SPOTLIGHT
Savills Research

H1 2021

India Market Watch
Office

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India Market Watch - Office – H1 2021

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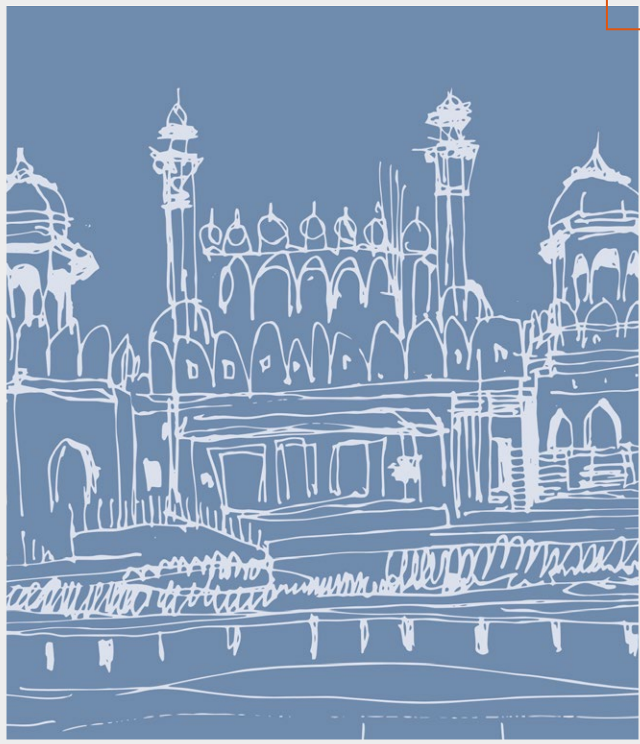

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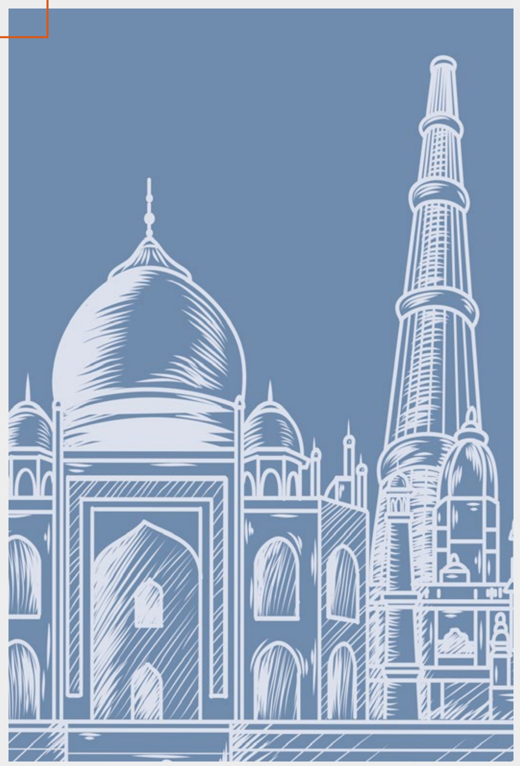

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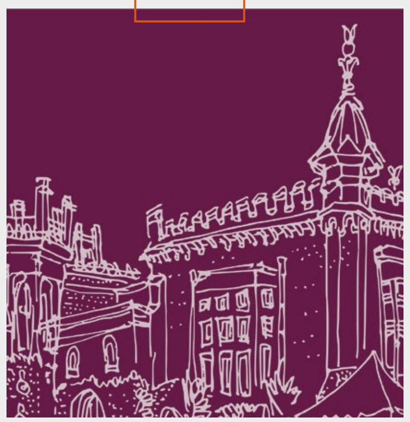

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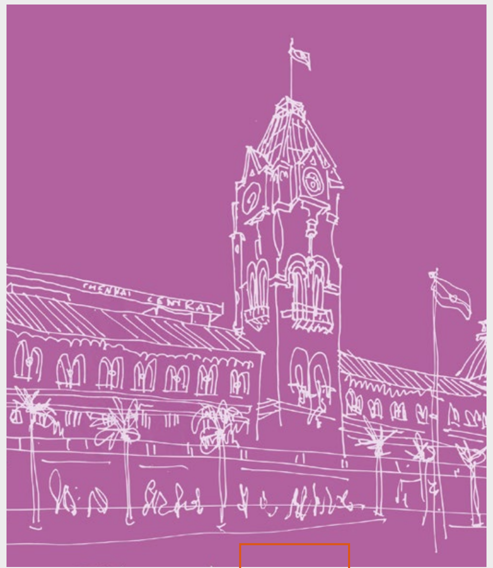

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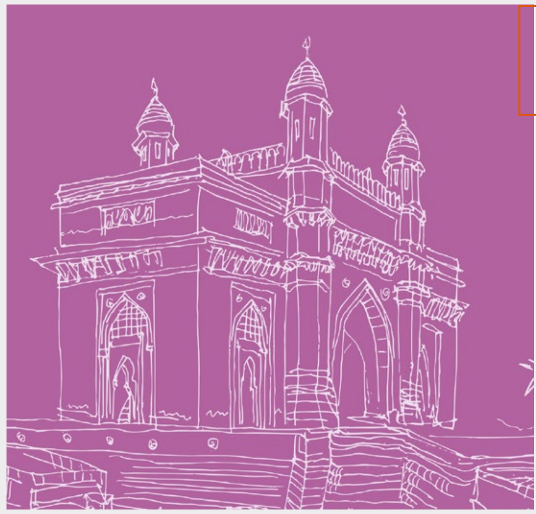

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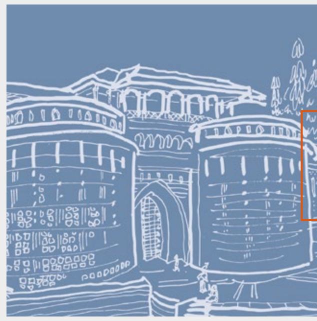

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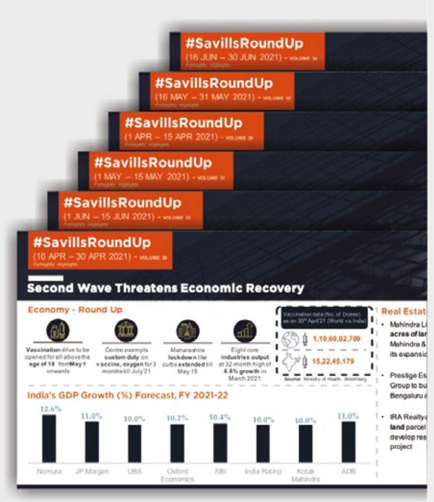
INDIAN ECONOMY 2021

This section contains a narration of the socio-economic scenario of India during January to June 2021 period. It has a direct bearing on all businesses and hence on real estate.

A systematic, sequential and detailed reporting on all events during this period is presented in 12 unique #SavillsRoundUp, which we publish on fortnightly basis.

Please refer to the below link and follow #SavillsRoundUp on our social media handles to know about the events chronologically and in real time.



Click here to read

Note:
This section contains figures in Indian system of lakhs and crores (refer Appendix for international conversions).
1 USD = Approx. 74.28 INR on June-30, 2021

OUT OF RECESSION, BUT...

India witnessed a protracted wave of pandemic in 2020, which peaked on 17th September. A technical recession occurred, as two consecutive quarters reported negative GDP growth. However, the new year started with hope, as vaccination was rolled out in India on 16th January 2021, beginning with frontline services personnel. Soon, the country was out of recession with a small but noteworthy 0.4% GDP growth for the Oct-Dec 2020 quarter (Q3 of FY 2020-21). It was followed by 1.6% growth in Q4 of FY 2020-21. This created a belief that India had overcome the virus through a single wave, whereas most large economies around the world had suffered two or more waves. In early March, vaccination was opened to common public, amid rising confidence.

In a strong reversal though, by the end of March, a second wave began and rose to enormous proportions in a matter of weeks. Lockdowns returned as India's daily infection rate peaked at 4.14 lakh in the first week of May. This was almost 4.25 times the single-day peak of the first wave.

Nevertheless, it recorded a steady decline from there, with estimates of complete control in July. Vaccination continued, despite numerous roadblocks during this time, as India overtook the US by administering 32.36 crore doses on 28th June. Anxiety regarding a third wave later this year, hangs heavily on the horizon though.

UNION BUDGET 2021-22 & POLICY

The central government's annual budget, presented before the second wave, had six key elements impacting real estate, as shown in the Annexure. Notable among these was the PLI scheme of approximately INR 2 lakh crores, which aims to significantly boost manufacturing and allied sectors. Further, there was push for affordable housing, through focus on divestments, stressed asset resolution and tax holiday extensions. While these announcements were made before the second wave, some others on policy and fiscal fronts came later.

In a virtual follow-up of the three Atma Nirbhar Bharat schemes of 2020, the Finance Minister announced a package scheme of INR 6.29 lakh crores, including help for the beleaguered travel and allied sectors. These are among those key sectors which continue in the negative growth zone (chart-2).

Another key event of the period was the central cabinet's approval to Model Tenancy Act. It is a watershed development which paves the way for rental housing creation in India. Hopefully, it will also create a suitable platform for private sector participation. It is important to look at this in conjunction with the announcement of ARHC Guidelines of July 2020.

SEBI announced a change in application value for REITs and InvITs to INR 10,000 and INR 15,000 respectively, from INR 50,000 and INR 1 lakh earlier. Also, the trading lot size was reduced to one. This move has immense potential to attract retail investors and open more avenues for investment.

Monetary Policy & RBI

The Monetary Policy Committee (MPC) of the Reserve Bank of India contributed by keeping the benchmark lending rate constant at 4% during this period. The RBI also approved a transfer of INR 99,122 crores as surplus to the government.

COVID Specific Support

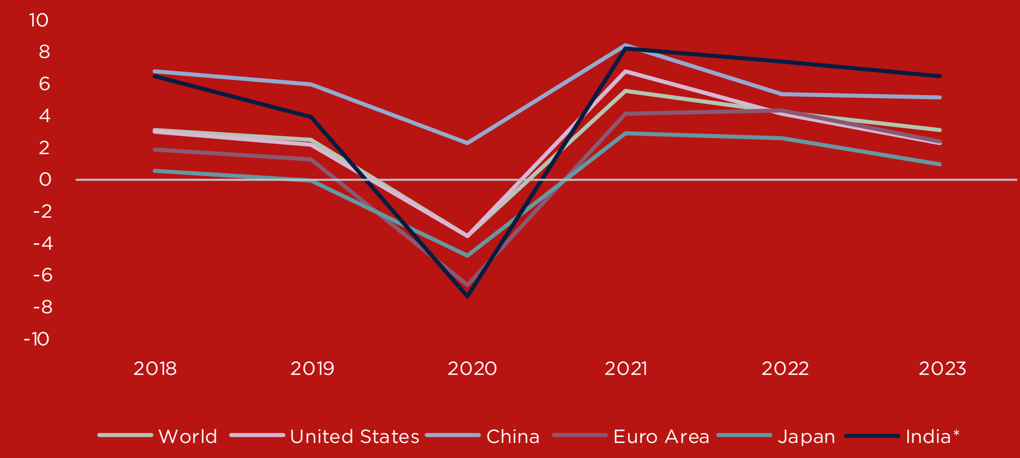
As measures for COVID specific support, the government announced 100% guarantee cover for loans of up to INR 2 crores for hospitals and nursing homes, for setting up oxygen generation plants. Also, COVID treatment items have been exempted from IGST till August 2021.

REST OF 2021

Contrary to the upbeat sentiment in the early weeks of 2021, the turn of events in March and the rest of H1 has created an atmosphere of uncertainty. A third wave of the pandemic has neither been ruled out nor clearly projected at this stage. Various international and domestic agencies have repeatedly changed India's growth forecast during this period. Towards the close of H1, Moody's and S&P estimated the growth to be approximately 9.6% and 9.5% respectively for FY 2022.

The second wave appears to be receding at the end of H1. Businesses are expected to recover on the strength of advancing vaccinations in the months ahead.

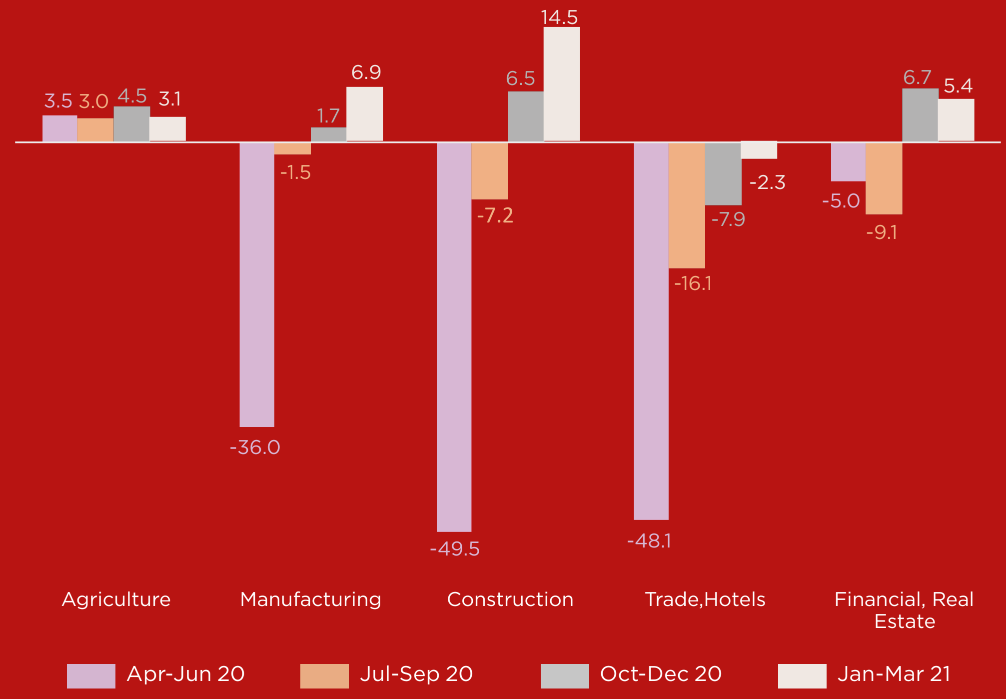
Chart 1: GDP Growth (annual % change)



Source IMF World Economic Outlook

** The statistics for India are for Financial Year, while for the rest of the countries, its for Calender Year.*

Chart 2: COVID impact on Sectoral GDP (%)



Source MoSPI, Government of India

India's GST collections remained at over INR 1 lakh crore for 8 consecutive months.

India started with two vaccines, viz., Covishield & Covaxin and added two more, Sputnik-V and Moderna during H1 2021. A fifth one is also expected during the year.

INDIA OFFICE MARKET UPDATE

The year began with optimism and reimagined workspaces, as lessons from the first wave of the pandemic were getting implemented and businesses started to stabilize. But the unanticipated second wave hit hard in the second quarter, leading to a temporary pause in expansion plans and dragging the leasing activity to a six-year low.

The second quarter saw 65% QOQ decline in leasing activity, owing to lockdowns and the severity of infection. In the next few sections, we highlight the performance of the office sector during the first half of the year 2021.

KEY STATISTICS: H1 2021

Total India Stock
621.8
mn sq. ft.

New Supply
18.0
mn sq. ft.

YOY change
4%

Gross Absorption
10.9
mn sq. ft.

YOY change
-38%

ABSORPTION HIGHLIGHTS: 10.9 mn sq. ft.

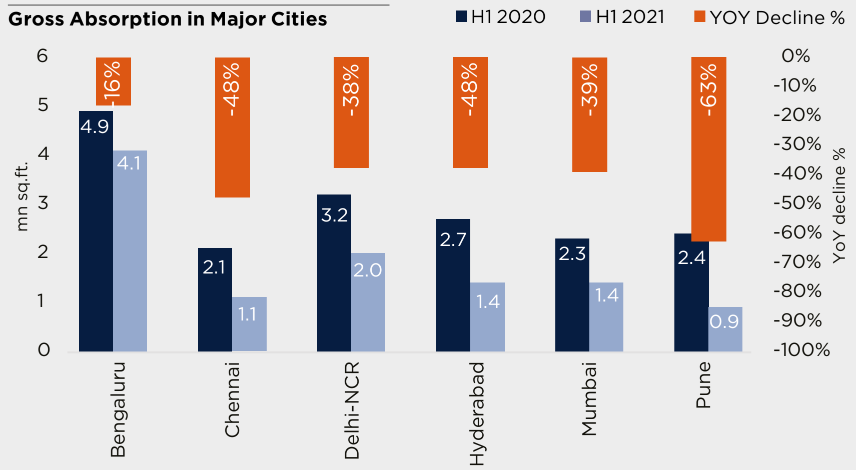
At 10.9 mn sq. ft. gross office space absorption across India's six major cities[1] registered a 38% YOY decline as occupiers paused expansions and resumed portfolio optimisation plans. The pecking order was not a surprise as Bengaluru continued to lead with 4.1 mn sq. ft. of leasing activity representing 37% share in H1 2021. It also saw the lowest decline of 16% YOY, compared to the other five cities.

Following Bengaluru, Delhi-NCR witnessed leasing activity of 2.0 mn sq. ft. in H1 2021, recording a 38% YOY decline. While Mumbai and Hyderabad shared third place with approximately 1.4 mn sq. ft. absorption, the annual decline in leasing was sharper for Hyderabad at 48% compared to 39% for Mumbai.

The top cities of Bengaluru, Delhi-NCR and Mumbai constituted around 69% of the total leasing activity in H1 2021. Pune recorded approximately 0.9 mn sq. ft. leasing, which was the lowest in volume as well as the largest decline among these six cities. Chennai just managed to breach 1.0 mn sq. ft., recording an annual decline of about 48%.

Mumbai & Hyderabad tie at 3rd spot with similar levels of absorption but the annual decline is steeper for Hyderabad.

1. Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai and Pune



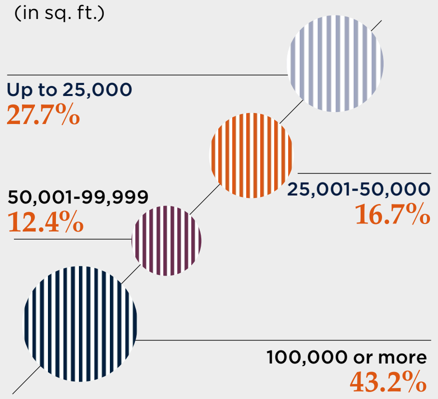
Large deals continue despite the cautious approach

Sizeable consolidations and expansions have contributed to the share of large deals (deal size more than 100,000 sq. ft.) in H1 2021, accounting for about 43.2% of the overall pie. Bengaluru witnessed the highest share of large deals at 51%, followed by Delhi-NCR and Hyderabad.

Interestingly, small-sized occupiers (<25,000 sq. ft.) also continued to optimize their portfolios that resulted in a 27.7% share of the total office leases in H1 2021.

Technology occupiers continue to drive demand and large leases

The technology sector continued to be the primary demand driver for office real estate in India with a 51% share, higher than last year's 48% share during the same period. The Banking, Financial Services and Insurance (BFSI) occupiers' share declined to 12.3% compared to 15% in H1 2020 as they expanded cautiously. While Engineering and Manufacturing accounted for 10.1% share which was higher than last year's 8.0% share; the flexible workspace segment's share declined to 8.3% in H1 2021 from 11.3% in H1 2020.



Demand Split by Sectors

IT 51%
BFSI 12%
Engineering & Manufacturing 10%
Flexible Workspace 8%
Pharma & Healthcare 7%
Consulting 4%
Others 8%

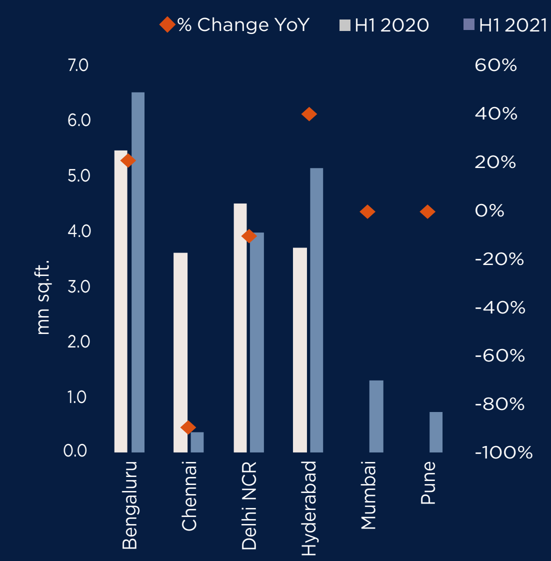
Technology occupiers continue to lead followed by BFSI. While the share of tech companies has increased, their combined share of approximately 63% is same as in H1 2020.

COMPLETIONS & VACANCY HIGHLIGHTS

New completions increased marginally by 4% YOY to about 18.0 mn sq. ft. Bengaluru has recorded the highest infusion of new supply constituting a 36% share, followed by Hyderabad and Delhi-NCR at 28% and 22% shares, respectively.

Interestingly most cities namely Bengaluru, Hyderabad, Mumbai and Pune saw an increase in new completions compared to the same period last year. This is on account of deferred supply getting completed, since construction activities were not hampered in partial lockdowns imposed by the State governments.

Overall India vacancy levels increased to 16.2% at the end of June, as supply addition exceeded the pace of leasing activity. Also, some occupiers optimised their real estate portfolios to an efficient space, thereby spiking the vacancy rates in select markets. It should be noted that this can be a temporary phenomena in markets which are in a state of flux.



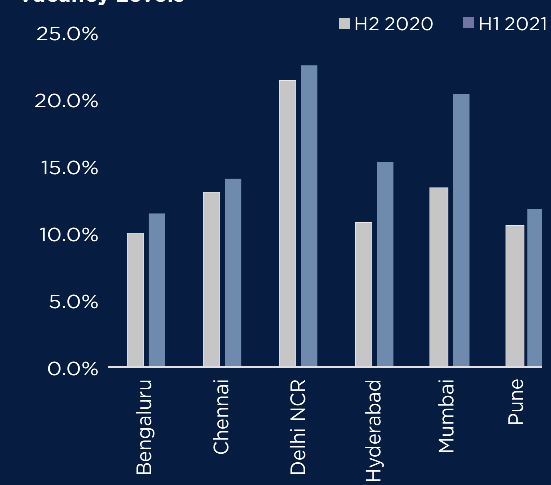
Source Savills India Research

Only two cities, namely Chennai and Delhi-NCR, saw reductions in new completions compared to H1 2020.

Rental trends

Most markets have seen a decline in average rental values compared to last year, to the tune of about 6% YOY. A few micro markets have seen a sharper decline as landlords exhibited flexibility to attract new clients, while prime locations with limited availabilities saw stable rents. NCR submarkets saw softening of rents among other markets as depicted in the table below.

Select pockets kept overall rents under pressure, thereby creating conditions favourable to occupiers.



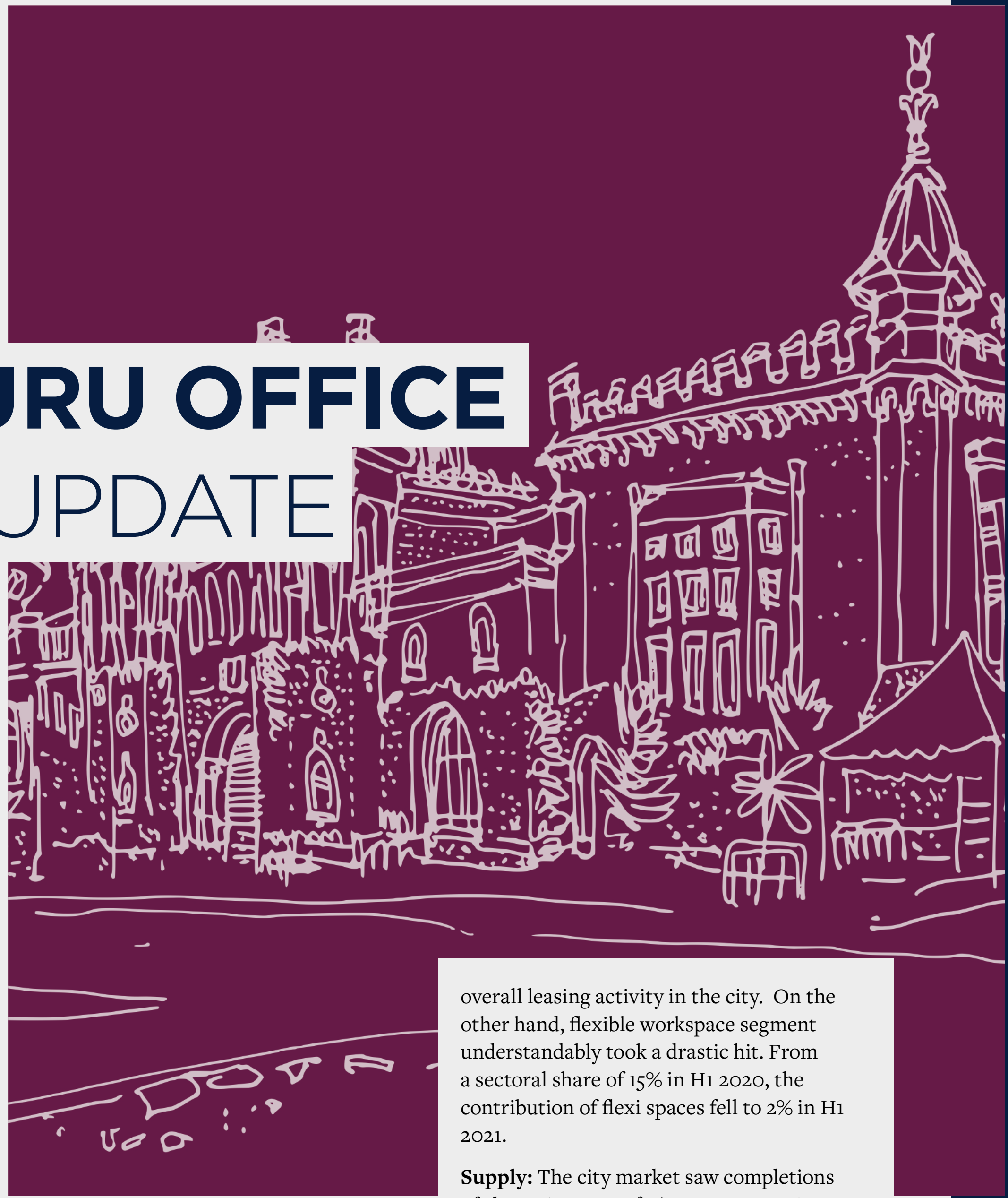
Source Savills India Research

Rental Range in H1 2021

in INR per sq. ft. pm	Low	High	Average YOY change*
Bengaluru	40	156	0%
Chennai	36	110	-1%
Hyderabad	35	70	-3%
Mumbai	45	400	-5%
NCR-Delhi	95	270	-6%
NCR-Gurugram	45	140	-3%
NCR-Noida	50	80	-9%
Pune	40	115	0%

*Averages do not reflect YOY changes within micro markets or select premium buildings in certain localities
Source Savills India Research

BENGALURU OFFICE MARKET UPDATE



BENGALURU'S KEY HIGHLIGHTS

Resilience despite second wave of infections: The city saw the lowest decline in demand for office space of about 16% YOY, despite the prevailing concern with respect to second and upcoming waves of COVID infections. This reflects the strong belief of most of the occupiers in holding existing space as well as taking up additional space as per demand. The remaining top five cities of the country registered a 38-63% decline in leasing activity in H1 2021 as compared to H1 2020.

Large sized deals continue to drive the city market: Historically, large-sized IT deals shaped the overall absorption levels in the city. The same continued in the first half of the ongoing year as well. Deals of 100,000 sq. ft. or more contributed to more than 60% of the demand activity in the city. The large-sized deals included not only expansions but also incremental real estate requirements.

KEY STATISTICS: H1 2021

New Supply **6.5** mn sq. ft.	YOY change **19%**
Gross Absorption **4.1** mn sq. ft.	YOY change **-16%**

LEASING AND COMPLETIONS

Absorption: With 4.1 mn sq. ft. of transactions, Bengaluru once again topped office market absorption in the fist half of 2021, registering approximately 37% of leasing activity in the country. The comparatively healthy demand was led by Outer Ring Road (ORR), which accounted for one-third of the city-wide share. ORR was followed by the secondary business district and eastern peripheral micro markets, primarily Whitefield and Brookefield. Both the micro markets contributed around 25% of the leasing activity in the city.

Sector Split: Although leasing activity in IT sector was impacted by "Work From Anywhere" phenomenon to a large extent, it still had a majority share in the demand pie of the city. Interestingly, companies from Engineering & Manufacturing sectors contributed notably (~13%) towards the overall leasing activity in the city. On the other hand, flexible workspace segment understandably took a drastic hit. From a sectoral share of 15% in H1 2020, the contribution of flexi spaces fell to 2% in H1 2021.

Supply: The city market saw completions of about 6.5 mn sq. ft. in H1 2021, a 19% YoY growth. This reflected higher confidence of the developers with respect to space take-up and less stringent lockdown during the second wave of infections as compared to nationwide lockdown of 2020. In terms of micro market-wise addition, supply mirrored the leasing activity to a large extent, with ORR and eastern peripheral areas witnessing a total of 71% of the city's new supply addition.

VACANCY RATE

City-wide vacancy increased to 11.5% in H1 2021 as compared to 10.0% at 2020 year end. The increased vacancy levels can be attributed to portfolio optimisation by occupiers.

RENTS

Rents remained rangebound in the first half of the year. Premium developments commanded higher rents compared to same period last year, but overall, the rentals remained stable.

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BENGALURU MARKET OUTLOOK

DEMAND

The overall leasing activity in 2021 is expected to be at similar levels as 2020 as occupiers remain optimistic. Hence, space take-up in the second half of the year is expected to accelerate and culminate into 7-8 mn sq. ft. of transactions.

SECTORS

The high leasing volumes of the city will continue to be driven by sectors such as Information Technology, Engineering, Manufacturing and Financial Services. Additionally, there will be some traction by the flexible space segment owing to flexibility, cost-effectiveness, accelerated technology adoption, out-of-box additional services and wellness factors.

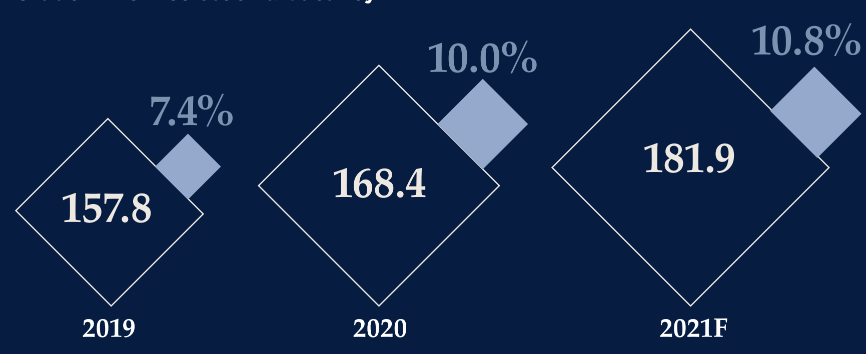
RENT & VACANCY

2021 is expected to be a stable year for average rentals across micro markets. Superior grade A buildings with negligible vacancy levels are likely to continue commanding premium rentals.

SUPPLY

We anticipate about 7-8 mn sq. ft. to get completed in the second half of the year. As a result, the overall stock of office space in the city is expected to exceed 180 mn sq. ft. by the end of 2021.

Grade - A Office Stock & Vacancy

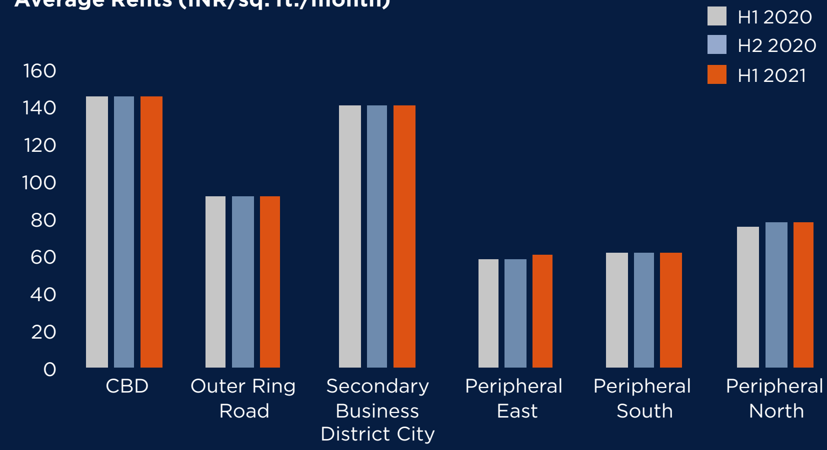


Source Savills India Research

Office Absorption (mn sq. ft.) in Bengaluru

Source Savills India Research

Average Rents (INR/sq. ft./month)



Source Savills India Research

MAJOR TRANSACTIONS H1 2021

Tenant	Micro market	Building	Transacted Area* (sq. ft.)
Harman International	Peripheral East	Salarpuria Knowledge Court	550,000
BYJU'S	ORR	Prestige Technology Park	275,000
Intel	ORR	Ecospace	226,000
Lam Research	SBD City	Bagmane Tech Park	219,000
Teva Pharmaceuticals	Peripheral North	Brigade Senate	176,000

BENGALURU MICRO MARKETS

Central Business District (CBD) - MG Road, Millers Road, Vittal Mallya Road, Residency Road
Outer Ring Road (ORR) - Zone1: Sarjapur to Marathahalli, Zone2: Marathahalli to KR Puram, Zone3: KR Puram to Hebbal
Secondary Business District (SBD) City - Indira Nagar, Old Airport Road, CV Raman Nagar, Koramangala, Jayanagar, Domlur, Bannerghatta Road, Rajaji Nagar, Malleswaram
Peripheral East - Whitefield
Peripheral South - Electronic City, Hosur Road, Mysore Road
Peripheral North - Bellary Road, Thanissandra Road, Tumkur Road, Hebbal to Yelahanka

*Approximate and indicative areas only

CHENNAI OFFICE MARKET UPDATE

CHENNAI'S KEY HIGHLIGHTS

Demand driven by small deal sizes: Unlike the preceding six months wherein large size deals of more than 100,000 sq. ft. dominated the leasing activity contributing to over 60% of the total office space demand, the first half of 2021 saw smaller deals upto 25,000 sq. ft. contributing 60%. Interestingly, transactions up to 25,000 sq. ft. were quite significant in the OMR locations (combined for Pre Toll and Post Toll) with a 32% share followed by the Central Business District (CBD) with a 31% share and Guindy at 20% of the total small deal transactions.

Deals ranging 25,000 - 99,999 sq. ft. contributed the remaining share of 40% in overall leasing activity. Majority of mid-sized deals were recorded in Guindy (39%) and MPR (25%).

Despite the ongoing pandemic, 566,000 sq. ft. was pre-committed by Technology and Engineering companies indicating strong business sentiments.

KEY STATISTICS: H1 2021

New Supply	YOY change
0.4 mn sq. ft.	**-90%**

Gross Absorption	YOY change
1.1 mn sq. ft.	**-48%**

LEASING AND COMPLETIONS

Absorption: Chennai witnessed leasing activity of about 1.1 mn sq. ft. in the first half of 2021 noting a 48% YOY decline. Majority of the leasing activity was concentrated in Secondary Business District (SBD) Guindy, which accounted for close to 28% of the absorption of the city, followed by CBD and OMR Pre Toll locations that equally contributed about 19% and MPR contributing around 16%.

Sector Split: Technology sector continued to contribute the majority share in the leasing activity at 45%. In addition, the BFSI occupiers were active too with a 20% share. Interestingly, the leasing activity by the healthcare occupiers (in absolute terms) continued to be consistent compared to the same period last year.

Supply: There is a huge decline in new completions as the city witnessed lockdown in the second quarter of the year. About 380,000 sq. ft. of new supply was recorded, which implies a 90% YOY decline. All the new completions were noted in Guindy consisting of IT & commercial developments.

VACANCY RATE

Overall vacancy of the city increased marginally and stood at 14% at the end of June. The increase in vacancy can be attributed to portfolio reassessment by several occupiers and slow pace of leasing. The first half of 2021 witnessed several relocations as the ongoing pandemic forced some of the occupiers to reconsider and re-evaluate their real estate requirements.

RENTS

Overall city rents declined marginally by 1% compared to the previous six-months' average. Notable decline of about 3-5% YOY was recorded in Pre Toll, MPR and GST locations.

CHENNAI MARKET OUTLOOK

DEMAND

We expect leasing activity to be subdued in 2021 compared to the previous year. The expected absorption is therefore approximately 3.5 mn sq. ft. for the year 2021. Economic growth and advancing vaccinations are likely to aid leasing momentum, despite an overall cautious approach.

SECTORS

The sectors such as Information Technology, Banking, Financial Services, Engineering and Design are expected to continue to constitute majority of office demand in the city. The flexible workspace segment is likely to see similar levels of leasing momentum but is not expected to gain notable share in overall leasing in 2021.

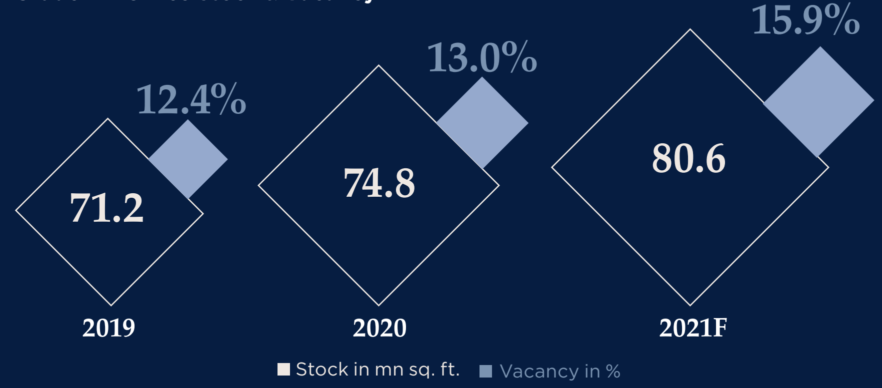
RENT & VACANCY

Rents in 2021 are likely to be stable over the next six months. Along with stability in rentals, terminations and space surrenders are likely to be relatively less in 2021, resulting in slight improvement in occupancy levels in select makets. However, overall vacancy levels are likely to increase owing to infusion of new supply.

SUPPLY

The second half of 2021 is expected to witness approximately 5.4 mn sq. ft. of new completions as construction activity resumes. This upcoming supply will be predominantly spread across MPR, GST & PTR locations.

Grade – A Office Stock & Vacancy

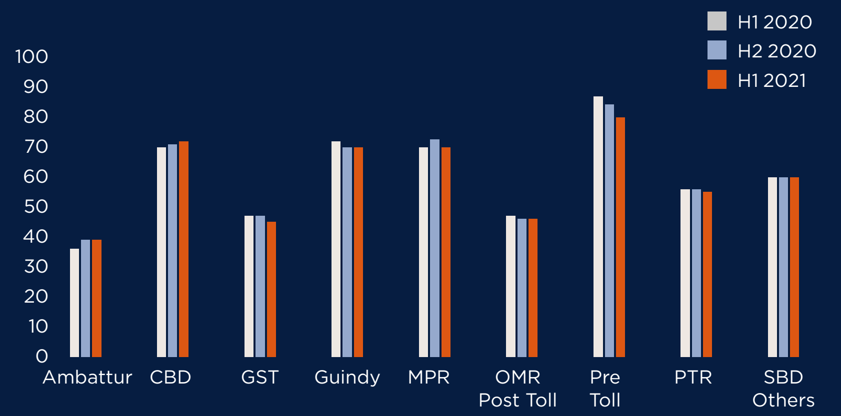


Source Savills India Research

Office Absorption (mn sq. ft.) in Chennai

Source Savills India Research

Average Rents (INR/sq. ft./month)



Source Savills India Research

MAJOR TRANSACTIONS H1 2021

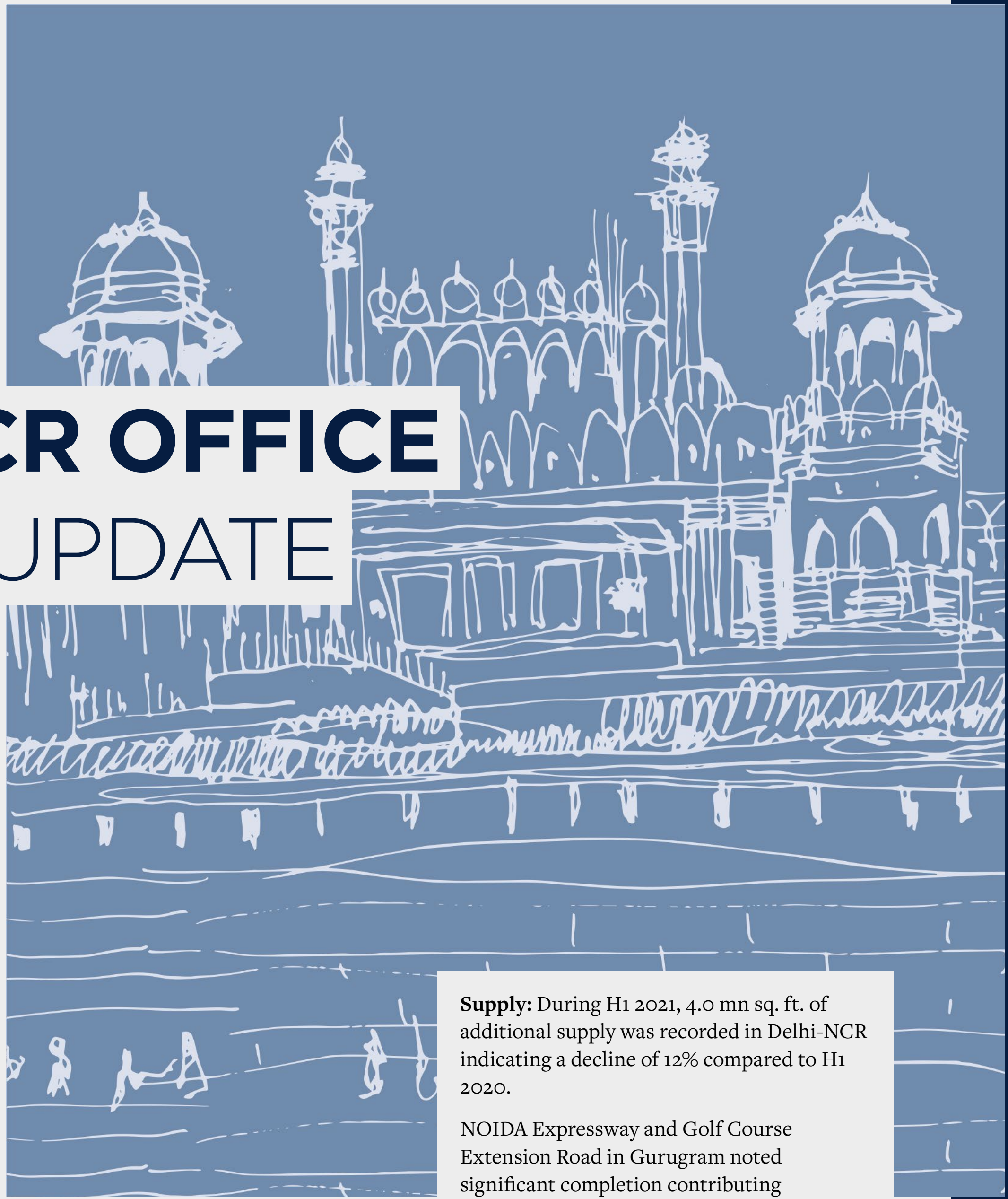
Tenant	Micro market	Building	Transacted Area* (sq. ft.)
CohnReznick	SBD Guindy	Olympia Tech Park	50,000
DISYS	SBD - OMR Pre Toll	TRIL	50,000
Technicolor	PDB - OMR Post Toll	ASV Suntech	40,200
SRM Technologies	SBD - OMR Pre Toll	RMZ Millenia	40,000
Zifo RnD Solutions	SBD - MPR	DLF Cybercity	39,700

CHENNAI MICRO MARKETS

CBD - Anna Salai, Nungambakkam, R K Salai, Egmore, T Nagar, Greams Road
PTR – PBD - Pallavaram Link Road
SBD - Guindy & MPR- Guindy Estate, Little Mount, Ekatuthangal, Mount Poonamallee Road, Manapakkam
SBD - Pre Toll OMR- Tharamani, Perungudi, MGR Salai
PBD - Post Toll OMR- Thoraipakkam, Shollinganallur, Navalur, Siruseri
Ambattur – PBD- Ambattur
SBD Others - Velachery, Arcot Road, Arumbakkam, Anna Nagar
GST Road – PBD- Perungalathur, Maraimalai Nagar

*Approximate and indicative areas only

DELHI-NCR OFFICE MARKET UPDATE



DELHI-NCR'S KEY HIGHLIGHTS

NOIDA Expressway and Golf Course Extension Road maintain their stronghold.

NOIDA Expressway & Golf Course Extension Road in Gurugram have been most active micro markets in the Delhi-NCR region. Of the total leasing by technology occupiers, about 52% of take-up was concentrated in NOIDA Expressway and Golf Course Extension Road micro market.

With the advantage of good infrastructure development as well as connectivity and relatively lower rents as compared to other micro markets, NOIDA Expressway and Golf Course Extension Road collectively had demand and supply share of approximately 40% and 90% respectively in H1 2021.

Strong Demand Base

Delhi-NCR's demand in H1 2021 was mainly driven by occupiers in the Technology and Engineering & Manufacturing sectors, which constituted 47% and 15% share, respectively. Consulting & Research occupiers were prominent too, with about 14% share.

However, in H1 2021 BFSI demand share dropped drastically to 7% from 19% compared to H1 2020. Flexible workspace remained bearish and constituted only 4%.

KEY STATISTICS: H1 2021

New Supply **4.0** mn sq. ft.	YOY change **-12%**
Gross Absorption **2.0** mn sq. ft.	YOY change **-38%**

LEASING AND COMPLETIONS

Absorption: The office market witnessed gross absorption of 2.0 mn sq. ft. in H1 2021, a decline of 38% YOY. Though the second wave did not lead to a complete lockdown, several leasing decisions were paused at this time. In comparison, Q2 2020 had witnessed some activity which was carried forward from 2019.

During H1 2021, NOIDA and Gurugram contributed almost equally to the leasing activity. NOIDA contributed 49% to the gross absorption while Gurugram had a 47% share. The micro markets namely NOIDA Expressway and DLF Cybercity saw notable activity with a contribution of 33% and 13% in overall leasing activity respectively during H1 2021.

Overall absorption in Delhi, however, remained muted contributing only 4% to the gross absorption in H1 2021.

Supply: During H1 2021, 4.0 mn sq. ft. of additional supply was recorded in Delhi-NCR indicating a decline of 12% compared to H1 2020.

NOIDA Expressway and Golf Course Extension Road in Gurugram noted significant completion contributing 90% of the total new supply in H1 2021. Interestingly, Golf Course Extension Road witnessed notable completions with 1.35 mn sq. ft. compared to 280,000 sq. ft. in H1 2020. Delhi also saw rise in new supply by 33% YOY at 350,000 sq. ft.

VACANCY RATE

The vacancy rate increased to 22.5% at the end of H1 2021 as the leasing momentum could not keep pace with new completions and several occupiers reviewed their real estate footprint.

RENTS

Average rental values in Delhi-NCR declined by approximately 3% YOY. Most landlords continued to be accommodative to the requests of occupiers and displayed flexibility in lease terms such as higher rent-free periods, reduced rental escalations and furnished deals to retain and acquire new clients.

DELHI-NCR MARKET OUTLOOK

DEMAND

Office leasing is likely to be at similar level as 2020, and therefore expected at approximately 4.5 mn sq. ft. for the year 2021. The demand in the second half will be driven by relocations to the tune of approximately 2.0 mn sq. ft. as occupiers will continue to adopt a cautious approach and focus on reassessing their real estate portfolio.

SECTORS

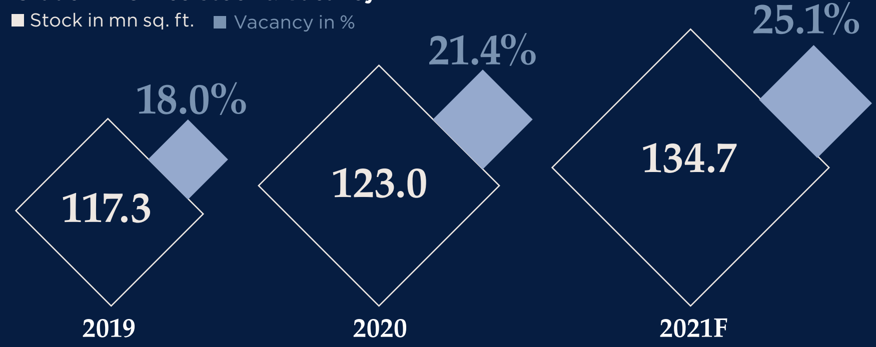
Technology, BFSI, Consulting and Manufacturing occupiers are likely to lead the demand in 2021. Several occupiers will continue with Hybrid workplace strategies in the coming months that will result in asset light portfolios, mostly for mid-sized companies.

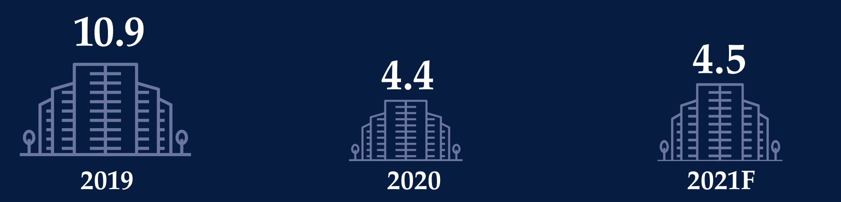
RENT & VACANCY

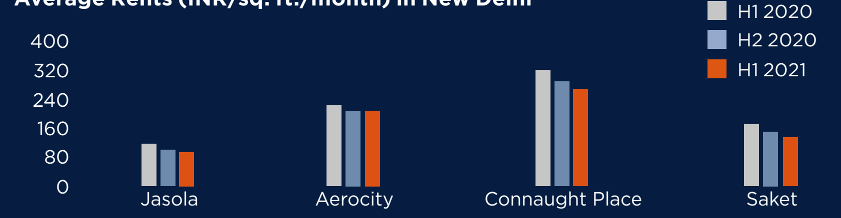
We expect rental values to remain stable for most micro markets within Gurugram, NOIDA & Delhi. However, rising vacancy levels are likely to exert downward pressure on rents in the second half of 2021.

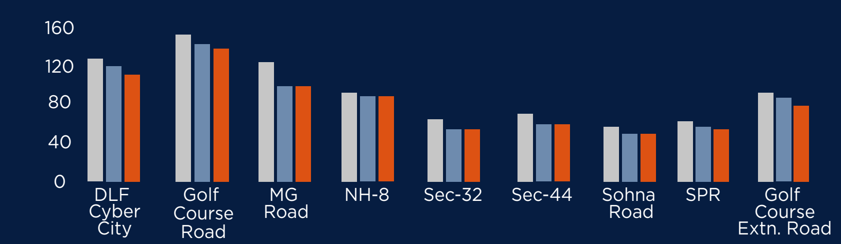
SUPPLY

Delhi-NCR has a strong pipeline of around 7.7 mn sq. ft. in H2 2021, of which over 50% is likely to be completed in NOIDA, and the remaining in Gurugram. However, we expect delays due to slower construction pace and actual supply maybe lower than this.









Source Savills India Research

MAJOR TRANSACTIONS H1 2021

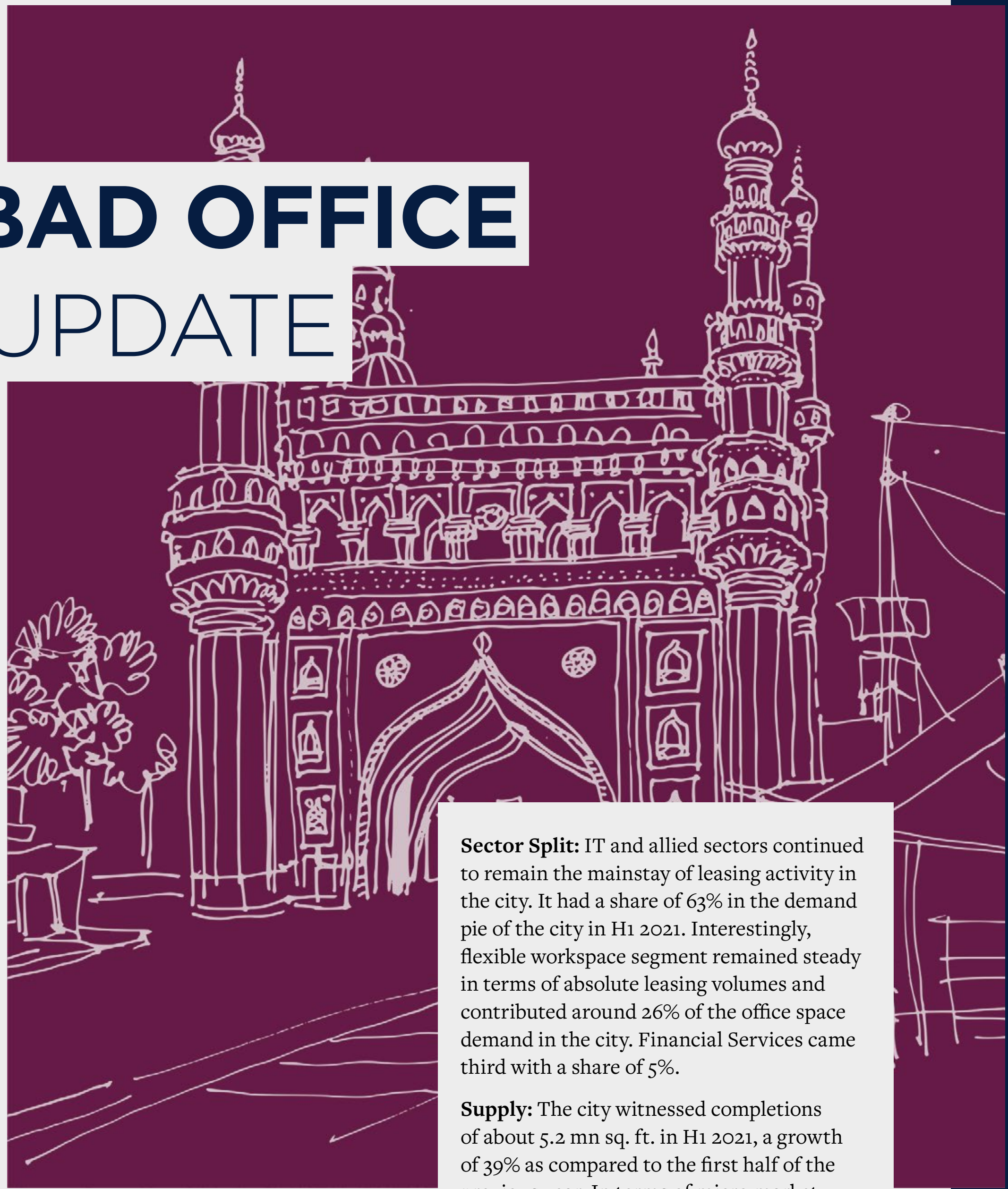
Tenant	Micro market	Building	Transacted Area* (sq. ft.)
Netmagic	NOIDA	Artha SEZ	400,000
Ernst & Young	NOIDA	Advant IT Park	150,000
Webhelp	Gurugram	DLF Centre Court	110,000
TaskUs	Gurugram	TRIL	100,000
Cyril Amarchand Mangaldas	NOIDA	Max Tower	80,000

DELHI-NCR MICRO MARKETS

Delhi – Jasola, Aerocity, Connaught Place, Saket, Nehru Place.
Gurugram - DLF Cyber City, Golf Course Road, MG Road, NH-8, Sector-32, Sector-44, Sohna Road, SPR, Golf Course Extn. Road, Udyog Vihar.
Noida - Sector 62, Noida Expressway, Sector 16, 16A/B and 18.

*Approximate and indicative areas only

HYDERABAD OFFICE MARKET UPDATE



HYDERABAD'S KEY HIGHLIGHTS

Steady interest in shared spaces: Interestingly and contrary to popular belief, the performance of flexible workspace segment remained steady in H1 2021. The sector recorded almost 0.4 mn sq. ft. of transactions in the first half of the year and is poised to improve compared to the full year transaction activity registered in 2020. A couple of marquee deals, innovative product as well as price offerings by operators kept the occupier interest in flexible spaces buoyant. The flexible workspace operators rented out more than 4,000 seats across the city with prices ranging from INR 4,000 to 20,000 per seat on a monthly basis.

Rising vacancy may put pressure on rents: Vacancy levels in select micro markets have witnessed an upward movement for quite sometime now. As pandemic related exits and slow space take-up continued during H1 2021, the vacancy levels increased from 4.5% in 2019 to current levels of 15.3%. Planned developments are further expected to push the vacancy levels upwards, which will lead to pressure on rents. We expect the vacancy levels across the city to touch 20% by the end of 2021.

KEY STATISTICS: H1 2021

New Supply	YOY change
5.2 mn sq. ft.	**39%**

Gross Absorption	YOY change
1.4 mn sq. ft.	**-48%**

LEASING AND COMPLETIONS

Absorption: The sombre leasing activity of 2020 has continued in the first half of the ongoing year as well. Around 1.4 mn sq. ft. of transactions took place in H1 2021, with almost the entirety taking place in first quarter and negligible deals in the second quarter of the year. Interestingly the top 5 deals accounted for more than 60% of the leasing volume indicating that large sized deals (100,000 sq. ft. or more) drove the city market in the ongoing recovery phase.

Overall demand in H1 2021 witnessed a decline of 48% as compared to the first half of 2020. An overwhelming 90% of leasing activity was concentrated in Secondary Business District I (SBD-I), which primarily consists of HITEC City, Madhapur, Kondapur and Raidurg.

Sector Split: IT and allied sectors continued to remain the mainstay of leasing activity in the city. It had a share of 63% in the demand pie of the city in H1 2021. Interestingly, flexible workspace segment remained steady in terms of absolute leasing volumes and contributed around 26% of the office space demand in the city. Financial Services came third with a share of 5%.

Supply: The city witnessed completions of about 5.2 mn sq. ft. in H1 2021, a growth of 39% as compared to the first half of the previous year. In terms of micro market wise addition, incremental supply was concentrated in the Secondary Business Districts of the city, with SBD-II and SBD-I having a share of approximately 67% and 33% respectively.

VACANCY RATE

Hyderabad has remained a market with excess supply for the past few quarters. H1 2021 was no different. Incremental supply was more than 3.5 times the leasing activity in the city, resulting in significant increase of vacancy levels, i.e., 15.3% in H1 2021 as compared to 10.8% in 2020 year-end.

RENTS

Pandemic related financial pressure on occupiers coupled with over supply in the market led to a noticeable softening in average rentals across micro markets. The markets of SBD-I and SBD-II have witnessed a drop in average rentals of about 3-7% in H1 2021 as compared to the average rents in the first half of 2020.

HYDERABAD MARKET OUTLOOK

DEMAND

Although H1 2021 witnessed low leasing activity, Hyderabad still managed to take the joint third place in terms of overall absorption in the country. Also, the office leasing atmosphere seems to be on the rise as the economy gradually opens up post the second wave of infections. 2021 is likely to record approximately 5.0 mn sq. ft. of transactions across segments. Pre-commitments to the tune of 1.0 mn sq. ft. will be critical in achieving similar leasing levels as compared to 2020.

SECTORS

IT and Healthcare sectors are expected to drive the leasing activity of the city in 2021. Flexible spaces are likely to garner significant occupier affinity as well. The sector is expected to contribute around 20% of the leasing activity in 2021.

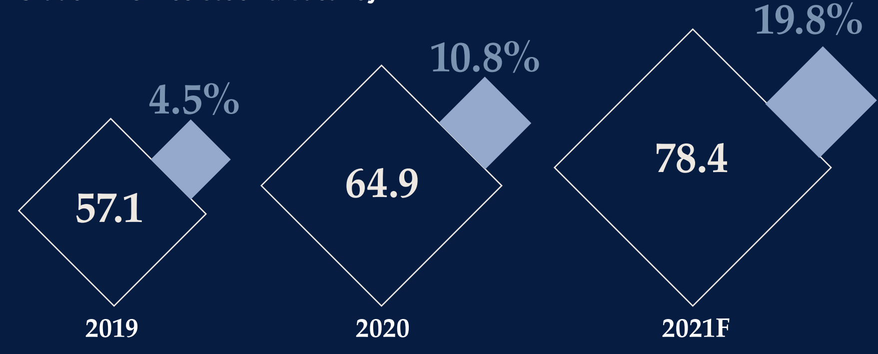
RENT & VACANCY

Rentals are likely to remain under pressure for the second half of the year as well. Price correction is likely to persist across major micro markets as demand-supply mismatch continues. Rent free periods and discounts will remain key negotiation points between occupiers and developers.

SUPPLY

Hyderabad has a substantial pipeline of under-construction projects. We estimate a supply addition of 8.4 mn sq. ft. in the second half of 2021 itself, resulting in increase in vacancy levels in 2021 as well. A major portion of incremental supply is expected to be in SBD-II which primarily consists of Gachibowli, Nanakramguda, Financial District and Manikonda. The overall stock of commercial office space in the city is expected to reach close to 80 mn sq. ft. by the end of 2021.

Grade – A Office Stock & Vacancy

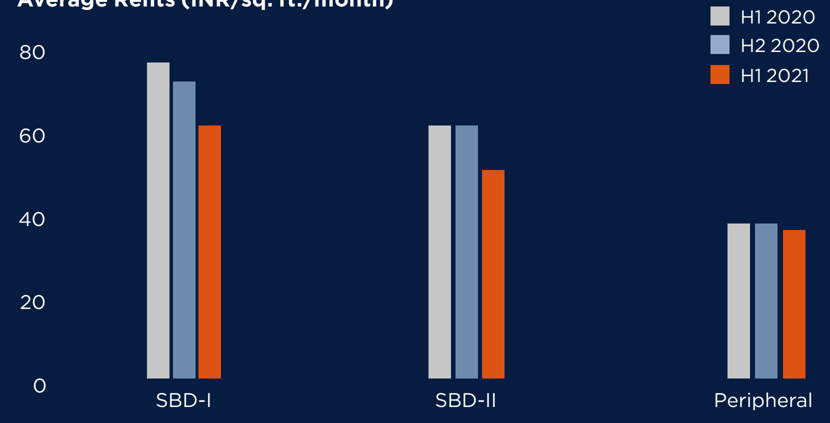


Source Savills India Research

Office Absorption (mn sq. ft.) in Hyderabad

Source Savills India Research

Average Rents (INR/sq. ft./month)



Source Savills India Research

MAJOR TRANSACTIONS H1 2021

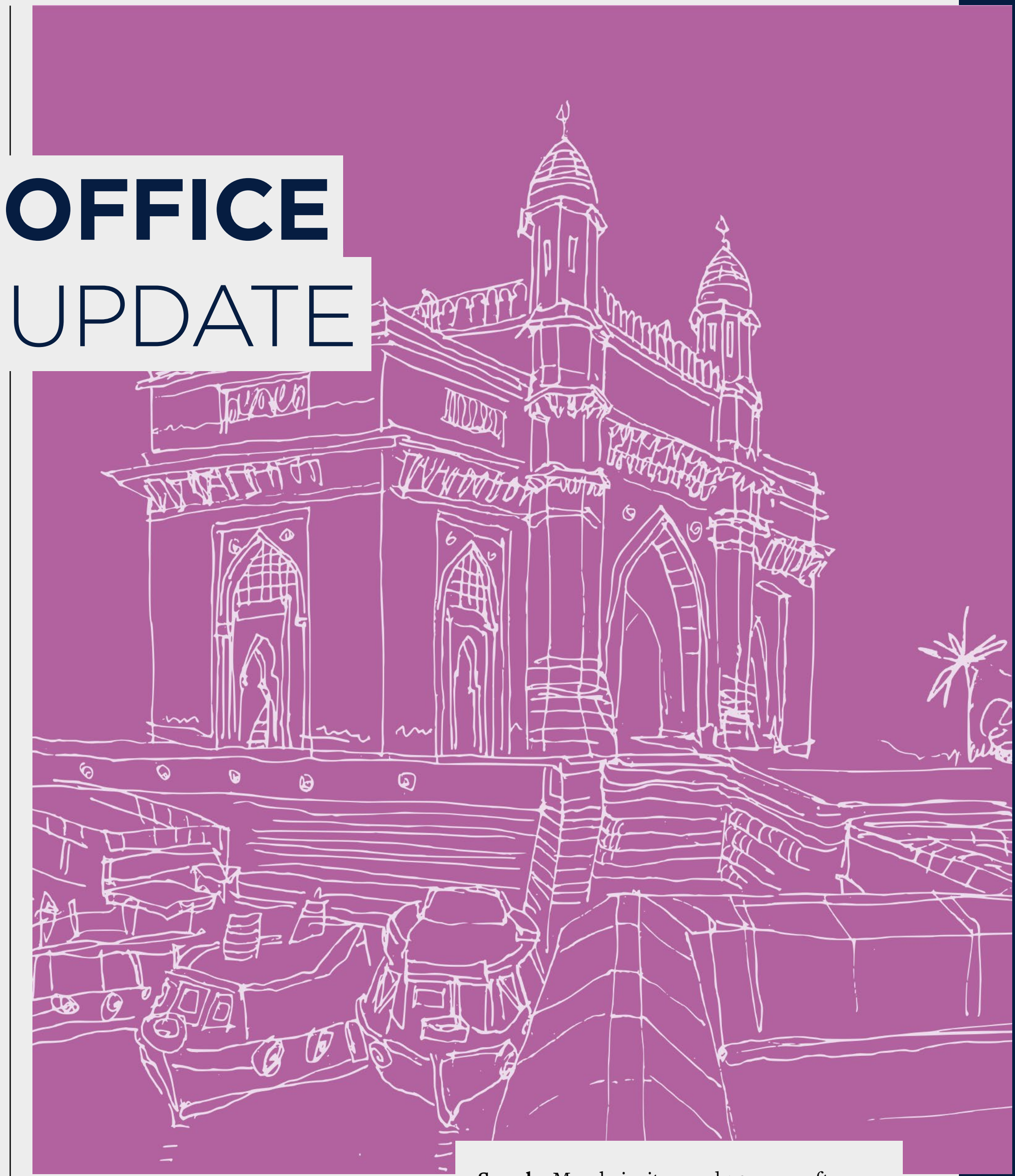
Tenant	Micro market	Building	Transacted Area* (sq. ft.)
Legato Health Technologies	SBD I	Avance Business Hub 09	298,000
Skootr	SBD II	My Home Twitza	173,000
Zenoti	SBD I	RMZ Futura - B	138,000
People Tech	SBD I	RMZ Futura - A	130,000
Skootr	SBD I	RMZ Futura - C	120,000

HYDERABAD MICRO MARKETS

Secondary Business District I (SBD-I) - HITEC City, Madhapur, Kondapur, Raidurg
Secondary Business District II (SBD II) - Gachibowli, Nanakramguda, Kokapet
Peripheral East - Pocharam, Uppal

*Approximate and indicative areas only

MUMBAI OFFICE MARKET UPDATE



MUMBAI'S KEY HIGHLIGHTS

Leasing mainly driven by mid-sized deals, BFSI occupiers preferred large-sized deals: Deals up to 50,000 sq. ft. accounted for 60% share in Grade A gross absorption during H1 2021. Larger deals of more than 100,000 sq. ft., that accounted for about 33% share, were mainly signed by BFSI occupiers in the micro markets of Eastern Suburbs and Navi Mumbai. In the overall absorption, BFSI segment concluded a considerable 24 deals with an average size of 31,000 sq. ft., which is 15% higher than that recorded during H1 2020.

Significant lease renewals: Due to rising cases of COVID-19 infections in the city, leasing activity remained subdued. While fresh leases remained low, term renewals by occupiers that were approaching lease expirations, or those that were completing their lock-in periods, maintained the momentum. In addition to fresh leases of 1.4 mn sq. ft., the city witnessed renewals amounting to 2.0 mn sq. ft. during H1 2021. The renewals were noticed majorly in the micro markets of Eastern Suburbs and Navi Mumbai, reflecting sustained confidence in the city especially by Technology and Engineering & Manufacturing occupiers.

KEY STATISTICS: H1 2021

New Supply **1.3** mn sq. ft.	YOY change* **- -**
Gross Absorption **1.4** mn sq. ft.	YOY change **-39%**

*No noticeable Grade A supply infusion took place during H1 2020

LEASING AND COMPLETIONS

Absorption: Mumbai recorded Grade A gross absorption of 1.4 mn sq. ft. during H1 2021, registering a decline of 39% over that recorded during H1 2020. A majority of Grade A gross absorption was concentrated in four micro markets, namely, Eastern Suburbs (30%), Navi Mumbai (24%), Western Suburbs I (16%) and Western Suburbs II (15%).

Sector Split: Banking, Financial Services and Insurance (BFSI) segment continued to be the demand driver during H1 2021, garnering a 54% share in Grade A gross absorption, followed by Technology occupiers accounting for 15% share. Although flexible workspace operators registered a 48% YOY decline in leasing activity, they still stood as the third largest contributor to Grade A gross absorption during H1 2021 garnering a 12% share.

Supply: Mumbai witnessed 1.3 mn sq. ft. of Grade A supply infusion during H1 2021. All the new supply was in the form of IT developments in the micro market of Navi Mumbai.

VACANCY RATE

Amidst muted gross absorption and limited supply infusion, overall vacancy levels in the city rose to 20.4% at the end of June 2021. The increase in vacancy can be attributed to considerable relocations by occupiers to a smaller office setup as well as surrender of spaces amidst tough market conditions.

RENTS

The decline in leasing activity pushed the rental values southwards by 5% in H1 2021 compared to those in H1 2020. While most micro markets witnessed a decline in rents, BKC Periphery and Eastern Suburbs witnessed strengthening of rents on account of institutional landlords commanding rents higher than existing market average.

MUMBAI MARKET OUTLOOK

DEMAND

As the city progresses with vaccinations to arrest the second wave, we expect occupier confidence to build progressively, which may result in recovery by the end of 2021. Driven by pre-commitments of 1.2 mn sq. ft. that are likely to get absorbed during H2 2021, we expect 2021 to clock in Grade A gross absorption of about 3.9 mn sq. ft., which will be 34% higher than that recorded in 2020.

SECTORS

We expect BFSI and Technology occupiers to drive the office leasing demand in H2 2021. Further, we expect to witness increased demand from data centre operators, especially in the micro market of Navi Mumbai.

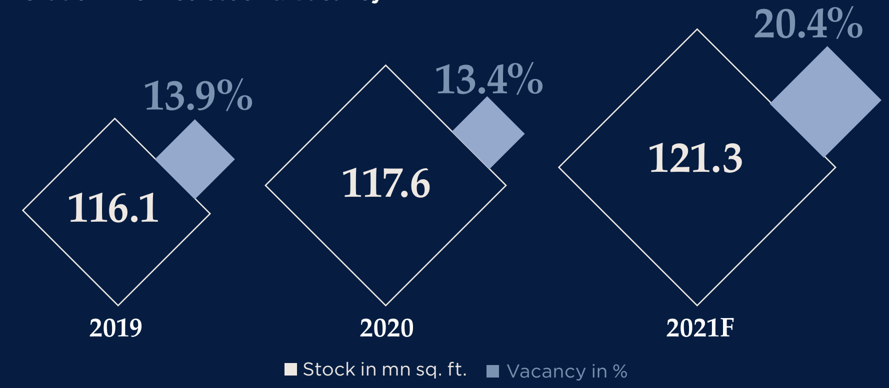
RENT & VACANCY

Grade A rental values are likely to come under pressure in H2 2021. Amidst significant supply infusion that is likely to match the leasing activity, vacancy rate is likely to remain at similar level of around 20% at the end of December 2021.

SUPPLY

New supply of 2.4 mn sq. ft. is scheduled to be completed during H2 2021. This planned supply constitutes IT and non IT developments to be concentrated in the micro markets of Western Suburbs II (48%) and Navi Mumbai (41%).

Grade – A Office Stock & Vacancy

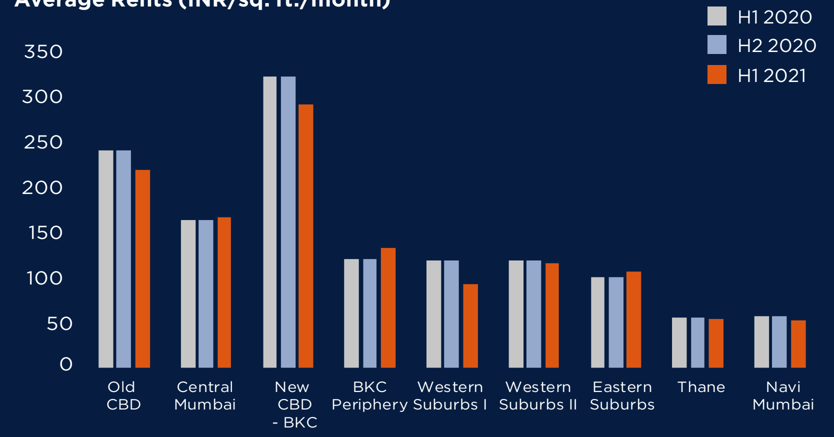


Source Savills India Research

Office Absorption (mn sq. ft.) in Mumbai

Source Savills India Research

Average Rents (INR/sq. ft./month)



Source Savills India Research

MAJOR TRANSACTIONS H1 2021

Tenant	Micro market	Building	Transacted Area* (sq. ft.)
JP Morgan Services (India) Private Limited	Eastern Suburbs	L&T Business Park - Tower A (Prima Bay)	324,000
Max Life Insurance Company Limited	Navi Mumbai	L&T Seawoods Grand Central	129,400
Convergys India Services Private Limited	Western Suburbs II	Mindspace Paradigm A	50,100
Smartworks Coworking Spaces Private Limited	Western Suburbs II	Mindspace Paradigm A	50,000
E-Cipher Technologies LLP	Navi Mumbai	Rupa Renaissance	49,000

MUMBAI MICRO MARKETS

Old CBD - Nariman Point, Cuffe Parade, Ballard Estate, Fort, Churchgate, Colaba
Central Mumbai - Mahalaxmi, Worli, Lower Parel, Prabhadevi, Dadar West, Dadar East, Parel
New CBD BKC - G Block and Other than G Block
BKC Periphery - Bandra E, Bandra W, Kalina, Vakola, Khar E, Khar W, Kurla, Santacruz E, Santacruz W
Western Suburbs I - Vile Parle E, Vile Parle W, Andheri E, Andheri W, Jogeshwari E Jogeshwari W
Western Suburbs II - Goregaon E, Goregaon W, Malad E, Malad W, Kandivali E, Kandivali W, Borivali E, Borivali W
Eastern Suburbs - Sion, Wadala, Chembur, Ghatkopar, Mulund, Kanjurmarg, Powai, Vikhroli
Thane – Thane
Navi Mumbai - Airoli, Vashi, CBD Belapur, Mahape, Turbhe, Ghansoli, Thane-Belapur Road

*Approximate and indicative areas only

PUNE OFFICE MARKET UPDATE

PUNE'S KEY HIGHLIGHTS

Flexible workspace operators expanding significantly: After a year of remote-working since the pandemic began, the trend of 'Work From Home' and 'Work From Anywhere' has gained significance. The results of a survey conducted by Savills India amongst occupiers in Pune in March 2021 suggested that almost half (47%) of them foresee more than 40% of their workforce to be working from a non-office location over the next 12-24 months. Further, occupiers are also looking at workplace options that offer them the flexibility to expand or contract. Hence, to tap the opportunity, flexible workspace operators implemented their expansion plans garnering a considerable 18% share in the overall Grade A leasing in the city during H1 2021. For reference, this was 7x times the absorption recorded during H1 2020, when the segment accounted for 1% share in overall leasing.

Significant pre-commitments: In the absence of limited quality supply in completed buildings, occupiers requiring large spaces pre-committed spaces to meet their expansion needs. During H1 2021, the city witnessed 1.1 mn sq. ft. of pre-commitments driven by Technology occupiers and flexible workspace operators mainly in the micro markets of CBD and SBD West.

KEY STATISTICS: H1 2021

New Supply	YOY change*
0.7 mn sq. ft.	**- -**

Gross Absorption	YOY change
0.9 mn sq. ft.	**-63%**

*No noticeable Grade A supply infusion took place during H1 2020

LEASING AND COMPLETIONS

Absorption: Pune witnessed Grade A gross absorption of 0.9 mn sq.ft. during H1 2021, registering a decline of 63% over H1 2020. Majority (56%) of Grade A gross absorption was concentrated in the micro market of SBD East, followed by 23% in the CBD, 20% in SBD West and the remaining in PBD West.

Sector Split: During H1 2021, technology occupiers continued to dominate the leasing activity garnering a 68% share in Grade A gross absorption, followed by flexible workspace operators accounting for an 18% share.

Supply: Pune witnessed Grade A supply infusion of 0.7 mn sq. ft. during H1 2021. All the new supply was concentrated in the micro market of SBD West, with a 40:60 split between IT and non IT developments. While partial supply is deferred to later quarters due to slow construction as a result of the pandemic-induced lockdown, developers are also adopting a 'wait and watch' approach and are awaiting occupiers' commitments to enable expedition of construction of the buildings in advanced stages of completion.

VACANCY RATE

Amidst muted gross absorption and supply infusion, overall vacancy levels in the city rose to 11.8% at the end of June 2021. The increase in vacancy can be attributed to considerable relocations by occupiers as well as surrender of spaces amidst tough market conditions.

RENTS

City-wide Grade A quoted rental values remained stable at INR 74/sq. ft./month at the end of June 2021. However, select developers offered increased flexibility leading to lower effective rents to attract as well as retain tenants.

India Market Watch - Office – H1 2021

PUNE MARKET OUTLOOK

DEMAND

On the back of successful vaccine administration programme, we expect office market to show signs of recovery during the second half of 2021. Driven by pre-commitments of 1.5 mn sq. ft. that are likely to get absorbed during H2 2021, we expect Grade A gross absorption to triple from H1 2021. 2021 is expected to conclude with an overall demand quantum equivalent to that recorded in 2020.

SECTORS

We expect continued interest from Technology occupiers as well as flexible workspace operators and Engineering & Manufacturing occupiers to drive office leasing demand during H2 2021. Suburban micro markets of East and West as well as the CBD are likely to attract occupier attention due to expected infusion of quality supply offering large contiguous spaces.

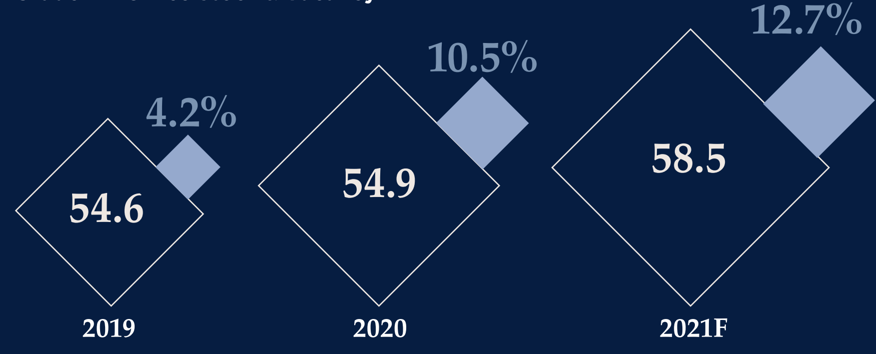
RENT & VACANCY

Grade A quoted rental values are likely to remain stable across all micro markets in 2021. Amidst significant supply infusion and recovery in leasing activity, we expect the vacancy rate to hover around 11%-13% at the end of December 2021.

SUPPLY

New supply of 2.9 mn sq. ft. is scheduled to be completed during H2 2021. This planned supply will likely be IT developments concentrated in the micro markets of SBD West (77%) and SBD East (23%).

Grade – A Office Stock & Vacancy

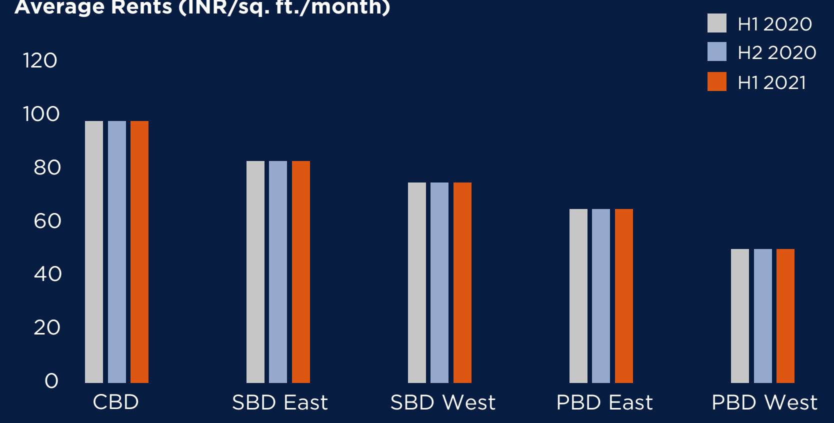


Source Savills India Research
Note: The stock basket for 2020 has been modified to reflect Grade A buildings.

Office Absorption (mn sq. ft.) in Pune

Source Savills India Research

Average Rents (INR/sq. ft./month)



Source Savills India Research

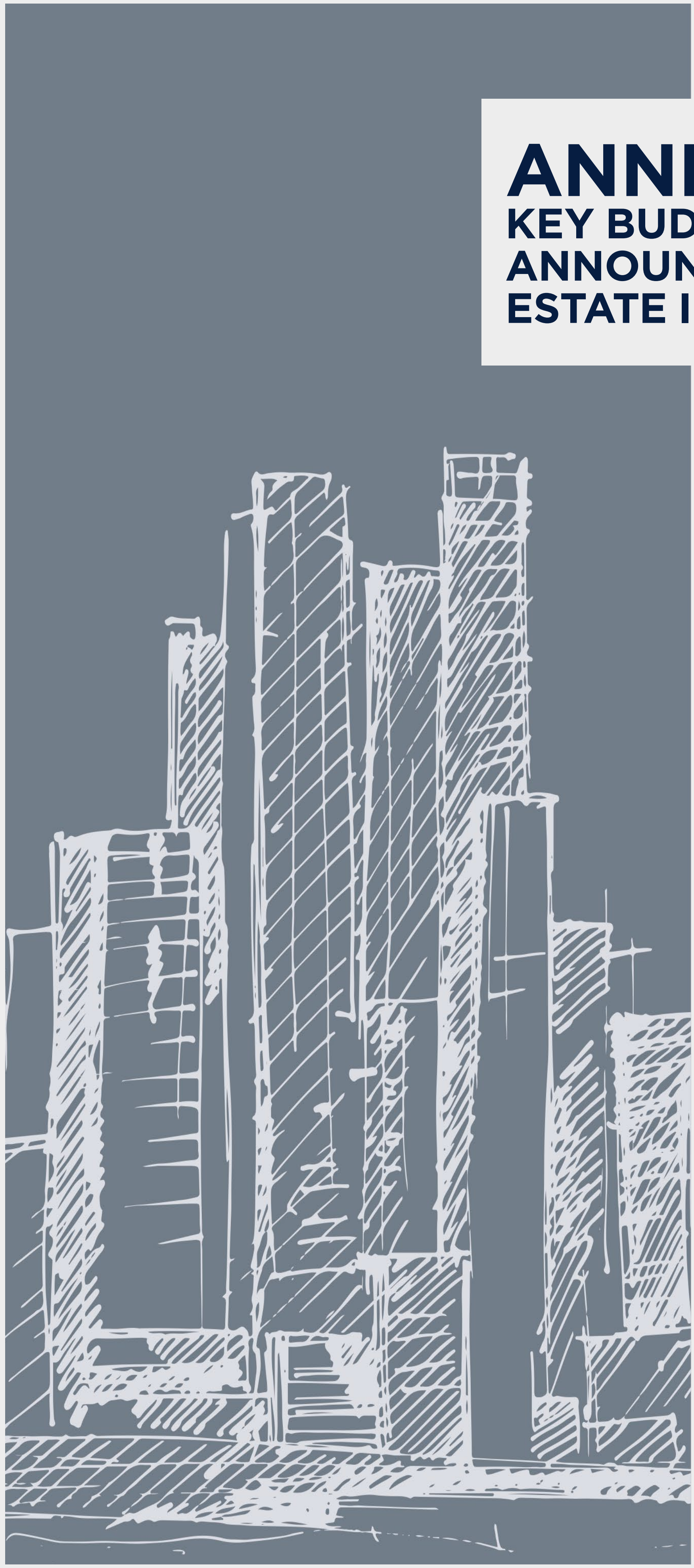
MAJOR TRANSACTIONS H1 2021

Tenant	Micro market	Building	Transacted Area* (sq. ft.)
ADP	SBD East	Trion IT Park	250,000
Synechron	SBD East	EON Phase II	58,000
Workday	CBD	Commerzone	52,000
Red Bricks	CBD	Commerzone	52,000
Telstra	SBD West	Quadron Business Park	50,900

PUNE MICRO MARKETS

CBD - Laxmi Road, Camp, Bund Garden, Boat Club, Koregaon Park, Dhole Patil Road, Pune Station, Shivaji Nagar, FC Road, JM Road, Wakdewadi, SB Road, Model Colony, Ganeshkhind Road, Kalyani Nagar, Yerwada
SBD East - Kharadi, Mundhwa, Nagar Road, Viman Nagar, Hadapsar, Kondhwa
SBD West - Aundh, Baner, Balewadi, Pashan, Kothrud, Karve Nagar, Khadki, Paud Road
PBD East - Phursungi, Wagholi, Charoli, Solapur Road, Saswad Road, Katraj
PBD West - Hinjewadi, Wakad, Pimpri, Bhosari, Chinchwad, Bavdhan, Mulshi, Talawade, Tathawade, Nanded City, Pimple Saudagar

*Approximate and indicative areas only



ANNEXURE:
KEY BUDGETARY ANNOUNCEMENTS AND REAL ESTATE IMPLICATIONS

01 PLI schemes of INR 2 Tn

- Major step for making India a hub for manufacturing and exports
- **Key sectors:** Pharma, Auto, Textiles, Electronics, Telecom and Food products
- **Pharma one of the favourites:** Local advanced pharmaceutical ingredient manufacturers already received PLI approvals
- Sector specific parks to be set up as well

Sector Impact: Manufacturing & Warehousing

04 Disinvestment of land and monetisation of non core PSU assets

- Model Tenancy Act approved to create inclusive rental housing market
- Stake sales of PSUs including banks and insurance
- SPVs to monetise land owned by PSUs
- Crucial land availability for housing sector
- Favourable for Model-1 of ARHC scheme

Sector Impact: Affordable Housing

02 Professionally managed Development Financial Institution; Debt route for REITs

- Better monetisation of real estate assets
- Expectation of greater participation by institutional investors

Sector Impact: Infra sector including Manufacturing, Logistics, and Warehousing

03 Infra Push: 35% allocation increase

- Proposed building of 8,500 kms of National Highways by March 2022
- Additional 11,000 kms by March 2024

Sector Impact: New RE development corridors Industrial & Logistics push

05 Affordable housing focus and tax holiday extensions

- Tax holiday extension and interest benefits on affordable housing home loans
- Boost investor confidence in recently launched ARHC scheme

Sector Impact: Affordable Housing

06 Speeding up stressed asset resolution

- New bad loan bank to be set up
- Faster revival or disposal of stuck projects in RE sector

Sector Impact: Residential & Urban Development

APPENDIX

Glossary

Atma Nirbhar Bharat Scheme
Atma Nirbhar Bharat schemes are COVID-19 specific relief packages (worth approximately INR 29.87 trillion) announced in 2020 by the Government of India, targeted at various sectors of the economy.

Model Tenancy Act, 2021
Model Tenancy Act, 2021 aims to create an effective regulatory ecosystem in India to govern landlord-tenant relationship benefiting the urban middle class, working professionals, students and floating population.

Affordable Rental Housing Complexes (ARHCs) Scheme
It provides the guidelines for affordable rental accommodation targeted at migrant workers & urban poor. Under the scheme, existing vacant government-funded housing complexes across major cities will be converted into ARHCs and offered to concessionaires for 25 years to rent out the units to urban poor and migrant workers. The government will incentivize private and public entities to develop such housing complexes on their own available vacant land also.

Production Linked Incentives (PLI) Scheme
PLI Scheme aims to provide incentives to companies on incremental sales from products manufactured in domestic units to boost domestic manufacturing. The scheme also aims to invite foreign companies to set shops in India.

Integrated Goods & Service Tax (IGST)
Under GST, IGST is a tax levied on all Inter-State supplies of goods and/or services, governed by the IGST Act and tax will be shared between the Central and State Government.

Abbreviations & Acronyms

BFSI - Banking, Financial Services and Insurance
bn. - Billion
GDP - Gross Domestic Product
InvITs - Infrastructure Investment Trust
INR - Indian Rupee
INR per sq. ft. pm - INR per square foot per month
IT - Information Technology
IMF - International Monetary Fund
mn. - Million
MPC - Monetary Policy Committee
MoSPI - Ministry of Statistics & Programme Implementation
RBI - Reserve Bank of India
REIT - Real Estate Investment Trust
sq. ft. - Square Feet

Key Definitions

Term	Definition
Stock/Inventory	• Includes all constructed / completed buildings listings • This includes existing buildings plus new completions
Supply	• New office buildings that have received their certificates of occupancy within the period • Buildings that have their structure ready and have occupier/s operating out of it or fit-outs are being carried out
Gross absorption/Gross Leasing/ Leasing activity	• Sum of all leases including expansion, relocation and consolidations • Does not include full-term renewals which are after the nine-year lease expiry • Includes leasing of entire tower by an occupier within an IT park/development
Average Rental Values/ Rents	• A fair estimation of asking rent and deal closure rent
Vacancy	• Total vacant space as a percentage of Inventory/Stock

Term	International Definition
Crore	• Ten Million (10,000,000)
Lakh	• One Hundred Thousand (100,000)

Savills

Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and 39,000 associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world.

Savills India

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Savills India provides services across office leasing, project management, capital markets, valuations, research, consulting, industrial and logistics, and residential services. Starting in India in 2016, the company employs over 350 professionals.

Research

Arvind Nandan
Managing Director
Research & Consulting
arvind.nandan@savills.in

Megha Maan
Director
Research & Consulting
megha.maan@savills.in

Suryaneel Das
Assistant General Manager
Research & Consulting
suryaneel.das@savills.in

Diksha Gulati
Senior Manager
Research & Consulting
diksha.gulati@savills.in

Abhinav Pal
Manager
Research & Consulting
abhinav.pal@savills.in

Central Management

Anurag Mathur
Chief Executive Officer
Savills India
anurag.mathur@savills.in

Kaustuv Roy
Managing Director
Business Solutions
kaustuv.roy@savills.in

Naveen Nandwani
Managing Director
Commercial Advisory & Transactions
naveen.nandwani@savills.in

Media Queries

Nitin Bahl
Director
Marketing, Sales and Strategy
nitin.bahl@savills.in

Regional Management

Bhavin Thakker
Managing Director - Mumbai
Head - Cross Border Tenant Advisory
bthakker@savills.in

Sarita Hunt
Managing Director
Bengaluru
sarita.hunt@savills.in

Shweta Sawhney
Managing Director
Delhi-NCR
shweta.sawhney@savills.in

Praveen Apte
Managing Director
Pune
praveen.apte@savills.in

Anup Vasanth
Managing Director
Chennai
anup.vasanth@savills.in

Sesha Sai
Managing Director
Hyderabad
sesha.sai@savills.in

Gurugram

3-A, Second Floor, Building 9B
DLF Cyber City, Phase 3
Sector 24, Gurugram 122002
Haryana, India

Mumbai

403, Tower B, Level 4, The Capital
Street 3, G Block, Bandra Kurla Complex
Bandra East, Mumbai 400 051
Maharashtra, India

Bengaluru

15th Floor, SKAV SEETHALAKSHMI
Corporation No.21, Kasturba Road
Bengaluru 560001
Karnataka, India

Chennai

Savills, 5th Floor, North Wing
Harmony Square, New No. 48 & 50
Praksam Street, T. Nagar
Chennai 600017
Tamil Nadu, India

Pune

WeWork Futura
Magarpatta Road
Pune 411 028
Maharashtra, India

Hyderabad

Office No. 02A114, WeWork
Krishe Emerald, Hitech City
Hyderabad 500081
Telangana, India

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