

INDIA

OFFICE MARKET REPORT

Q2 2024

Better never settles



KEY HIGHLIGHTS

Q2 2024

1

21.8 MSF gross leasing volume (GLV) in top 8 cities in Q2 2024; a 27% growth on an annual basis and an 8.4% expansion over the previous quarter.

2

Bengaluru was leading in terms of pan-India GLV in Q2, accounting for 25% share, followed by Mumbai, Pune, Delhi NCR and Hyderabad with shares of 22%, 15% and 14%, respectively.

3

IT-BPM accounted for the highest share (~25%) in quarterly leasing, followed by BFSI and flexible workspace with 21% and 14% shares, respectively. Engineering & manufacturing's share was relatively lower at 12% of GLV in the quarter.

4

7.8 MSF of new completions were recorded in Q2 2024 with Hyderabad and Mumbai accounting for 34% each followed by Bengaluru with a 28% share.

5

Net absorption in Q2 2024 stood at 9.2 MSF, an increase of 49% on an annual basis though 18.5% lower than the net absorption witnessed in the previous quarter.

Pan India leasing volumes maintained healthy momentum in Q2 and recorded the third consecutive quarter with 20+ MSF of transaction activity, the first time ever in the Indian office market. Clearly, the rapid recovery in leasing activity witnessed in the second half of the previous year has gained significant strength in the current year. Faster closures of large deals by global multinationals across major cities and strong demand even from domestic enterprises highlight the marked improvements in occupier confidence in recent quarters. Fresh demand continues to remain the dominant driver of space takeup by multinationals, which points towards implementation of expansion plans and augurs well for the health of the office market. Moreover, higher precommitments in certain cities such as Bengaluru and Pune highlight the medium term growth focus of occupiers, which again, is welcome news for the office market. Bengaluru remained the prime market contributing a significant share of pan India fresh demand with Mumbai witnessing healthy growth in fresh space takeup. Delhi NCR and Hyderabad also reported fairly robust lease transactions. Among smaller markets, Kolkata performed well with the highest post COVID fresh space takeup. The active deal pipeline remains healthy and expected deal closures in upcoming quarters are likely to keep near term momentum intact. The bright Indian economic outlook and resilience of the US economy are serving as additional tailwinds for the office market.

The second quarter stood out for a sharp decline in new supply, the lowest since Q1 2023. Interestingly, Pune and Chennai recorded no supply in the quarter. Delays in grants of occupancy certificates for projects coupled with lower preleasing in some cities could be possible explanations for the decline in quarterly supply. However, the pan India supply pipeline remains strong and given the robust fresh demand, the lower supply in Q2 could be a temporary blip in the market. Speculative supply is likely to increase on the back of rising demand for premium projects with provision of world class infrastructure becoming a priority for occupiers. Hyderabad and Mumbai led supply addition in Q2, followed by Bengaluru. Pan India headline vacancy fell in Q2 but is likely to rise in the quarters ahead due to the large supply likely to enter the market.



LEASING TRENDS

Gross Leasing Activity

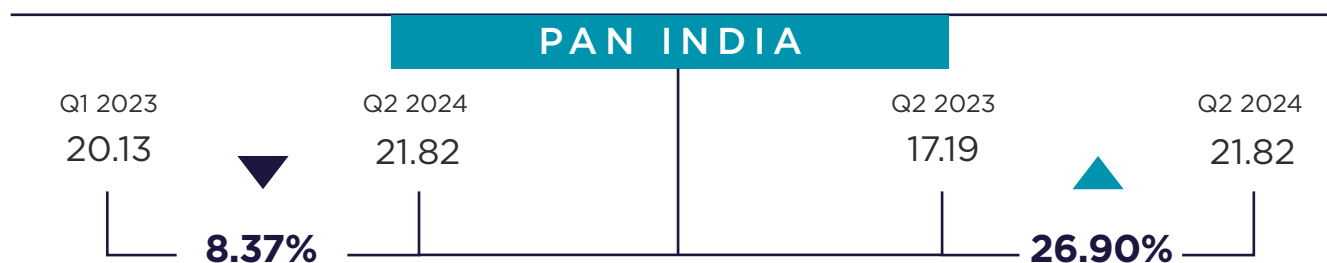
Office market posted its third consecutive quarter of over 20 MSF gross lease volumes with fresh demand contributing 68%, around the same volume recorded in the same period last year but lower than the previous quarter. Conversion of a number of large fresh deals across top cities along with larger preleases, primarily in Bengaluru, translated into this robust GLV figure. GCC transactions held up quite well in the quarter, accounting for 26% of GLV, down marginally from 28% in the previous quarter. Domestic firms maintained their space take-up in the quarter, supported by healthy prospects of the Indian economy. As of H1, GLV stood at almost 42 MSF, a near 30% growth over the same period last year. Given the leasing activity recorded in the first half of the year, full year GLV is likely to surpass last year's figure.

At 14.7 MSF, fresh leasing was marginally higher by just over a percent on a quarterly basis but expanded by 24.5% on an annual basis. Q2's fresh lease figure and GCC activity points towards the continued momentum of occupier space demand amidst India's growing status as a driver of digital transformation for large global multinationals. Bengaluru contributed nearly 23% of quarterly fresh leasing volumes followed by Mumbai and Hyderabad with 19% and 17% shares respectively. Kolkata recorded a near 4x jump in fresh leasing in Q2, the highest quarterly figure in the post COVID period. As of H1, fresh leasing stood at over 29 MSF, nearly 23% growth over the same period last year and a 70% share in half yearly GLV.

The pan India active demand pipeline consists of several deals which are currently under negotiation, including large deals of multinationals in key tech cities. A number of these deals are likely to get converted in the quarters ahead. Headline pan India rentals moved up in Q2 due to strong demand and limited new supply.

Gross Leasing (MSF)	Q1 2024	Q2 2024	% Change	Gross Leasing (MSF)	Q2 2023	Q2 2024	% Change
Mumbai	4.78	4.78	0.00%	Mumbai	2.73	4.78	74.71%
Delhi NCR	2.93	3.01	2.72%	Delhi NCR	3.54	3.01	-15.07%
Bengaluru	6.74	5.55	-17.72%	Bengaluru	3.04	5.55	82.69%
Chennai	1.66	1.74	5.10%	Chennai	1.58	1.74	10.16%
Pune	1.21	3.19	164.00%	Pune	3.12	3.19	2.43%
Hyderabad	2.51	2.51	0.00%	Hyderabad	2.48	2.51	1.20%
Kolkata	0.21	0.79	272.08%	Kolkata	0.22	0.79	263.16%
Ahmedabad	0.09	0.25	169.45%	Ahmedabad	0.49	0.25	-48.30%

Pan India gross lease volume remained robust in Q2 with the third consecutive 20+ MSF figure on the back of continued fresh space take-up and expansion by multinationals as well as domestic firms. GCC leasing activity was quite healthy as existing occupiers expanded their capability centres and new entrants set up greenfield facilities. Continued momentum in large deal conversions, driven by occupier expansion plans, was a key feature of the quarter. Strength in occupiers' sentiment is likely to keep demand healthy in the upcoming quarters.



Term Renewals

Term renewals stood at 3.5 MSF in Q2, a 42% growth on a q-o-q basis and a 23% expansion as compared to the same period last year. The share of term renewals stood at 16% of the quarterly lease volumes, higher than the 12% share in the previous quarter. On a half yearly basis, however, term renewals posted a decline of over 8% in comparison to H1 2023. With rentals still fairly benign despite the sharp demand growth trajectory and considerable confidence in their business operations, occupiers are moving ahead with renewals. Mumbai and Pune led term renewals in the quarter, with shares of 55% and 36% respectively.

Preleasing activity

Preleasing picked up in Q2 both on a quarterly and annual basis. At 3.5 MSF, preleasing posted a growth of 15% on a quarterly basis and a sharp 113% expansion as compared to the same period last year. Preleasing accounted for 16% of quarterly GLV, consistent with the share in the previous quarter and higher than figure during the same period last year. As of H1, preleasing stood at 6.6 MSF, a near 3.5x jump over the same period last year. Higher preleasing indicates a favourable Indian business landscape based on which larger occupiers are planning to move ahead with expansion plans. Bengaluru accounted for 54% of quarterly preleasing followed by Pune and Delhi NCR with shares of 26% and 20% respectively.



Net Absorption

At 9.4 MSF, net absorption posted an 18.5% decline on a quarterly basis and an over 49% growth over the same period last year. Strong fresh leasing, return to office mandates, implementation of expansion plans and operationalization of preleased buildings in certain cities were drivers of net absorption in the quarter. Bengaluru led net absorption in the quarter with a 27% share, followed by Mumbai and Hyderabad with 18% shares each.

Net Absorption (MSF)	Q1 2024	Q2 2024	% Change	Net Absorption (MSF)	Q2 2023	Q2 2024	% Change
Mumbai	2.47	1.72	-30.48%	Mumbai	0.52	1.72	230.54%
Delhi NCR	1.45	1.46	0.57%	Delhi NCR	1.33	1.46	9.47%
Bengaluru	3.59	2.51	-30.22%	Bengaluru	0.56	2.51	345.58%
Chennai	0.88	0.52	-40.74%	Chennai	0.93	0.52	-43.98%
Pune	1.30	0.42	-67.41%	Pune	1.23	0.42	-65.46%
Hyderabad	1.59	1.71	7.93%	Hyderabad	1.34	1.71	28.11%
Kolkata	0.10	0.78	675.43%	Kolkata	0.19	0.78	304.85%
Ahmedabad	0.11	0.25	131.37%	Ahmedabad	0.17	0.25	47.55%

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Robust fresh demand led to strong growth in net absorption on an annual basis. This is a trend that is likely to continue in the remainder of the year with an annual net absorption of 40+ MSF likely due to continued fresh space take-up, operationalization of buildings with preleasing in certain cities and return to office mandates issued by companies, including the IT sector. Pan India headline vacancies declined in Q2 due to the strong demand but vacancies are likely to edge higher in the near term largely due to higher supply. Rentals moved up in key cities in the quarter but going forward, demand supply balance is likely to keep rentals rangebound.

OCCUPIER TRENDS

Most sectors registered growth in leasing activity except engineering and manufacturing in the quarter. IT-BPM accounted for 25% of quarterly leasing volumes while BFSI contributed a share of 21%. Flex space segment occupied the third spot in the quarterly GLV with a share of 14% with professional services contributing a 12% share. IT-BPM posted a growth of 5% on a q-o-q basis and an 11% expansion on an annual basis. BFSI sector posted a growth of 34% on a q-o-q basis and nearly 86% on an annual basis. Leasing by flex operators grew by 44.5% on a quarterly basis along with an expansion of over 41% as compared to the same period last year. Moreover, professional services posted a growth of 33% on a q-o-q basis and nearly 47% on an annual basis. Engineering & manufacturing (E&M) was the only major sector that posted a decline in the quarter; leasing by (E&M) occupiers, who are usually the major drivers of space takeup, recorded a decline of 41% on a quarterly basis and a 20% fall on an annual basis.

Bengaluru contributed 27% of leasing by IT-BPM occupiers in Q2, while Hyderabad accounted for 22%. Bengaluru alone accounted for over 46% of leasing by BFSI occupiers with Pune contributing 14%. In the flex space segment, Pune led the way with nearly one third of the leasing volumes followed by a contribution of 24% by Bengaluru. Mumbai accounted for 38% of leasing by professional services segment followed by Delhi NCR with a 24% share. Space take-up by E&M sector was the highest in Mumbai (31%), followed by Bengaluru (19%).

Flex seat leasing maintained its robust growth in Q2 with ~50,000 seats transacted, consistent with the figure recorded in the previous quarter. Flex seat leasing will continue to remain strong in the near term due to healthy enterprise demand for managed offices.



All values in MSF

SUPPLY TRENDS

New supply stood at 7.8 MSF in Q2, a decline of around 40% on a quarterly basis and a 35% fall as compared to the same period last year. The quarter saw a decline in new supply due to delays in the grant of occupancy certificates. Moreover, lower supply could also be due to lower preleasing in some major cities which has resulted in a temporary restriction in completions as developers monitor the quantum of demand in the upcoming years. However, the supply pipeline in the remainder of the year as well in the upcoming years remains strong and expected sustained robust fresh demand is likely to drive supply addition across key cities. Mumbai and Hyderabad led the way with around 34% of quarterly pan India supply each followed by 28% share of Bengaluru. Bengaluru and Hyderabad likely to contribute around half of pan India supply cumulatively in the current year with Pune and Mumbai likely to witness healthy supply addition as well. Pan India supply is likely to move broadly in line with demand but certain cities are likely to see a glut of new supply entering the market, thereby affecting vacancies in these locations.

Headline pan India vacancies moved down in the quarter due to strong demand but are likely to edge up in the remainder of the year and beyond due to higher supply. However, pan India average rentals are likely to remain largely rangebound in the upcoming quarters given the demand-supply balance. However, gradual rental appreciation is expected in prime micromarkets, and especially in premium properties over the next few quarters.

New Supply (MSF)	Q1 2024	Q2 2024	% Change	New Supply (MSF)	Q2 2023	Q2 2024	% Change
Mumbai	1.35	2.65	96.07%	Mumbai	0.44	2.65	497.07%
Delhi NCR	2.81	0.31	-88.83%	Delhi NCR	0.00	0.31	NA
Bengaluru	2.88	2.18	-24.44%	Bengaluru	2.64	2.18	-17.42%
Chennai	0.63	0.00	-100.00%	Chennai	2.08	0.00	-100.00%
Pune	1.67	0.00	-100.00%	Pune	0.65	0.00	-100.00%
Hyderabad	2.92	2.69	-7.81%	Hyderabad	5.55	2.69	-51.46%
Kolkata	0.00	0.00	NA	Kolkata	0.00	0.00	NA
Ahmedabad	0.72	0.00	-100.00%	Ahmedabad	0.63	0.00	-100.00%

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OUTLOOK

The growth momentum in the Indian office market continued in Q2 and 2024 is likely to surpass the leasing volumes recorded last year and finish at a record high. Recovery seen in the second half of the previous year has gained pace in the current year with a number of large deals being closed across major cities. Fresh demand has picked up significantly and space take-up for business expansion is likely to remain strong in the near to medium term. This is likely to translate into a net absorption of over 40 MSF this year, close to the pre Covid record highs and possibly the highest in the APAC region. Expected robust demand is also likely to keep net space takeup at healthy levels in the upcoming years.

The fundamentals of the office market remain sound, supported by a strong domestic growth outlook and resilience of the global economy. The country's large talent pool, competitively priced real estate, global standing as a GCC hub and growing sophistication of office buildings with embedded ESG and technology are key attractions for global occupiers.

Healthy demand for managed offices from multinational and domestic enterprises continues to provide a massive tailwind to the sector. Flex operators will remain one of the key drivers of pan India leasing activity in the near to medium term as they continue to leverage enterprise demand for flexibility, capex optimization, high quality, innovative Grade A office infrastructure and employee well-being.

The decline in supply addition in Q2 could be a temporary blip given the robust demand trajectory. The supply pipeline for the remainder of 2024 and beyond remains strong with key tech cities such as Bengaluru and Hyderabad likely to lead completions. A significant proportion of new supply is likely to be added in prime office corridors across top cities. Headline pan India vacancies are likely to move up due to large supply addition. However, prime micromarket vacancies are likely to remain low given the high demand for premium office space in these locations.





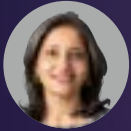
BUSINESS CONTACT



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, South East Asia & India
awantika.mohanty@cushwake.com



Suvishesh Valsan

Senior Director, Research Services, India
Suvishesh.Valsan@cushwake.com

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