INDIA OFFICE MARKET

REPORT - Q3 2023

CUSHMAN & WAKEFIELD

KEY **HIGHLIGHTS**

1 15.1 msf gross leasing volume (GLV) in Top 8 cities in Q3 2023; a 13% decline both on y-o-y and q-o-q basis

2 Mumbai was the leading market in terms of pan-India gross leasing volumes in Q3, accounting for a share of around 23%, followed by Delhi NCR, Hyderabad and Bengaluru shares of 22%, 16% and 15% respectively.

3 IT-BPM accounted for the highest share (~31%%) in quarterly leasing, followed by BFSI and engineering & manufacturing with 14% and 13% shares, respectively.

4 10.7 msf of new completions were recorded in Q3 2023 with Bengaluru accounting for ~30% share, followed by Hyderabad (21%) and Pune (15%). Supply declined by around 10% on a q-o-q basis.

5 Net absorption in Q3 2023 stood at 8.3 msf, an increase of 32% on a quarterly basis and comparable to quarterly average volumes seen in 2022.

Pan India gross lease volume witnessed a 13% fall after the spike seen in Q2-23, largely owing to delayed decision-making as occupiers tread a bit cautiously before committing to large-sized transactions. Mumbai and Delhi-NCR were the major contributors to GLV volume in Q3 with 45% share, followed by the two leading IT cities of Bengaluru and Hyderabad. Subsequently, the YTD-23 GLV volume stood at 48.2 msf, i.e. nearly 5 msf short of the volume seen during the same period last year. Therefore, for the full year 2023, we anticipate overall GLV volumes to remain low compared to the historic high volumes seen in 2022 in India.

A dominant 70% share of fresh leasing in the overall GLV suggests that occupiers continue to have faith in the outlook of Indian economy and real estate. While bigger deals may have been slow to come-by, expansion plans or smaller office deals are happening at satisfactory pace. Besides, a rising rate of employees returning to office, as also seen through the steep rise in residential rents across most cities (especially along the prime office corridors), could be an indication of large-sized deals commencing soon.

Net absorption remained robust, almost comparable to the quarterly average volumes recorded in 2022, at 8.3 msf during the quarter. With a reasonably healthy fresh leasing activity seen in the market, and also commencement of projects that had moderate-to-healthy preleasing in it, the net absorption number remained resilient. There is anticipation that this trend could continue into the fourth quarter as well, because developers fast-track projects with better preleasing while speculative projects are moving at a slower pace. New supply during the quarter stood at 10.7 msf, a drop of 10% q-o-q, as some of the speculative supply got pushed for later quarters when demand is expected to revive. With a healthy supply pipeline that is visible, we believe the rents will remain largely range-bound across most micro-markets except ones where the vacancy rate is very tight. We have been observing relatively tight vacancies in prime Micromarkets such as BKC, ORR, Guindy, Madhapur, and Viman Nagar, and these markets could see marginal upward pressure on rents.

LEASING TRENDS

GROSS LEASING ACTIVITY

Gross leasing volume stood at 15.1 msf as of Q3-23, which was nearly 13% lower, both on q-o-q as well as y-o-y basis. In the previous quarter, GLV was recorded at 17.4 msf, which was comparable to the quarterly average number that we witnessed in 2022 – a record year for Indian office real estate market. In comparison, the year 2023 seems to be going a bit slow with average quarterly leasing volume of merely 16 msf. All components of the GLV, vis-à-vis fresh leasing, term renewals and pre-commitments, witnessed a fall relative to last quarter.

Amongst the major metropolitan cities, Mumbai witnessed strongest growth of 27% q-o-q in gross lease volumes. Chennai and Kolkata too witnessed sharp growth in GLV on q-o-q basis during the quarter, while other cities saw a fall in GLV. Fresh leasing fell by 13% on a q-o-q basis or near-about 8% on a y-o-y basis. As occupiers maintain a cautiously optimistic outlook on the Indian economy and real estate sector, the interest level remains high but time required to close deals has also increased.

Having said that, fresh leasing (~10.5 msf) continues to hold dominant share in GLV of 69%, similar to shares it held in the previous quarters, whereas term renewals and pre-commitments shares stood at 19% and 12%, respectively. Hyderabad led the fresh leasing volumes in the quarter with a 21% share followed by Delhi NCR and Bengaluru with 19% and 17% shares respectively. Rents across most markets remain broadly stable amidst rising supply and a cautiously optimistic office demand outlook.

Pan India GLV volumes witnessed a drop of 13% q-o-q in Q3 as some amount of caution has been exercised by occupiers i.e. leading to delays in decision-making over leasing of office spaces, particularly large-sized deals. Fresh leasing remains a dominant portion of the overall GLV, and we believe this will continue to remain healthy as more occupiers express their intention to call employees back to office in full force. Amidst continued supply of Grade-A spaces, rental growth remains muted, thereby helping occupier-friendly conditions to prevail.

Gross Leasing (msf)	Q2 2023	Q3 2023	% Change
Mumbai	2.73	3.47	26.90%
Delhi NCR	3.54	3.39	-4.10%
Bengaluru	3.04	2.21	-27.10%
Chennai	1.58	1.80	13.90%
Pune	3.12	0.97	-69.00%
Hyderabad	2.65	2.44	-7.90%
Kolkata	0.22	0.41	87.10%
Ahmedabad	0.49	0.42	-14.10%

Q2 2022 **17.37** msf ▼ -13.00% Q3 2023 **15.12** msf

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Gross Leasing (msf)	Q3 2022	Q3 2023	% Change
Mumbai	4.26	3.47	-18.60%
Delhi NCR	3.82	3.39	-11.20%
Bengaluru	3.64	2.21	-39.20%
Chennai	1.94	1.80	-7.10%
Pune	1.66	0.97	-41.60%
Hyderabad	1.53	2.44	59.20%
Kolkata	0.29	0.41	39.80%
Ahmedabad	0.23	0.42	79.70%

Q3 2022 **17.38** msf ▼ -13.00% Q3 2023 **15.12** msf

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TERM RENEWALS

Term renewals stood at around 2.8 msf in Q3, a 11% decline on a qoq basis and a 10% fall as compared to the same period last year. As a proportion of GLV, term renewals accounted for 19% share, broadly unchanged from the shares seen in the previous quarter as well as in same quarter last year. Stability in rentals across major cities and confidence in the Indian economy and business environment has led to occupiers renewing their leases.

Renewals were highest in Mumbai, which accounted for nearly two-thirds of pan India renewals, followed by Chennai with a 16% share. Mumbai, Chennai and Delhi-NCR were cities that witnessed a sharp-to-moderate rise in term renewals compared to the previous quarter, while most other cities witnessed a fall.

PRELEASING ACTIVITY

Preleasing was recorded at 1.8 msf in Q3, accounting for nearly 12% of the quarter's GLV, and witnessing a drop of 17% on a q-o-q basis. The YTD-23 preleasing volume has been low at 4.3 msf, accounting for merely 50% of the prelease volume of the full year 2022. This shows that occupiers are somewhat cautious in committing to large space leasing through this year, except for a brief period in Q2 when the US recession and global inflation fears had significantly abated.

Amongst the top-8 cities, Delhi-NCR witnessed a healthy rise in preleasing volume, followed by Chennai and Bengaluru that also witnessed reasonable preleasing activity. With good amount of Grade-A supply coming-up in the near future across prime markets, we are expecting the prelease volumes to turnaround and post a healthy rise in coming quarters.

NET ABSORPTION

Owing to preleased new supply that became operational during the quarter and also a healthy share of fresh demand for office space, the Q3 net absorption volume was healthy at 8.3 msf, nearly 32% higher on a q-o-q basis. This was the highest net absorption recorded in the first three quarters, equivalent to the quarterly average net absorption volume seen in 2022. With that, the YTD-23 net absorption volume stood at 22.5 msf, approximately 2 msf lower than that recorded in the same period last year.

The lead IT cities of Hyderabad and Bengaluru contributed the most to net absorption volumes, with shares of 22% each during the quarter. This was followed by the megacities of Delhi-NCR and Mumbai with shares of 15% and 14%, respectively. Except Chennai and Pune, most cities witnessed a q-o-q rise in net absorption volume in Q3.

Net Absorption (msf)	Q2 2023	Q3 2023	% Change
Mumbai	0.52	1.15	120.70%
Delhi NCR	1.33	1.21	-9.20%
Bengaluru	0.56	1.79	218.30%
Chennai	0.93	0.59	-36.40%
Pune	1.23	0.92	-25.40%
Hyderabad	1.34	1.85	38.20%
Kolkata	0.19	0.34	79.60%
Ahmedabad	0.17	0.42	145.30%

Q2 2023		Q3 2023
6.27 msf	▲ *31.80%*	**8.27** msf

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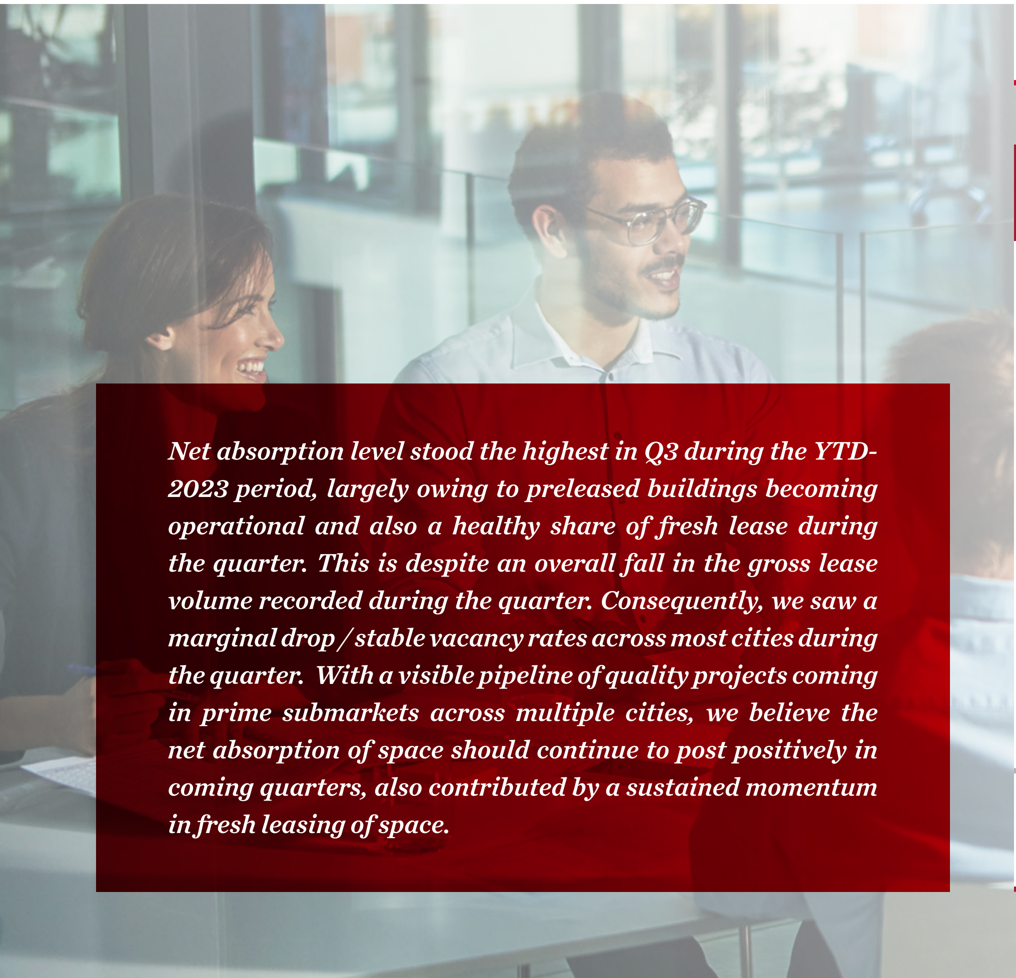

Net absorption level stood the highest in Q3 during the YTD-2023 period, largely owing to preleased buildings becoming operational and also a healthy share of fresh lease during the quarter. This is despite an overall fall in the gross lease volume recorded during the quarter. Consequently, we saw a marginal drop / stable vacancy rates across most cities during the quarter. With a visible pipeline of quality projects coming in prime submarkets across multiple cities, we believe the net absorption of space should continue to post positively in coming quarters, also contributed by a sustained momentum in fresh leasing of space.

Net Absorption (msf)	Q3 2022	Q3 2023	% Change
Mumbai	1.03	1.15	11.40%
Delhi NCR	1.79	1.21	-32.40%
Bengaluru	3.29	1.79	-45.50%
Chennai	0.76	0.59	-22.10%
Pune	0.89	0.92	2.10%
Hyderabad	1.59	1.85	16.60%
Kolkata	0.27	0.34	29.30%
Ahmedabad	0.23	0.42	79.70%

Q3 2022		Q3 2023
9.85 msf	▼ *-16.10%*	**8.27** msf

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OCCUPIER TREND

The fall in overall GLV volumes was mirrored across, with leasing volumes across sectors witnessing a drop on q-o-q basis. Particularly, the e-commerce, E&M and telecom & media sectors witnessed sharp drop in volumes during the quarter, whereas sectors such as IT-BPM, BFSI, Captives (GCCs) or Health-Pharma witnessed limited fall. Yet again, the IT-BPM sector stood dominant with over 30% share in Q3 leasing volume, maintaining a similar share from previous two quarters. This was followed by the BFSI and E&M sectors, which accounted for 13-14% share each.

Within the IT-BPM space that recorded leasing volume of 4.7 msf, Delhi-NCR recorded bulk (28%) of the share, followed by Bengaluru and Chennai with 19% share each. Within the BFSI space that saw 2.2 msf of GLV during Q3, Mumbai took the dominant share of 39%, followed by Delhi-NCR with 16% share in leasing. Flex space operators were relatively less aggressive in Q3, recording 1.6 msf of GLV, with major action noticeable in cities such as Hyderabad and Pune. In the E&M space, Delhi-NCR, along with Mumbai and Bengaluru collectively accounted for ~60% of the overall leasing volume.

In Q3, total flex seats leased stood at around 37,000 across the top-8 cities, including the ones that occupy in prominent sub-Grade A assets. Consequently, the YTD flex seats take-up stood at 110,000 seats, maintaining the strong growth trend witnessed in the post Covid period. Flex seats take-up is expected to remain strong in the near term due to a growing preference for managed office spaces.

Sector	Q3 2022	Q2 2023	Q3 2023
IT - BPM	4.41	5.36	4.73
HEALTHCARE & PHARMA	0.47	0.59	0.50
BFSI	2.59	2.49	2.17
CAPTIVE	0.54	0.45	0.41
ENGINEERING & MANUFACTURING	2.58	3.27	2.01
TELECOM & MEDIA	0.32	0.44	0.28
FLEXIBLE WORKSPACE	2.56	2.28	1.56
E-COMMERCE	0.19	0.08	0.02
PROFESSIONAL SERVICES	2.12	1.52	1.26
OTHERS	1.59	0.89	2.17

All values in MSF

SUPPLY TRENDS

At 10.7 msf, new completions recorded a decline of 9% q-o-q while it posted a 31% drop on y-o-y basis. YTD-23 new completions now stand at 29.5 msf as against the same period last year when 42.5 msf of new supply had hit the market. With large-sized deals taking more time to conclude, developers may have been going slow on completions. Consequently, some of the supply which was anticipated to come earlier this year has been pushed for later quarters across multiple cities. Projects with better preleasing would be fast-tracked while the speculative supply may see slower progress if the on-going macroeconomic uncertainty persists for some more time.

Close to 3.2 msf of new supply happened in Bengaluru, which accounted for a dominant 30% of all supply pan-India during the quarter. This was followed by Hyderabad with 2.2 msf of new supply that hit the market in Q3, accounting for 21% share. Pune and Chennai were other large contributors to new supply in Q3 with shares of 15% and 13%, respectively.

Going forward, the supply pipeline remains strong in India across many cities, particularly in the leading IT cities of Bengaluru and Hyderabad. The good part is that bulk of the new supply is concentrated around the top-2 prime submarkets across cities, where vacancy levels is high and occupier as well as investor interest levels are high. A healthy supply pipeline is likely to ensure rents remain range-bound across most micro-markets, while select locations and projects where vacancies are very tight could see upward pressure on rents. For instance, Micromarkets such as BKC, ORR, Guindy, Madhapur and Viman Nagar are prime markets in their respective cities and there is a tight vacancy that prevails here.

New Supply (msf)	Q2 2023	Q3 2023	% Change
Mumbai	0.44	0.59	33.25%
Delhi NCR	0.00	0.43	NA
Bengaluru	2.63	3.22	22.47%
Chennai	2.08	1.35	-35.19%
Pune	0.65	1.65	153.54%
Hyderabad	5.29	2.20	-58.41%
Kolkata	0.00	1.02	NA
Ahmedabad	0.63	0.22	-65.70%

Q2 2023		Q3 2023
11.74 msf	-9.00%	10.68 msf

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New Supply (msf)	Q2 2022	Q2 2023	% Change
Mumbai	1.49	0.59	-60.42%
Delhi NCR	3.56	0.43	-87.95%
Bengaluru	3.62	3.22	-11.12%
Chennai	1.15	1.35	16.94%
Pune	0.40	1.65	310.49%
Hyderabad	4.38	2.20	-49.62%
Kolkata	0.00	1.02	NA
Ahmedabad	0.92	0.22	-76.48%

Q3 2022		Q3 2023
15.53 msf	-31.23%	10.68 msf

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OUTLOOK

In Q3, the GLV volumes stood a bit low compared to the previous quarter, broadly signalling a sustained cautious approach by potential occupiers of large-sized offices. The overall dip in volume was reflecting across most cities that we track as well as across tenant categories. However, the underlying market fundamentals remain strong as more companies have been calling for employees to return to office in full strength. The residential supply crunch across major cities of Bengaluru, Hyderabad, Gurgaon, and Mumbai suggests that employees have been returning to their base office locations as rentals of residential units have witnessed steep rise along the prime office corridors. Therefore, we believe, it is probably a matter of time when macroeconomic scenario turns a tad more favourable, and the current requirement of office space will translate into actual concluding of deals.

In the early months of Q3, the uncertainty surrounding the US economic recession abated significantly, although there is some continued fears over rising inflation and sticky interest rates at higher levels across some countries. Back home in India, all the macroeconomic data suggests robust economic momentum, as also the inflation data that has subsided in recent months. Indian office market is also gearing-up for a foreseeable widespread adoption of ESG-compliant offices by leading occupiers, with nearly a quarter of Grade-A office stock already LEED certified, while the remaining ones are actively working towards acquiring green certifications. Very soon, the market will start assigning a premium to such office that offer ESG compliance, as well as better amenities and flexibility to its tenants.

Healthy traction on leasing volumes can be expected in the near future as the macroeconomic uncertainty abates and occupier sentiment turns positive. With Indian economy growing at the fastest pace in the world, the interest level among IT-BPM, GCCs, and manufacturing companies is high, and this inherent demand is likely to ensure a positive momentum in the near future.

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BUSINESSS CONTACT

VEERA BABU

Managing Director, Tenant Representation, India
veera.babu@ap.cushwake.com

FOR FURTHER INFORMATION, PLEASE CONTACT

AWANTIKA MOHANTY
Head of Business Development Services, Singapore, SE Asia and India
awantika.mohanty@cushwake.com

SUVISHESH VALSAN
Director, Research Services, India
suvishesh.valsan@cushwake.com

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