



CUSHMAN &
WAKEFIELD

INDIA OFFICE MARKET

REPORT - Q1 2023



KEY HIGHLIGHTS

1

15.8 MSF Gross Leasing Volume (GLV) in Top 8 cities in Q1 2023; nearly 15% decline q-o-q but broadly in-line with the quarterly average volume observed since Q2-21 when office markets started rebounding post-Covid.

2

Pune led the gross leasing volume in Q1, accounting for 20% share, followed by Mumbai, Delhi NCR and Bengaluru with shares of 19%, 18% and 14% respectively.

3

IT-BPM dominated the quarterly leasing volumes with ~30% share. Other major contributors were BFSI, Professional Services (13% each), Captives and Flexible Workspaces (10% each)

4

Supply saw a decline by around 12% on a q-o-q basis. 6.5 MSF of new completions were recorded in Q1 2023, with Bengaluru accounting for ~26% share followed by Delhi NCR (25%) and Ahmedabad (20%).

5

Net absorption in Q1 2023 stood at 8.3 MSF, a decline of around 8% on a quarterly basis.



Currently, there are two macroeconomic forces at play – a high inflationary scenario, a weakening global growth projection and the on-going geopolitical risks has been acting as a drag on market's outlook. On the other hand, strong tailwinds particularly in the Indian markets from a rising return-to-office, resilient IT-BPM revenues (until Dec-22 quarter) and resilient economy are keeping domestic sentiments positive. Therefore, despite the headwinds, Q1-23 gross lease volume exhibited high resilience and stayed in line with the average for past 6 quarters. Interestingly, fresh leases continue to drive leasing volume across Indian cities. An important factor that could be driving demand is the rising share of employees returning to office across all sectors. Several occupiers who had kept their expansion plans on hold have been actively looking for space since last few quarters, thereby keeping the demand for quality space intact.

Projects that got delivered in the first quarter were the lowest in the post-Covid period in India. This puts a small break on the steady and healthy supply that was observed over the last 6-8 quarters. The gradual rise in vacancy that was observed across multiple cities could have led to developers becoming a tad more cautious in introducing new supply. Having said that, the pipeline of projects for 2023 continues to remain healthy and there will be a focus on expediting projects that enjoy healthy pre-commitments. Vacancies in many prime office clusters continue to remain tight-to-moderate as quality space and good locations remain in high demand by occupiers.

LEASING TRENDS

GROSS LEASING ACTIVITY

Office demand remained resilient in the first quarter of the year with fresh leasing contributing heavily to leasing volumes across key markets, as has been the case over the past few quarters. Gross Leasing Value (GLV) for the quarter was down 15% from an extremely strong Q4 last year but at 15.8 MSF, quarterly leasing volume was up by nearly 16% from the same period last year. Space take-up was relatively lower across cities such as Delhi NCR, Mumbai and Bengaluru when compared to a strong previous quarter. Leasing activity had picked-up strongly in Pune and Chennai in this quarter.

Fresh demand constituted around 73% of overall quarterly leasing activity, also triggered by an improving share of employees returning back to offices that drove demand. Several companies hired during the peak of pandemic but had refrained from committing to an office space back then. We believe a lot of this fence-sitting demand has been coming into the market over last few quarters.

Fresh leasing was the primary driver of leasing activity during the quarter. At 11.6 MSF, fresh leasing was up by ~30% over the same period last year, although it stood lower compared to an extremely strong number recorded in Q4 2022. Delhi NCR led fresh leasing volumes during the quarter with a 21% share, followed by Bengaluru and Chennai with contributions of 18% and 17%, respectively.

Despite headwinds associated with global macroeconomic uncertainty, leasing volumes in the Indian commercial office space stood resilient during the first quarter of 2023. Interestingly, fresh leasing continues to remain a dominant component in the overall leasing activity, thereby highlighting the underlying strength of market rebound post Covid. India's office market enjoys the inertia from a strong rebound in activity seen during the last 4-6 quarters, and an occupier-friendly market continues to generate demand.

Gross Leasing (MSF)	Q4 2022	Q1 2023	% Change
Mumbai	4.50	3.05	-32.30%
Delhi NCR	3.92	2.89	-26.54%
Bengaluru	5.29	2.25	-57.40%
Chennai	1.69	2.07	22.40%
Pune	1.07	3.11	190.30%
Hyderabad	1.15	1.59	37.76%
Kolkata	0.69	0.63	-9.93%
Ahmedabad	0.21	0.25	17.78%
PAN India	18.54	15.83	-14.61%

Gross Leasing (MSF)	Q1 2022	Q1 2023	% Change
Mumbai	3.42	3.05	-10.92%
Delhi NCR	3.18	2.89	-9.38%
Bengaluru	2.89	2.25	-21.90%
Chennai	1.42	2.07	46.01%
Pune	1.04	3.11	200.25%
Hyderabad	1.26	1.59	25.84%
Kolkata	0.21	0.63	197.76%
Ahmedabad	0.26	0.25	-6.04%
PAN India	13.68	15.83	15.73%

TERM RENEWALS

Term renewals stood at 3.8 MSF in Q1, a 19% growth on a qoq basis and a 74% jump as compared to the same period last year. Term renewals accounted for nearly a quarter of the overall leasing volume, which was highest in last six quarters. Pune and Mumbai cumulatively accounted for 89% of term renewals during the quarter. The commercial real estate market continues to remain occupier-friendly as more supply hits the market as a result of which rentals are likely to remain range-bound across most cities.

PRELEASING ACTIVITY

At 0.47 MSF, pan India pre-leasing in Q1 was just 3% of quarterly Gross Leasing Value (GLV). This is the second consecutive quarter where pre-leasing has exhibited a tiny proportion of the overall leasing volume. A likely explanation for this is the deferment of supply that has been observed since last two quarters. With supply foreseen to come back on track in the near term, we expect the share of preleasing to pick-up. Mumbai observed bulk (49%) of the pre-leasing volume during the quarter, followed by Bengaluru with a 26% share.

NET ABSORPTION

In comparison to the previous quarter, net absorption witnessed a marginal drop of 8%, although growth was exceptional at 68% when compared to the same period a year ago. A high share of fresh leasing in the Gross Leasing Value (GLV) for the quarter clearly helped drive net leasing volume. Tech cities such as Bengaluru, Delhi-NCR, Pune and Hyderabad accounted for nearly 3/4th of the net leasing volume.

Net Absorption (MSF)	Q4 2022	Q1 2023	% Change
Mumbai	2.47	0.72	-70.73%
Delhi NCR	2.56	1.66	-35.35%
Bengaluru	0.52	1.54	197.24%
Chennai	1.06	0.49	-53.19%
Pune	1.19	1.57	30.73%
Hyderabad	0.74	1.55	109.74%
Kolkata	0.25	0.55	117.44%
Ahmedabad	0.21	0.25	17.78%
PAN India	9.01	8.34	-7.52%

Net Absorption (MSF)	Q1 2022	Q1 2023	% Change
Mumbai	0.59	0.72	22.59%
Delhi NCR	1.31	1.66	26.69%
Bengaluru	1.41	1.54	9.47%
Chennai	0.53	0.49	-6.13%
Pune	1.13	1.57	38.44%
Hyderabad	-0.36	1.55	-530.26%
Kolkata	0.12	0.55	361.69%
Ahmedabad	0.25	0.25	-0.77%
PAN India	4.97	8.34	67.66%

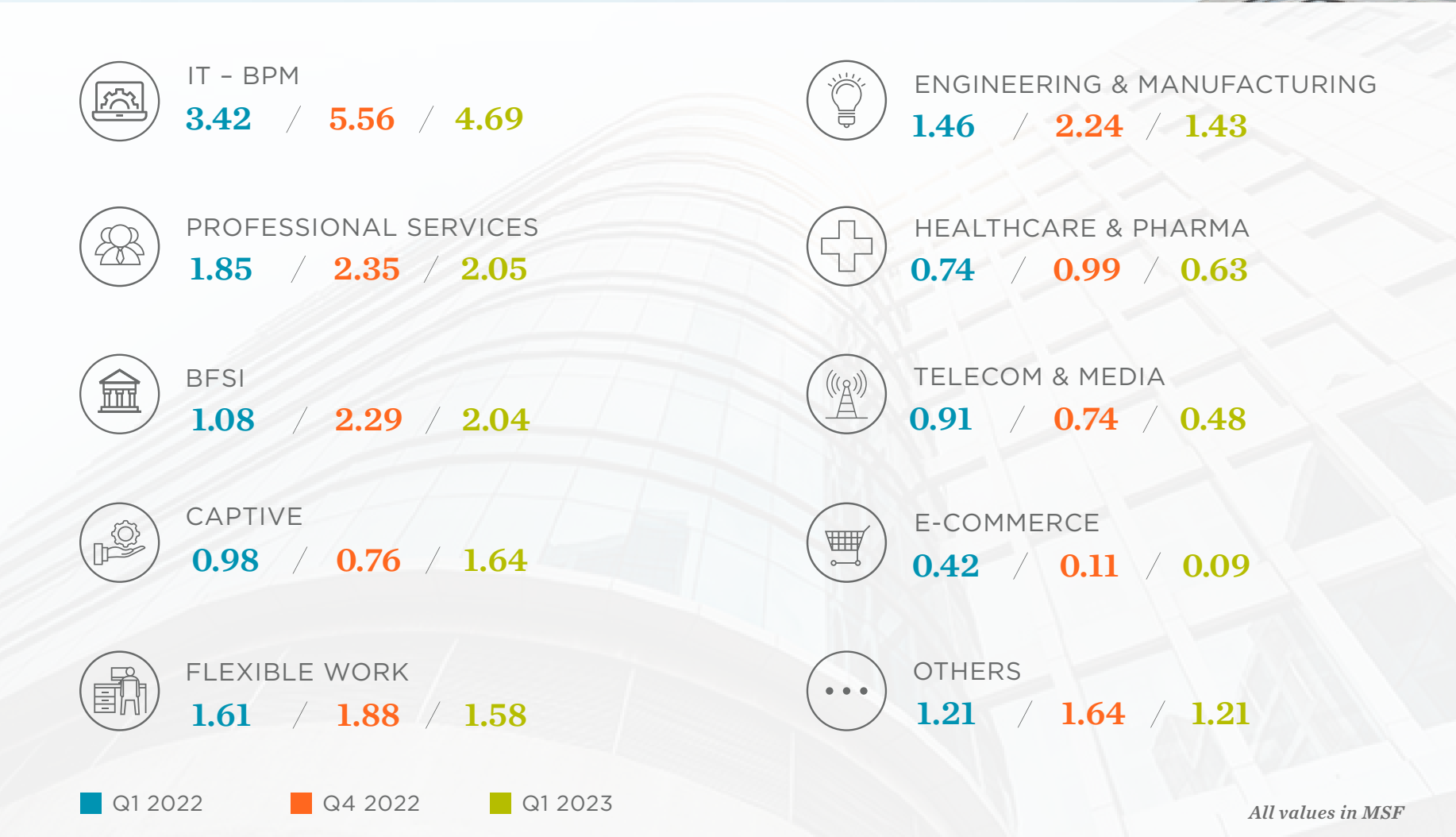
A healthy fresh leasing activity coupled with a relatively lower quantum of supply helped in lowering vacancies across multiple cities. Net absorption of office space stood at 8.3 MSF, which was merely 7-8% lower compared to the strong preceding quarter, although it stood much higher compared to a year ago period. Tech cities such as Bengaluru, Hyderabad, Delhi-NCR and Pune drove net absorption volumes. With a healthy supply pipeline foreseen in the current year, and assuming demand continues to remain resilient, we foresee absorption to remain strong.



OCCUPIER TREND

IT-BPM was the key driver of leasing activities in the quarter, accounting for around 30% of Gross Leasing Value (GLV). Several global and Indian IT services companies continued to post good revenue growth until the Q4 of 2022. Within India, the top-5 IT companies – TCS, Infosys, Wipro, HCL Tech and Tech Mahindra – had their hiring plans intact as these companies were facing high attrition rates until the Q4. The BFSI and professional services sectors contributed ~13% each to overall Gross Leasing Value (GLV). Captives segment contributed around 10%, a first such instance in last few quarters when this segment was counted amongst heavy contributors to office space take-up. Space leased by captives during the quarter recorded a healthy growth both on an annual basis (67%) as well as on a quarterly basis (117%). Flex occupiers contributed around 10% to the overall Gross Leasing Value (GLV), followed by the engineering & manufacturing at ~9%.

Growth momentum of enterprise leasing of flex seats continued into the first quarter of this year with nearly 20,000 seats leased, a 25% growth over the previous quarter. Given the shortening business cycles and the need to have CAPEX light real estate solutions, flexible workspaces offer means for hedging against business risks as well as opportunities for cost optimisation and better space management. Bengaluru was the leader in leasing, accounting for around 44% of seats leased in the quarter followed by Mumbai and Chennai with 13% and 11% shares respectively.



SUPPLY TRENDS

At 6.5 MSF, new completions in Q1 stood lowest in the last 13 quarters, falling by 12% on a quarterly basis and by 58% as compared to the same period last year. The fall in new supply in the quarter could be a short-term phenomenon on the back of broader market uncertainty and a gradual rise in vacancy in previous quarters. Over the past several quarters, supply has been strong and tried keeping pace with the rebound in demand seen across major cities. Developers were expediting speculative supply as well, in addition to projects with high pre-leasing.

Bengaluru was the top contributor to supply in Q1, accounting for ~26% of new completions followed by Delhi NCR (25%). Interestingly, Ahmedabad occupied the third spot contributing 20% of the supply in the quarter. However, cities such as Mumbai and Chennai witnessed no new supply addition whereas in Hyderabad, it was the lowest witnessed in recent history.

New Supply (MSF)	Q4 2022	Q1 2023	% Change
Mumbai	0.46	0	-100.00%
Delhi NCR	1.55	1.61	3.86%
Bengaluru	2.47	1.69	-31.63%
Chennai	0.20	0	-100.00%
Pune	1.30	1.10	-15.43%
Hyderabad	1.36	0.51	62.65%
Kolkata	0	0.30	NA
Ahmedabad	0	1.28	NA
PAN India	7.35	6.49	-11.77%

New Supply (MSF)	Q1 2022	Q1 2023	% Change
Mumbai	1.66	0	-100.00%
Delhi NCR	1.62	1.61	-0.29%
Bengaluru	3.11	1.69	-45.63%
Chennai	1.80	0	-100.00%
Pune	2.95	1.10	-62.62%
Hyderabad	2.87	0.51	-82.29%
Kolkata	0	0.30	NA
Ahmedabad	1.26	1.28	0.91%
PAN India	15.27	6.49	-57.50%

OUTLOOK

Having witnessed 6-7 quarters of post-Covid rebound in office market demand across major Indian cities, the Q1-23 gross lease volume took a slight breather and posted 14% fall from the previous quarter to record 15.8 MSF. However, this Gross Leasing Value (GLV) was broadly in-line with a longer period average, thereby rendering it a resilient quarter from occupiers' sentiment point of view. Similarly, net absorption also stood marginally lower than that observed in the previous quarter, though it may be pertinent to mention that previous quarter posted a very healthy demand volume. On the supply front, two consecutive quarters witnessed fall in project completions as of Q1-23, particularly after witnessing 6-7 quarters of healthy supply activity post-Covid. This healthy rate of supply in the recent past had resulted in a gradual rise in vacancy rates across multiple cities, and developers could have probably chosen to slow down a bit as markets are at a risk of becoming slightly more cautious in the near-term.

In India, return-to-work is already reached levels of over 70% in sectors such as BFSI and professional services, while others are soon following suit. Many occupiers in India continued to hire even during Covid years, but their office space requirements remained relatively muted owing to higher proportion of workforce working from home. All of this suggests that the underlying demand is strong, and the global macroeconomic uncertainty could at best delay this demand by a couple of quarters. There is a much greater focus on health & safety of employees at work, and this could potentially mean offices in India can go low on densities. This can add further fuel to the underlying strength in demand.

Prime micro markets within cities such as Bengaluru, NCR-Delhi, Mumbai, and Hyderabad are witnessing tight vacancy rates. Therefore, there is a risk of rents rising sharply when demand picks-up pace, posing as a deterrent for some occupiers. However, of the upcoming supply that we foresee over next 2-3 years, bulk of it will be seen coming-up in these prime SBD markets, thereby helping rentals to largely remain stable or range-bound. That will help many occupiers to enjoy a slightly extended period of tenant-friendly market conditions in the near-to-medium term.





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