



JLL Research

Strong pre-commitment to support India's office growth story in 2020

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In the midst of an economic slowdown, robust pre-commitment activity augurs well for the future of the office market in India.

The global economic slowdown accompanied by India's sluggish GDP growth has been dampening market sentiments. In this otherwise gloomy economic climate, the Indian office market is setting new benchmarks. Nearly 52-mn sq ft of Grade A office space was completed and more than 46-mn sq ft absorbed in 2019 in the seven major office markets of India. This historic leasing activity was backed by strong pre-commitment at more than 50% of the Grade A supply. The current year is expected to witness completions of 47.5 mn sq ft of Grade A office space, out of which 30% has already been pre-committed (Exhibit 1). The healthy pre-commitment levels shall ensure that the office leasing momentum continues in 2020 with net absorption expected to cross 40-mn sq ft.

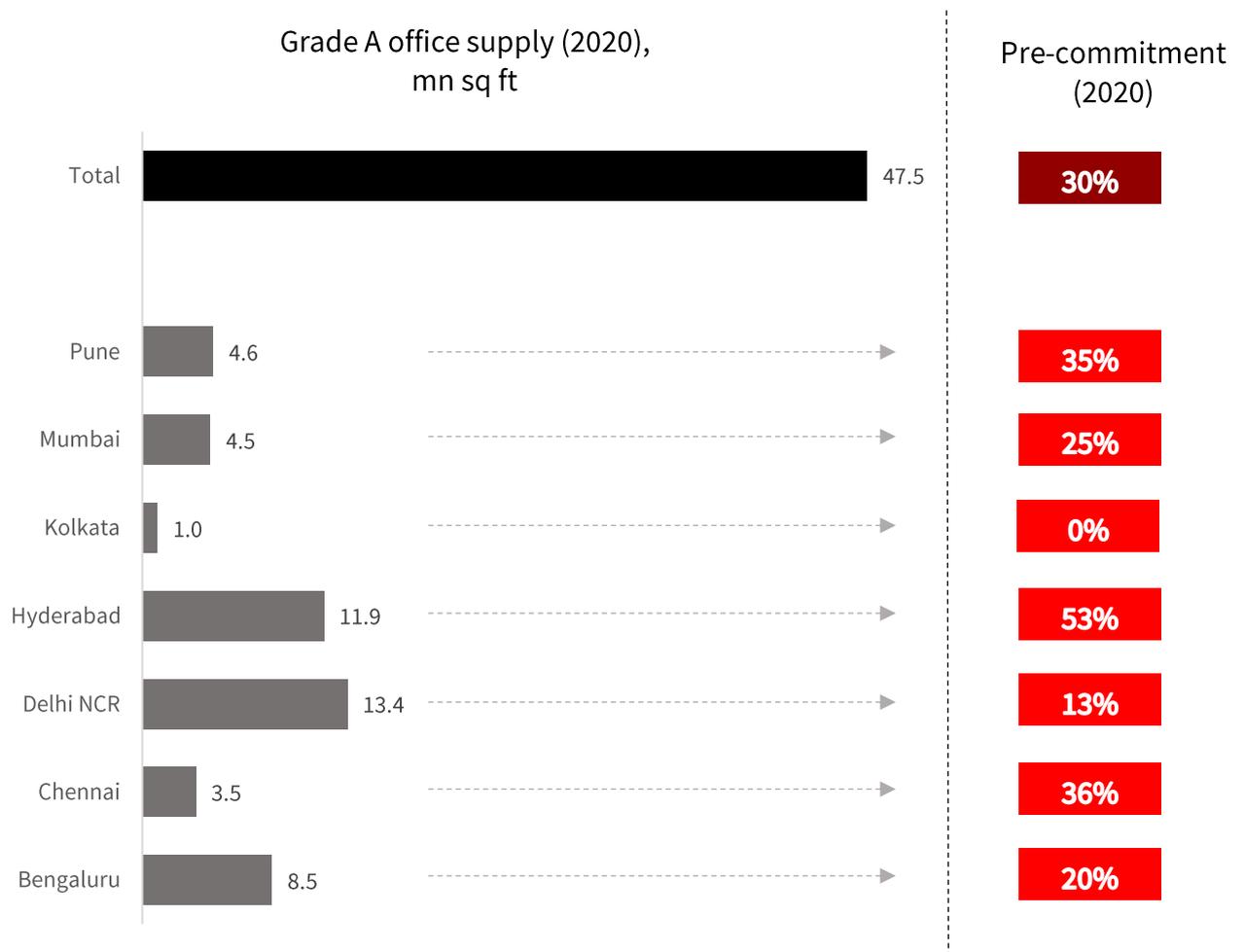
Interestingly, Hyderabad's pre-commitment activity in 2019 stood at an astonishing 78% of the Grade A office supply. The market continues to see the highest pre-commitment levels

amongst the seven major office markets in India, with more than half of the expected supply in 2020 already pre-committed. This strong pre-commitment activity also resonates with the considerable growth in office leasing in the city, recording over 10-mn sq ft in 2019.

Other single digit vacancy markets like Chennai and Pune at more than one third of their respective total supply in 2020 follow Hyderabad in pre-commitment activity.

Exhibit 1

Maximum pre-commitment in Hyderabad



JLL | Source: Real Estate Intelligence Service (2019)

Single-digit vacancy submarkets drive pre-commitment

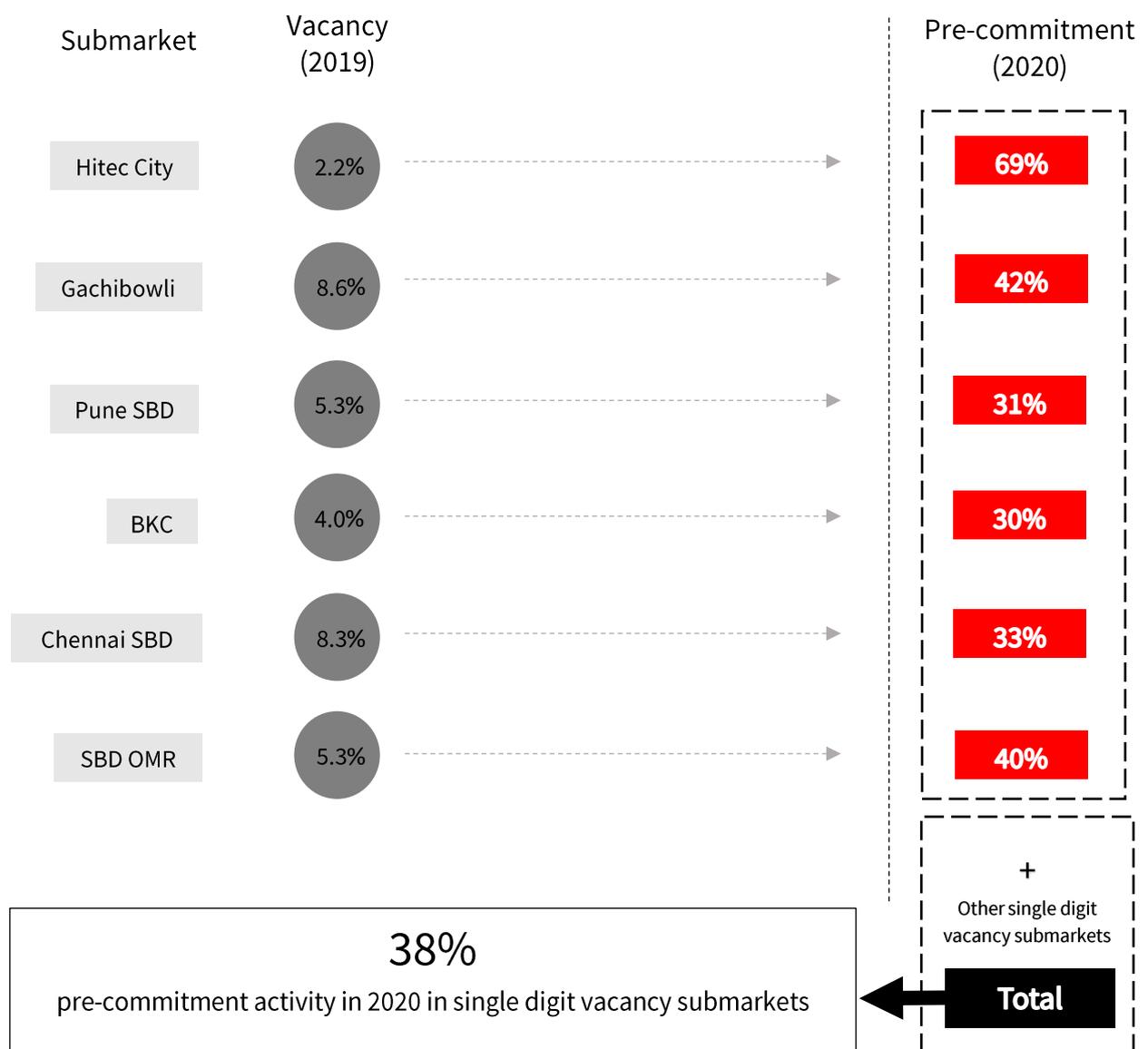
Office markets like Hyderabad, Chennai and Pune which have very limited availability of Grade A quality office supply drive the pre-commitment activity. Further analysis suggests that the activity is concentrated in the primary office submarkets, which have low single-digit vacancies. Submarkets like Hitec City & Gachibowli in Hyderabad; SBD (Kharadi, Viman

Nagar, and Baner) in Pune; SBD (Mount Poonamallee Road) and SBD OMR (pre-toll Old Mahabalipuram Road) in Chennai; BKC in Mumbai witnessed maximum pre-commitment activity (Exhibit 2).

It is pertinent to note that in most pre-commitment deals are witnessed in projects by reputed developers with a proven track record of timely delivery. Moreover, well planned amenities and contiguous large floor plates are very important factors that entice occupiers to commit to office spaces in the under construction phase.

Exhibit 2

Hitec City leads in pre-commitment activity



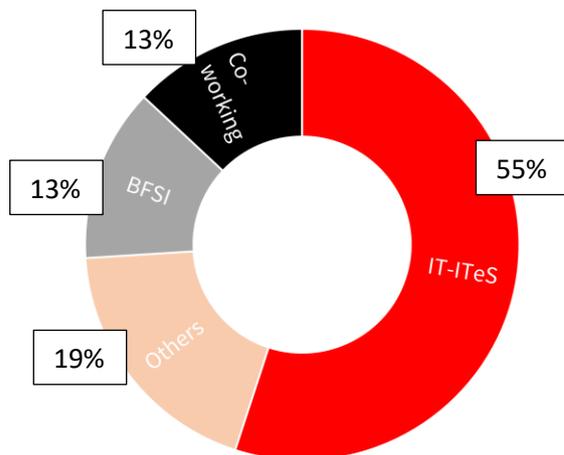
IT-ITeS occupiers lead pre-commitment activity

IT-ITeS occupiers are driving the pre-commitment activity across most of the major office markets in India (Exhibit 3). Except for Mumbai, IT-ITeS occupiers accounted for more than one third of the pre-committed Grade A office space in all the major cities in 2020. These occupiers require larger floor plates and pre-commitment becomes a necessity in markets with very limited availability of Grade A office spaces.

In Mumbai, BFSI and co-working operators were the drivers of pre-commitment activity accounting for 54% of the pre-committed space in 2020.

Exhibit 3

IT-ITeS occupiers constitute more than 50% of the pre-committed office space in 2020



JLL | Source: Real Estate Intelligence Service (2019)

Increasing importance of real estate in corporate business strategy

The strong pre-commitment activity is testimony to the increasing importance of real estate in the business plan of corporate occupiers. In markets, which have a shortage of quality office supply and increasing pressure on rents, the need to plan for future space requirements is becoming critical for occupiers. Hence, large companies find it viable to pre-commit spaces for future requirements and portfolio optimization. Further, it gives an opportunity to these occupiers to negotiate flexible lease terms and cover their future risk against market rental escalations. Pre-commitment is like a barometer of a market's business activity and the strong pre-commitment activity being witnessed portends well for the future of the office market in India.