

# INDIA OFFICE MARKET

REPORT - Q2 2021



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WAKEFIELD

# KEY HIGHLIGHTS

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- 1/** 9.9 msf gross leasing volume in Top 8 cities in Q2 2021; a 16.9% decline q-o-q
- 2/** Hyderabad was the leading market in terms of pan-India gross leasing volumes, accounting for a share of 33.6%, followed by Delhi-NCR (17.9%). Mumbai and Bengaluru had 14.7% and 10.7% shares, respectively.
- 3/** In terms of tenant representation, Engineering & Manufacturing accounted for highest share (38.4%) in quarterly leasing followed by IT-BPM with a 21.5% share. Healthcare & Pharma and captives were the other major sectors contributing 9.8% and 5.8%, respectively
- 4/** New completions were recorded at 8.0 msf in Q2 2021 with Mumbai witnessing the highest share of 33.5%. Supply recorded a 26.4% decline on a q-o-q basis largely due to limited activity during the second wave, though new completions recorded growth on an annualised basis. Construction activity came under essential infrastructure services and was permitted to continue during the second wave.
- 5/** The net absorption in Q2 2021 stood at 4.26 msf, a 28% growth on a quarterly basis

In this report we analyse the performance of the Indian office markets, with the second quarter witnessing a slowdown in leasing activity due to the second wave that led to imposition of lockdown restrictions across top cities. Total pan India gross leasing was recorded at 9.9 msf, lower by 16.9% on q-o-q basis (growth of 55.1% y-o-y) with the second wave slowing down the robust growth momentum that was witnessed in Q1. Hyderabad, Delhi-NCR and Mumbai contributed significantly to leasing activities in the quarter with Hyderabad alone accounting for over a third of pan-India leasing, largely driven by the preleasing activity.

**Market sentiments were dampened by the second wave with a number of occupiers adopting a cautious approach amidst prevailing business uncertainty. That said, a number of deals that were being negotiated in the previous quarters got closed, and faster vaccinations are helping corporates with better visibility on return-to-work timelines. We will be closely monitoring developments with respect to vaccination trends and the government's market unlocking directives to better understand the leasing volumes recovery and progress over the under-construction space.**

## LEASING TRENDS

### Gross Leasing Activity

Gross leasing stood at 9.9 msf in Q2 2021, a 16.9% decline on a q-o-q basis in the Top 8 cities with the second wave adversely affecting the strong recovery in office demand witnessed in the first quarter. However, on an annual basis, office demand registered a growth of 55.1% due to a low base in Q2 2020. Q2 2021 carried some momentum from the previous quarter when leasing activity was recovering well, although a second wave that hit the markets in April and May doused some of that recovery. Several cities were again under a brief period of lockdown-like restrictions, although the severity of it was much smaller than last year. It is also important to note that it wasn't a concurrent lockdown across all cities during the second wave.

Hyderabad stood out with a share of nearly 33.6%, where office leasing doubled both on quarterly and annualised basis on the back of healthy preleasing. Delhi-NCR and Mumbai witnessed a quarterly decline with muted fresh leasing, but term renewals continued. Delhi-NCR contributed a 17.9% share while Mumbai and Bengaluru together accounted for over a quarter of the gross leasing volume. While demand for immediate occupation accounted for nearly 45.8% of the activity and was highest in absolute terms, yet the nearly 24% decline on a quarterly basis reflected the impact of the second wave on occupier sentiments. Preleasing picked up significantly in the quarter, accounting for nearly 31.6% of leasing volumes, largely demonstrating the confidence that occupiers have in the long-term growth outlook. It suggests that companies are coming back gradually as per their business strategy and those with sizeable requirements are looking to take advantage of the current occupier friendly market conditions. It reinforces the fact that physical office space as a concept is still very much alive.

Gross Leasing (msf)	Q1 2021	Q2 2021	Gross Leasing (msf)	Q2 2020	Q2 2021
Mumbai	2.96	1.45	Mumbai	1.06	1.45
Delhi NCR	2.05	1.77	Delhi NCR	0.89	1.77
Bengaluru	2.45	1.06	Bengaluru	1.86	1.06
Chennai	1.57	1.05	Chennai	0.65	1.05
Pune	1.15	0.76	Pune	0.09	0.76
Hyderabad	1.56	3.33	Hyderabad	1.62	3.33
Kolkata	0.19	0.07	Kolkata	0.16	0.07
Ahmedabad		0.41	Ahmedabad	0.05	0.41

### PAN INDIA



*Occupiers continue to finetune their space strategies amidst a renewed bout of market uncertainty induced by the second wave and concerns about the third wave. Evaluation of business requirements, operational needs and, in some cases, long-term expansion/consolidation strategies are guiding such decisions. Despite the adverse impact in the short term, faster inoculations and a gradual return-to-workplace schedule by H1 2022 are likely to boost business sentiments and occupier confidence over the next 6-12 months*

## Term Renewals

With the second wave and the subsequent uncertainty, occupiers remained focused on cost optimization, reduction in capex spends and relocation costs, also seeking favourable terms from developers wherever possible. In the short term, occupier space strategies are likely to be guided by critical business needs and they will be on the lookout for cost effective space options while rebalancing / optimizing the portfolio. Term renewals stood at 2.24 msf in Q2 accounting for around 23% of gross leasing volume. The second wave has had some impact but nonetheless, occupiers are in active discussions with developers, in some cases even for early renewals. Overall, term renewals could go up in the next few quarters, a trend that has held since the market recovered from the first wave. At the city level, Delhi-NCR witnessed a higher share of term renewals followed by Mumbai.

## Preleasing activity

Pan-India preleasing demand reached 3.13 msf in Q2, recording a robust growth of around 80% on a quarterly basis and an expansion of 14% as compared to the second quarter last year. Despite the second wave induced uncertainty, precommitments have reached the highest level since Q3 2020, demonstrating India's favourable long term growth outlook and occupiers' inclination to lease office space keeping in mind their expansion plans / business strategies over the next 3-5 years. At 65.2%, Hyderabad was the dominant contributor to preleasing in Q2 with Delhi-NCR and Chennai following with 17.6% and 16.2% shares respectively. Both Hyderabad and Chennai's precommitments surged during the quarter, thereby demonstrating the solid fundamentals of the tech hubs and robust business growth anticipated in outsourcing going forward.

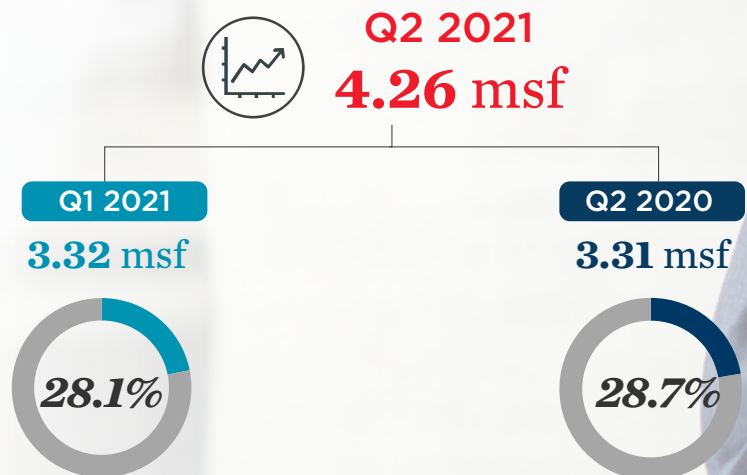


## Net Absorption

The net absorption in Q2 2021 stood at 4.26 msf, a 28% q-o-q growth largely due to projects with precommitments becoming operational during the quarter. Bengaluru, Mumbai and Hyderabad were the leading markets in terms of net absorption with several projects having significant precommitments getting operational during the quarter in all three cities. Bengaluru accounted for 34.8% of quarterly net absorption followed by Mumbai and Hyderabad with shares of 24.1% and 23.4% respectively. Absorption levels to remain below trend in the short term but faster vaccinations and improving business sentiments will lead to a gradual recovery going forward. Amidst the second wave, occupiers have continued with space optimisation and portfolio rebalancing strategies, thus adding more vacant space in the market

Net Absorption (msf)	Q1 2021	Q2 2021	Net Absorption (msf)	Q2 2020	Q2 2021
Mumbai	0.20	1.02	Mumbai	1.66	1.02
Delhi NCR	0.43	0.14	Delhi NCR	-0.33	0.14
Bengaluru	1.61	1.48	Bengaluru	-0.06	1.48
Chennai	0.14	0.02	Chennai	0.52	0.02
Pune	0.28	0.18	Pune	0.06	0.18
Hyderabad	0.48	0.99	Hyderabad	1.28	0.99
Kolkata	0.18	0.02	Kolkata	0.11	0.02
Ahmedabad		0.40	Ahmedabad	0.05	0.40

### PAN INDIA



*Consolidation and rebalancing of portfolios among occupiers along with scheduled exits from some projects have led to a rise in vacancy levels across cities. Occupiers continue to prioritize cost optimization and refrain from signing fresh leases reflecting cautious, wait and watch sentiments in the market. In such a scenario, term renewals are likely to remain a significant proportion of leasing in the near term even as some large occupiers remain on the lookout for spaces on attractive terms for their medium to long term expansion plans. A fairly large number of active deals in markets such as Bengaluru is a testimony to the fact that recovery could commence as soon as Q4 this year and gain strength by early next year provided a third wave is averted or the impact is milder. However, absorption levels could remain flat in the current year with faster vaccinations a key determinant of improved business sentiments in the next couple of quarters.*

# OCCUPIER TREND

In terms of the pan India quarterly sectoral shares, Engineering & Manufacturing accounted for the highest share (38.4%) in overall leasing followed by IT-BPM with a 21.5% share. Healthcare & Pharma and captives were other major sectors contributing 9.8% and 5.8% respectively of quarterly leasing activity. The higher share of engineering & manufacturing may be attributed to the trend of large, global occupiers setting up their engineering R&D (ER&D) centres in cities such as Bengaluru, Hyderabad and Chennai. The quarter was also marked by robust growth momentum of flexible workspaces with healthy enterprise demand driving the uptake. Number of flex seats leased reached 31,538 by the end of H1 2021, nearly 87% of the seats leased during the whole of 2020 (36,255). Given the current market dynamics, enterprises, both large and small, have been refraining from signing new office leases. Instead, they are looking at managed spaces as a smart business solution due to the twin benefits of cost savings and lease flexibility that they offer. A higher quantum of large flex seat deals (250+ seats) were signed during the second quarter with 22 such deals as compared to 16 in the previous quarter; 45 such deals were signed in the whole in 2020. Hyderabad witnessed a big jump with the number of flex seats leasing more than doubling while Pune and Bengaluru remained the largest markets in terms of absolute number of flex seats. Given this trend, total number of flex seats leased is likely to exceed 50,000 in the current year, with managed spaces remaining an integral part of enterprise space strategies over the next couple of years.



IT - BPM

49.7% / 34.2% / 21.5%



CAPTIVE

15.1% / 6.4% / 5.8%



ENGINEERING & MANUFACTURING

10.4% / 9.3% / 38.4%



BFSI

9.6% / 9.3% / 5.6%



E-COMMERCE

0.0% / 0.9% / 0.3%



FLEXIBLE WORK

4.5% / 5.4% / 4.1%



HEALTHCARE & PHARMA

0.2% / 10.8% / 9.8%



PROFESSIONAL SERVICES

7.5% / 12.2% / 4.6%



TELECOM & MEDIA

0.7% / 3.3% / 1.2%



OTHERS

2.3% / 8.2% / 8.8%

■ Q2 2020

■ Q1 2021

■ Q2 2021

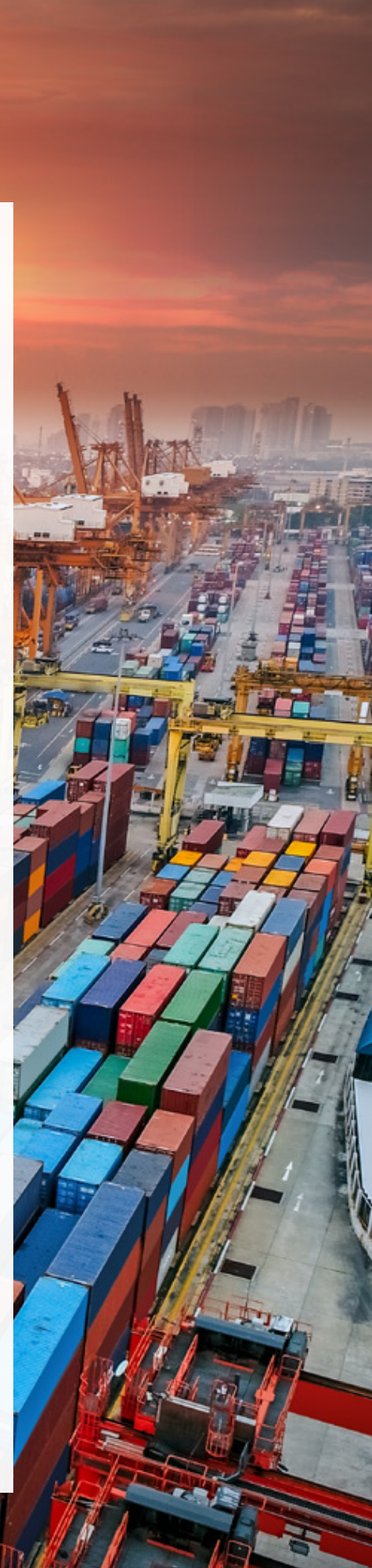
## SUPPLY TREND

New completions stood at about 8.0 msf in Q2 2021, a 26.4% decline on a q-o-q basis with the restrictions imposed following the second wave affecting construction activities. However, on an annual basis, supply registered a growth of 6.3% largely due to the relatively milder lockdown restrictions as compared to the strict nationwide lockdown in Q2 last year. Mumbai, Bengaluru and Hyderabad were the top markets accounting for 33.5%, 24.5% and 23.4% of the quarterly new completions, respectively. Chennai and Pune recorded no new completions in the quarter. Despite the short-term slippages, completions are likely to get normalized in the next couple of quarters with developers reviewing timelines, focusing more on projects with high precommitments and delaying speculative developments. Vaccinations of site-based workforce will also be a major driver of construction normalization in the short term. We expect supply to recover gradually over the next 6-12 months in line with demand recovery and improvement in business sentiments.

In the near term, however, any re-emergence of a third wave will pose challenges to the ongoing recovery of the office market and could result in supply deferment once again. Faster vaccinations and strict adherence to COVID protocols continue to remain the biggest insurance against a third wave. A milder outbreak is unlikely to cause any major changes to project timelines and scheduled completions. However, projects at an early stage of construction or without precommitments are likely to be deferred.

New Supply (msf)	Q1 2021	Q2 2021	New Supply (msf)	Q2 2020	Q2 2021
Mumbai	0.50	2.69	Mumbai	1.63	2.69
Delhi NCR	2.62	0.60	Delhi NCR	0.90	0.60
Bengaluru	3.58	1.96	Bengaluru	0.20	1.96
Chennai	0.00	0.00	Chennai	0.47	0.00
Pune	0.00	0.00	Pune	0.91	0.00
Hyderabad	4.09	1.88	Hyderabad	3.06	1.88
Kolkata	0.11	0.00	Kolkata	0.00	0.00
Ahmedabad		0.90	Ahmedabad	0.38	0.90

### PAN INDIA



# OUTLOOK

Despite the near-term market uncertainty, the Indian office market's medium to long term outlook remains bright on the back of the sector's robust fundamentals and investment attractiveness. With vaccinations gaining momentum and many organizations implementing inoculation drives themselves, the return to office timelines are likely to be reviewed and H2 2021 could witness employees gradually returning to their workplaces with continued flexibility on WFH. This will have a favourable impact on office demand provided a third wave can be averted or the impact is significantly milder. While office leasing has been impacted by the second wave, preleasing has surged in key cities such as Hyderabad and Chennai as large occupiers have sought to take advantage of market conditions and sign long term deals for their multi-year expansion plans. This is likely to continue over the next several quarters as global multinationals increase their tech outsourcing and set up more R&D centres in India. With the current market weakness largely favourable for occupiers, space strategies are likely to be finetuned further and we expect fresh demand to pick up in the next few quarters. That said, some of the occupiers will continue to remain cautious in the short term and their leasing decisions will be guided by business recovery and continued office optimization/consolidation strategies. Cost savings will remain a business imperative and this will drive higher demand for flex managed spaces. We expect rentals to remain stable though vacancies are likely to rise due to higher supply and scheduled exits from certain properties.

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