INDIA
OFFICE MARKET

REPORT - Q1 2022

CUSHMAN & WAKEFIELD

KEY HIGHLIGHTS

Q1 2022

1 Gross Leasing Volume (GLV) stood at 14.7 msf across top-8 cities combined, a 20% growth on a y-o-y basis. Though it fell marginally from Q4 2021 high, the overall volume is still healthy and signifies the recovery that we have been witnessing since Q2 2021. Larger requirements (100,000 Sf and above) have accounted for more than 40% of the GLV, also indicating strengthened occupier sentiments

2 Mumbai, Delhi NCR, and Bengaluru, as usual, were leading the recovery, cumulatively accounting for around 65% of the share in overall leasing volume during the quarter

3 IT-BPM accounted for the highest share (22%) in quarterly leasing followed by Flexible Workspaces (13%) and Engineering & Manufacturing (11%)

4 15.3 msf of new completions were recorded in Q1 2022, a 46% jump on a y-o-y basis; tech-oriented cities of Bengaluru, Hyderabad, and Pune witnessed the largest additions to inventory, together accounting for ~58% of the new supply in the quarter

5 The net absorption stood at 6.7 msf, a 95% expansion on a y-o-y basis. Strong pre-commitments and growth in fresh leasing contributed to a healthy net absorption

The quarter started on an optimistic note given the backdrop of healthy leasing volumes posted in the recent past, and on the back of India's sound macroeconomic fundamentals – lowest interest rates, moderate inflation, high consumer & business confidence, record months of GST collections, etc. However, two unexpected challenges – the Omicron wave and the ongoing geopolitical stress threatened to dampen the spirits. Despite these odds, overall demand in Q1 2022 stood at 14.7 msf, largely carrying forward the momentum from last year. Occupier sentiments were positive as evident in a higher share of fresh leasing and pre-commitments across cities. Occupiers have started switching back to working from office gradually during the quarter. While WFH continued, employees were given the flexibility to follow hybrid working models as necessary. With demand strengthening for three quarters in a row, developers are also feeling confident about bringing in new supply at regular intervals, clearly fast-tracking and prioritizing those projects that have high levels of pre-leasing.

LEASING TRENDS

Gross Leasing Activity

In the first quarter of 2022, the gross leasing volume (GLV) stood at 14.7 msf. Though this was around 9.0% lower q-o-q, it still is a healthy number when compared to the average quarterly demand that we have witnessed since COVID. Despite the third wave, the leasing activity remained unperturbed, thereby demonstrating occupier confidence and the strength of market recovery. Mumbai, Delhi NCR, and Bengaluru were once again the chief contributors (~65%) to the quarterly office demand. Fresh leasing was recorded at 8.8 msf, a 42% expansion y-o-y, largely contributed by markets such as Delhi NCR, Mumbai, and Bengaluru. Delhi-NCR stood out with fresh leasing accounting for nearly 90% of the share in overall demand. Fresh leasing and pre-commitments together accounted for an 81% share of the Pan India office demand during the quarter. Larger space requirements (100,000 Sf and above) accounting for more than 40% of this new demand is an encouraging sign.

Rentals have broadly remained stable across cities but could witness a gradual upward movement in select few submarkets in the coming quarters given relatively tighter vacancies and strong demand. Developers have good visibility around the demand pipeline through RFPs, and active requirements, therefore, are confident of launching new projects flanked by office expansions as well as concrete return-to-work strategies occupiers are adopting.

Gross Leasing (msf)	Q4 2021	Q1 2022	% Change
Mumbai	2.86	3.42	20%
Delhi NCR	3.58	3.18	-11%
Bengaluru	3.22	2.92	-9%
Chennai	1.92	1.42	-26%
Pune	2.30	1.44	-37%
Hyderabad	1.59	1.90	20%
Kolkata	0.59	0.21	-65%
Ahmedabad	0.16	0.26	61%
PAN India	**16.22**	**14.75**	**-9%**

Gross Leasing (msf)	Q1 2021	Q1 2022	% Change
Mumbai	2.96	3.42	16%
Delhi NCR	2.05	3.18	55%
Bengaluru	2.74	2.92	7%
Chennai	1.57	1.42	-9%
Pune	1.15	1.44	25%
Hyderabad	1.41	1.90	35%
Kolkata	0.19	0.21	13%
Ahmedabad	0.27	0.26	-1%
PAN India	**12.32**	**14.75**	**20%**

Market activity continues to remain healthy as occupiers are moving ahead with their expansion plans. Fresh deals and pre-commitments were strong during the quarter on the back of a milder third wave, near universal vaccination coverage across major cities, and a rebound in economic sentiments. Healthy prospects of tech sector and a renewed wave of offshoring by multinationals are driving medium to long term expansion plans. In addition, overall tenant favourable market conditions are also aiding the recovery. While rentals are expected to remain stable across cities, select core locations with tight vacancies and higher demand could witness market conditions transitioning in favour of developers/ landlords in the medium term.

Term Renewals

Term renewals stood at 2.8 msf, growing by 5% q-o-q although it was lower by about 36% on an annual basis. They accounted for a 19% share of the overall leasing volume during the quarter. Mumbai accounted for more than 50% of the term renewals followed by Bengaluru and Hyderabad together contributing 40% of the share. Occupiers are in active discussions with developers seeking favorable terms given the tenant favorable market conditions. Tenants have a window of opportunity in the short term and as return-to-work gains pace and fresh demand picks up momentum. Going forward, the flexibility to lock in quality space at reasonable rents could narrow down.

Preleasing Activity

At 3.18 msf, pan India pre-leasing in Q1 2022 was 77% higher than the corresponding period last year and a 125% expansion over the previous quarter. Bengaluru, Chennai, and Pune collectively accounted for around two-thirds of preleasing in the quarter. This indicates that major occupiers are reviving medium to long-term expansion plans in line with return-to-work strategies and to complement headcount additions from the recent past as well as account for future hiring plans. Occupiers are scouting for quality space options with lower rents and those that could accommodate short to medium-term expansion plans. We expect this momentum to gain pace over the next few quarters.

Net Absorption

The 95% y-o-y jump in net absorption in Q1 2022 was largely due to higher fresh leasing across cities/industries and faster completion of projects with existing pre-commitments. Bengaluru was the largest contributor followed by Pune and Delhi NCR. These three cities together have accounted for more than 2/3rd of the net absorption recorded during the quarter. Relocations and consolidations, a trend that has been consistent since COVID, has continued, thus impacting the net space take-up by a smaller extent this quarter. We expect this to continue in the short-term on the back of portfolio rebalancing and flight to quality. However, pan India net absorption levels will continue to improve in line with a broad-based pickup in demand across cities.

Net Absorption (msf)	Q4 2021	Q1 2022	% Change
Mumbai	0.53	0.59	12%
Delhi NCR	1.40	1.31	-7%
Bengaluru	3.52	1.82	-48%
Chennai	0.29	0.53	83%
Pune	0.57	1.42	149%
Hyderabad	3.17	0.60	-81%
Kolkata	0.18	0.12	-32%
Ahmedabad	0.15	0.28	81%
PAN India	**9.81**	**6.66**	**-32%**

Net Absorption (msf)	Q1 2021	Q1 2022	% Change
Mumbai	0.20	0.59	193%
Delhi NCR	0.43	1.31	205%
Bengaluru	1.60	1.82	14%
Chennai	0.14	0.53	266%
Pune	0.28	1.42	413%
Hyderabad	0.32	0.60	87%
Kolkata	0.18	0.12	-33%
Ahmedabad	0.26	0.28	8%
PAN India	**3.41**	**6.66**	**95%**

Net absorption, though lower than the Q4 2021 high, has been consistently improving in the recent past on the back of a continued growth in fresh leasing. A fairly large number of active deals in markets such as Bengaluru and Hyderabad are a testimony to the fact that a robust recovery is underway and net absorption will continue to gain pace going forward. Several projects with reasonable pre-leasing levels are expected to commence operations over the next 3-4 quarters. Overall, net absorption is likely to post ~35-40% growth in the current year.

OCCUPIER TREND

IT-BPM remained the primary driver, accounting for a 22% share of the gross leasing volume, followed by Flexible Workspace Operators with a 13% share. The Engineering & Manufacturing and BFSI sectors contributed 11% each followed by Professional Services with a share of 10% in quarterly demand.

Interestingly, leasing by flex space operators has more than doubled on an annual basis while engineering & manufacturing and BFSI sectors witnessed leasing growth of 42% and 65% respectively. The robust growth trajectory in flex seat leasing was maintained in Q1, in continuation of the trend witnessed last year. The quarter saw 23,111 seats leased by enterprises, higher than the quarterly average of 21,500 in 2021. Large global enterprises are driving demand for managed space solutions to mitigate business risks, reduce upfront CAPEX spending, enhance their focus on core business operations and ensure an office environment that facilitates employee engagement and productivity. In Q1 2022, Bengaluru accounted for around 50% of flex seats leased followed by Pune with a share of 15%. Robust fresh leasing and pre-commitments across a cross-section of industry categories highlight rising occupier confidence and positive business sentiments, and the value addition that Indian operations of multinationals deliver to the larger organization.

	Q1 2021	Q4 2021	Q1 2022
IT – BPM	4.42	4.73	3.23
CAPTIVE	0.81	0.80	1.66
ENGINEERING & MANUFACTURING	1.12	2.08	1.59
BFSI	1.01	1.23	1.67
E-COMMERCE	1.12	0.92	0.45
FLEXIBLE WORK	0.71	3.15	1.87
HEALTHCARE & PHARMA	1.45	0.35	0.66
PROFESSIONAL SERVICES	1.45	1.19	1.51
TELECOM & MEDIA	0.23	0.21	0.93
OTHERS	1.00	1.55	1.18

All values in msf

SUPPLY TRENDS

New completions stood at 15.3 msf as of Q1 2022 with developers in leading markets looking to expedite projects, especially those with significant pre-leasing, bolstered by a robust demand outlook for the current year and beyond. Pan-India supply is catching up with demand and this could translate into a range-bound average rental in the near term, with possible upside potential in select submarkets with relatively tighter vacancies. Select cities such as Hyderabad, Delhi NCR, and Chennai are expected to witness a steady stream of new project completions in the next few quarters which could lead to a rise in vacancy levels and the continuation of occupier-friendly market conditions. Developers/landlords in such markets would be closely monitoring the ongoing market recovery trajectory and demand momentum. Bengaluru was the leading market in this quarter, accounting for 20% of new completions, followed by Pune and Hyderabad with shares of 19% and 18% respectively.

Strong growth in fresh demand from global occupiers across sectors, ongoing expansions, and return-to-work will help restore confidence among developers going forward. Developments with pre-leasing will be prioritized, although the pace of market recovery could gradually lead to the launch of speculative developments, especially by developers who are not financially constrained and have the capability to deliver quality projects and amenities, also factoring in aspects of sustainability and technology deployment.

New Supply (msf)	Q4 2021	Q1 2022	% Change
Mumbai	1.22	1.66	36%
Delhi NCR	0.13	1.62	1142%
Bengaluru	3.95	3.11	-21%
Chennai	0.07	1.80	2672%
Pune	1.72	2.95	71%
Hyderabad	4.53	2.83	-38%
Kolkata	0.06	0.00	-100%
Ahmedabad	0.90	1.35	49%
PAN India	**12.59**	**15.31**	**22%**

New Supply (msf)	Q1 2021	Q1 2022	% Change
Mumbai	0.49	1.66	235%
Delhi NCR	2.62	1.62	-38%
Bengaluru	3.58	3.11	-13%
Chennai	0.00	1.80	NA
Pune	0.00	2.95	NA
Hyderabad	3.67	2.83	-23%
Kolkata	0.11	0.00	-100%
Ahmedabad	0.00	1.35	NA
PAN India	**10.48**	**15.31**	**46%**

OUTLOOK

The outlook for the office sector looks healthy given a confluence of factors such as a positive macroeconomic outlook, strong occupier & investor sentiments, robust prospects of the IT sector, and rising office occupancies with employees gradually returning to offices. There are certain near-term risks on the horizon, primarily the ongoing geopolitical tensions, higher inflation, and likely disruption to global supply chains. The leasing volume in Q1 2022 as well as the near-term market outlook, however, suggests that these risks may not affect the office market yet, provided they are contained in the near-term. Steeply rising input costs is a burden developers will have to bear for some time, although a strong occupier demand will provide them with some relief. Importantly though, India remains an attractive destination for large global occupiers to set up their operations and this augurs well for the office market, despite the emerging risks.

Leasing volumes are expected to remain strong through most of this year and we expect the current year to clock-in about 85% of the GLV recorded in the year 2019, which was a record in terms of office leasing in India. With new supply hitting the market at regular intervals, the overall market conditions could remain occupier favourable in the short to medium term, although this could vary at a micro-market level where demand-supply mismatches are evident. There are some prime locations where vacancies are already low, and these would be the first to witness rental growth.

Managed office space providers, once again, have had a great quarter with several enterprises choosing flex for comprehensive solutions. We expect flex to witness continued growth in 2022. Sustainability, technology integration, employee health and wellness are coming to the forefront and large developers with established track record are well-placed to leverage these opportunities. Occupiers are also committing to long term sustainability goals and are prioritizing employee health and wellness as they rollout return-to-work strategies. Watch out, the rest of 2022 will surely be exciting.

CUSHMAN & WAKEFIELD

BUSINESS CONTACT

BADAL YAGNIK
Managing Director, Tenant Representation, India
badal.yagnik@cushwake.com

FOR FURTHER INFORMATION, PLEASE CONTACT

AWANTIKA MOHANTY
BDS Head for Singapore and SE Asia
awantika.mohanty@cushwake.com

SUVISHESH VALSAN
Director, Research Services, India
Suvishesh.Valsan@cushwake.com

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