

# INDIA REAL ESTATE MARKET UPDATE Q3 2019 - OFFICE

## Office real estate defying economic slowdown

The global economic slowdown accompanied by India's slower GDP growth of 5% in Q1 2019 has been dampening market sentiments. In the midst of this otherwise gloomy economic climate, the office market across the top seven cities in India continued to grow. From the launch of the country's first real estate investment trust (REIT) to a historic high in office space leasing, this year has been remarkable by all standards. Investors, domestic and foreign alike have been chasing investment ready commercial assets and development opportunities in top cities – the Blackstone Group purchased One BKC for INR 2,500 crore, Ascendas bought BlueRidge phase III in Hinjewadi, Pune for INR 981 crore while Sumitomo Corporation bought a 3 acre land plot in BKC to develop office space for INR 2,238 crore.

The third quarter has only strengthened the growth narrative set out in the beginning of this year. Nearly 12 mn sq ft of Grade A office space was completed and 11 mn sq ft absorbed during the last three months. The total office stock in Hyderabad burgeoned by more than 5 mn sq ft in a single quarter to reach Pune and Chennai levels in record time. Driven by tech companies and the rise of co-working spaces, the demand for office spaces is bound to expand further to reach historical levels by the end of this year.

## India office market on a higher growth trajectory

	YTD 2018 (mn sq ft)	YTD 2019 (mn sq ft)	Y-o-Y Growth (%)	Q3 2018 (mn sq ft)	Q3 2019 (mn sq ft)	Y-o-Y Growth (%)
Net Absorption	23.4	32.7	40%	5.3	10.9	105%
New Completions	25.5	36.2	42%	6.2	11.9	92%
Vacancy	13.7%	13.2%		13.7%	13.2%	

**Note:** Top 7 cities include Delhi NCR, Mumbai, Bengaluru, Chennai, Hyderabad, Pune and Kolkata

YTD – January to September 2019

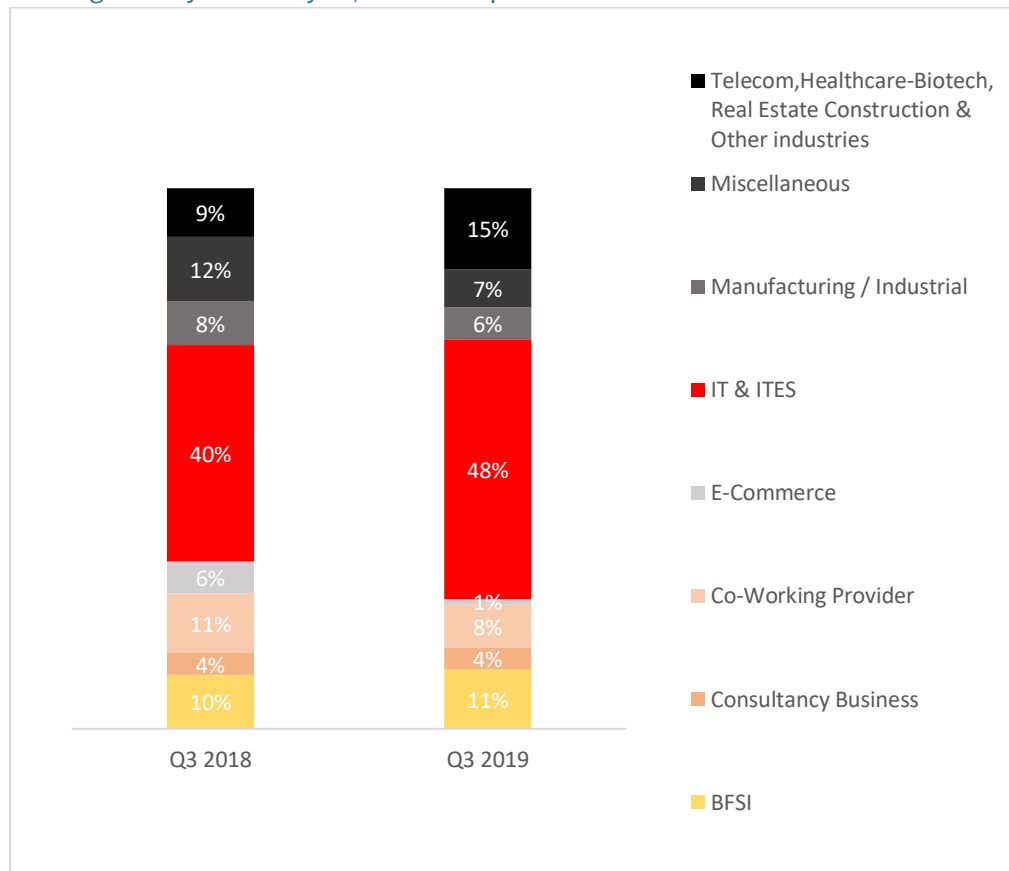
**Source:** Real Estate Intelligence Service (JLL)

## Net absorption crosses the 30 mn mark in three quarters

The office market continued to grow at a robust rate with net absorption across the top seven cities touching nearly 33 mn sq ft in the first nine months of 2019. To put things into perspective, 2017 and 2018 witnessed net absorption of 28.7 mn sq ft and 33.2 mn sq ft respectively in the entire year. A significant surge was witnessed in Q3 2019 with net absorption more than doubling as compared to the same period last year - from 5.3 mn sq ft in Q3 2018 to 10.9 mn sq ft in Q3 2019.

This strong growth in demand was mainly led by strong expansion of IT/ITeS (48% of overall leasing) and BFSI (11% of overall leasing) occupiers.

### Leasing activity driven by IT / ITeS occupiers

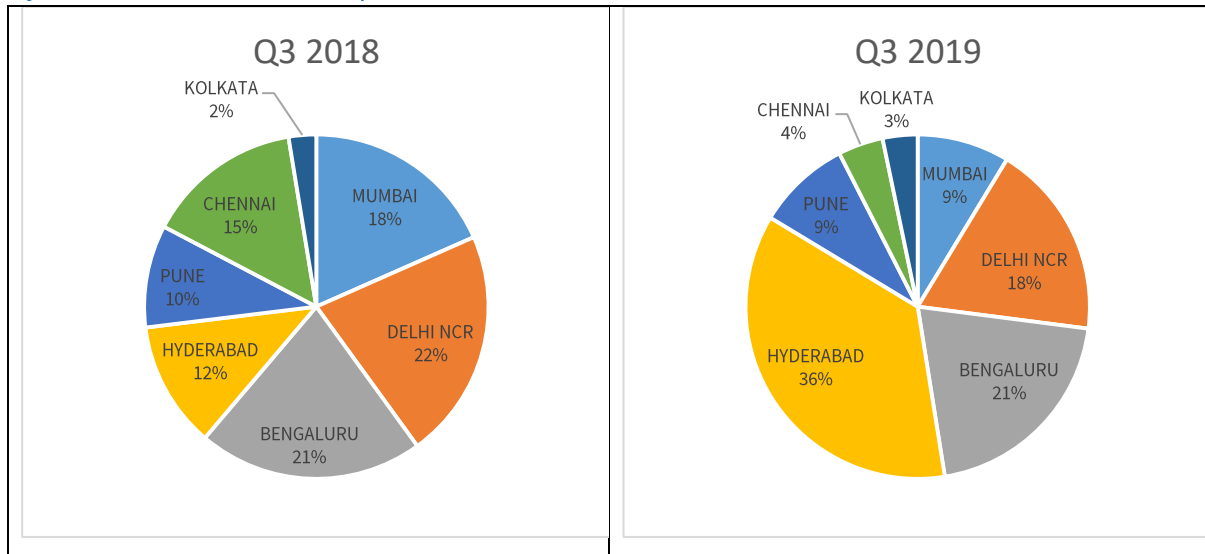


Source: Real Estate Intelligence Service (JLL)

The pace of leasing in co-working remained muted during Q3 2019 with its share in overall leasing reducing to 8% from 11% during the same period last year. However, the space take up by co-working operators increased from 10% to 13% during the period January to September 2019 on a y-o-y basis. This shows the sustained focus of co-working operators in expanding their footprint in the market.

Net absorption is expected to continue its flight in the last quarter and surpass historical benchmarks to close well beyond 40 mn sq ft.

## Hyderabad ascends to the top



Source: Real Estate Intelligence Service (JLL)

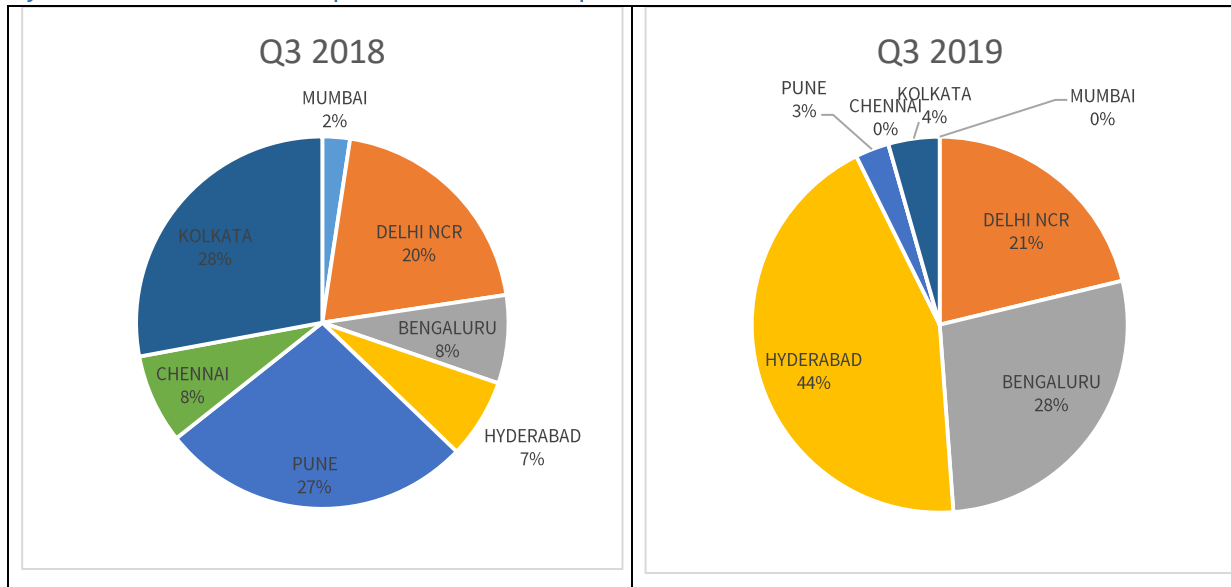
Hyderabad's climb in the country's office market continued with net absorption in the city overtaking all others in Q3 2019. With net absorption of nearly 10 mn sq ft in the first nine months of the current year and 4 mn sq ft in the third quarter itself, the city contributed 36% to the total absorption in Q3 2019 as compared to 12% in Q3 2018. The jump in net absorption is attributable to the continued expansion of major IT and BFSI occupiers like Microsoft, Xilinx, MathWorks, JDA Software and Synchrony Financial combined with a significant take up of Grade A spaces by co-working players like WeWork.

The quarter also witnessed an increase in leasing activity in Kolkata with net absorption more than doubling in the quarter when compared to Q3 2018. Driven by IT/ITeS, consulting and e-commerce occupiers, the activity was mostly concentrated in Rajarhat. The larger markets of Delhi NCR and Bengaluru continued to witness a steady demand for Grade A office spaces with a combined contribution of 39% to the total net absorption during the quarter. At the same time, Mumbai witnessed a decline of 3% y-o-y on the back of limited relevant supply despite strong latent demand from large occupiers.

### New completions to set historical highs in 2019

New completions of more than 36 mn sq ft was witnessed during the first nine months of 2019, registering a strong growth of 42% Y-o-Y. More significantly, the new completions in the first nine months of the current year have already surpassed the levels witnessed in the last three years.

## Hyderabad leads new completions at 5.3 mn sq ft



Source: Real Estate Intelligence Service (JLL)

Hyderabad accounted for nearly half of the new completions in Q3 2019. The increase in the share of new completions, from 7% in Q3 2018 to 44% in Q3 2019, portrays the rapid growth that the city is witnessing. New supply was concentrated in the IT parks of Hitec City and Gachibowli.

Interestingly, the new buildings in Hitec City witnessed strong pre commitment at nearly 95% and became operational with almost full occupancy. This indicates that quality supply continued to attract occupiers who are willing to pre-commit.

Hyderabad was followed by Bengaluru which saw 3.3 mn sq ft of new completions, forming 28% of the overall new supply across the top seven cities. At the same time, Delhi NCR constituted nearly 21% of the new completions at 2.6 mn sq ft while quality commercial supply continued to be constrained within Mumbai, especially the front office markets of BKC and SBD North (Andheri Kurla Road). Going ahead, this trend is expected to continue with Hyderabad constituting a major chunk of the overall new completions in 2019, followed by Bengaluru and Delhi NCR.

**Strong demand coupled with low vacancy led rental growth in IT/ITeS dominated markets**  
Cities like Bengaluru, Hyderabad and Pune are becoming preferred destinations for occupiers to expand, given the availability of developable land and higher rental arbitrage. The strong demand has restricted vacancy levels to single digits despite addition of more than 5 mn sq ft in Hyderabad and more than 3 mn sq ft in Bengaluru in Q3 2019. The increased demand in these markets manifests themselves in the form of rentals growing by more than 5% on a Y-o-Y basis.

Cities like Mumbai and Delhi NCR witnessed negligible rental change in Q3 2019. With a limited supply of Grade A commercial properties in the Mumbai market, select submarkets like BKC are tilting towards becoming landlord favourable and the rents are expected to go up in the short term.

Today, the availability of ready to move in premium office spaces remains constrained (especially in the core submarkets), while occupier interest in quality office assets is high with cities like Hyderabad and Bengaluru witnessing strong pre-commitment. The demand in the office market is expected to grow at a similar momentum in the next few years. With time, this growth in commercial demand is likely to transfer into higher residential demand which augurs well for the future of the real estate market in India.

## City Dynamics

### Mumbai

	Q3 2018 (mn sq ft)	Q3 2019 (mn sq ft)	Y-o-Y Growth (%)
Net Absorption	0.98	0.95	-3%
New Completions	0.15	0	-
Vacancy	16%	14%	-
Rent	122.76	123.87	1%

Source: Real Estate Intelligence Service (JLL)

The Mumbai office market in Q3 2019 witnessed a net absorption of 0.95 mn sq ft. The demand was driven by BFSI occupiers in SBD BKC Mumbai and IT/ITES occupiers in Navi Mumbai. No new projects were completed in 3Q 2019. Steady demand with a limited supply of Grade A properties resulted in vacancy levels dipping with rents continuing to remain under pressure in select prominent submarkets. With supply constraints persisting and demand expected to remain steady, rents are likely to witness a jump in the near future. The rental increase will be more prominent in submarkets like SBD BKC which are tilting towards becoming landlord favourable in the short term.

## Delhi NCR

	Q3 2018 (mn sq ft)	Q3 2019 (mn sq ft)	Y-o-Y Growth (%)
Net Absorption	1.15	2.00	74%
New Completions	1.26	2.55	102%
Vacancy	29%	29%	
Rent	77.86	77.25	-1%

Source: Real Estate Intelligence Service (JLL)

Delhi NCR witnessed a strong 74% Y-o-Y growth in net absorption in Q3 2019. Leasing was driven by IT/ITeS, healthcare and manufacturing along with the expansion by co-working players like WeWork, Innov8, Spring House and Scootr. While IT/ITeS contributed 35%, co-working operators accounted for 10% of the gross leasing activity. Gurugram witnessed strong leasing activity contributing 76% to the net absorption while Noida had a share of 21%. The quarter witnessed two large transactions greater than 3,00,000 sq ft in Gurugram. Net absorption in Delhi NCR is expected to increase in the coming quarters with strong pre-commitments being recorded in upcoming office buildings in Gurugram and Noida Greater Noida Expressway. The supply was also concentrated in the two submarkets with Gurugram and Noida witnessing new completions of 1.6 mn sq ft and 0.95 mn sq ft of Grade A space respectively.

## Bengaluru

	Q3 2018 (mn sq ft)	Q3 2019 (mn sq ft)	Y-o-Y Growth (%)
Net Absorption	1.13	2.23	98%
New Completions	0.48	3.31	592%
Vacancy	3%	6%	
Rent	68.83	72.93	6%

Source: Real Estate Intelligence Service (JLL)

Leasing activity in Bengaluru almost doubled in Q3 2019 as compared to the same period last year. Most of the activity was concentrated in the SBD (Outer Ring Road) which accounted for more than 70% of the net absorption. Interestingly, tenants like XLHealth, Lets Transport, Lowe's etc. opted to occupy offices in co-working spaces in the heart of the city in CBD (Vithal Mallya Road, MG Road, and Presidency Road). The quarter witnessed completion of two large projects occupying more than 1

mn sq ft in SBD. As availability of ready to move in Grade A office spaces remained constrained, rents witnessed a substantial increase of 6% on a Y-o-Y basis with good quality buildings witnessing a steady upward movement. Tenants are vying for and agreeing to pay premium rental amounts for high quality office spaces and projects developed by reputed builders of the city.

## Hyderabad

	Q3 2018 (mn sq ft)	Q3 2019 (mn sq ft)	Y-o-Y Growth (%)
Net Absorption	0.63	3.95	525%
New Completions	0.43	5.21	1111%
Vacancy	4%	5%	
Rent	51.50	56.20	9%

Source: Real Estate Intelligence Service (JLL)

Q3 2019 was another benchmark period for Hyderabad: nearly 4 mn sq ft of Grade A office space was absorbed in three months and 5.21 mn sq ft of Grade A office space was added, which is the maximum supply addition that the city has witnessed on a quarterly basis. The supply was concentrated in the IT parks of Hitec City and Gachibowli. Interestingly, most of the supply in Hitec City witnessed high pre-commitment and became operational at almost full occupancy. The continued expansion by IT/ITeS occupiers combined with increasing interest from large co-working occupiers like WeWork led to a substantial increase in the rental values. Hitec City drove the rental values with select projects commanding higher rentals when compared to the average market rates.

## Pune

	Q3 2018 (mn sq ft)	Q3 2019 (mn sq ft)	Y-o-Y Growth (%)
Net Absorption	0.51	0.96	88%
New Completions	1.69	0.35	-79%
Vacancy	9%	4%	
Rent	64.81	68.17	5%

Source: Real Estate Intelligence Service (JLL)

Pune witnessed a nearly two-fold rise in net absorption in Q3 2019 as compared to Q3 2018. The leasing activity was concentrated in SBD (Kharadi, Baner-Balewadi) which accounted for more than 90% of the net absorption in the quarter. While IT/ITeS continued to drive leasing, their share



reduced significantly from 81% to 48%. Sectors such as co-working and consulting have gained share in the last few quarters. The rental arbitrage opportunities and growing office market in the city is attracting corporates like Nielsen and UrbanClap to set up their offices in the city. The resultant increase in net absorption led to a decrease in vacancy levels from 9% in Q3 2018 to 4% in Q3 2019. With increasing absorption and decreasing vacancy, rents in Pune increased by 5% on an annual basis. This was driven primarily by the SBD and Suburbs (Hinjewadi) submarkets which saw increased activity. In terms of completions, Baner-Balewadi in SBD is witnessing heightened activity and this trend is likely to continue in the next few quarters. With strong connectivity via NH 48 and the upcoming metro project, availability of land parcels and lower rentals as compared to Kharadi, Baner- Balewadi is becoming a hub for commercial developments.

### Chennai

	Q3 2018 (mn sq ft)	Q3 2019 (mn sq ft)	Y-o-Y Growth (%)
Net Absorption	0.78	0.46	-41%
New Completions	0.48	0	
Vacancy	9%	9%	
Rent	57.00	59.00	4%

Source: Real Estate Intelligence Service (JLL)

The Chennai office market witnessed a decline of 41% in net absorption in the third quarter of 2019 when compared to the same period in 2018. PBD OMR (Thoraipakkam, Sholinganallur, Karapakkam) accounted for nearly 75% of the 0.46 mn sq ft absorbed in Q3 2019. The growth and expansion of IT industry, strong connectivity to the main city and proximity to the airport along with several planned infrastructure developments have attracted many companies to this submarket.

### Kolkata

	Q3 2018 (mn sq ft)	Q3 2019 (mn sq ft)	Y-o-Y Growth (%)
Net Absorption	0.14	0.36	159%
New Completions	1.74	0.53	-70%
Vacancy	29%	27%	
Rent	50.83	52.14	3%

Source: Real Estate Intelligence Service (JLL)

Kolkata saw a significant increase in demand led by select large-sized transactions during the quarter. On a positive note, a major co-working operator, Awfis leased office space in Salt Lake, which is likely to further attract other operators into the city in the coming quarters. Rajarhat was the most preferred submarket amongst occupiers accounting for almost 80% of the leasing activity. The city witnessed corporates from consulting (12%) and construction (3%) lease space in addition to IT/ITeS (77%) companies who were the major space occupiers. Meanwhile, supply of Grade A office space continues to be mostly slow with Q3 2019 witnessing one completion in Newtown, Rajarhat. Except for a marginal increase in rents in Rajarhat, limited leasing activity in other submarkets in the city kept rents stable. The announcement of the Information Technology and Electronics Policy, 2018 was aimed at attracting major IT/ITeS occupiers to the market. The policy along with other proactive measures will bear fruit and is expected to drive leasing activity in the coming years in the city.