



INDIA OFFICE MARKET

REPORT - Q2 2023



KEY HIGHLIGHTS

1

17.4 msf gross leasing volume (GLV) in Top 8 cities in Q2 2023; a 22% decline y-o-y but around 11% growth on a quarterly basis as office demand remained resilient against a backdrop of global economic uncertainty

2

Delhi NCR was the leading market in terms of pan-India gross leasing volumes in Q2, accounting for a share of around 21%, followed by Pune, Bengaluru and Mumbai with shares ranging between 16-18%

3

IT-BPM accounted for the highest share (~31%) in quarterly leasing followed by engineering & manufacturing, BFSI and flexible workspaces segments with shares of around 19%, 14% and 13% respectively

4

11.9 msf of new completions were recorded in Q2 2023 with Hyderabad accounting for ~46% followed by Bengaluru (22%) and Chennai (18%). Supply increased by around 71% on a q-o-q basis

5

The net absorption in Q2 2023 stood at 6.4 msf, a decline of around 20% on a quarterly basis



Market activity demonstrated resilience in the quarter despite the underlying global economic uncertainty and the likelihood of adverse impact on large occupiers and their leasing strategies. Fresh demand remained a key driver of leasing volumes with markets such as Bengaluru, Delhi NCR, Hyderabad and Pune recording growth in fresh leasing on a quarterly basis. Given the macroeconomic uncertainty, many occupiers chose to adopt a slightly cautious approach while going ahead with large space deals, although these demands continue to exist and could be executed with some delays. Interestingly, occupiers are increasingly looking for optimisation of spaces and probably even moving to locations / buildings that are more compliant with their evolving preferences. What kept the momentum in leasing volumes alive is probably the rising number of employees that have returned to office across multiple sectors, and a positive net hiring that has happened across many companies over the last couple of years.

After seeing two quarters of lower supply during Q4-22 and Q1-23, the latest quarter saw new supply volume (~12 msf) reverting closer to the quarterly average levels seen in the year 2022. A large volume of supply is entering at a time when the net absorption of space has been relatively weak as a result of which, average office vacancy of top-8 cities has moved up by ~50 basis points. Supply pipeline for the whole of 2023 remains fairly robust. Rentals are likely to remain largely stable across major cities with a prevalence of occupier-friendly conditions except in select micromarkets or projects that continue to experience tight vacancies. While the overall market sentiment is still a tad cautious, markets could be staring at a slightly better outlook in coming quarters as recent economic estimates suggests scaling down of recession probabilities in the West.

LEASING TRENDS

GROSS LEASING ACTIVITY

Office demand maintained consistency in Q2 with fresh leasing dominating the overall gross leasing volumes across key markets, thereby indicating that a fairly large proportion of occupiers are proceeding with their leasing plans. GLV was down by 22% in comparison to the record-high second quarter last year but grew by 11% on a quarterly basis, demonstrating resilience despite the global uncertainty and its impact on office leasing by US and European multinationals. Some large deals have been deferred but the market saw a sharp pickup in smaller-sized (<50,000 sf) deals by various occupiers across major cities. Domestic companies too contributed significantly to quarterly leasing volumes. Cities such as Bengaluru, Delhi NCR and Hyderabad witnessed strong growth as compared to the previous quarter, whereas cities such as Mumbai and Chennai witnessed a marginal quarterly dip.

Fresh demand constituted around 69% of overall quarterly leasing activity, denoting the continued demand for quality space. At 12.1 msf, fresh leasing was up by 3% on a quarterly basis though down by around 23% from the record-high volume seen in Q2 last year. Bengaluru led fresh leasing volumes in the quarter with a 24% share followed by Delhi NCR and Hyderabad with 23% and 18% shares respectively.

Rentals remained largely stable at a pan India level and across most cities except in Delhi NCR which saw quarterly rental growth on the back of strong demand. With supply pipeline for the current year at a healthy level coupled with near term caution on the demand side, developers/landlords are likely to hold rentals steady to retain/attract tenants. Thus, occupier-friendly conditions are likely to persist at a broader pan India level in the near-term.

Despite the broader market uncertainty and cautionary stance by occupiers, pan India leasing volumes have remained stable. While some deals are likely to be deferred as occupiers adopt a ‘wait and watch’ stance, consistency in fresh demand on the back of higher mid-sized deals and strong demand from domestic occupiers contributed to the resilience. Market remains broadly occupier-friendly and occupiers will continue to finalize portfolio strategies and look to close deals at attractive rentals. Stronger economic outlook in the US will be an added advantage for the office market and lead to stronger leasing and deal closures by global multinationals in the remainder of 2023 and beyond.

Gross Leasing (msf)	Q1 2023	Q2 2023	% Change
Mumbai	2.86	2.73	-4.44%
Delhi NCR	2.89	3.59	24.80%
Bengaluru	2.25	3.04	34.72%
Chennai	2.07	1.58	-23.76%
Pune	3.11	3.12	0.17%
Hyderabad	1.65	2.65	61.07%
Kolkata	0.63	0.22	-65.18%
Ahmedabad	0.25	0.49	96.42%
PAN India	15.71	17.42	10.94%

Gross Leasing (msf)	Q2 2022	Q2 2023	% Change
Mumbai	2.99	2.73	-8.66%
Delhi NCR	3.42	3.59	5.28%
Bengaluru	6.90	3.04	-56.01%
Chennai	2.67	1.58	-40.70%
Pune	2.93	3.12	6.24%
Hyderabad	2.71	2.65	-2.20%
Kolkata	0.32	0.22	-31.95%
Ahmedabad	0.47	0.49	3.08%
PAN India	22.42	17.42	-22.28%

TERM RENEWALS

Term renewals stood at around 3.2 msf in Q2, a 16% decline on a qoq basis and a 24% fall as compared to the same period last year. The share of term renewals were highest in Western markets such as Mumbai and Pune as both cities cumulatively accounted for more than 80% of total renewals during the quarter. Given that headline rentals across the top cities have remained stable and are unlikely to see significant uptrend in the near term, occupiers are moving ahead with lease renewals.

PRELEASING ACTIVITY

After two consecutive quarters of low activity, preleasing picked up in Q2 2023 and stood at 2.2 msf, a 9x jump over the previous quarter. Pune, Delhi NCR and Hyderabad accounted for the most of this preleasing during the quarter with shares of 32%, 25% and 24% respectively. Moreover, as of Q2, Pune and Chennai have some of the highest preleasing this year and the next.

NET ABSORPTION

Despite consistent fresh leasing, net absorption declined by 20% on a quarterly basis. Certain cities saw exits primarily on the back of office consolidation/relocation strategies of occupiers. Portfolio consolidation and relocation strategies have had an impact on quarterly net space take up. However, stable momentum in fresh demand, faster return to offices across occupier categories and operationalization of projects with pre-leasing could increase net absorption in the coming quarters. Hyderabad accounted for around 23% of quarterly net absorption followed by Delhi NCR and Pune with shares of 21% and 19% respectively.

Net Absorption (msf)	Q1 2023	Q2 2023	% Change	Net Absorption (msf)	Q2 2022	Q2 2023	% Change
Mumbai	0.72	0.52	-28.22%	Mumbai	0.65	0.52	-20.25%
Delhi NCR	1.23	1.33	8.02%	Delhi NCR	1.48	1.33	-9.86%
Bengaluru	1.57	0.56	-64.00%	Bengaluru	5.19	0.56	-89.15%
Chennai	0.49	0.93	86.84%	Chennai	0.28	0.93	227.60%
Pune	1.57	1.24	-20.78%	Pune	0.82	1.24	51.23%
Hyderabad	1.63	1.45	-10.85%	Hyderabad	0.04	1.45	3831.89%
Kolkata	0.55	0.19	-65.28%	Kolkata	0.19	0.19	-0.60%
Ahmedabad	0.25	0.17	-31.18%	Ahmedabad	0.47	0.17	-63.89%
PAN India	8.01	6.39	-20.17%	PAN India	9.13	6.39	-29.95%

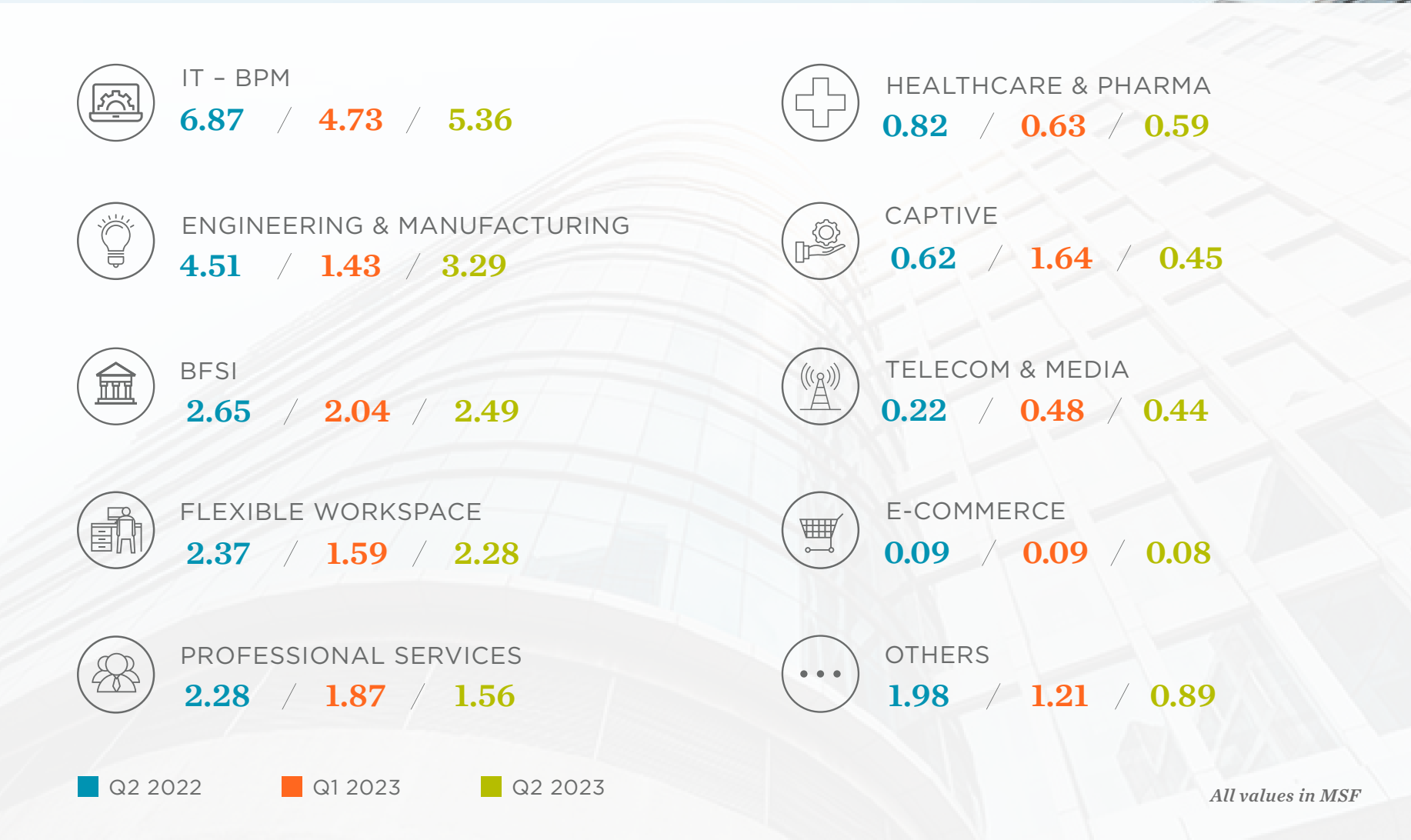
Despite healthy leasing volume, pan India vacancies have moved up largely due to addition of new supply in key markets and also portfolio consolidation/relocation by some occupiers, particularly noticeable in certain ‘tech cities’. However, office absorption levels are likely to improve going ahead as leasing activity picks up further and a larger proportion of employees return back to offices.



OCCUPIER TREND

IT-BPM drove leasing volumes in the quarter followed by engineering & manufacturing, in continuation of the trend usually witnessed in the recent past quarters. These two segments cumulatively accounted of around half of pan India gross leasing volumes. Engineering and manufacturing recorded a 131% jump on a quarterly basis while IT-BPM posted a growth of 30% qoq. BFSI and flexible workspaces maintained their positions as key contributors to leasing activities, recording growth of 22% and 42% qoq, respectively. On the other hand, share of captives declined as compared to the previous quarter, which could be possibly due to deferral of some deals by global multinationals. The professional services segment posted a dip in leasing volumes as well, accounting for around 9% of quarterly GLV, as against 12% in the previous quarter.

Flex seat leasing maintained its robust momentum in Q2 on the back of some large enterprise deals. Total flex seats leased in the quarter stood at ~44,000, a post Covid record high, with total seats leased in H1 2023 recorded at nearly 70,000. Seats leased during the first half of the year reached around 67% of the total figure in 2022, possibly pointing towards a new high that could be recorded by the end of the current year.



SUPPLY TRENDS

At 11.9 msf, new completions posted a strong recovery from the levels seen in the previous quarter, when supply was the lowest in last 13 quarters. New supply grew by 71% on a qoq basis and was higher by around 1% as compared to the same period last year. Some projects for which OCs were delayed previously have entered the market in this quarter. Developers have also been adding speculative supply given that demand was observed to be steadily recovering and also because Indian office market performed much better as compared to some other markets, particularly in the US and Europe. Over the past several quarters, supply has been moving broadly in line with demand across major cities and developers have recognized the need to be prepared with Grade A supply as and when demand picks up further. However, certain micromarkets have seen a glut of supply which could result in further rise in vacancies in the near term. Pan India average rentals have remained stable with only Delhi NCR witnessing an uptick in rentals in Q2 on the back of strong demand. Occupier friendly conditions prevails in key markets given the healthy supply addition and developers/landlords looking to attract/retain tenants. However, certain prime micromarkets or properties with tight vacancies could witness a gradual rise in rentals in the next 12 months. Hyderabad was the top market in Q2, accounting for ~46% of new completions, followed by Bengaluru (22%) and Chennai (18%).

New Supply (msf)	Q1 2023	Q2 2023	% Change
Mumbai	0.00	0.44	NA
Delhi NCR	1.61	0.00	-100.00%
Bengaluru	2.13	2.63	23.30%
Chennai	0.00	2.08	NA
Pune	1.10	0.65	-41.02%
Hyderabad	0.51	5.43	969.32
Kolkata	0.30	0.00	-100.00%
Ahmedabad	1.28	0.63	-50.25
PAN India	6.93	11.87	71.31%

New Supply (msf)	Q2 2022	Q2 2023	% Change
Mumbai	0.09	0.44	402.60%
Delhi NCR	0.93	0.00	-100.00%
Bengaluru	2.69	2.63	-2.25%
Chennai	2.03	2.08	2.69%
Pune	2.24	0.65	-71.02%
Hyderabad	2.74	5.43	98.15%
Kolkata	0.00	0.30	NA
Ahmedabad	1.07	0.63	-40.72%
PAN India	11.79	11.87	0.72%

OUTLOOK

The second quarter of 2023 saw global economy remaining uncertain, although as we entered close to the end of this period, most economic analysts saw the risk getting mitigated to some extent. This development could be a big positive for the office real estate market in India as US occupiers as well as investors sentiment have a strong bearing. While that may be the case, to a great extent, the Indian domestic market activity resulted in sustained strong leasing volumes during the first half of the year. With ~33 msf of leasing volume, the GLV in H1-23 accounted for 46% of the total GLV recorded in 2022, which was the best year for office leasing in the history. The volume of smaller-sized deals picked-up pace as also the rise in share of activity from domestic firms. The Indian economy's fairly robust growth outlook is translating into higher market activity by Indian occupiers, who are looking for expansion opportunities. This has added another tailwind to the office market.

While demand can be expected to remain resilient, the market has been witnessing influx of huge supply in the recent quarters. One could explain this phenomena basis revival of stalled-projects during the Covid years and also the bullish anticipation of developers after observing a strong rebound in demand for office space since H2-2021. This influx of supply is resulting in vacancies ticking-up across multiple cities. This rising supply may be a positive for select micromarkets where vacancies were too tight (such as ORR in Bengaluru, BKC in Mumbai, Madhapur in Hyderabad and Gurgaon Prime submarkets), however, this could be resulting in higher vacancies in peripheral / other markets. This will keep pan India headline rentals stable throughout most micromarkets in the country.

Given the rising number of enterprises going big on ESG, green certified and/or wellness certified buildings are soon going to find favour amongst occupiers, thereby forcing most landlords to invest in refurbishments. As per C&W occupier survey of ~180 occupiers worldwide, many are now willing to consider paying ~22% premium for buildings that comply with ESG norms. In the backdrop of new supply coming-in across leading cities, many landlords of old buildings will be forced to invest in refurbishments in the coming days.





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