INDIA OFFICE MARKET

REPORT - Q4 2020

CUSHMAN & WAKEFIELD

KEY HIGHLIGHTS - Q4

- 12.06 msf gross leasing volume in Q4 2020, 19.9% lower q-o-q and a y-o-y contraction of 51.4%
- Bengaluru and Mumbai were the most active commercial markets in terms of leasing activity, accounting for 27.1% and 18.3% of pan-India gross leasing volumes in Q4, followed by Delhi-NCR with a share of 17.3%.
- Sectoral contribution in leasing witnessed a change during the last quarter of the year. While IT-BPM accounted for the highest share (20.6%) in overall leasing, captive centres (GCCs) contributed 14.0%, but saw a q-o-q decline of nearly 48% in their share. The share of BFSI rose by 500 bps to 15.4%, while the Flex workspace segment which was muted during the last two quarters, accounted for 10.6% of gross leasing in Q4, significantly higher than 3.9% in the previous quarter.
- New completions in Q4 2020 were recorded at 13.17 msf, a 56.0% q-o-q growth with Chennai leading with a 21.5% share followed closely by Delhi-NCR (21.2%) and Bengaluru (16.3%). There was a 31% y-o-y growth in Q4 2020 in new supply in comparison to that in Q4 2019 and was backed by healthy pre-commitments with developers aiming to complete/prioritise projects which are entirely or partially pre-leased.
- Net absorption of 6.49 msf in Q4 2020 was a robust growth of 144.8% on a quarterly basis, indicating recovery momentum in occupier sentiment and decision-making for executing space strategies.

KEY HIGHLIGHTS - 2020

- Gross leasing volumes for 2020 stood at 50.4 msf, a 28.5% decline on a y-o-y basis, largely as a result of the COVID disruption and the ensuing lockdown. After a robust start in Q1, while Q2 was a near washout, H2 showed encouraging signs of recovery. However, in gross leasing terms, H2 2020 was still lower by 29.2% as compared to H2 2019.
- For the full year 2020, leasing activity was led by Bengaluru, which accounted for 27.1% of annual gross leasing volumes followed by Mumbai and Delhi-NCR holding identical shares of 16.5% each.
- Through 2020, IT-BPM and captive centres (GCCs) continued to remain the dominant occupier sectors accounting for 27% (32% in 2019) and 21% (22% in 2019) respectively, while the share of Engineering & Manufacturing increased from around 8% in 2019 to 11% in 2020 and that of the BFSI segment increased from 5.5% in 2019 to 10% in 2020.
- Annual new completions stood at 39.10 msf in 2020, a decline of around 25% y-o-y due to slippages in project completion timelines during Q2-Q4 caused by labour and supply constraints. Bengaluru and Hyderabad accounted for 28.6% and 20% of the new completions in 2020 with higher pre-leased volumes in their newly completed projects.
- Net absorption for 2020 added up to 20.9 msf, recording a 54.6% decline from the previous year with occupier exits as part of portfolio optimisation strategies causing an increase in vacancy levels.

INTRODUCTION

In this report, we analyse the Indian office markets' performance in Q4 as well as during the full year of 2020.

Q4 was a crucial quarter as it marked a recovery momentum with leasing indicators trending favourably compared to the previous couple of quarters. In a time of change with COVID upending the workplace playbook, the leasing trends and occupier strategies are undergoing a rapid shift and will have a bearing on market activity. Even as the COVID scenario was evolving and occupiers continued with evaluating their real estate portfolios and charting their space requirements, almost all the cities saw heightened levels of market activity with expansion driven demand making a comeback of sorts as well. **Mumbai, Pune, Delhi NCR, Ahmedabad, and Kolkata have witnessed higher fresh leasing activity for expansion and consolidation during the last quarter of the year. This augurs well for the leasing momentum in 2021, which is likely to get broad-based across cities with introduction of a vaccine and a gradual return to the workplace providing the much-needed push to market activity.**

LEASING TRENDS

Gross Leasing Activity

Gross leasing activity was lower by 20% q-o-q in the last quarter of the year, signalling that new market activity was picking up pace slowly as occupiers were firming up portfolio strategies for the next year with a substantial occupier base still continuing with an extended period of Work From Home. This resulted in slower pre-commitments during the quarter, even though term renewals remained healthy. The fresh demand for office space, however, saw a 7% q-o-q increase with occupiers acting on their relocation and consolidation plans which needed immediate action. Of the 12.06 msf gross leasing in Q4, fresh leases accounted for 48% followed by term renewals and pre-commitments at 37% and 15% respectively. Gradual recovery in fresh leases and healthy term renewals indicate steady demand for office space and higher deal closures amidst partial reopening of workplaces. Bengaluru, Mumbai and Delhi-NCR were the most active markets in Q4, accounting for 27.1%, 18.3% and 17.3% respectively of pan India gross leasing activity. The 20% drop in quarterly lease volume and only a 28.5% decline in annual gross leasing volume when compared to 2019, despite losing a part of the year to lockdown measures which in turn impacted occupier activity, speaks volumes about the long-term occupier confidence which has resulted in a better than expected market recovery post the pandemic. Bengaluru accounted for the highest share in quarterly and annual pan India leasing volume with a 27% share followed by Mumbai and Delhi-NCR at 16.5% each and Hyderabad with 15.4%.

Gross Leasing (msf)	Q3 2020	Q4 2020	% Change
Mumbai	1.82	2.21	
Delhi NCR	1.26	2.08	
Bengaluru	3.68	3.27	
Chennai	2.88	0.55	
Pune	1.43	1.46	
Hyderabad	3.48	1.67	
Kolkata	0.44	0.36	
Ahmedabad	0.07	0.46	
PAN India	15.06	12.06	-19.9%

Gross Leasing (msf)	2019	2020	% change
Mumbai	13.95	8.32	
Delhi NCR	14.38	8.30	
Bengaluru	17.04	13.68	
Chennai	6.16	4.75	
Pune	4.96	5.02	
Hyderabad	10.74	7.76	
Kolkata	1.83	1.48	
Ahmedabad	1.52	1.13	
PAN India	70.58	50.45	-28.5%

Many occupiers have shed the "wait-and-act" mode and that is reflected in some large-sized space requirements coming into the market. With the vaccine announcement, it is expected that as occupiers plan to return to the workplace, they will in tandem also firm up their portfolio strategies. However, the new enquiries for large sized space are less in number while small to medium sized requirements continue to remain active in the market in the current time. While demand is showing early signs of recovery, we anticipate the pace of revival to improve over the next couple of quarters and rebound by H2 2021 with vaccine announcements and a controlled infection rate likely to be drivers for decision-making in slightly stable circumstances with better visibility for the economy and business sentiment.

Term Renewals

Quite a few occupiers extended their stay in existing spaces by going ahead and concluding term renewals, looking to save on capex spends, relocation costs and negotiate hard with landlords on the new lease terms. A recovery in business sentiment and restoration of economic activity led to better occupier confidence on their long-term prospects, though cost control remained an essential parameter under consideration for RE portfolios. Decisions on reopening and continuity of business got reflected in higher closure of term renewals during the quarter as well as entire 2020 With 4.46 msf of term renewals recorded in Q4, term renewals accounted for a higher share of gross leasing activity in the quarter (37%) as compared to Q3 (29%). Though the quarter observed continuing negotiations on pre-renewals, a major proportion of term renewals due for the quarter was concluded by large occupiers, thereby indicating their confidence in the office market revival and their medium-term growth outlook on the economy. On a y-o-y basis, term renewals recorded a 27.1% growth in 2020 with a total of 11.7 msf of space getting renewed during the year. This was majorly driven by H2 2020 performance which recorded a spike in term renewals (8.9 msf) with a 59% increase compared to H2 2019. At the city level, Mumbai and Bengaluru accounted for 33% and 22% of all recorded term renewals in 2020, while in Q4 Mumbai led with a share of 29% and was followed by Hyderabad and Bengaluru with shares of 16% and 15%, respectively. Even as fresh leasing activity was slow to pick up pace, term renewals drove the gross leasing momentum annually as well, accounting for 32% of the annual gross leasing activity in 2020.

Pre-leasing activity

Pre-leasing activity recorded a drop in Q4 with 1.82 msf (15% of quarterly gross leasing volume) of space getting pre-committed as compared to 5.26 msf (35% of GLV) in the previous quarter. While some occupiers who had better business visibility, clear expansion plans and sizeable future office space requirements went ahead with their pre-commitments , many other occupiers were looking to pick up pace in 2021, waiting for their budgetary approvals and working towards a cohesive real estate and workplace strategy plan. Pre-leasing is expected to pick up over the next couple of quarters on the back of improvement in business sentiments and finalization of occupiers' long-term plans for their India operations. While Hyderabad was leading the way in pre-leasing activity in Q3 with a 28% share, it accounted for a 17% share in Q4 pre-leasing numbers. Bengaluru on the other hand has seen an increase in its share from 24% in Q3 to 69% in Q4, clearly dominating the quarterly pre-leasing activity. Pune accounted for 10% of the quarterly pre-leasing volumes. On a full year basis, 2020 experienced an annual drop of 27% in pre-commitment volumes with a total of 12.9 msf, being pre-leased in comparison to 17.7 msf in 2019, with the pandemic inducing cancellations and deferments in real estate plans of nearly the entire occupier universe. The southern cities - Bengaluru, Hyderabad and Chennai, accounted for a major proportion (83%) of pre-leasing activity during the year, indicating steady demand for space from sectors such as IT-BPM, Engineering & Manufacturing and Captive Centres (Global Capability Centres). While Bengaluru accounted for almost 40% of pre-leasing numbers, Hyderabad and Chennai followed with shares of 27% and 17%, respectively.

Net Absorption

Net absorption in Q4 2020 stood at 6.49 msf, recording a robust growth of around 145% on a quarterly basis on the back of gradual recovery in office demand, higher occupancy and lower occupier exits as compared to the previous quarters. Bengaluru and Hyderabad contributed significantly to the quarterly net absorption with 30% and 27% share, respectively, followed by Chennai at 17%, resulting in a higher office space occupancy in these cities, also driven by new completions coming on-stream with prior pre-commitments which held strong despite the pandemic. However, with 20.9 msf, net absorption in 2020 was down by around 55% on a yearly basis. Though this has also led to a short-term spike in vacancies across cities, we anticipate the net absorption to gain more traction in the coming quarters. Bengaluru accounted for 30% of pan-India quarterly net absorption with 73% of its quarterly new supply being pre-leased and accounted for 30% of CY 2020 net absorption as well. Hyderabad and Mumbai holding a share of 26% and 12% respectively in 2020 net absorption, were next in line. Net absorption in other major cities remained relatively muted but is expected to pick up over the next couple of quarters with further recovery in office demand and space occupancy gaining momentum as companies start a gradual process of returning to the workplace, albeit in a slightly modified manner.

Net Absorption (msf)	Q3 2020	Q4 2020	% Change
Mumbai	-0.27	0.25	
Delhi NCR	0.26	0.63	
Bengaluru	1.68	1.93	
Chennai	0.06	1.10	
Pune	0.21	0.57	
Hyderabad	0.61	1.73	
Kolkata	-0.02	0.04	
Ahmedabad	0.11	0.24	
PAN India	2.65	6.49	144.8%

Net Absorption (msf)	2019	2020	% change
Mumbai	5.18	2.53	
Delhi NCR	10.18	2.16	
Bengaluru	9.80	6.18	
Chennai	2.07	1.95	
Pune	5.06	1.01	
Hyderabad	10.01	5.45	
Kolkata	1.41	0.61	
Ahmedabad	2.37	1.03	
PAN India	46.09	20.91	-54.6%

While there are instances of occupiers vacating spaces either due to non-COVID reasons like relocation/consolidation or post-COVID due to business reasons, many of such planned exits are still under discussion with landlords as they continue to evaluate optimum solutions for their property portfolios. Improvement in business sentiment which will support office space demand and timely completion of projects with significant pre-leased spaces has had a positive impact on the CY 2020 net absorption, with our forecasts in the middle of the year being in line with the recorded year-end numbers.

OCCUPIER TRENDS

In terms of segment-wise leasing during Q4, Flex Workspaces recorded a significant growth even though the IT-BPM sector continued to dominate the quarterly leasing activity. While IT-BPM accounted for 21% of quarterly leasing activity, the Flex Workspace segment observed a rise in its quarterly share from 4% in Q3 2020 to 10.6% in Q4. With a major section of occupiers, including large corporates, looking for cost optimization, flexibility and capex savings amidst a relatively sluggish business environment, managed workplaces were a preferred option and saw growth in their footprint given the strong demand for such space options from occupiers. The BFSI and Engineering & Manufacturing segments too recorded an increase in their quarterly shares Captive centres (GCCs) recorded a decline in their share to 14% in Q4 from 26% in Q3 due to deferment of large space requirements in the short term. For CY 2020, IT-BPM and captive centres (GCCs) were the leading sectors accounting for 27% and 21% respectively, in annual gross leasing activity. Engineering & Manufacturing, BFSI and E-commerce segments witnessed higher leasing shares of 11% (8% in 2019), 10% (5% in 2019) and 5% (1% in 2019) in 2020 indicating an improvement in leasing activity across these segments as well, despite the decline in the annual leasing activity numbers.

Sector	Q3 2020	Q4 2020	2019	2020
IT – BPM	24%	21%	32%	27%
Captive	26%	14%	22%	21%
Engineering & Manufacturing	12%	13%	8%	11%
BFSI	10%	15%	5%	10%
E-commerce	9%	5%	1%	5%
Flexible Workspace	4%	11%	10%	8%
HealthCare &Pharma	3%	3%	3%	2%
Professional services	5%	8%	7%	7%
Telecom & Media	1%	2%	3%	1%
Others	5%	8%	10%	7%

Over the next few quarters, IT-BPM will continue to remain a key driving force for office space demand along with GCCs of Engineering & Manufacturing and BFSI firms. Healthcare and Pharma is likely to emerge as a major segment for space take-up given the enhanced focus on health, vaccines and wellness in a post-COVID world. Bengaluru and Hyderabad are likely to remain the highest contributors to pan India leasing activity though Chennai and Pune are also expected to witness greater office demand due to the medium to long term focus on manufacturing GCCs. There is anticipation of demand from expansion activity and setting up of GCCs to come back by late 2021, followed by a strong growth in 2022. Demand for managed workspaces with 2-3 years lock-in period and high-end customization is also witnessing a surge, indicating a higher preference for such spaces among occupiers over the medium term.

SUPPLY TRENDS

New supply of 13.2 msf in Q4, recorded a healthy q-o-q growth of 56% with active resumption of construction across cities amid 55-60% labour availability and granting of requisite permissions by authorities. With quarterly completions gaining significant momentum, new supply witnessed a 31.2% growth when compared to Q4 2019. The second half of 2020 with a supply of 21.61 msf, has majorly contributed to the completion volumes, and even recorded a 3% growth when compared to H2 2019, indicating a revival in construction activity on the back of healthy pre-commitment levels and developers aiming to complete/prioritise projects which are entirely or partially pre-leased. Chennai led the way with a 21.5% share, followed by Delhi-NCR and Bengaluru with 21.2% and 16.3% shares respectively in Q4 supply completions.

Annual supply stood at 39.1 msf in 2020 and witnessed a decline of around 25% was seen on a y-o-y basis, largely due to the lockdown and complete halt in construction activities and labour movement in Q2 and part of Q3. While Bengaluru accounted for the maximum share (28.6%) in pan India project completions in 2020 and Hyderabad followed with a 20% share, both the cities experienced a y-o-y increase in their contribution to the annual supply completions. Delhi-NCR and Mumbai accounted for 15.2% and 14.3% of the completions recorded in 2020, respectively. With construction activities resuming at adequate pace by the end of the year, especially those backed by heathy pre-commitments, we anticipate healthy supply to get added to the pan India Grade A office inventory in the coming quarters as well with quite a number of projects nearing completion or awaiting Occupancy Certificates (OC) from authorities.

New Supply (msf)	Q3 2020	Q4 2020	% Change
Mumbai	0.91	1.74	
Delhi NCR	0.11	2.79	
Bengaluru	4.27	2.15	
Chennai	0.00	2.84	
Pune	0.45	1.16	
Hyderabad	1.88	1.89	
Kolkata	0.00	0.11	
Ahmedabad	0.83	0.49	
PAN India	8.44	13.17	56.0%

New Supply (msf)	2019	2020	% change
Mumbai	5.21	5.60	
Delhi NCR	13.43	5.96	
Bengaluru	9.44	11.17	
Chennai	3.00	3.37	
Pune	3.94	2.92	
Hyderabad	10.08	7.80	
Kolkata	1.28	0.11	
Ahmedabad	5.66	2.16	
PAN India	52.04	39.10	-24.9%

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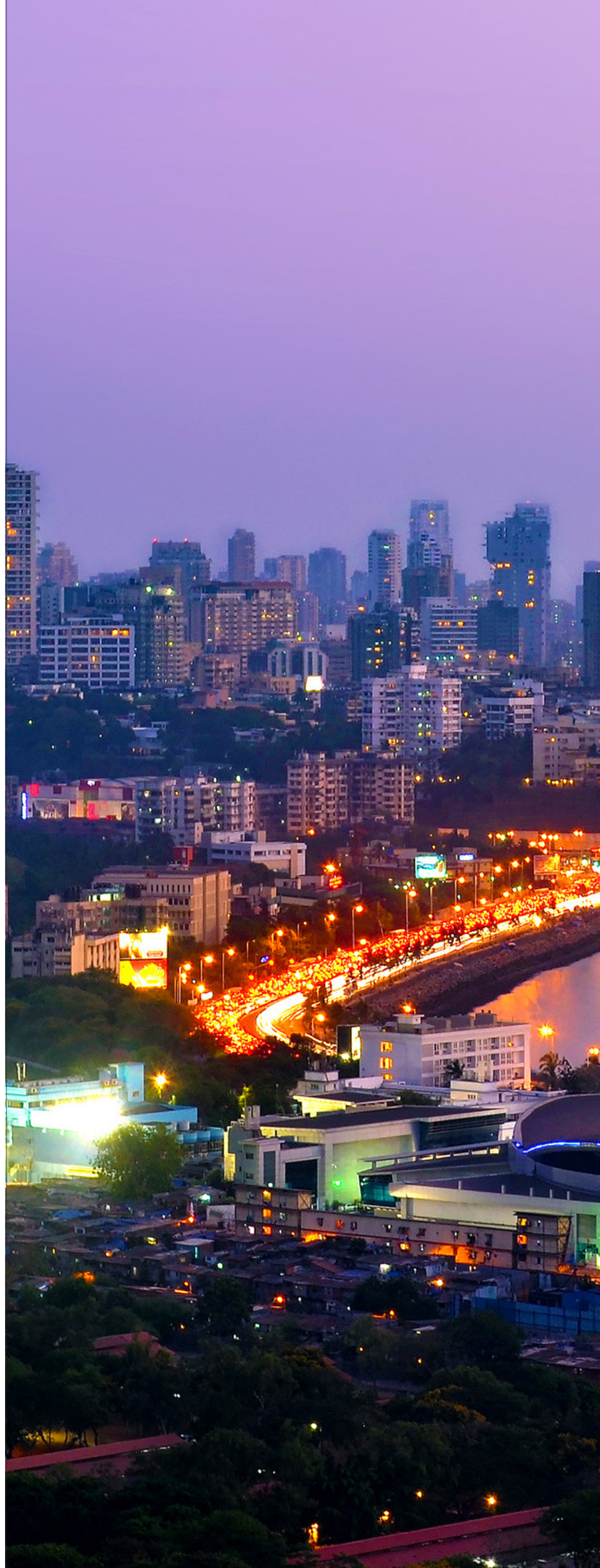

While labour shortages have eased across cities, certain projects, especially those without considerable pe-commitment levels, continue to face delays. Completion delays of 3-6 months or even longer are expected in such projects though on a broader pan-India level, new supply will continue to remain healthy over the next few quarters.

OUTLOOK

India (apart from China) is the only country in Asia Pacific that has recorded a positive net absorption in 2020, which is a good indicator for the office markets. The fact that India's outsourcing industry pivoted very quickly in the pandemic, the increased need for outsourcing and India's cost-plus value addition (especially in 2020 and over the next 2-3 years) have given a huge shot in the arm to the Indian tech industry. Given that scenario, we do expect that, as demand revives, India will find increasing favour with global occupiers. Considering the recent resumption in market activity and how space enquiries have come back (including some big-ticket deals), this scenario is already in play. A more broad-based vaccine rollout will further aid the recovery in H2 2021. As occupier budgets get finalized and workplace / space strategies get further fine-tuned over the next year as a part of return to work, market activity is likely to pick up further steam. With most active deals likely to see traction/ conclusion over the next 6-12 months, a full rebound is expected in 2022.

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