quarters.

The momentum in enterprise leasing of flex seats remained intact with close to 30,000 seats leased in Q3, a 13% decline on a quarterly basis but more than double the leasing number in Q3 2021. Flex seats leasing has witnessed a major surge since Q4 2021 with quarterly average of ~30,000 seats leased across top 8 cities. Enterprise demand for flex seats and managed offices solutions is scaling greater heights in the post pandemic period and this is reflected in consistent share of flexible workspaces in quarterly GLV at around 12-14% in the past couple of quarters. Bengaluru and Pune contributed two thirds of total flex seat leasing in Q3 with Hyderabad accounting for another 13%, a trend similar to that in the previous quarter when these cities cumulatively accounted for over 80% of enterprise demand.

IT – BPM
6.02 / 6.92 / 4.88

CAPTIVE
0.57 / 1.03 / 0.59

ENGINEERING & MANUFACTURING
2.31 / 4.63 / 2.55

BFSI
1.22 / 2.69 / 2.58

E-COMMERCE
0.05 / 0.07 / 0.19

FLEXIBLE WORK
0.76 / 2.39 / 2.54

HEALTHCARE & PHARMA
0.45 / 0.72 / 0.47

PROFESSIONAL SERVICES
1.39 / 2.11 / 2.15

TELECOM & MEDIA
0.28 / 0.28 / 0.27

OTHERS
1.27 / 2.25 / 1.43

Q3 2021 Q2 2021 Q3 2022

All values in msf

SUPPLY TRENDS

New completions stood at 15.5 msf in Q3, the highest ever in last ten quarters and a 17% growth on a quarterly basis. New supply jumped by 112% as compared to the same period last year. The robust supply addition shows strong developer confidence amidst continuous improvement in office demand across the top cities. The pickup in leasing volumes over the past few quarters shows strengthening of occupier sentiments and this has enabled developers to expedite projects not just with substantial pre-commitments but also speculative developments. This also means that developers possibly have the belief that the market fundamentals are strong enough to ride out any near-term impact due to the global economic uncertainty and that the medium-term outlook remains sound. Faster completion of projects is enabling supply to move in tandem with accelerating demand and this is expected to keep overall rentals stable in the near term. Hyderabad and Bengaluru cumulatively contributed over half of the new supply addition in the quarter with Delhi NCR accounting for another 23%.

Sustained momentum in fresh leasing and expansion/consolidation by large occupiers are driving office space uptake which is helping developers expedite greenfield projects. Going forward, developers will have to incorporate sustainability features, technological solutions and modern amenities to attract marquee tenants in greenfield developments.

New Supply (msf)	Q2 2022	Q3 2022	% Change
Mumbai	0.00	1.49	NA
Delhi NCR	0.93	3.49	277%
Bengaluru	2.69	3.62	35%
Chennai	2.03	1.16	-43%
Pune	2.24	0.40	-82%
Hyderabad	4.24	4.38	3%
Kolkata	0.00	0.00	NA
Ahmedabad	1.07	0.92	-14%
PAN India	**13.19**	**15.47**	**17%**

New Supply (msf)	Q3 2021	Q3 2022	% Change
Mumbai	1.13	1.49	32%
Delhi NCR	2.96	3.49	18%
Bengaluru	0.53	3.62	590%
Chennai	0.75	1.16	55%
Pune	0.33	0.40	21%
Hyderabad	1.59	4.38	174%
Kolkata	0.00	0.00	NA
Ahmedabad	0.00	0.92	NA
PAN India	**7.29**	**15.47**	**112%**

OUTLOOK

In the previous quarter, we did highlight the significance of 2022 as a year of rebound for the commercial office market. We had estimated the year to be ending closer to the historic high levels seen in 2019 as far as leasing volume is concerned. The leasing volume witnessed in first three quarters of this year has already touched 55 msf, which is merely 13-14 msf short of the 2019 full year levels. Besides, the average quarterly leasing volume this year has been around 18 msf. The sentiments have been strong amongst occupiers as well as developers, with the latter delivering record number of projects each quarter. In Q3, close to 15.5 msf of new supply hit the market across cities, taking the YTD-22 new supply figure to ~44 msf.

Simultaneously, we also had highlighted in Q2 few risks that were brewing underneath this bullish real estate market sentiment in India. While 2022 started-off with diminishing risks associated with the pandemic, there were other risks emerging in the form of geopolitical stress, high inflation, threat of rising interest rates and slowdown in China owing to zero Covid-19 policy. Most of the other risks we mentioned has possibly emerged stronger with each passing quarter. Inflation across major economies in the world have touched very high levels, forcing global central banks to raise interest rates at an alarming pace, including in India by the Reserve Bank. For instance, India witnessed four consistent rate hikes that took the benchmark repo rate from merely 4.0% at the start of financial year to 5.9% as of this day. Having said that, from a macroeconomic point of view, India's growth drivers continue to remain strong. Also, all high-frequency monthly economic indicators such as the GST collections, railway freight volumes, purchasing manager's indices, etc. suggests a healthy economic activity until so far.

For the immediate near-term, the strong momentum in office space leasing and new projects delivery seems likely to continue. However, we may see some tapering of activity in the early quarters of 2023 as a mild recession hits US and European economies. Occupiers & investors sentiment is likely to remain cautiously optimistic in India for the near-term, and they would be expecting global growth to return by the mid of 2023. Like most leading research houses are suggesting, we too believe that the recession is the US & Europe could be a mild one that may be short-lived, and Indian real estate markets will likely see continuation of the on-going momentum from mid-2023.

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