

Commercial realty: Blockbuster quarter

Office space leasing surged to 18.1msf (up 68% YoY) in Q4CY23, broadly matching completions at 18.3msf (up 140% YoY), which pulled down vacancies by 30bp QoQ to 17.9%. CY23 demand at ~40msf was up 13% YoY while supply at 45.5msf declined 6% YoY. Space take-up by GCCs (40% share in CY23) and flex operators continued unabated even as demand from IT/ITeS companies remained weak.

We believe the worst is over for office absorption (refer [REITs: Turning a corner](#)). While large upcoming supply (~176msf by CY26) is an issue, an uptick in demand is likely to keep vacancies range-bound. In our view, DLF ('BUY'), Prestige Estates ('BUY') and Embassy REIT ('BUY') are the best proxies for a revival in office demand.

Q4CY23: Strong end to the year; demand and supply surge

During Q4CY23, office space demand rose 137% QoQ to 18.1msf (up 68% YoY) while supply came in at 18.3msf (up 77% QoQ). Vacancies edged down 30bp QoQ (up 10bp YoY) to 17.9%. CY23 demand and supply came in at ~40msf and 45.5msf, respectively. No city now has single-digit vacancy levels (compared with four cities in Q3CY20). Vacancies declined QoQ in Bengaluru (to 11.2%), the MMR and Kolkata but rose in other cities (with Hyderabad now at 24.5%). Rents stayed flat QoQ in Kolkata but increased in all other cities.

High upcoming supply a cause for concern

Completions had touched an all-time high of 48.4msf in CY22. While they declined 6% YoY in CY23, upcoming office supply over the next three years at ~176msf remains high. However, we believe some of it may get deferred and expect completions to be ~53–56msf annually over CY24–25E with supply eclipsing demand by 12–13msf in both years. Consequently, we anticipate vacancy levels to stay above the 18% mark. This is likely to constrain rental growth, in our view. We expect annual rental growth of 1–2%, going ahead. Over the medium term though, cost pressures are likely to compel global firms to increase outsourcing to India.

Outlook: Worst behind us

As argued in our comprehensive sector report [Real Estate - The Charge of the Consolidating Brigade](#), consolidation in the office space in favour of financially strong developers is helping them gain market share. We also believe the ongoing crisis would accelerate this process. While supply shall eclipse demand in the near-term (leading to likely pressure on rentals), a pickup in demand over the medium-term provides hope. That said, the spectre of high upcoming supply continues to be an overhang on this space.

In line with our preference for leaders (refer to [Real Estate – Leadership matters](#)), we believe developers with strong rental portfolios such as DLF ('BUY'), Prestige Estates ('BUY') and Embassy REIT ('BUY') would benefit from the revival in office space demand, going ahead.

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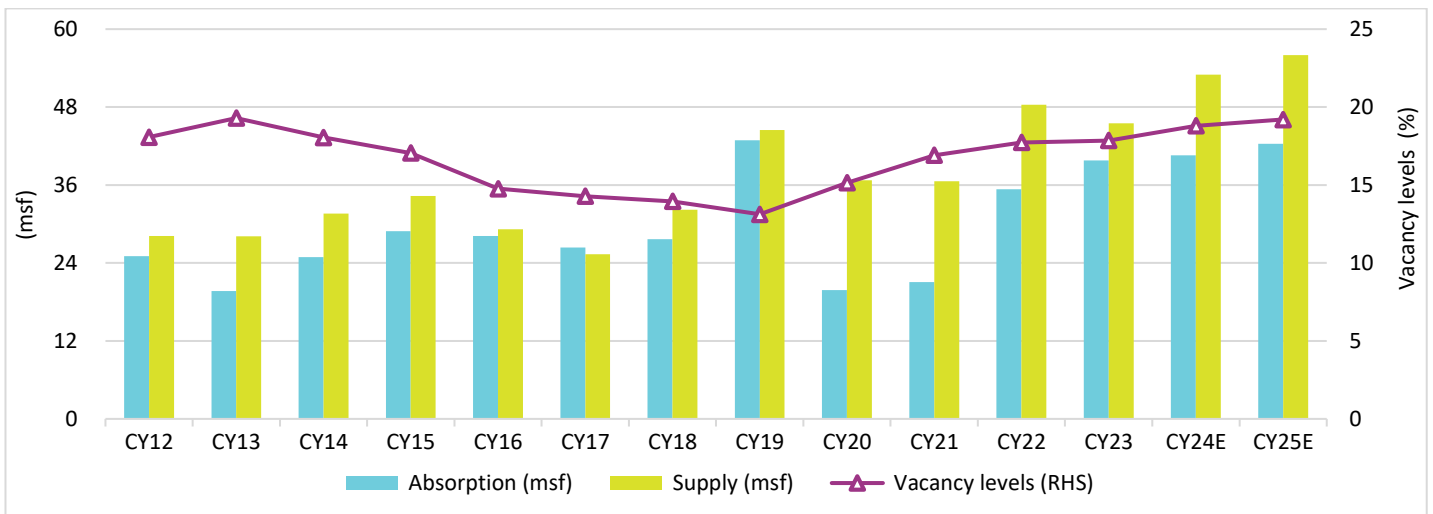
Q4CY23: Demand and supply surge

India's commercial realty cycle enjoyed an upswing post-CY13 with vacancies declining to 13.2% by end-CY19, from a peak of 19.7% in CY13. In CY19, demand as well as supply at the all-India level had scaled new peaks—demand surged ~55% YoY to ~42msf and supply shot up ~46% YoY to ~44msf.

However, covid-19 upset the apple cart with CY20/21 demand coming in at ~20msf while supply in both these years was ~37msf.

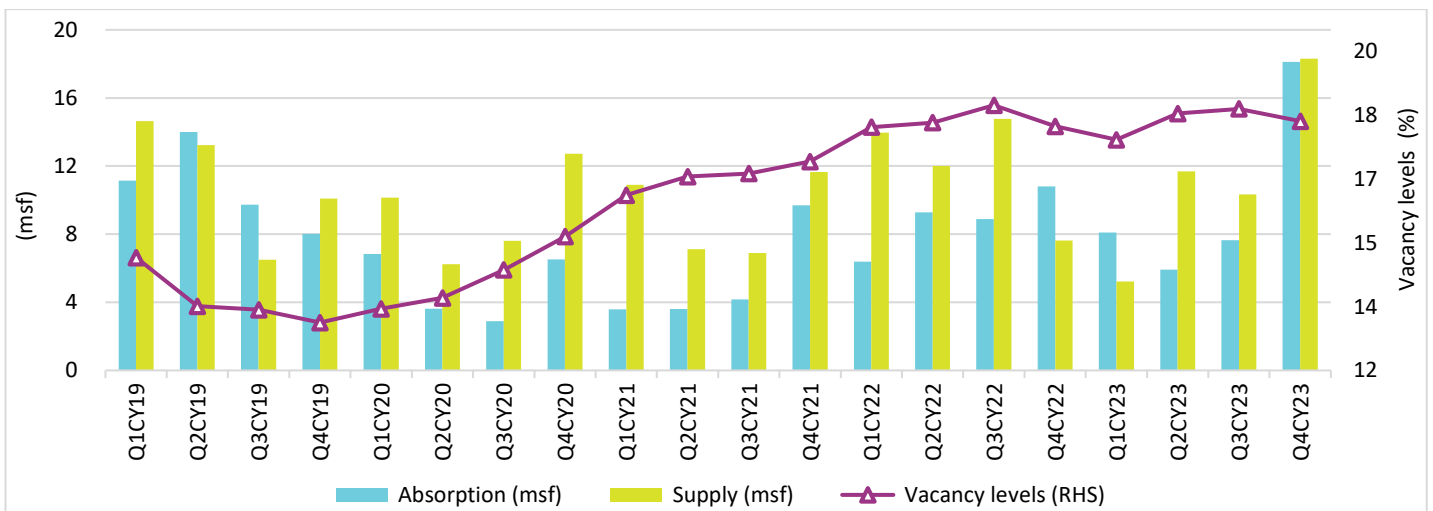
CY22 demand at 35.3msf was still 18% below the peak witnessed in CY19, indicating adverse impact of the pandemic. CY22 completions at 48.4msf were up 32% YoY and the highest-ever; they were also 9% higher than CY19 supply.

Exhibit 1: Vacancies have increased after bottoming in CY19



Source: Cushman & Wakefield, JLL, Nuvama Research

Exhibit 2: Demand and supply both increase YoY in Q4CY23



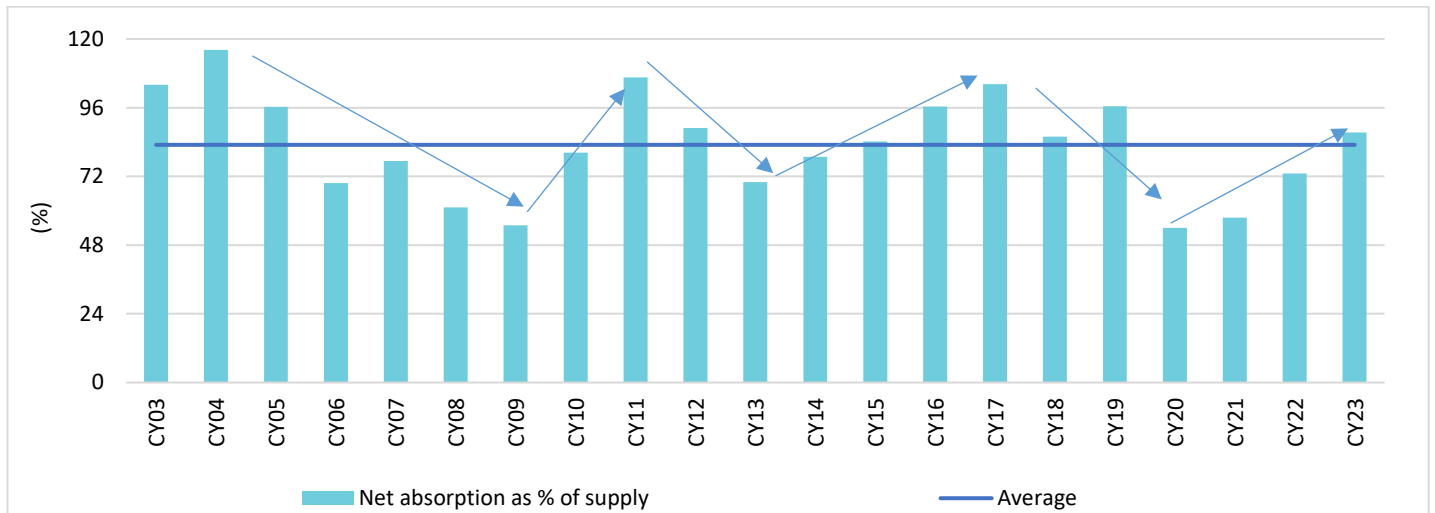
Source: Cushman & Wakefield, Nuvama Research

For the major part of CY23, sentiments were weak in the office space. Office demand during Jan–Sep 2023 was ~21.6msf, down 12% YoY; CY23 demand was anticipated to be lower compared with CY22.

However, Q4CY23 came in as a surprise. During Q4CY23, demand surged 68% YoY (up 137% QoQ) to 18.1msf. Supply at 18.3msf also catapulted 140% YoY (77% QoQ).

Vacancy at 17.9% at end-CY23 declined 30bp QoQ, though was up 10bp YoY.

Exhibit 3: Demand as percentage of supply currently in line with last two decades' average



Source: Cushman & Wakefield, Nuvama Research

Rental performance was healthy with rents improving QoQ in all cities except Kolkata (where they were flat sequentially).

As a result of the strong performance in Q4CY23, CY23 demand at ~40msf was up ~13% YoY. Completions during CY23 at 45.5msf were down 6% YoY.

Going ahead, we expect completions to be ~53–56msf annually over CY24–25E with supply eclipsing demand by 12–13msf in both years. Consequently, we anticipate vacancy levels to stay above 18% levels, going ahead. This is likely to constrain rental growth, in our view.

India's office stock crossed the 700msf mark at end-Q4CY23.

Exhibit 4: India 'Grade A' office stock at end-Q4CY23

City	Stock (msf)	Share in stock (%)	Vacancy (%)	Vacant stock (msf)	Occupied space (msf)	Share in occupied stock (%)
MMR	111	16.5	18.3	20	91	15.7
NCR	138	20.5	24.4	34	104	18.1
Bengaluru	188	27.9	11.2	21	167	28.9
Chennai	66	9.8	17.7	12	54	9.4
Hyderabad	102	15.2	23.8	24	78	13.5
Pune	70	10.4	10.8	8	62	10.8
Kolkata	28	4.1	24.4	7	21	3.6
Overall	702	104.4	17.9	125	576	100.0

Source: Cushman & Wakefield, Nuvama Research

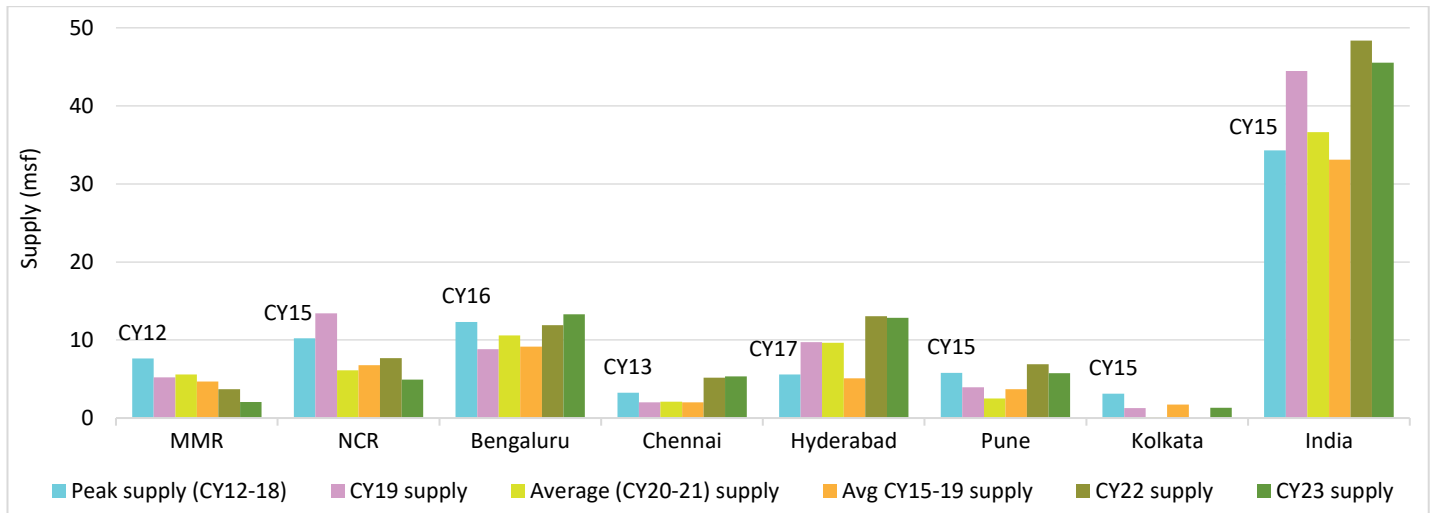
Q4CY23 demand and supply improve YoY

Absorption increased YoY in Q4CY23; the situation was the same on the supply front as well.

Supply: Except Kolkata, completions increased YoY in all the other cities. Supply rose 77% QoQ/140% YoY during the quarter.

Bengaluru, Hyderabad and the NCR contributed ~70% to supply during the quarter.

Exhibit 5: Q4CY23 supply – up YoY



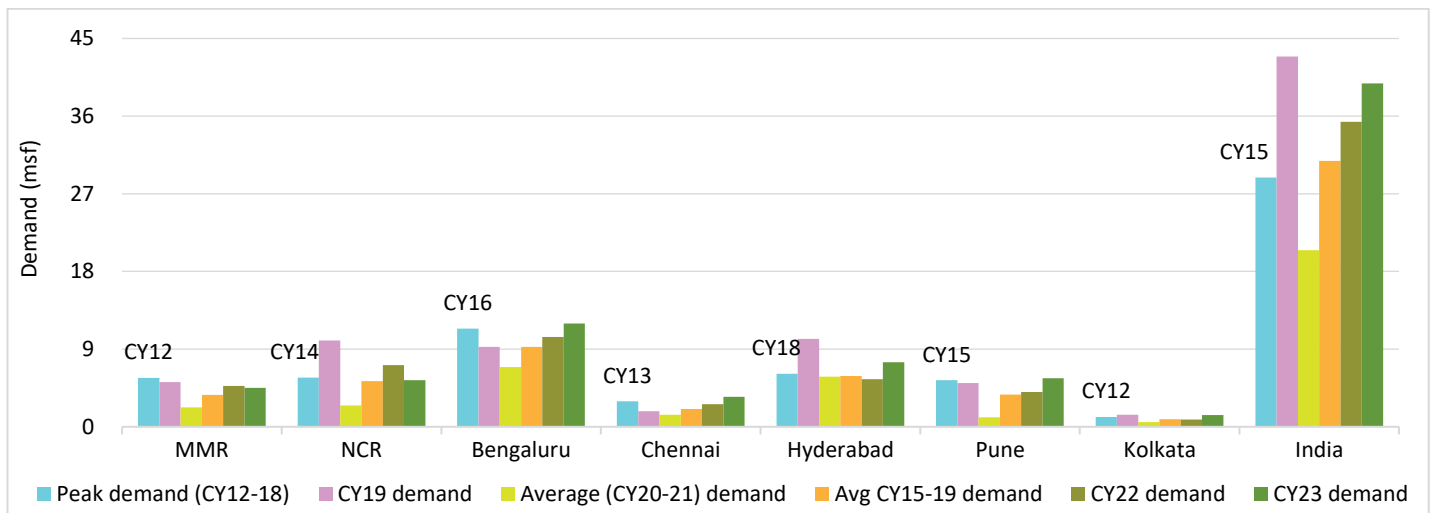
Source: Cushman & Wakefield, Nuvama Research

Note: Year denoting the peak supply has been shown

CY23 supply at 45.5msf was down 6% YoY; it is also higher by 2% than completions during CY19.

Demand: Up YoY and QoQ, largely due to the uptick in leasing from GCCs. Overall, office space demand rose 68% YoY (up 137% QoQ in Q4CY23).

Exhibit 6: Office space demand in Q4CY23 – Bengaluru, Hyderabad and MMR emerge anchors



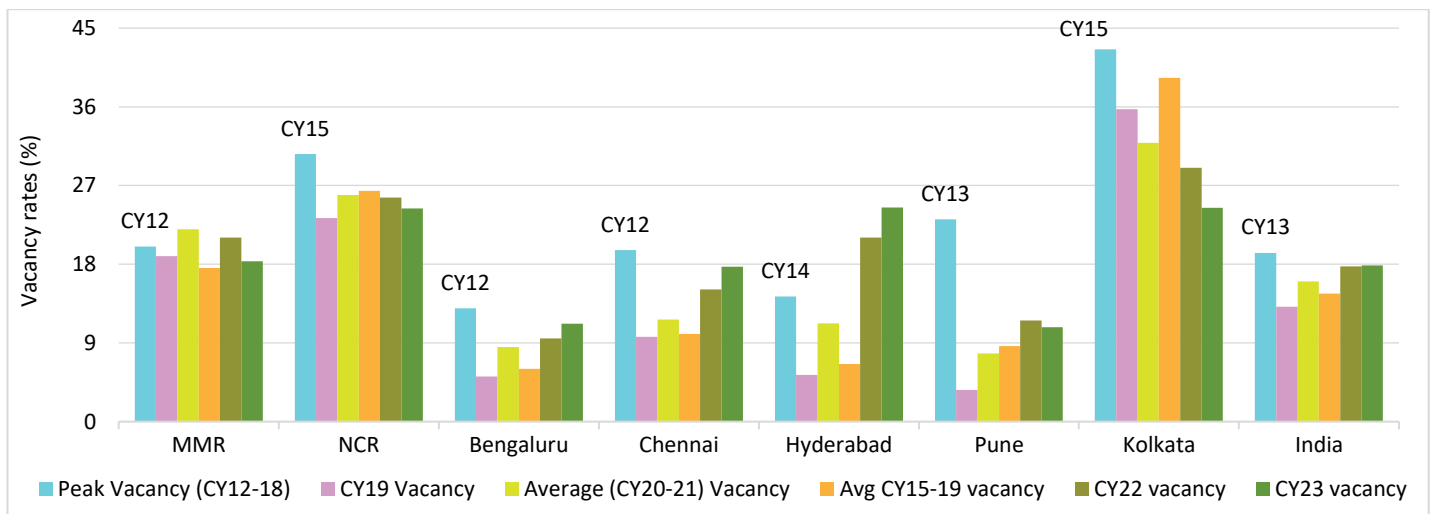
Source: Cushman & Wakefield, Nuvama Research

Note: Year denoting the peak demand has been shown

Bengaluru was the highest contributor to demand during the quarter with a share of ~44%. It was followed by Hyderabad and the MMR. Except Kolkata, demand increased QoQ in other cities.

Demand during CY23 at ~40msf was up ~13% YoY but down 7% compared with CY19 levels.

Exhibit 7: Vacancies – Mixed trend in Q4CY23



Source: Cushman & Wakefield, Nuvama Research

Note: Year denoting the peak vacancy has been shown

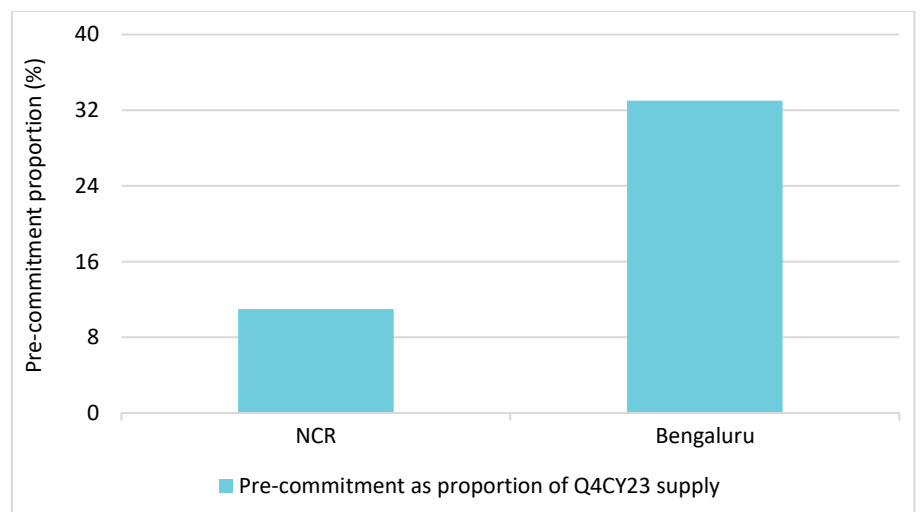
As far as vacancy levels are concerned, the MMR, Bengaluru and Kolkata logged a QoQ decline. YoY, vacancies decreased in all cities, except Bengaluru, Chennai and Hyderabad. Pan-India, vacancies decreased 30bp QoQ (up 10 YoY) to 17.9%.

Kolkata and the NCR currently have vacancies lower than their average over CY15–19; the situation is the reverse in other cities. For the country as a whole, vacancy at end-CY23 was ~330bp higher than the average vacancy over CY15–19.

Pre-commitment levels decline

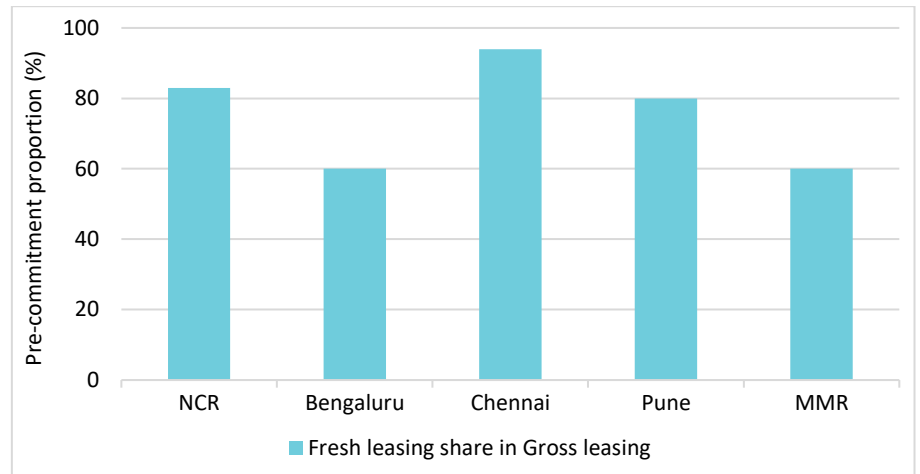
Pre-commitment levels during Q4CY23 declined compared with previous quarters.

Exhibit 8: Pre-commitments in supply in Q4CY23



Source: Cushman & Wakefield, JLL, Nuvama Research

Exhibit 9: Share of fresh leasing in gross leasing volumes in Q4CY23



Source: Cushman & Wakefield, JLL, Nuvama Research

The bulk of the absorption during the quarter pertained to fresh leasing.

Performance – A mixed bag

Except Kolkata, supply increased QoQ in all other cities. Absorption decreased sequentially in Kolkata, but increased in other cities.

Exhibit 10: Sequential change in demand-supply parameters in Q4CY23 across cities

Particulars	Supply	(% QoQ)	Demand	(% QoQ)	Vacancy rates	(bps QoQ)	Rents	(% QoQ)
MMR	↑	72	↑	84	↓	(125)	↑	1.3
NCR	↑	571	↑	34	↑	52	↑	0.8
Bengaluru	↑	65	↑	349	↓	(19)	↑	0.4
Chennai	↑	40	↑	146	↑	115	↑	1.3
Hyderabad	↑	134	↑	65	↑	66	↑	3.1
Pune	↑	42	↑	109	↑	28	↑	6.2
Kolkata	↓	(100)	↓	(23)	↓	(89)	↔	-
All India	↑	77	↑	137	↓	(29)	↑	1.9

Source: Cushman & Wakefield, Nuvama Research

Note: The numbers next to the arrows denote QoQ change (% for demand, supply and rents and bp for vacancy rates)

YoY, supply improved in Bengaluru, Chennai and Kolkata but decreased in all other cities in CY23. Absorption decreased YoY in the MMR and the NCR in CY23 but increased in other cities.

Exhibit 11: Change in demand-supply parameters in CY23 across cities

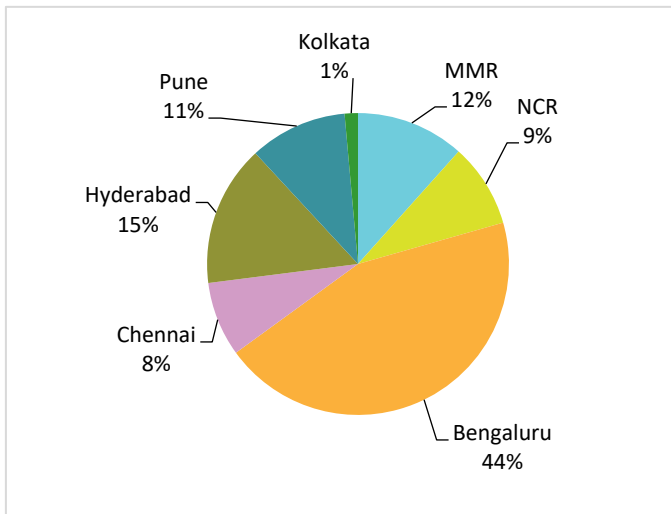
Particulars	Supply	(% YoY)	Demand	(% YoY)	Vacancy rates	(bps YoY)	Rents	(% YoY)
MMR	↓	(45)	↓	(5)	↓	(271)	↑	3.5
NCR	↓	(36)	↓	(25)	↓	(123)	↑	3.7
Bengaluru	↑	12	↑	15	↑	168	↑	0.4
Chennai	↑	3	↑	32	↑	262	↑	2.7
Hyderabad	↓	(1)	↑	36	↑	341	↑	9.8
Pune	↓	(17)	↑	39	↓	(77)	↑	6.6
Kolkata	↑		↑	62	↓	(460)	↑	0.2
All India	↓	(6)	↑	13	↑	12	↑	3.8

Source: Cushman & Wakefield, Nuvama Research

Note: The numbers next to the arrows denote YoY change (% for demand, supply and rents and bp for vacancy rates)

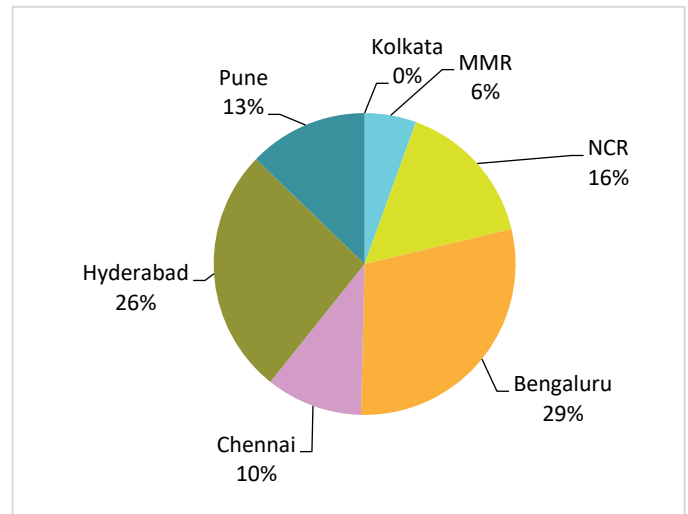
High supply meant that vacancies increased YoY in Bengaluru, Chennai and Hyderabad in CY23.

Exhibit 12: Bengaluru, Hyderabad lead demand in Q4CY23



Source: Cushman & Wakefield, Nuvama Research

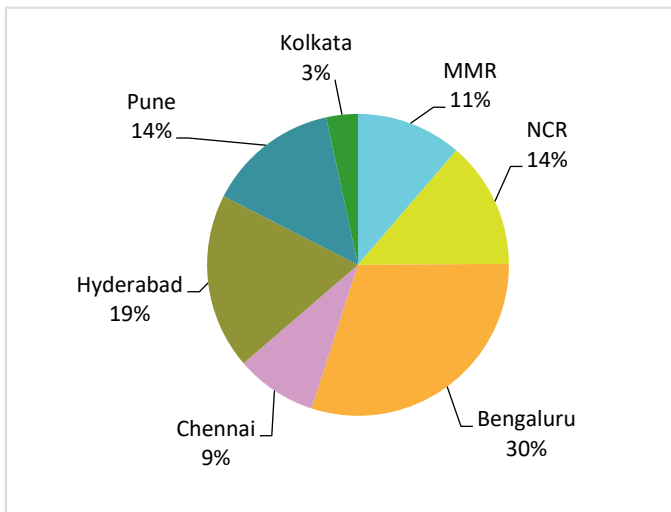
Exhibit 13: Bengaluru, Hyderabad lead supply in Q4CY23



Source: Cushman & Wakefield, Nuvama Research

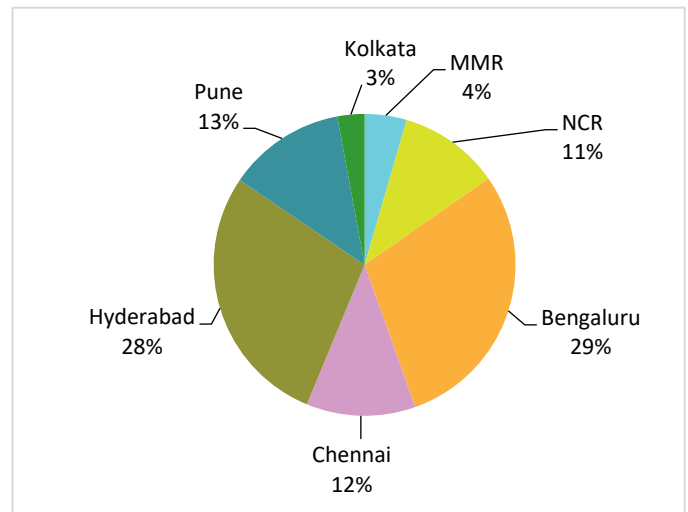
Hyderabad, Bengaluru and the MMR drove office space demand in Q4CY23. As far as supply is concerned, Bengaluru, Hyderabad and the NCR made up ~71% of overall supply in Q4CY23.

Exhibit 14: Bengaluru accounts for a third of demand in CY23



Source: Company, Nuvama Research

Exhibit 15: Bengaluru and Hyderabad lead supply in CY23



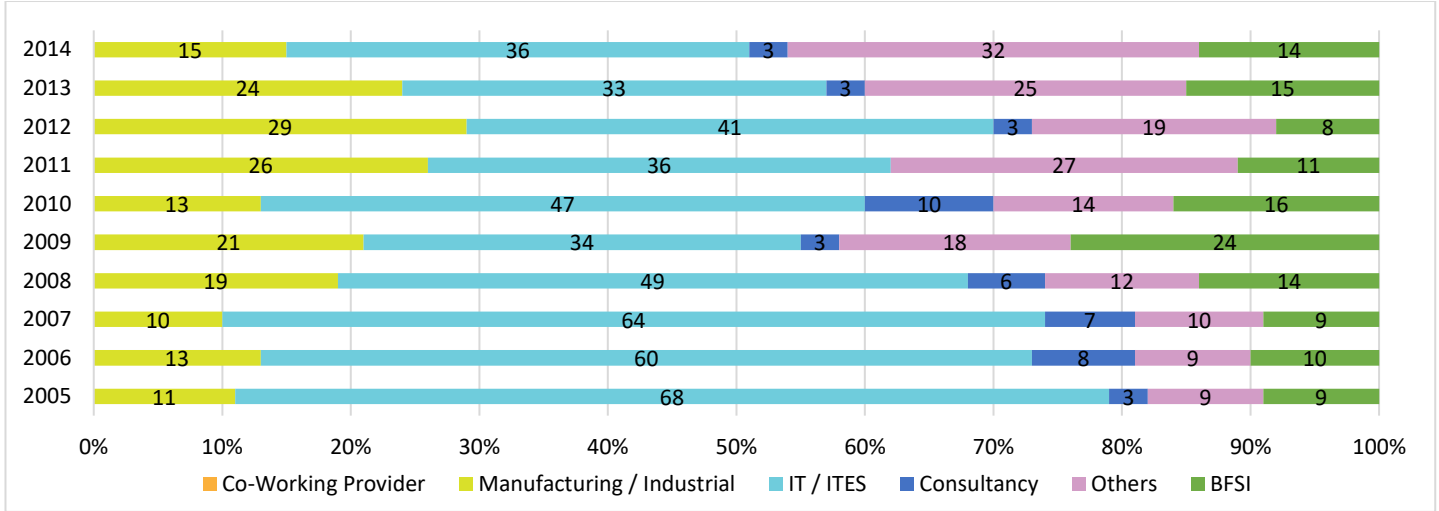
Source: Company, Nuvama Research

For CY23, Bengaluru contributed the largest share to absorption followed by Hyderabad and the NCR. As far as supply is concerned, Bengaluru, Hyderabad and Pune made up ~70% of overall supply in CY23.

Share of IT/ITeS segment declines

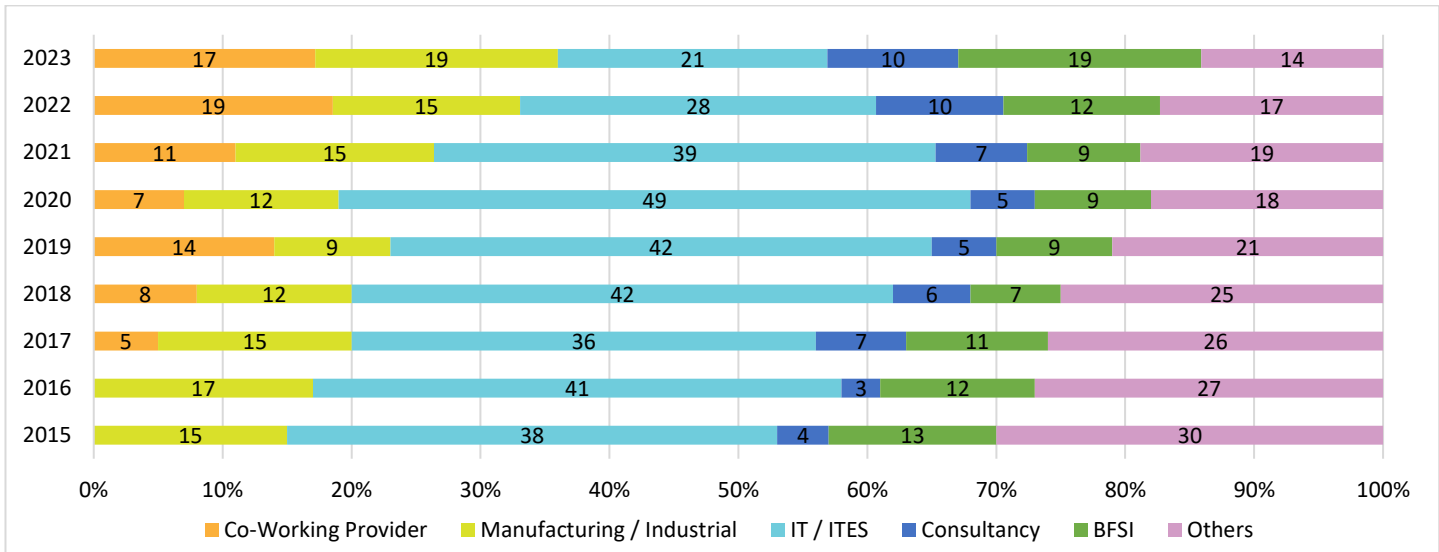
The IT/ITeS segment (which is linked to the global economy), on average, contributed ~51% to office space demand in India over CY05–11. Its share declined to ~40% over CY12–21 but still remained the largest contributor to office absorption in the country.

Exhibit 16: India office demand split (CY05–14) – by sector of occupier



Source: JLL, Nuvama Research

Exhibit 17: India office demand split (CY15–23) – by sector of occupier

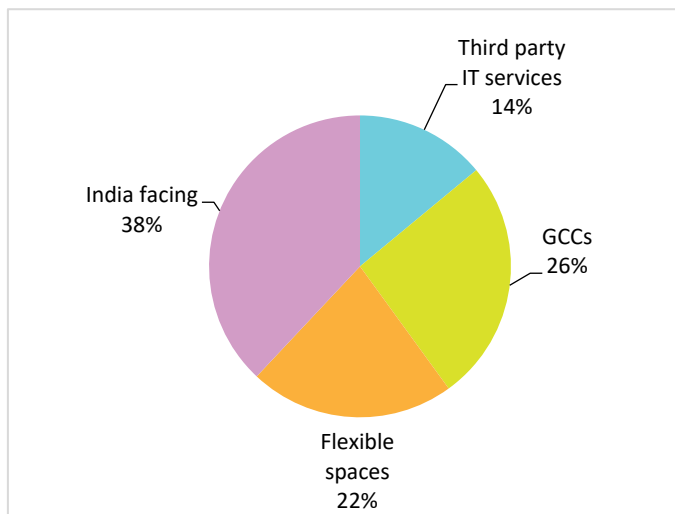


Source: JLL, CBRE, Nuvama Research

However, the sector is now battling a downturn, which is hurting office leasing in the country. The share of the tech sector in overall leasing had declined to ~28% in CY22, lowest in the past 17 years. According to JLL, the tech sector’s share of leasing hit an all-time low of just ~21% in CY23.

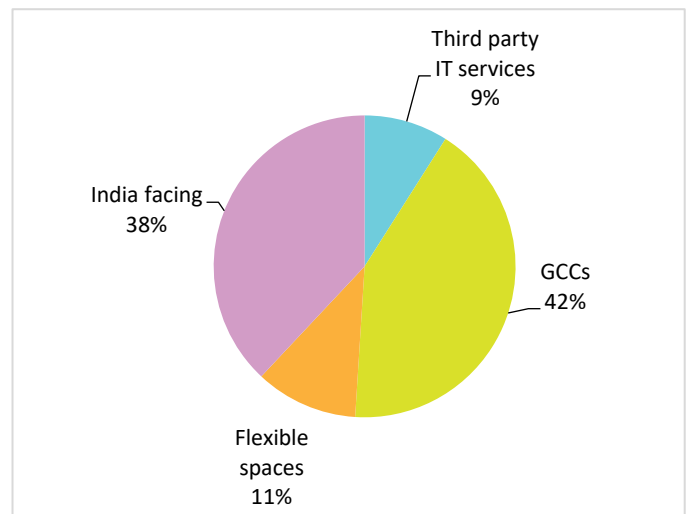
Within the overall tech space, the share of third-party IT services has declined while that of GCCs has increased.

Exhibit 18: End-use split of transactions in H2CY22



Source: Knight Frank, Nuvama Research

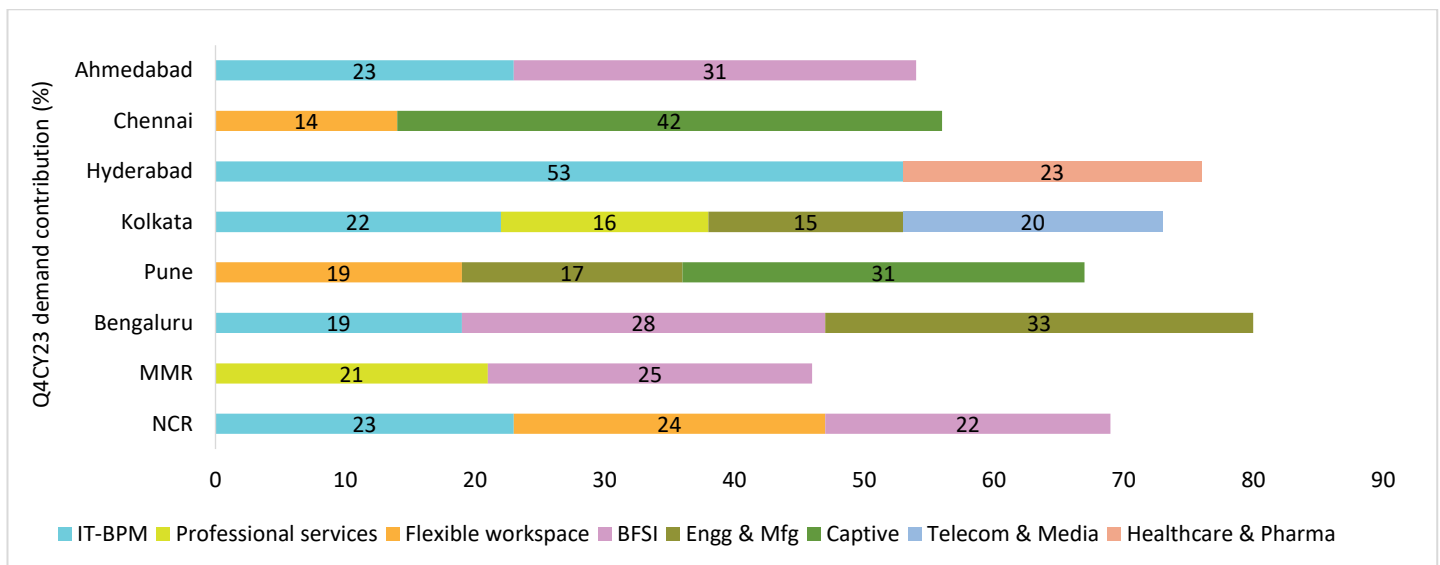
Exhibit 19: End-use split of transactions in H2CY23



Source: Knight Frank, Nuvama Research

Nevertheless, the IT-BPM sector continues to remain a significant demand driver across cities.

Exhibit 20: IT-BPM – A significant demand driver across cities in Q4CY23

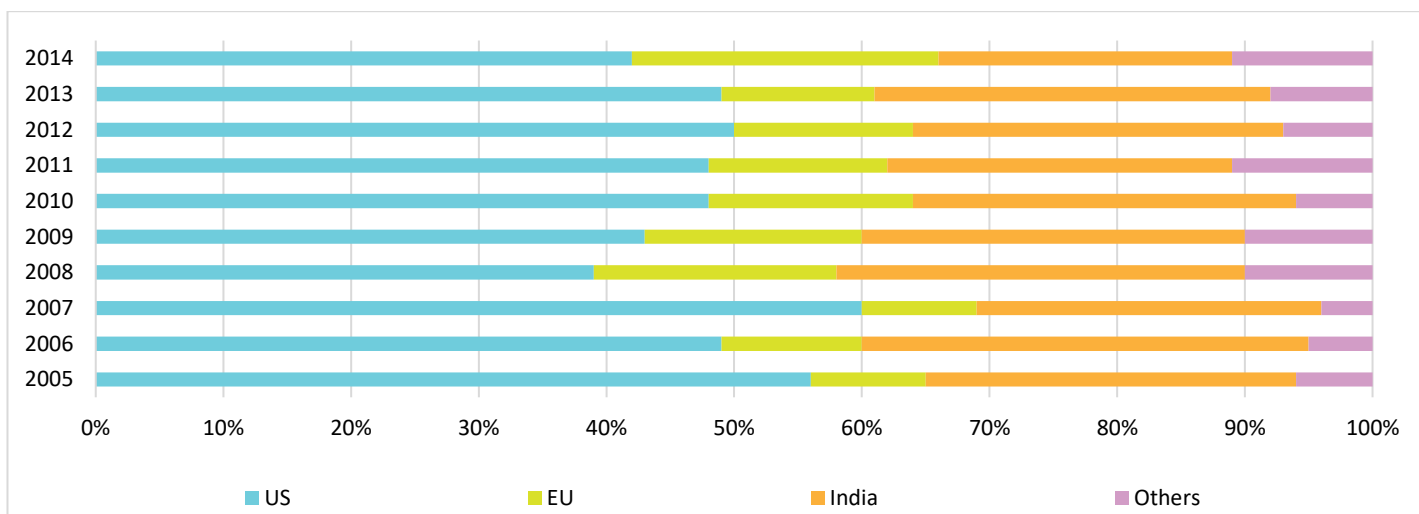


Source: Cushman & Wakefield, CBRE, Nuvama Research

Dent in absorption due to recession in developed markets

The US and Europe have historically accounted for ~60% of the office demand in India. A recession in these geographies is bound to impact office absorption in the near term.

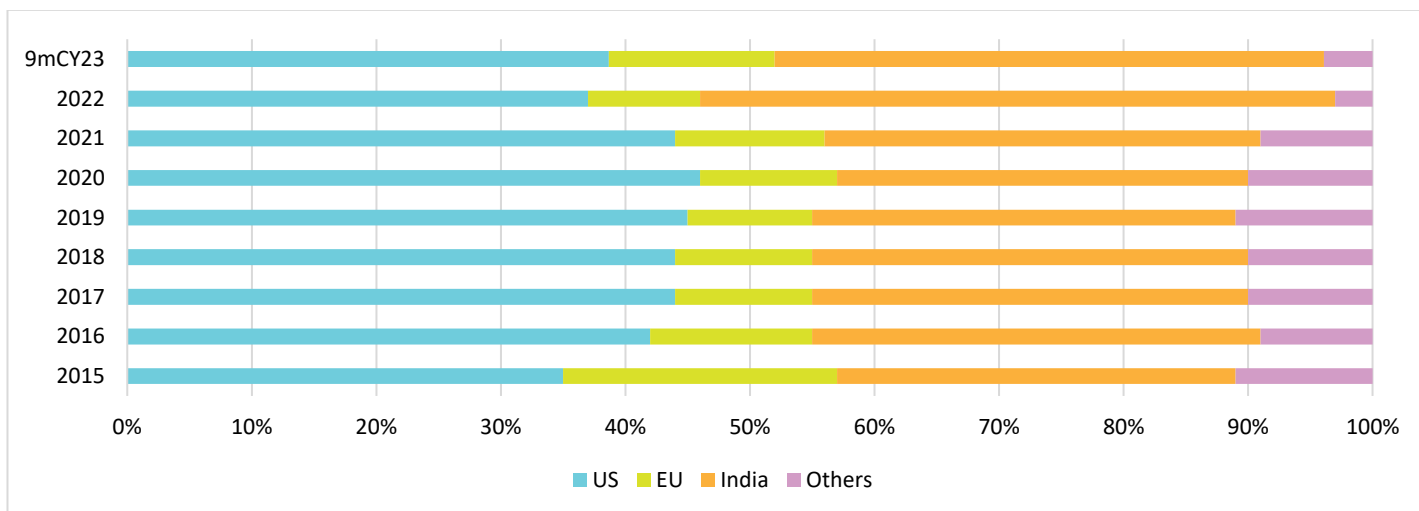
Exhibit 21: India office demand split (CY05–14) – by country of origin of occupier



Source: JLL, CBRE, Nuvama Research

It is evident that the Global Financial Crisis (GFC) had impacted leasing from US companies in 2008 and 2009. The share of US companies eventually recovered in 2010. Overall, the US/European companies contributed around two-thirds of leasing in Indian office space over CY05–14.

Exhibit 22: India office demand split (CY15–9mCY23) – by country of origin of occupier



Source: JLL, CBRE, Nuvama Research

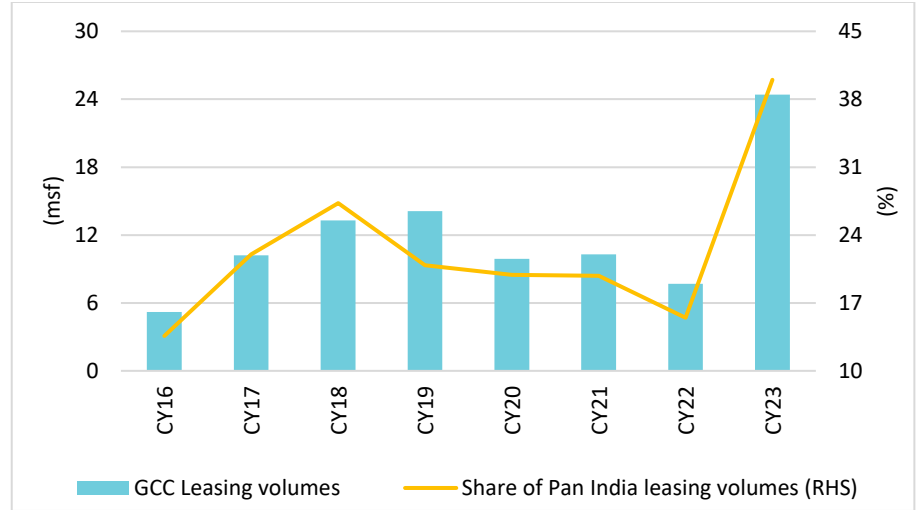
However, the trend started changing a bit post-CY14; the share of US/European firms declined to an average of ~56% over CY15–21. This was because domestic firms increased their share in office demand to ~34% during this period (compared with ~29% during CY05–14).

With developed markets staring at a recession post-pandemic, it is no surprise that their share in office absorption also declined. For the first time, domestic firms overtook US firms in terms of annual leasing in CY22 and accounted for more than half of the absorption.

As per CBRE, domestic firms contributed 43% and 46% to the absorption during Q2CY23 and H1CY23, respectively. In Q3CY23, US and domestic firms equally led the absorption brigade with a share of 42% each. In Q4CY23, domestic companies had a 45% share in overall leasing; their share in CY23 was ~44%.

Cost-cutting pressures on US companies are likely to lead to more outsourcing to India over the medium term. We believe this has already started, evident in the rising share of GCCs in office demand in India.

Exhibit 23: Annual office leasing by GCCs in India



Source: Cushman & Wakefield, Knight Frank, CBRE, Nuvama Research

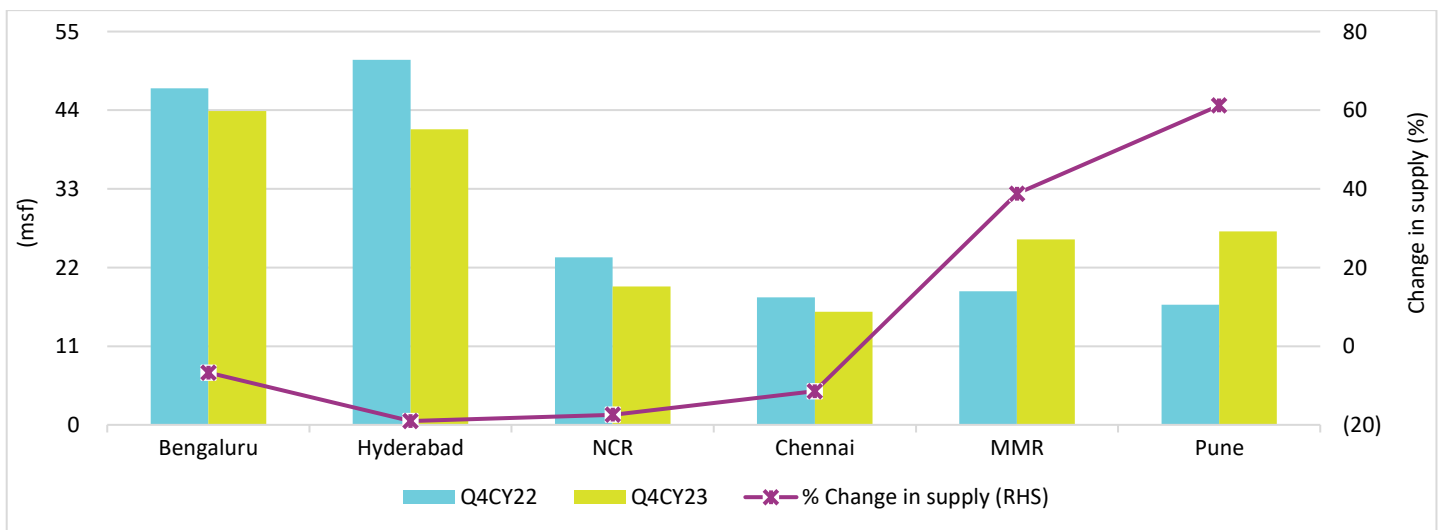
Going ahead, economic prospects in developed economies would have a bearing on office space demand in India as well.

Warning sign: Substantial supply coming up

While investors are rightly focussed on a pickup in demand post-covid, what has escaped attention is the high level of completions. Supply weakened during the pandemic, but has quickly gathered pace since. Supply continued to outstrip absorption during CY23.

- Upcoming supply over next 12 quarters remains high:** Overall, the top-seven cities are likely to witness ~176msf of supply over CY24–26. This shall translate into completions exceeding 50msf annually, much higher than the peak demand witnessed in any year.

Exhibit 24: Upcoming supply over next 12 quarters in various cities



Source: Cushman & Wakefield, Nuvama Research

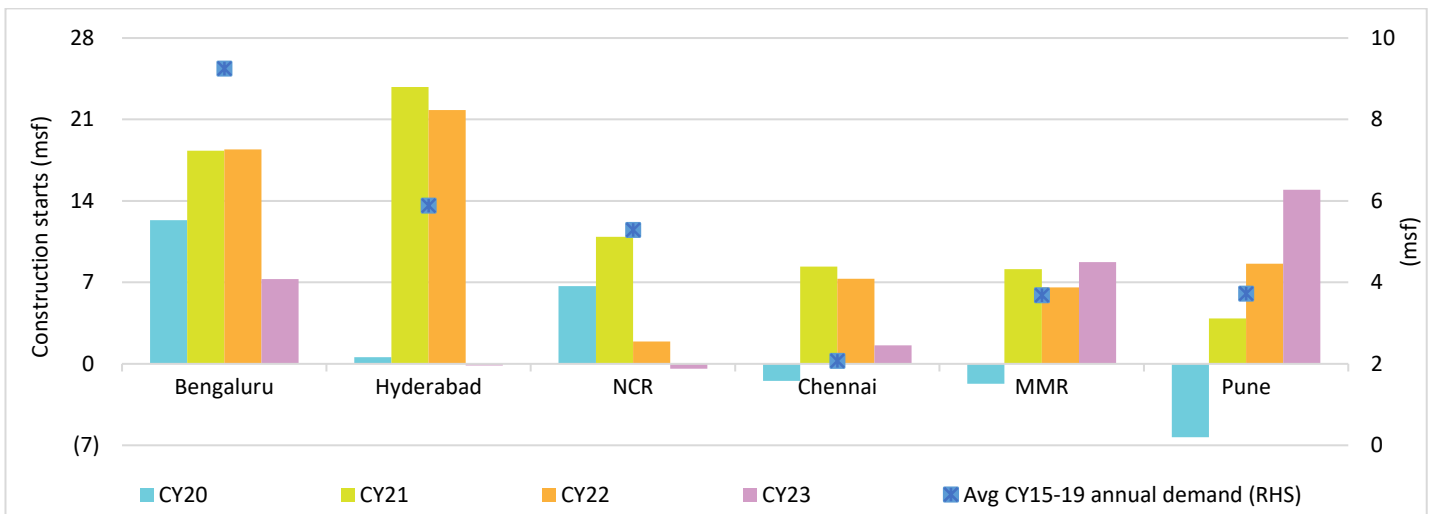
Note: Compares upcoming supply over next twelve quarters at end of Q4CY22 and Q4CY23

While some of this upcoming supply is likely to get deferred, we believe a significant portion will still come through. This can have a deleterious impact on vacancies, going ahead.

However, there is a sliver of hope. On a YoY-basis, all cities except the MMR and Pune are likely to witness lower upcoming supply.

- **Supply moderation setting in:** Despite demand dislocation in CY20–21, new project starts remained unaffected. Led by Bengaluru, work on ~13msf projects began in CY20. CY21 witnessed commencement of work on a significant quantum of projects. In CY22 as well, developers commenced work on a large number of projects, though the quantum was lower than CY21.

Exhibit 25: New construction-starts – Signs of supply moderation emerge in CY23



Source: Cushman & Wakefield, Nuvama Research

However, in CY23, the first signs of supply moderation came to light; consequently, CY23 supply at 45.5msf was down 6% YoY.

Furthermore, the quantum of projects where construction started in CY23, was lower than CY21/22 in all cities except the MMR and Pune. It is no surprise that supply moderation in CY23 is quite high in Bengaluru, Hyderabad, the NCR and Chennai; in these cities, the projects-starts over the past few years have been consistently higher than the average annual demand over CY15–19.

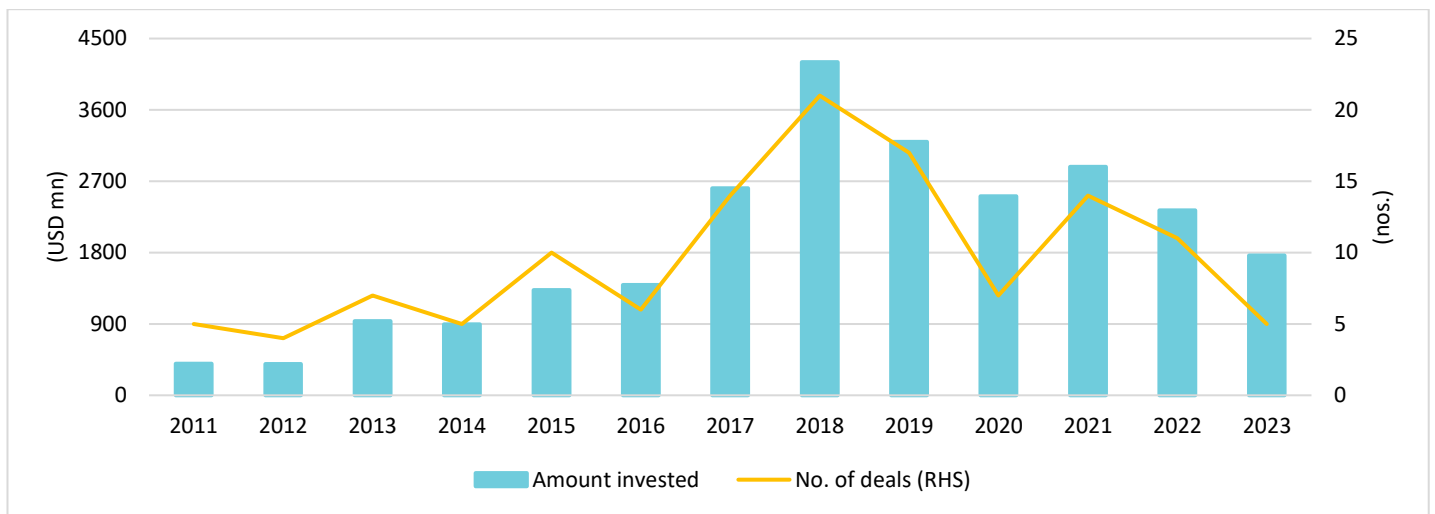
Overall, we believe the peak of the current development cycle would not occur before CY25; we expect completions to be ~53–56msf annually over CY24–25E.

Investment in office space has been declining

Concerns over rising inflation and interest rates led to investors turning cautious in 2022 and 2023, which impacted investment flow in the property space.

CY23 witnessed lower PE investments in the office segment.

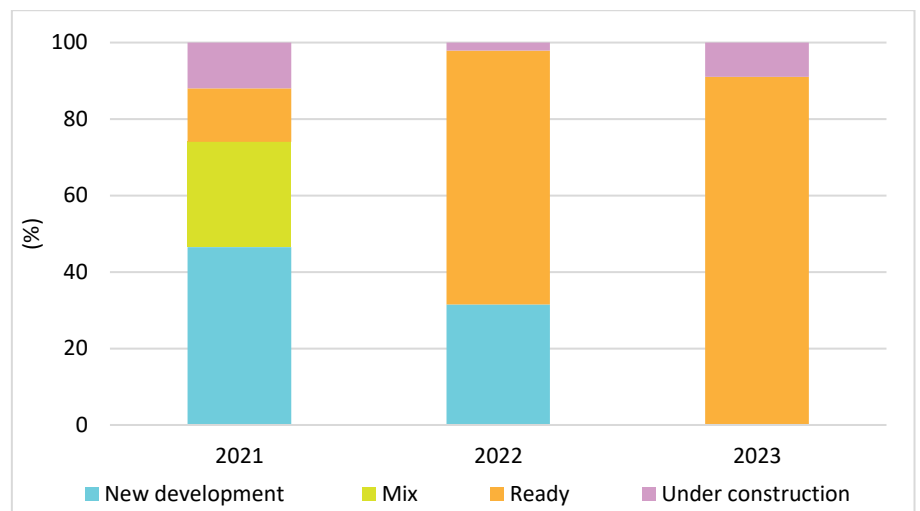
Exhibit 26: PE investments in office space



Source: Knight Frank, Nuvama Research

Moreover, investors have become risk-averse and started favouring operational office assets rather than the greenfield ones.

Exhibit 27: Stage of investment



Source: Knight Frank, Nuvama Research

In CY21, only 14% of the investment was in completed properties while ~59% was in new and under-construction projects. On the other hand, in CY23, ~91% of the investment was in ready assets.

Over the medium term, attractive REIT opportunities in India are likely to lead to higher institutional investments in the office space.

Outlook: The worst is over

CY23 had started with concerns about sluggish office demand and large supply. However, by the time the year ended, there was cause for comfort on both these counts. Absorption is showing signs of recovery while supply has started getting moderate. This makes us believe that the worst is over for the office space even though we might be some time away from an upcycle in the office space.

We attempt to analyse and figure out the way forward for the office segment in India and also ascertain which markets are well placed in the near and medium term.

Near-term: We believe supply will outstrip demand as the leasing trajectory is likely to be lower than completions. Consequently, vacancy levels would inch up in most cities. This will keep rents range-bound.

At the same time, the gap between demand and supply has started dwindling; consequently, vacancies are unlikely to escalate sharply. Our outlook for various operational parameters across cities is summarised below.

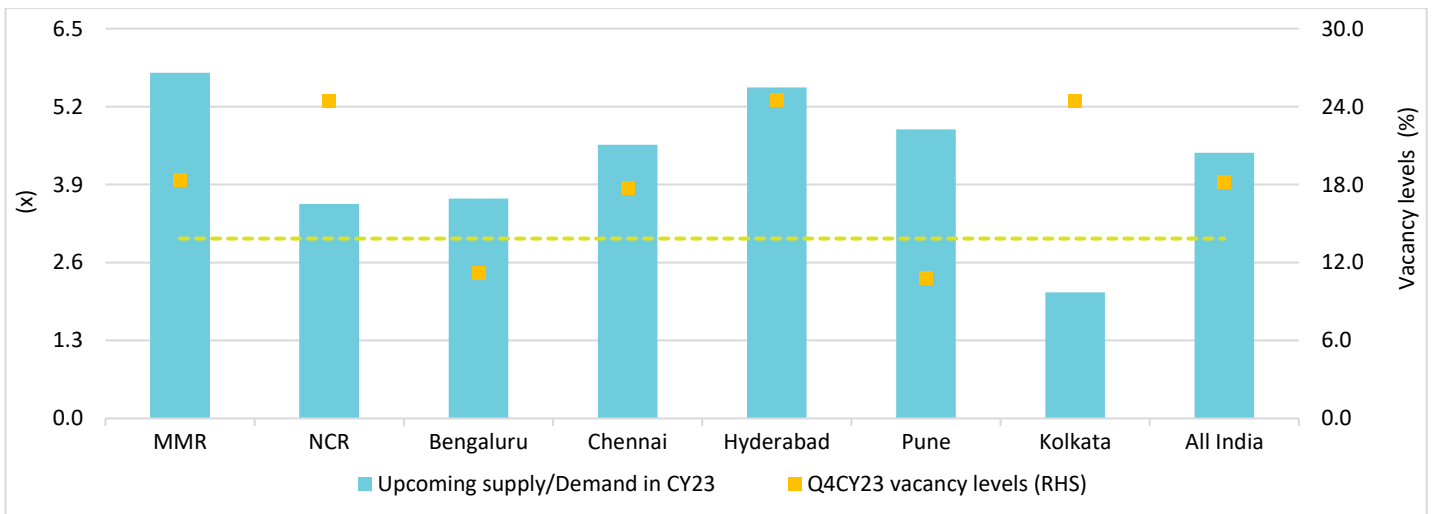
Exhibit 28: Outlook for next 12 months

	MMR	NCR	Bengaluru	Chennai	Hyderabad	Pune	Kolkata
Rents	↑	↔	↔	↑	↑	↔	↑
Vacancy rates	↓	↓	↑	↑	↑	↔	↓
Absorption	↑	↔	↑	↑	↑	↑	↑

Source: Cushman & Wakefield, Nuvama Research

Medium term: About 176msf of incremental commercial space is expected to be commissioned by CY26. We analyse and figure out the cities that are placed comfortably as far as the demand-supply paradigm is concerned by comparing supply with the space absorbed by them in CY23.

Exhibit 29: Upcoming supply – NCR and Kolkata well placed



Source: Cushman & Wakefield, Nuvama Research

Note: Upcoming supply refers to supply expected to come on stream by CY26

Note: The dotted line indicates a scenario wherein upcoming supply on an annual level is equal to demand in CY23

A look at incremental supply (till CY26) by city indicates that all other cities, except the NCR and Kolkata, must clock higher cumulative demand through CY26 than that in CY23 to absorb upcoming supply.

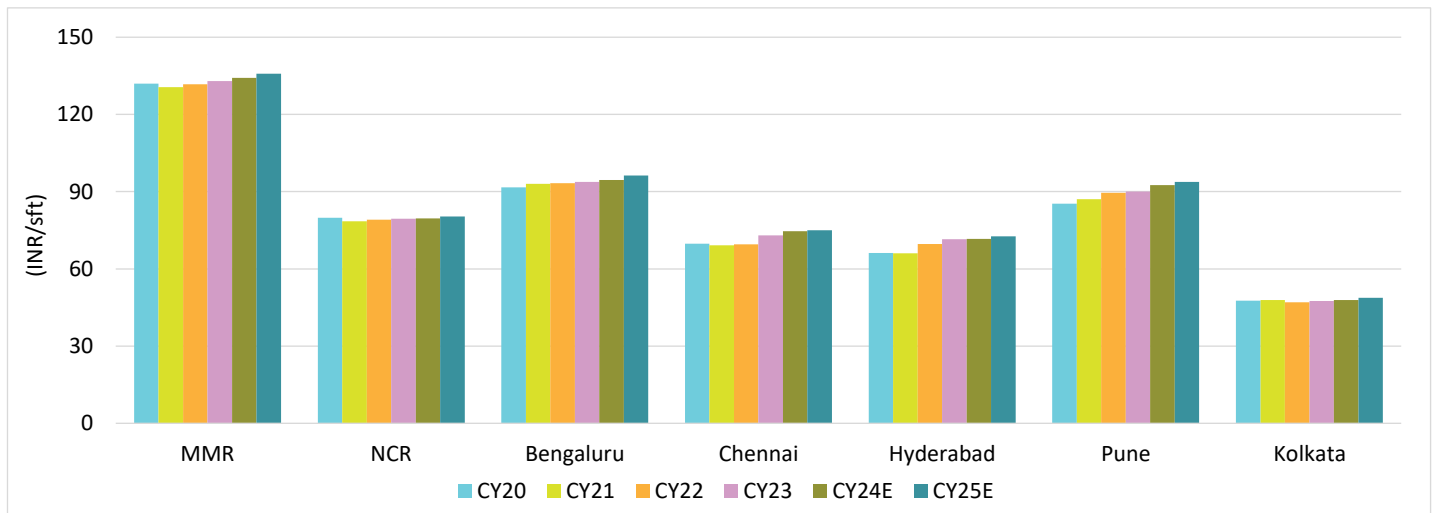
Most cities clearly need a significant uptick in demand for absorption of upcoming supply. The MMR and Hyderabad, especially, are struggling with upcoming supply being quite higher than CY23 demand. On the other hand, the NCR, Bengaluru and Kolkata are relatively better placed.

One must also consider that some of the upcoming supply may be deferred due to labour/finance unavailability issues, or even developers themselves choosing to defer projects in light of increasing vacancies. This could prevent the demand-supply equation from getting bad to worse.

On the demand side, there is a clear recognition that the leasing trajectory needs to pick up in order to: i) absorb incoming supply; and ii) ensure that existing leases coming up for renewals are addressed adequately.

We expect completions to be ~53–56msf annually over CY24–25E with supply eclipsing demand by ~12–13msf in both years. Consequently, we anticipate vacancy levels to stay above the 18% mark. This is likely to constrain rental growth, in our view.

Exhibit 30: Rental growth likely to be muted



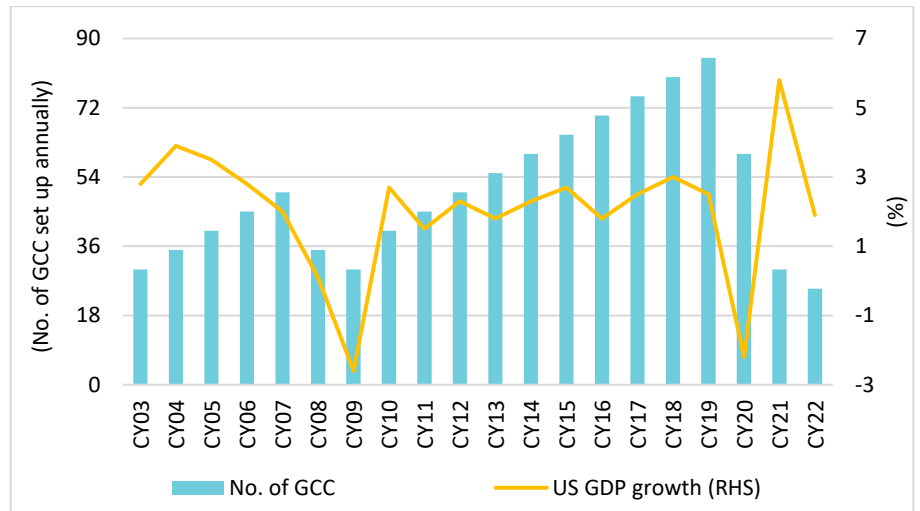
Source: Cushman & Wakefield, Nuvama Research

We believe annual rental growth would likely remain in the 1–2% range, going ahead.

Long-term – silver lining does exist: Every crisis, like every cloud, has a silver lining, and the current one offers hope of salvation. A likely recession in developed economies would compel the firms thereof to cut costs. Outsourcing is an obvious way to achieve these cost savings. India with its large talent pool and attractive rentals (USD1–1.1/sq. ft.) is favourably placed to benefit from these trends. The depreciation in INR against the USD has further accentuated the value that India offers.

These advantages shall be complemented by the fact that India has steadily moved up the value curve from voice-based call centres to high-end work in animation, semiconductors, design and engineering, product development, R&D, etc.

Exhibit 31: Previous US recession provided boost to GCC ecosystem in India



Source: Industry, Nuvama Research

The number of GCCs being set up in India had shot up the last time the US faced a recession. We believe a similar phenomenon is likely to play out this time too.

CBRE expects GCCs to lease 60–62msf incremental space over CY23–25E.

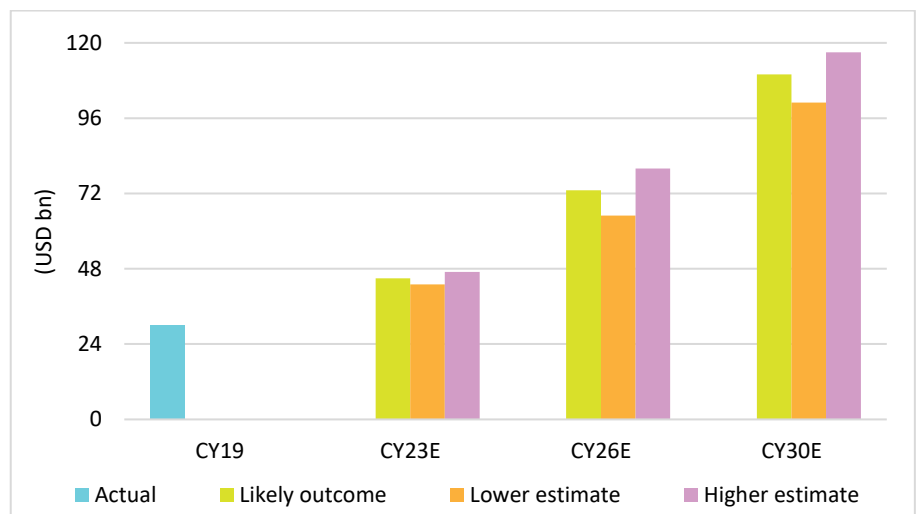
Exhibit 32: GCC ecosystem in India

Particulars	CY17-19	CY20-22	CY23-25F
No. of operational GCCs	1250	1580	1900
GCC Talent base (mn)	1.3	1.66	2
GCC share in overall leasing	30-35%	38-43%	35-40%

Source: CBRE, Nuvama Research

An E&Y report projects the total GCC market would increase from ~USD45bn in 2023 to ~USD110bn by 2030.

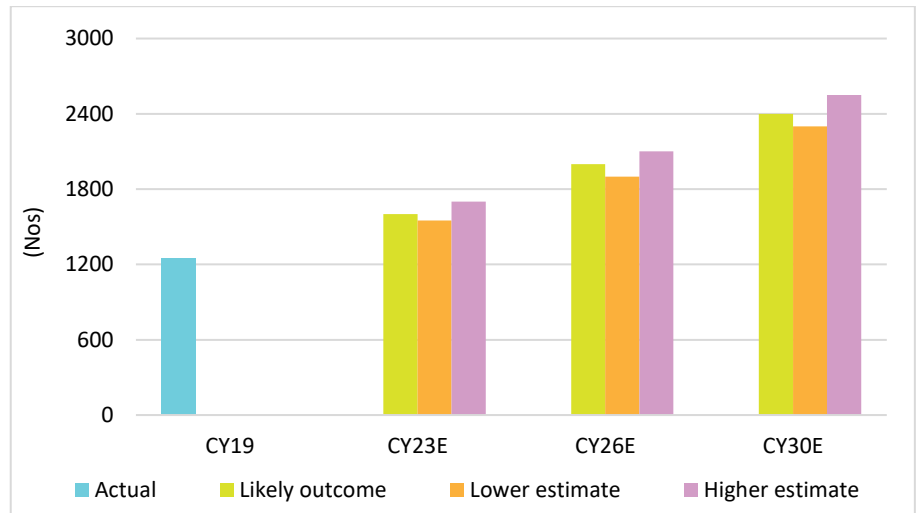
Exhibit 33: GCC market size in India



Source: E&Y, Nuvama Research

The report pegs the number of GCCs in India at ~2,400 by 2030E.

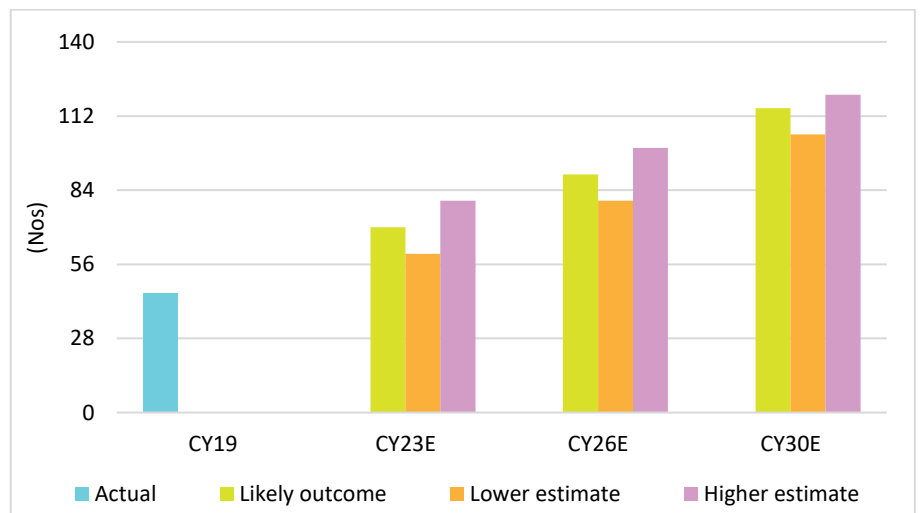
Exhibit 34: Total number of GCCs in India



Source: E&Y, Nuvama Research

This can happen as the number of GCCs being set up in India annually can jump to 115 from the current 60–70.

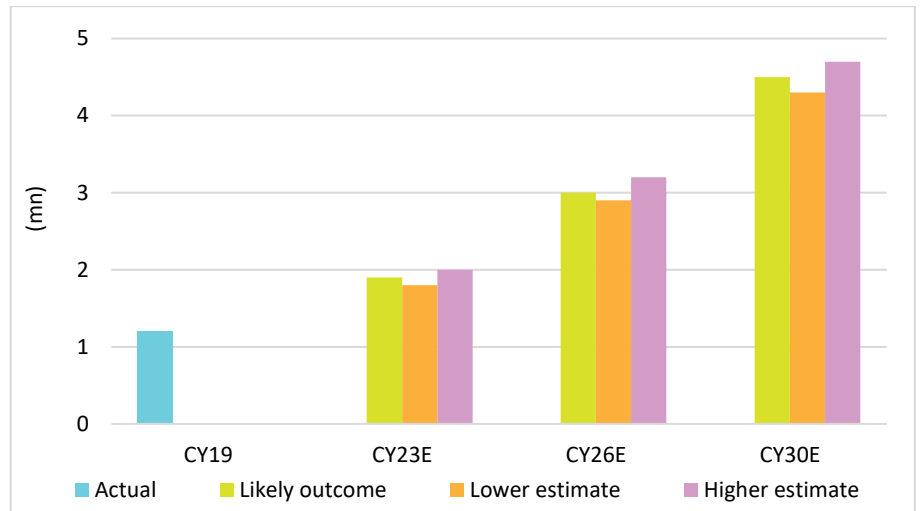
Exhibit 35: GCCs in India: Annual count projection



Source E&Y, Nuvama Research

Consequently, the total GCC headcount can more than double to ~4.5mn by 2030.

Exhibit 36: GCC employee base in India



Source: E&Y, Nuvama Research

Similarly, a BCG study projects that India's GCC employee base would increase from ~2mn today to 5mn by 2030.

Considering the current space occupied by GCCs is 158msf, incremental hiring over 2023–30 could create demand for 200–225msf office space. This shall translate to healthy leasing from GCCs, going ahead.

All in all, we argue the economic slowdown may actually prove to be beneficial for the Indian office space over the medium to long-term. We believe this would be good news for the IT hubs in Bengaluru, Hyderabad, Chennai and Pune.

We also believe that bespoke hybrid models would gain dominance in the future. While WFH would sustain, offices will not become obsolete (for a detailed discussion on impact of WFH on office space demand refer to [Hot Property - WFH: Much ado about nothing; sector update](#)).

Major developments during Q4CY23

We take a look at significant developments in the office space during Q4CY23:

October 2023

- BFSI firms' share rises to 29% in total gross office space leasing in Sep quarter across nine major cities: CBRE [\(ET\)](#)
- The headaches of India's largest office landlord [\(Mint\)](#)
- Office spaces are shrinking as occupiers rethink need for physical real estate [\(BL\)](#)
- New office space supply across top seven cities to exceed 165 million sq. ft. in 2023–25: Report [\(ET\)](#)
- Indian office market sees steady demand uptrend; key cities' rentals remain stable [\(ET\)](#)
- Google leases office space in Blackstone's GIFT City tower [\(ET\)](#)

November 2023

- Kochi, Thiruvananthapuram have 14 million sq. ft. office space; highest among Tier II cities ([Money Control](#))
- 'India to see explosion in demand for office space in 12–18 months ([BL](#))
- GCCs to lease 62 million sq. ft. in India by 2025: CBRE Asia report ([BS](#))
- Global Capability Centres boost office space demand across Indian cities ([ET](#))
- Global slowdown blues to stall demand growth for office space this fiscal: Crisil ([ET](#))

December 2023

- Private capital leading growth factor for commercial real estate in APAC ([BL](#))
- Indian office market shows higher affinity for shared work spaces: Colliers-FICCI report ([ET](#))
- Average rent rises 7% annually in Apr-Sep across seven cities to INR83/sq. ft./month: Anarock ([ET](#))
- Government allows IT SEZ's denotification by floor. This move is likely to help reduce vacancy levels ([ET](#))
- Denotification byFloor-wise to help unlock 15–18 million sq. ft. operational SEZ space: Study ([ET](#))
- IT/ITeS SEZ developers want 'proportionate' tax benefits for common areas in demarcated zones ([BL](#))
- Tech continues to lead; diversification shapes demand in real estate sector ([BS](#))
- India helps drive pre-pandemic levels of office demand, but regional vacancy ticks higher: Report ([ET](#))
- BFSI trumps IT sector as key driver of office space demand: CBRE ([ET](#))
- India office space demand growth sustained in 2023 despite global sluggishness ([ET](#))
- Q4 records high office leasing activity, witnessing 16% YoY growth in demand: report ([BL](#))
- Global captive centres fuelling demand for large offices ([ET](#))

Tracking developments by company

We take a look at significant developments related to the commercial realty space during Q4CY23:

Brigade Enterprises

- Brigade Enterprises to double seats in coworking brand BuzzWorks by FY24 ([BS](#))
- Brigade group to build office complex in Bengaluru worth INR5bn ([BQ](#))
- Sidvin Core-Tech India leases 54,000 sq. ft. in Bengaluru's Brigade Deccan Heights ([ET](#))

DLF

- DLF buys office space in Gurugram for INR810mn [\(ET\)](#)
- BofA leases 1.1 msf office space in DLF Taramani [\(ET\)](#)

Prestige Estates

- Prestige Estates: Execution of JV with WS Industries [\(NSE\)](#)

NBCC

- HDFC buys office space from NBCC for INR11.3bn [\(ET\)](#)

Embassy

- Embassy Industrial Parks completes acquisition of 124 acres on Bengaluru outskirts [\(ET\)](#)

Co-working space

Over the past few years, the co-working space has grown by leaps and bounds owing to compelling benefits such as cost savings and the flexibility that it provided to occupiers. By space occupied, the share of annualised leasing volume handled by managed space operators in CY16 stood at merely 2% of the overall Gross Leasing Volume (GLV) in the office space in India. This had ramped up steadily with 10.4msf space leased by flex operators in CY19, amounting to 17.5% of total leasing activity for the year across occupier segments.

However, the pandemic dealt a heavy blow to the co-working segment (refer to [Hot Property - Co-working space: Set for a shake-up](#)). Many tenants, with their profitability under stress, had to cut short their leases. Consequently, the flex leasing volume fell by over 50% during CY20. While the share of flex space in leasing rose to 11.4% in CY21, the absolute volumes remained lower than the previous highs.

However, CY22 witnessed the share of flex space in leasing activity rising to 18.5%, the highest to date. While the share declined slightly in CY23, it still remained at healthy levels.

Exhibit 37: Share of flex space in overall leasing

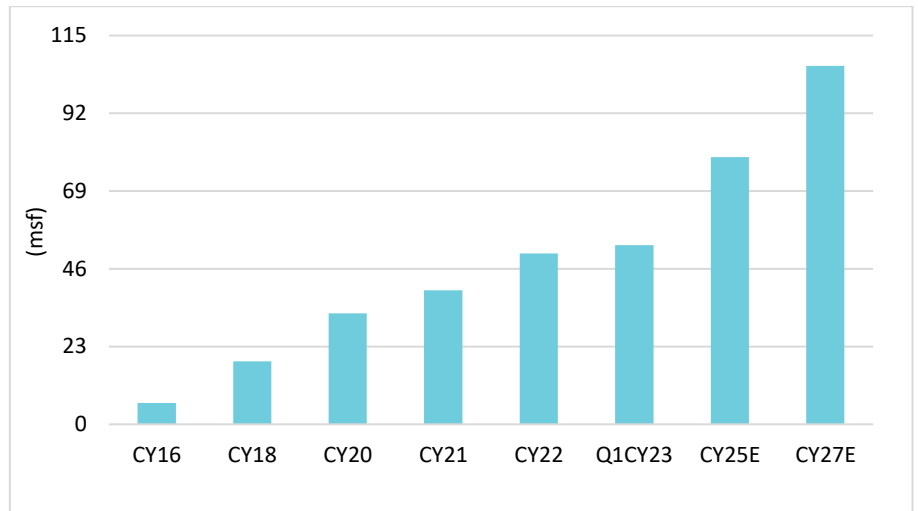


Source: JLL, CBRE, Nuvama Research

Interestingly, technology occupiers have been one of the driving forces of rising flex space demand across the top cities in India. They currently occupy over 50% of the total flex space across Chennai, Delhi-NCR, Pune and Hyderabad as per industry experts.

As per JLL, the flexible workspace market in India is expected to reach 106msf by CY27 from 53msf in Q1CY23.

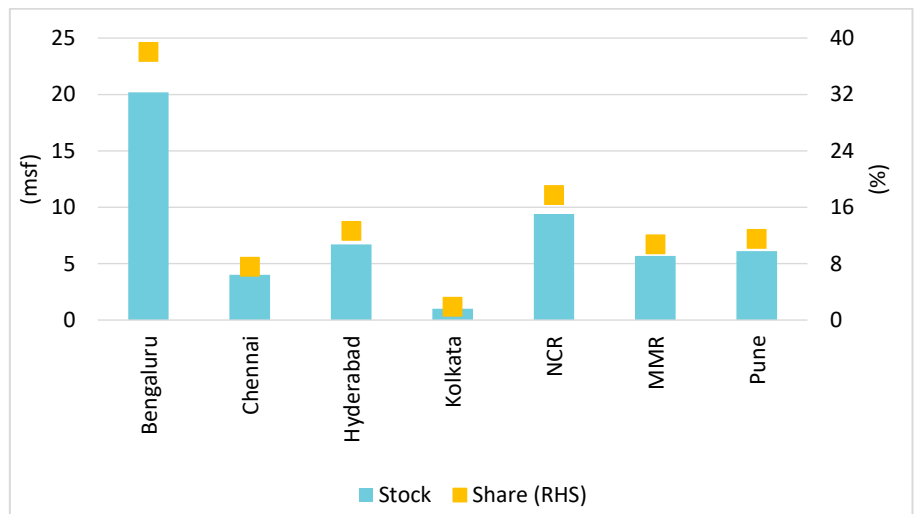
Exhibit 38: Flex space stock has been surging



Source: JLL, Nuvama Research

The flex stock across top seven cities has surged ~800% over the past six years to ~53msf in Q1CY23. It is expected to reach ~79msf by CY25 and cross 100msf by CY27E.

Exhibit 39: Flex space – Share of various cities



Source: JLL, Nuvama Research

The flex space penetration in Bengaluru is higher than even global standards of 5%; it is still likely to contribute handsomely to growth along with the NCR, Mumbai and Hyderabad.

We believe a combination of flexibility and capital conservation provided by the segment is particularly useful in an uncertain world. Driven by a need to defer capex and to try the hub-and-spoke model, many corporates are considering flexible workspaces. As a result, flexible space operators are likely to witness good demand going ahead.

With corporates as well as employees viewing co-working positively, we believe flexible workspaces would gather momentum, going ahead.

Major developments during Q4CY23

We take a look at major developments related to the flexible space during Q4CY23:

October 2023

- Table Space launches 'Ready-to-move in' premium offices called TS Suites [\(ET\)](#)
- Demand for flexi office spaces rises as WFH becomes passe [\(ET\)](#)
- Smartworks picks up 1 lakh sq. ft. office space in Gurugram [\(ET\)](#)
- BNY Mellon signs largest co-working lease deal in Pune [\(ET\)](#)

November 2023

- WorkEZ surpasses 1 million sq. ft. of flex office space [\(ET\)](#)

December 2023

- Flexible office space market set for big growth [\(ET\)](#)
- Ericsson in talks to pick up over 5 lakh sq ft workspace on lease from Skootr in Gurgaon [\(ET\)](#)
- SEZ denotification to bridge demand supply gap for flexi office operators [\(ET\)](#)
- Flexible office space market likely to rise 60% to over INR140bn this fiscal: Report [\(Money Control\)](#)

REIT corner

The quarter gone by has been eventful for the REIT segment in India. We take a look at significant developments related to the REIT segment during Q4CY23:

Overall REIT market

- REIT portfolios see rejig as IT firms give up office space [\(BL\)](#)
- Sebi lays down framework for calculation of net distributable cash flows by REITs, InvITs [\(ET\)](#)
- Listed REITs have failed to sparkle [\(ET\)](#)
- Multiple tailwinds likely to reverse REIT underperformance in markets [\(BS\)](#)
- Sebi mulling framework for issuance of subordinate units by REITs, InvITs to sponsors [\(ET\)](#)

Embassy Office Parks:

- Embassy Office Parks REIT leases 1.94 lakh sq. ft. office space in Mumbai to SMFG India Credit [\(HT\)](#)
- Embassy Office Parks REIT upgrades leasing guidance to 6.5mn sq. ft. of office space in FY24 [\(ET\)](#)
- Blackstone exits Embassy REIT; sells entire 23.5% stake for INR71bn [\(ET\)](#)

Brookfield REIT:

- ICRA-assigned Issuer Rating of Brookfield India Real Estate Trust. [\(BSE\)](#)

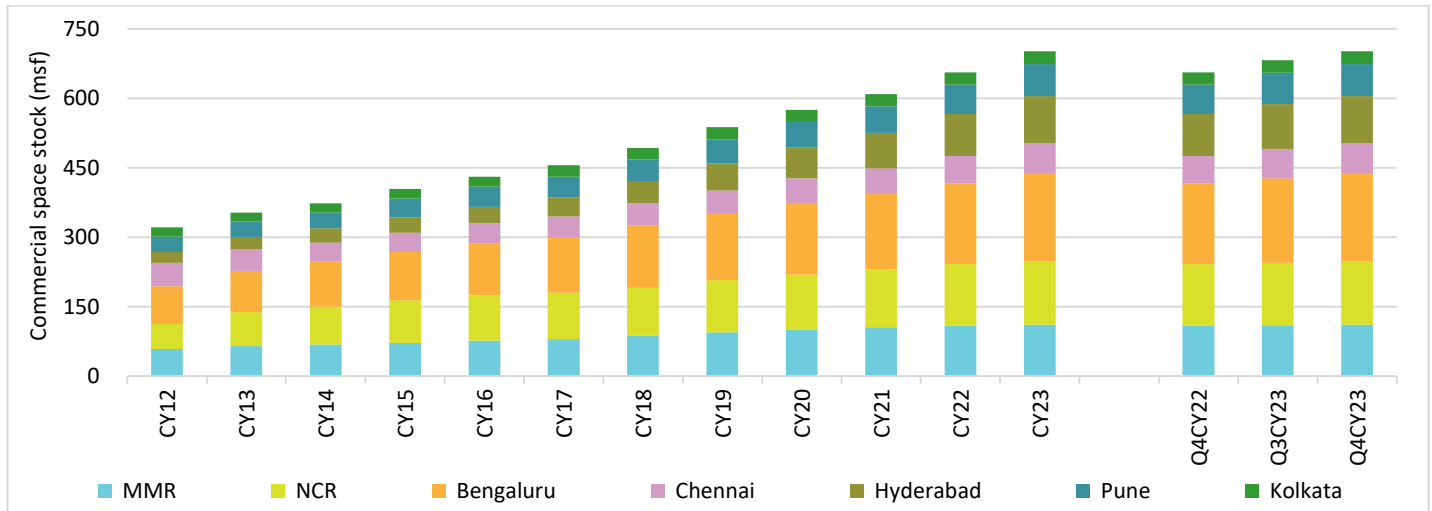
Mindspace Business Parks REIT

- ICICI Securities leases over 1.88 lakh sq. ft. office in Mindspace Juinagar for 12 years [\(ET\)](#)
- Bajaj Finserv Health leases 97,000 sq. ft. of office space for a rent of INR720,000 per month in Mindspace Business Parks [\(Money Control\)](#)
- Raheja's Mindspace REIT plans to develop 800,000 sq. ft. property in Navi Mumbai [\(ET\)](#)

Bengaluru consolidates its *numero uno* position

Bengaluru continued to be the biggest market in the commercial space in India in Q4CY23, followed by the NCR and the MMR. Overall, commercial space in the country has now reached ~702msf, up from ~420msf in CY16.

Exhibit 40: Growth in India 'Grade A' office stock

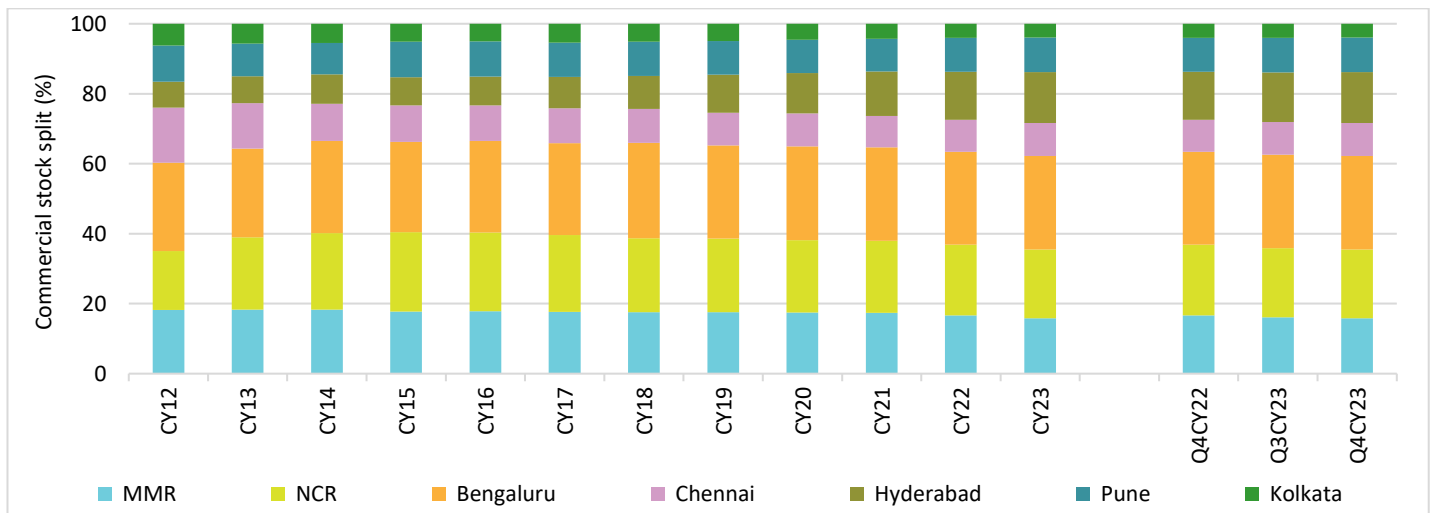


Source: Cushman & Wakefield, Nuvama Research

Bengaluru, the NCR and the MMR account for about two-thirds of India's overall commercial stock

The top three cities of Bengaluru, the NCR and the MMR account for ~436msf of office space, about two-thirds of the overall commercial stock in the country.

Exhibit 41: Split of India's 'Grade A' office stock



Source: Cushman & Wakefield, Nuvama Research

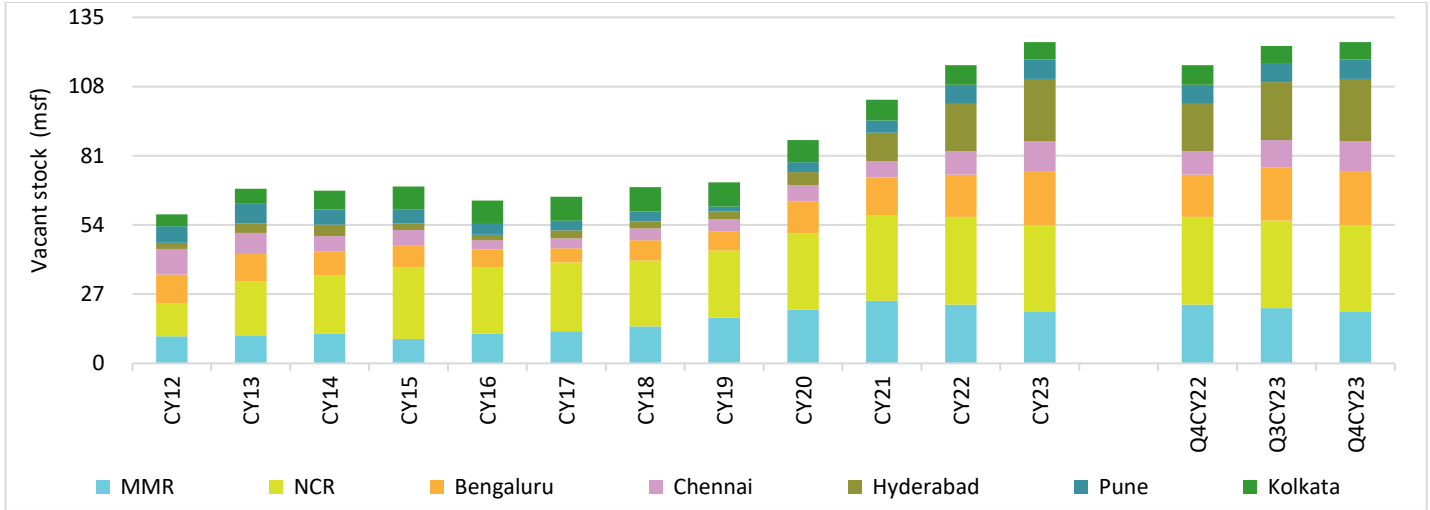
Bengaluru, the NCR and the MMR account for around two-thirds of India's overall commercial stock

Vacancy levels (in %) in India had declined steadily over the past few years (from 19.7% in CY13 to 13.1% in CY19), though there has been a steady uptick since then (15.1% in CY20, 16.9% in CY21 and 17.7% in CY22) due to the pandemic. After easing in Q1CY23, vacancy levels again went up to 17.9% as at end-Q4CY23.

Vacancies in Bengaluru had touched the double-digit levels for the first time since CY13 in Q2CY23; they further went up to 11.2% in Q4CY23. Pune, which was the only city with single-digit vacancy levels till Q2CY23 also saw its vacancies enter the double-digit territory during Q3CY23; it ended the year with a vacancy of 10.8%.

While vacancies increased QoQ in the NCR to 24.4%, it declined in Kolkata and the MMR, to ~24%, and ~18%, respectively. Chennai and Hyderabad saw vacancies increase in Q4CY23 to 18% and 2% respectively.

Exhibit 42: Vacant 'Grade A' office stock in India

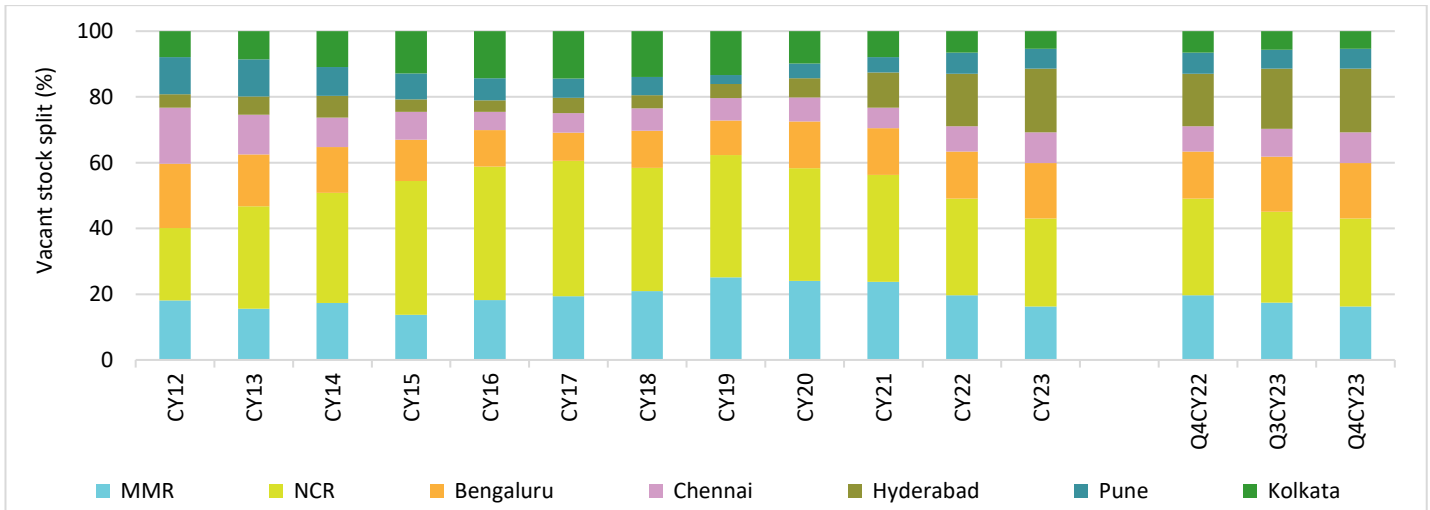


Source: Cushman & Wakefield, Nuvama Research

The NCR and the MMR cumulatively account for ~50% of vacant commercial stock in the country

The NCR continues to have the highest share of vacant space in India at ~27%. Over the past five years, it has contributed ~32%, on average, to the overall vacant space in India. The MMR, with an average share of ~22%, is next.

Exhibit 43: Split of vacant 'Grade A' office stock in India



Source: Cushman & Wakefield, Nuvama Research

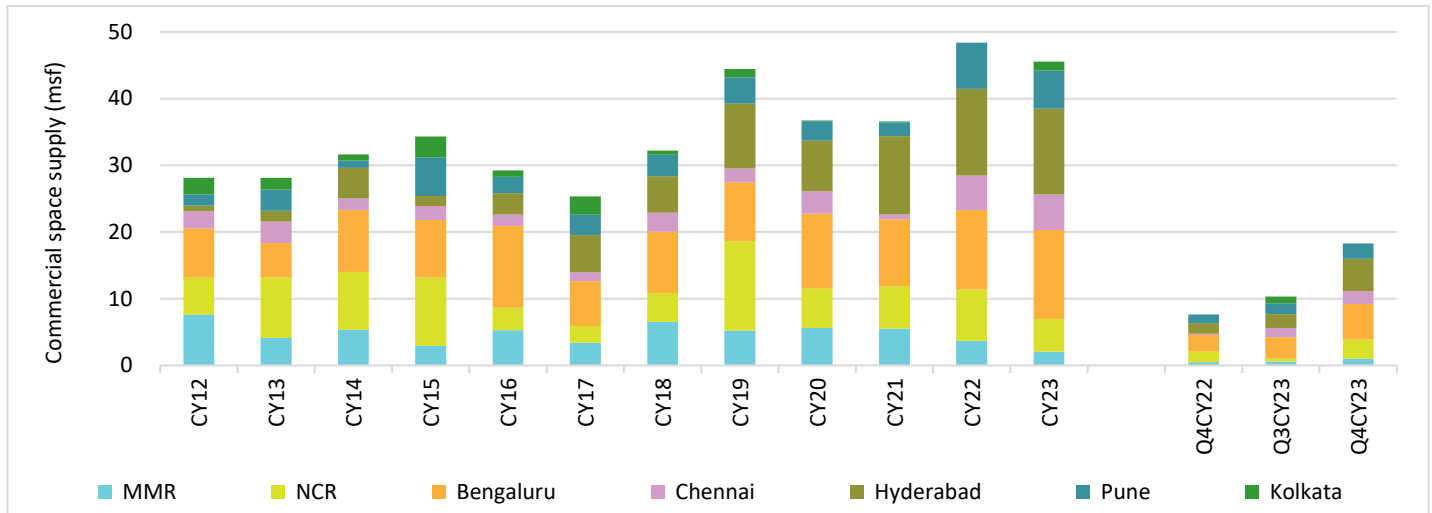
Bengaluru leads supply in CY23

India's office space has seen significant changes over the past few years in terms of contribution of various cities in supply and demand. Hyderabad was on top of the heap in CY21 and CY22 as far as supply is concerned. Bengaluru took the lead in Q1CY23; however, Hyderabad went ahead in Q2CY23. Bengaluru regained the top position in Q3CY23 and maintained that in Q4CY23.

During Q4CY23, supply in Bengaluru came in at 5.3msf; it ended the year with 13.3msf of new supply. It was followed by Hyderabad (4.8msf in Q4CY23 and 12.9msf for CY23). The NCR and Pune (~2.3-2.9msf each in Q4CY23) came next.

Chennai and the MMR witnessed new supply of ~1.9msf and 1msf respectively during the quarter. Kolkata did not have any new supply in Q4CY23.

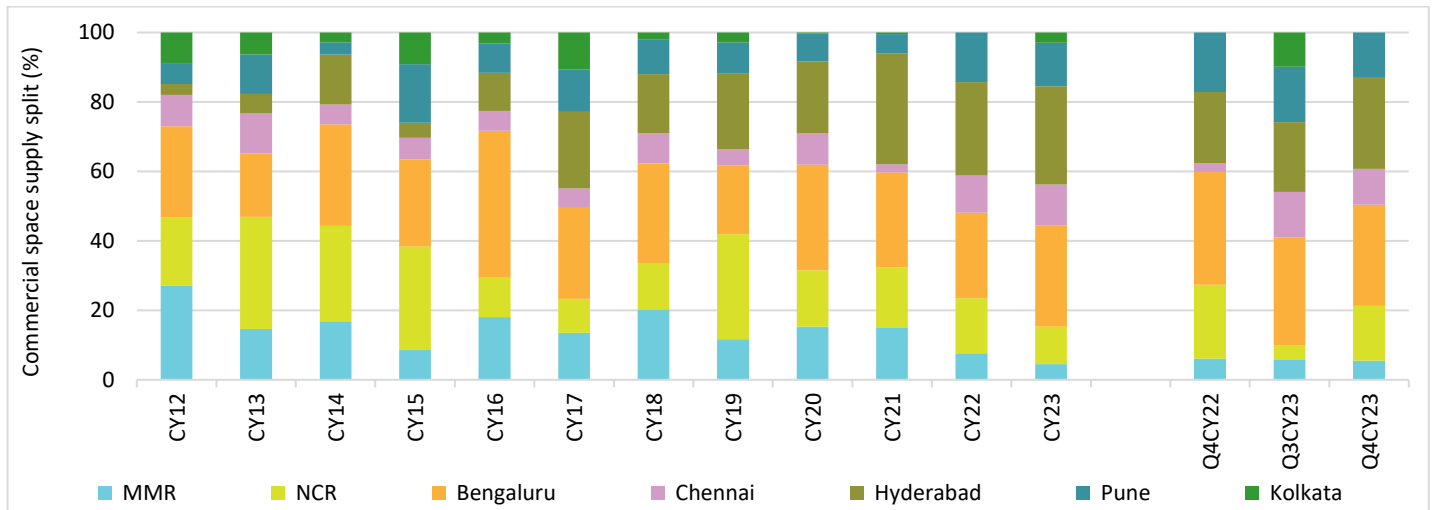
Exhibit 44: Bengaluru led supply in Q4CY23 and CY23



Source: Cushman & Wakefield, Nuvama Research

In terms of overall share in completions in Q4CY23, Bengaluru and Hyderabad contributed 29% and 26%, respectively, followed by the NCR and Pune with 13-16% share each. Share of the MMR and Chennai remained in the range of 6-10% each during the quarter.

Exhibit 45: Hyderabad and Bengaluru account for more than half of supply in Q4CY23



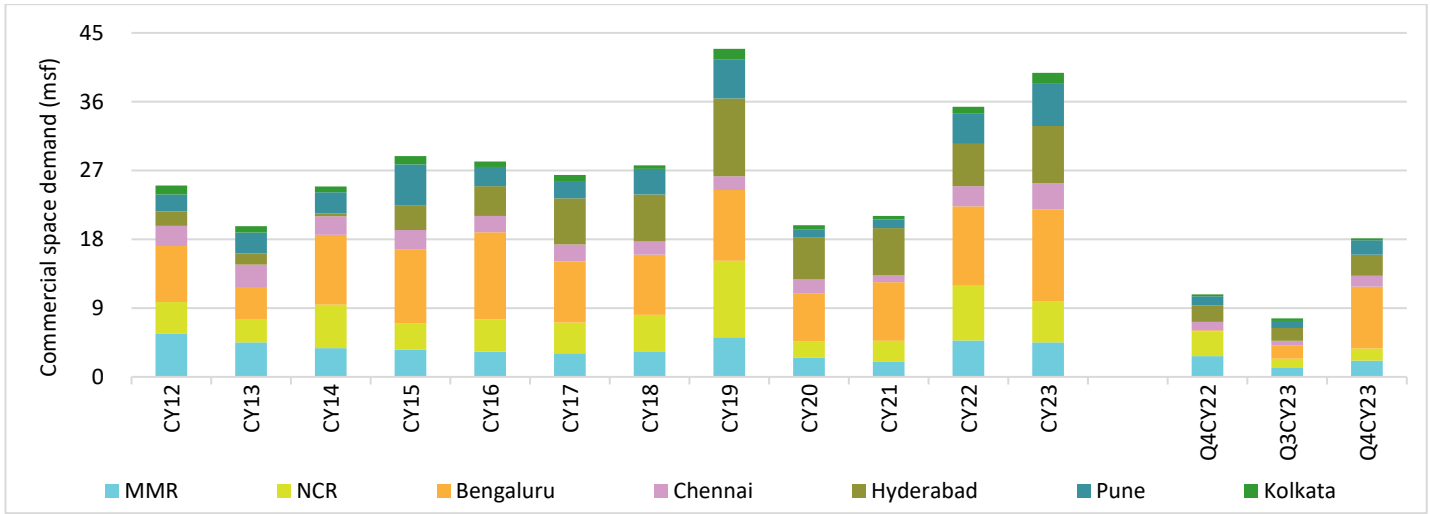
Source: Cushman & Wakefield, Nuvama Research

Net absorption in top-seven cities surged 137% QoQ/68% YoY to 18.1msf in Q4CY23. With this, demand in CY23 stood strong at ~39.8msf, marginally lower than the peak demand of ~42.9msf during pre-covid in CY19.

Demand zoomed to 8.1msf in Bengaluru in Q4CY23, much higher compared to its five-year quarterly average of 2msf. While Hyderabad saw absorption of 2.7msf during the quarter, all other cities saw demand of ~1.4-2.1msf except Kolkata, which witnessed merely 0.3msf of new leasing during the quarter.

In CY23, Bengaluru led on the supply front with 12msf of new supply followed by Hyderabad with 7.5msf of supply. Other cities saw completions in the range of 3.5-5.6msf except Kolkata that saw supply of just 1.3msf in CY23.

Exhibit 46: Bengaluru steals the show in terms of absorption in Q4CY23

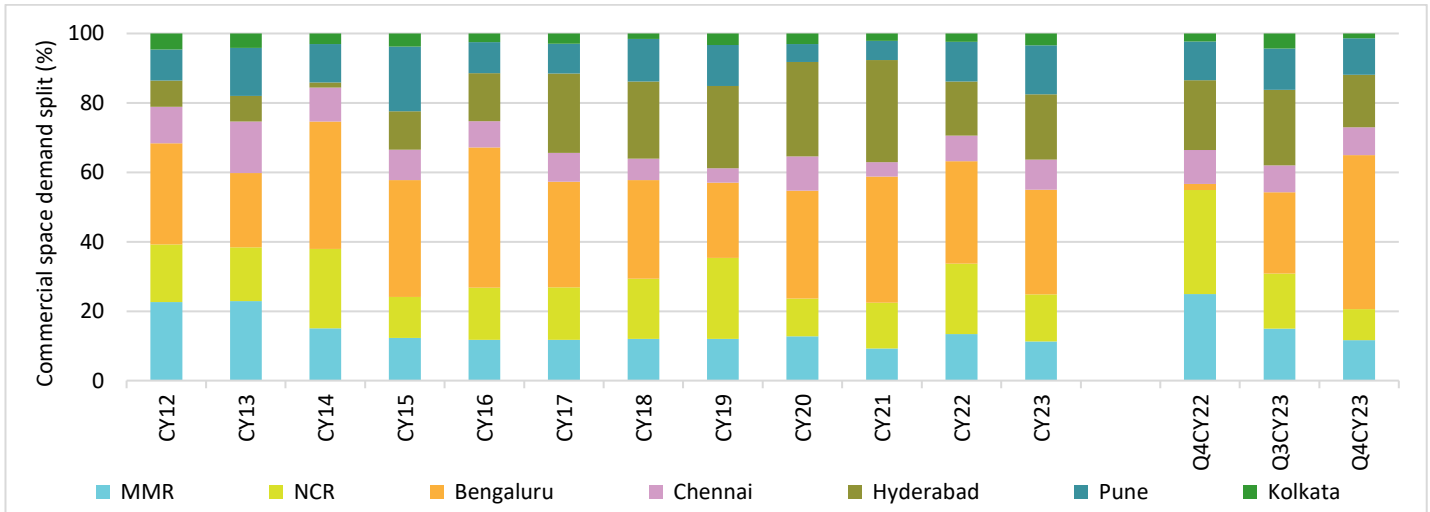


Source: Cushman & Wakefield, Nuvama Research

In terms of share in absorption, the biggest gainer in Q4CY23 was Bengaluru—its share rose from ~23% in Q3CY23 to ~44% in Q4CY23. Apart from Bengaluru, all other cities saw their share declining QoQ.

For the year as a whole, share of the NCR and the MMR reduced ~670bp and ~210bp YoY to 14% and 11%, respectively, while that of Hyderabad and Pune increased ~270–320bp YoY to 14–19% each. Share of Chennai and Kolkata too increased 100–130bp YoY each. The share of Bengaluru remained relatively stable YoY at 30% in CY23.

Exhibit 47: Bengaluru contributed nearly half of absorption in Q4CY23



Source: Cushman & Wakefield, Nuvama Research

Bengaluru is the best-performing market in India in terms of demand-supply dynamics

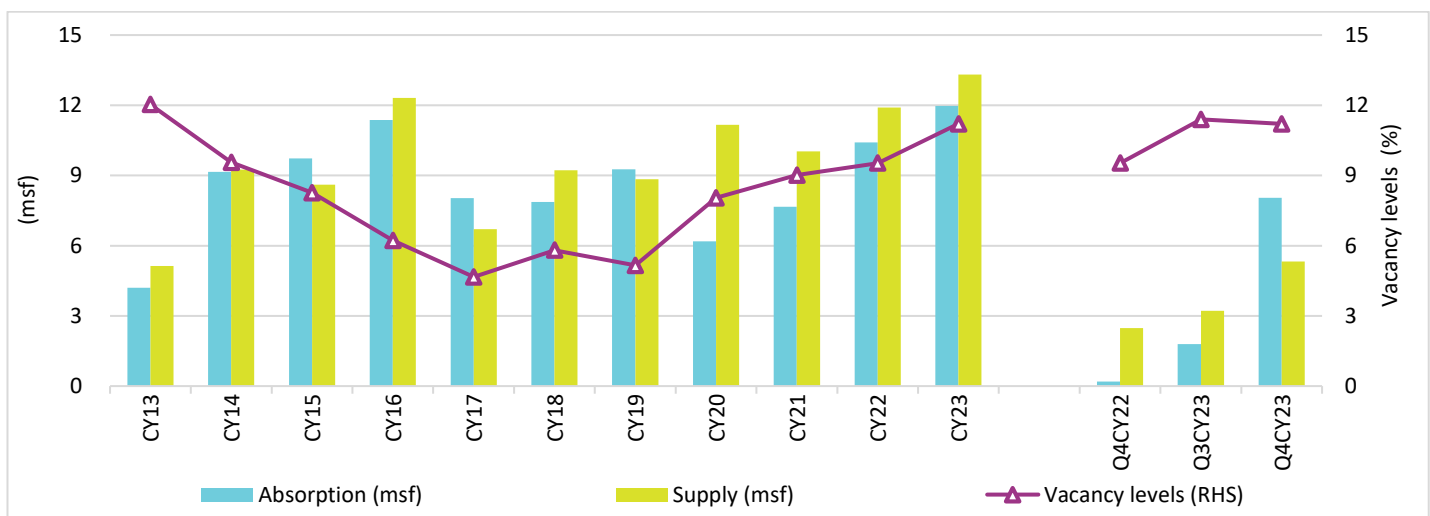
Bengaluru: Demand surges in Q4CY23

The Bengaluru office market is among the biggest in terms of absorption in India with the city, on average, contributing to about one-third of total office space demand over the past nine years. Its status as a tech hub and start-up magnet renders it among the best-placed markets in India in terms of fundamentals.

Another factor that burnishes Bengaluru's office market prospects is the healthy demand from co-working firms. In addition, it has one of the world's largest concentrations of 'engine room' population (20–40-year olds).

Supply-demand dynamics: Absorption in Q4CY23 came in at 8.1msf, up 4.5x QoQ/43x YoY. Supply too was up ~65% QoQ/115% YoY at ~5.3msf. Vacancy levels had entered double-digit territory in Q2CY23 and further increased to 11.2% in Q4CY23.

Exhibit 48: Demand, supply and vacancies all rise YoY in Q4CY23



Source: Cushman & Wakefield, Nuvama Research

Demand: Gross leasing improved 276% QoQ/49% YoY in Q4CY23 to 8.3msf. Fresh leasing (60%) contributed the highest share of gross leasing during the quarter followed by pre-commitments (33%). Healthy levels of fresh leasing coupled with new supply having higher pre-commitments coming online during the quarter led to net absorption surging 4.5x QoQ/43x YoY to 8.1msf.

ORR (72%) and Peripheral East (16%) micro-markets together accounted for 88% of the gross leasing during the quarter.

Gross leasing in CY23 stood at 15.8msf, down 15% YoY on a high base; CY22 had witnessed the best-ever gross leasing in the city.

Demand drivers: Engineering and Manufacturing (33% share in gross leasing) dominated the take-up during the quarter followed by BFSI (28%) and IT-BPM (19%).

Supply increased 65% QoQ/115% YoY to ~5.3msf in Q4CY23. Peripheral East and ORR micro-markets contributed nearly one-third of the supply during the quarter followed by the Peripheral North (24%) micro-market.

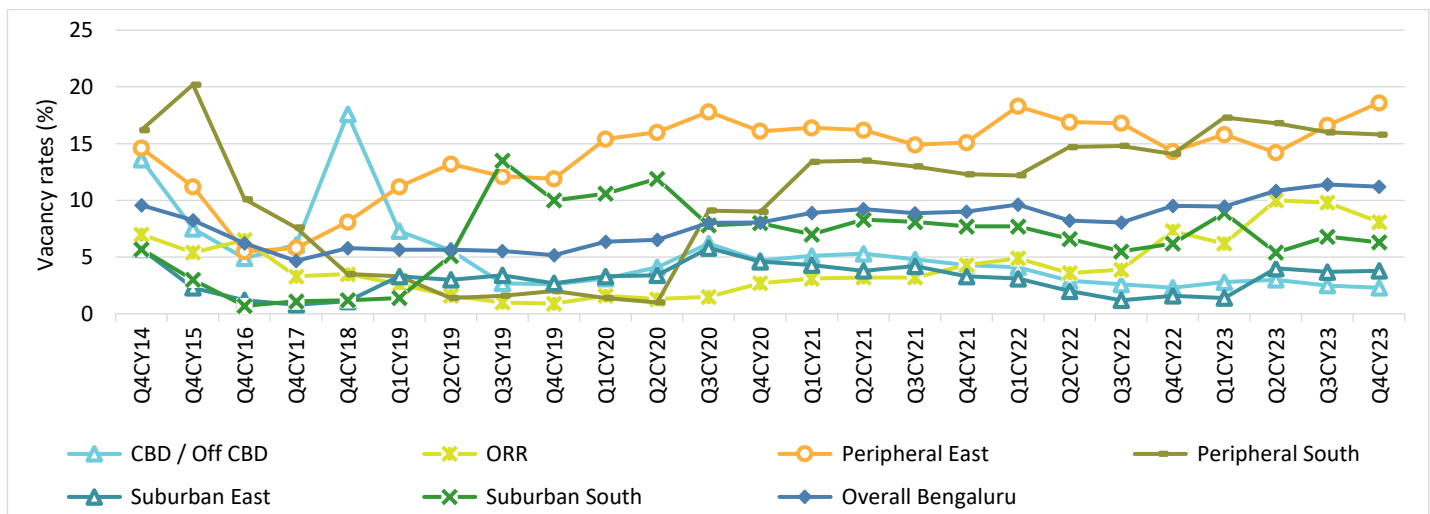
For the year as whole, supply came in at 13.3msf, up 12% YoY.

Overall vacancy levels: With demand eclipsing supply, vacancies declined ~20bp QoQ (up 170bp YoY) to 11.2% in Q4CY23. Vacancies in Bengaluru are still amongst the lowest in the country.

Except Peripheral North, Peripheral East and Peripheral South, all other micro-markets in Bengaluru have single-digit vacancy levels

Vacancy levels in various micro-markets: Robust fundamentals of the Bengaluru market can be gauged from the fact that barring the Peripheral North, Peripheral East (Whitefield) and Peripheral South regions, all other micro-markets in the city had single-digit vacancy levels till Q1CY23. ORR, which makes up about half of the office space in the city, in fact had vacancy of mere 6.2% at end-Q1CY23; since then, vacancies in this market have increased to 8.1% by end-CY23. While vacancy increased ~200bp QoQ in the Peripheral East micro-market, it reduced ~20-50bp QoQ in all other micro-markets in Q4CY23.

Exhibit 49: Many micro-markets still have single-digit vacancy levels in Bengaluru

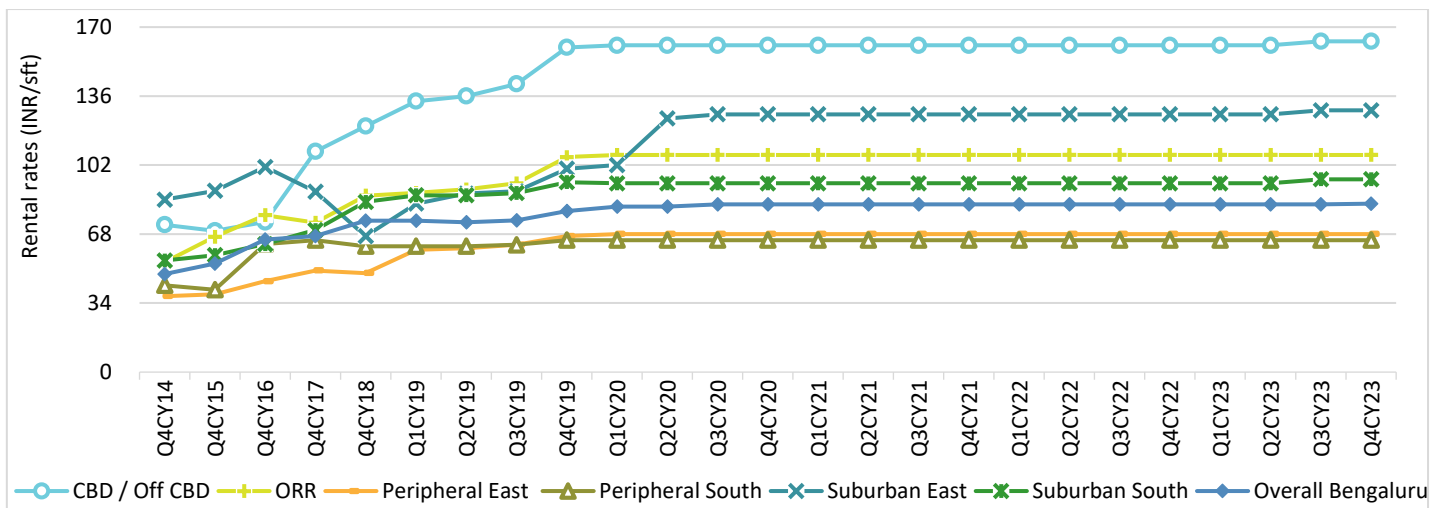


Source: Cushman & Wakefield, Nuvama Research

Rentals in Bengaluru had shot up ~71% on average over CY14–21

Rentals: As a result of falling vacancies, average rentals in the city catapulted ~71% over CY14–21 with individual micro-markets enjoying 49–122% rental appreciation during this period. Within this, the highest rental uptick had been in CBD/off-CBD, followed by ORR. Overall rents remained flat for the fourteenth consecutive quarter in Q4CY23. However, the suburban and the Suburban East, Suburban South and CBD/off-CBD micro-markets saw 1-2% YoY hike each during the quarter.

Exhibit 50: Rentals remain flat sequentially



Source: Cushman & Wakefield, Nuvama Research

Exhibit 51: Major leasing transactions during Q4CY23

Micro-market	Property	Tenant	Area (sft)	Mode
Outer Ring Road	Embassy Spectrum	Morgan Stanley	10,00,000	Pre-commitment
Outer Ring Road	Bagmane Capital Angkor	Qualcomm	6,21,813	Fresh Lease
Peripheral East	Bagmane Solarium City Helium Block	Tekion	1,60,000	Fresh Lease
Peripheral East	Bagmane Solarium City	Omnicom	1,22,770	Fresh Lease
Peripheral North	Embassy Business Hub - I	Philips	6,60,000	
Outer Ring Road	Bagmane Capital Angkor	Samsung	2,18,000	

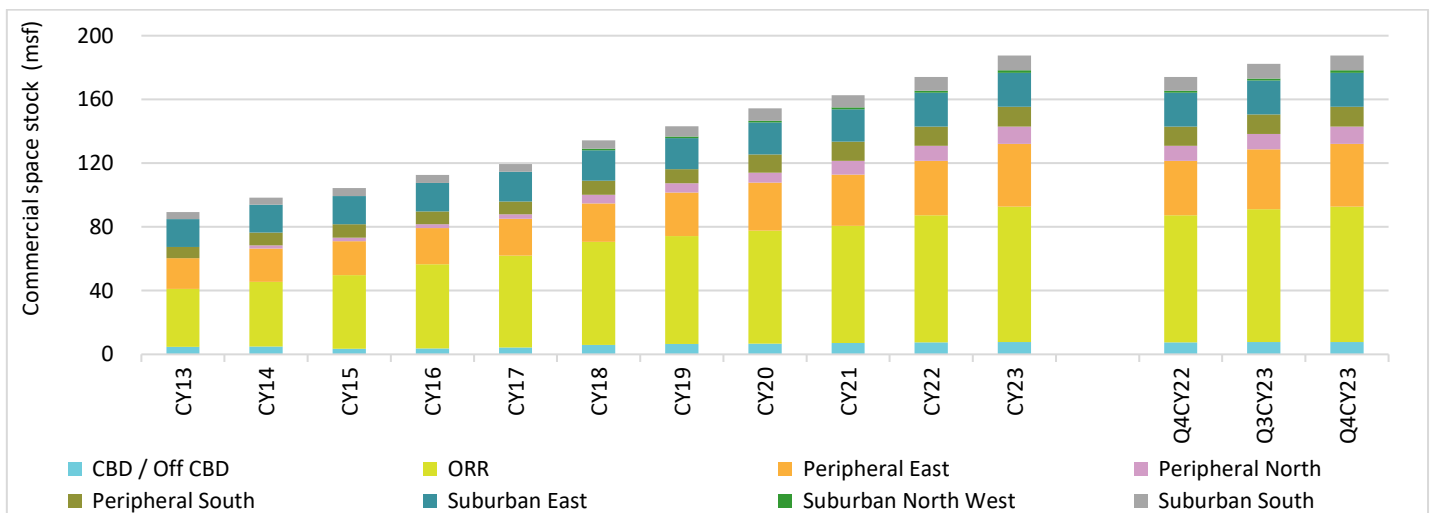
Source: Cushman & Wakefield, CBRE, Nuvama Research

Major developments during Q4CY23 in Bengaluru office market

- Mercedes-Benz's R&D arm renews 5.42 lakh sq. ft. office lease in Bengaluru [\(ET\)](#)
- Qualcomm rents 600,000 sq. ft. office space in Bengaluru to expand operations [\(ET\)](#)
- North Bengaluru commands higher rental yield than eastern IT corridor, prime areas [\(Money Control\)](#)
- HCL to sell office assets in Bengaluru [\(ET\)](#)
- Wipro to sell office assets in Hyderabad, Bengaluru [\(ET\)](#)
- Cognizant plans to sell office assets in Hyderabad, Bengaluru [\(ET\)](#)

Office stock addition: The city has witnessed steady expansion in office stock over the past few years—nearly doubled to ~188msf since CY13.

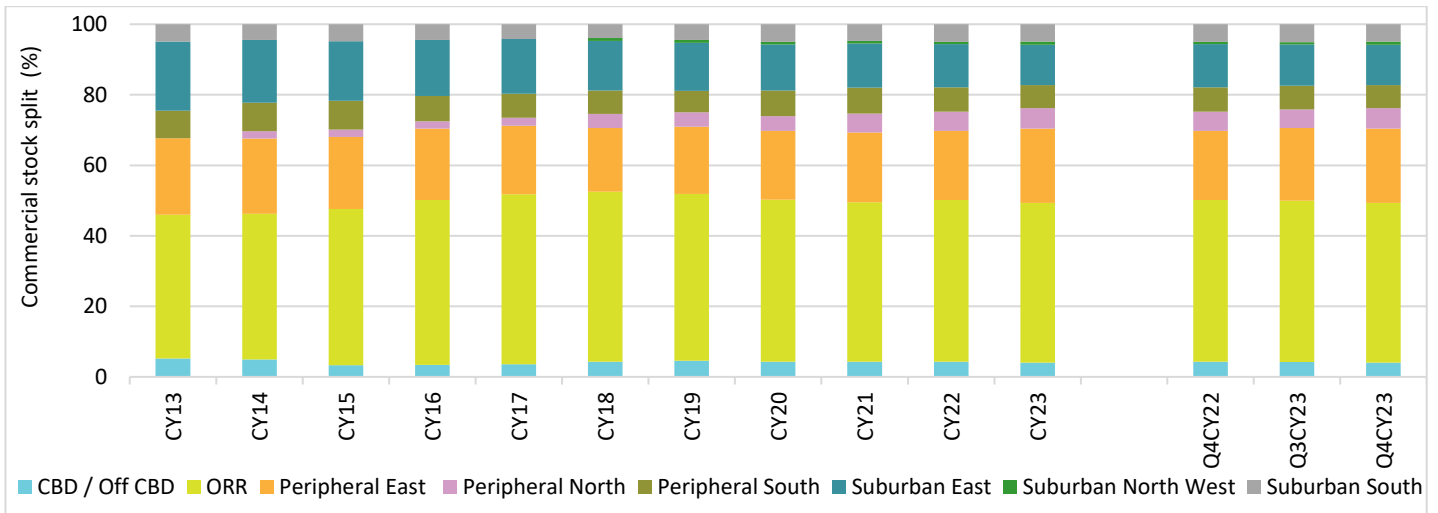
Exhibit 52: Office stock has risen steadily in Bengaluru



Source: Cushman & Wakefield, Nuvama Research

In terms of share in overall stock, the contribution of ORR—Sarjapur, KR Puram, Hebbal, etc —has grown from ~41% in CY14 to ~45% in Q3CY23. This has come at the cost of Eastern suburbs (Indira Nagar, Old Airport, CV Raman Nagar), which have clocked slower growth.

Exhibit 53: ORR's share in office stock has improved



Source: Cushman & Wakefield, Nuvama Research

Exhibit 54: Major projects likely to get completed in CY24

Sub-Market	Property	Major Tenant	SF	Completion date
Outer Ring Road	Sattva Spectrum		7,34,898	Q1CY24
CBD/Off CBD	Mfar 37 Cunningham	Columbia Sportswear	2,27,584	Q1CY24
Peripheral East	Kalyani Camellia		4,84,278	Q1CY24

Source: Cushman & Wakefield, Nuvama Research

Outlook: We believe the Bengaluru office market has robust fundamentals. Our views on various operational parameters are summarised below:

- **Demand:** There are many large sized RFPs currently in the pipeline, which are expected to get finalized soon. Hence, the current scenario of high demand is likely to sustain going ahead in CY24.
- **Supply:** Over the next three years (till CY26), ~44msf of supply is expected, of which ~40% is expected to come in the ORR micro-market, followed by Peripheral East and Peripheral North micro-markets (16–19% each).
- **Vacancy:** Healthy upcoming supply coupled with robust demand is likely to keep the vacancy levels range bound in the near term.
- **Rentals:** While supply is increasing, rentals are likely to remain range bound in the near term due to: i) tight vacancies; ii) likely pickup in demand; iii) healthy pre-leasing; iv) most office inventory being owned by institutions, and v) less availability of quality office space.

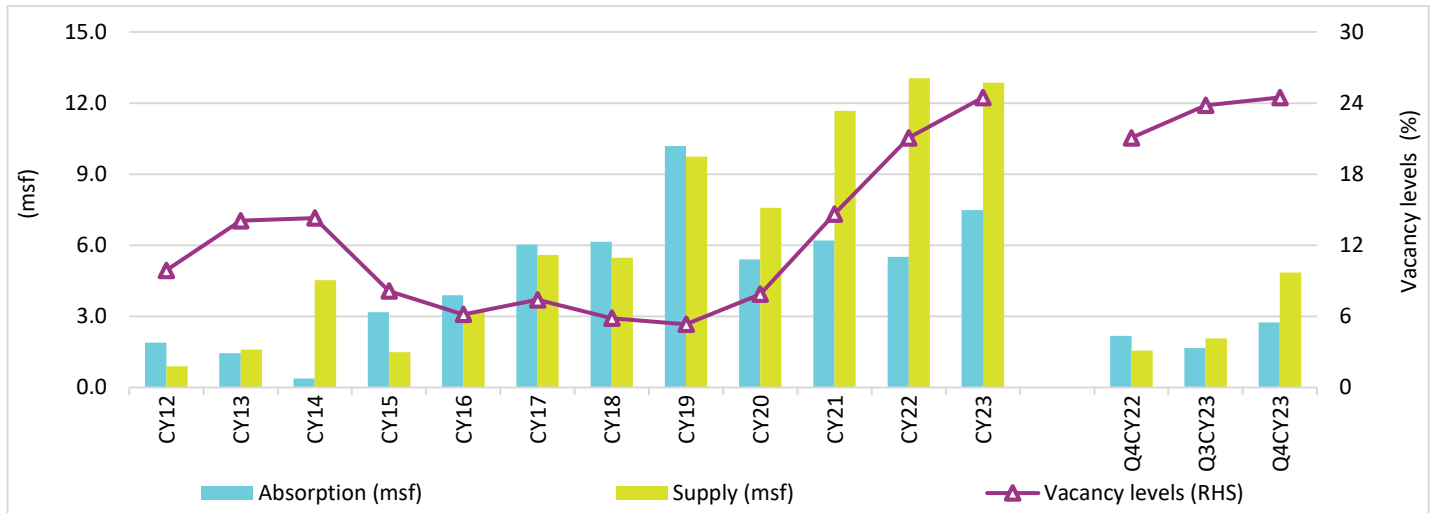
However, the developers with premium office spaces and lower vacancy levels would be in a better-off position to charge above market rentals.

Hyderabad has gained the maximum incremental share in demand over the past decade and emerged the second-biggest market in CY23

Hyderabad: Demand, supply and vacancies all rise YoY/QoQ

Hyderabad has been one of the biggest gainers in absorption among various cities and its share has more than tripled since CY12. It has been the second or third-biggest market in terms of demand each year over the past six years.

Exhibit 55: Vacancy levels increase in Q4CY23



Source: Cushman & Wakefield, Nuvama Research

Demand: Gross leasing at ~2.3msf was up 32% QoQ during Q4CY23; this was the highest quarterly gross leasing in the last three years. Madhapur made up 74% of the gross leasing during the quarter.

Gross leasing in CY23 stood at ~9msf (up 35% YoY). Interestingly, ~2.1msf of new SEZ office space got leased out in CY23 in Hyderabad.

Net absorption during the quarter at 2.7msf was up 65% QoQ/26% YoY.

Demand drivers: IT-BPM (~53%) followed by Healthcare and Pharma (23%) dominated the space take-up during the quarter. For CY23, IT-BPM (~34%) followed by BFSI (16%) and Healthcare and Pharma (12%) were the major contributors to office demand.

Supply: Completions surged 134% QoQ/211% YoY to 4.8msf during the quarter. More than two-third of the new supply during the quarter came in the Madhapur market. With this, the city recorded completions of ~12.9msf in CY23 (flat YoY).

Overall vacancy levels: Vacancies have continued to rise over the past year with vacancies inching up to 24.5% in Q4CY23 due to huge influx of new supply.

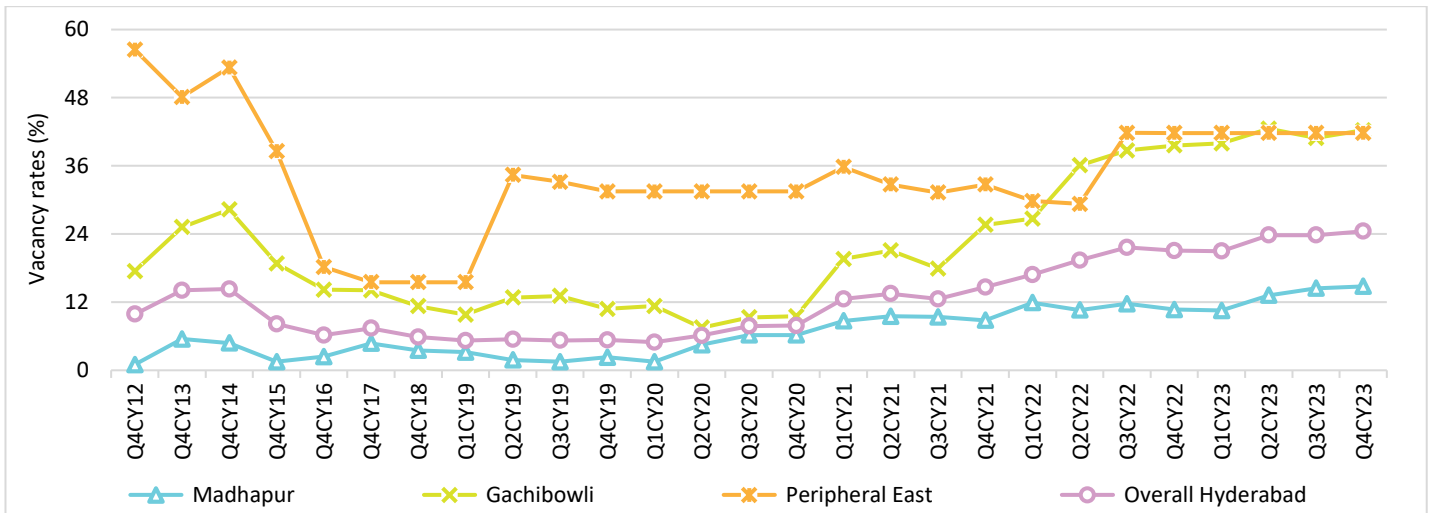
Vacancy levels in micro-markets: Unlike the Bengaluru market, vacancy rates differ widely among various micro-markets in Hyderabad. While the Madhapur market had continuously enjoyed single-digit vacancy levels till CY21, it entered the double-digit vacancy category in Q1CY22; vacancies here still remain in the double-digit territory. Others such as Gachibowli and Peripheral Eastern suburbs (Pocharam and Uppal) have had to contend with double-digit vacancy rates for quite some time.

Madhapur had vacancy of merely ~1.5% at Q1CY20 end, the lowest since CY16. With covid-19 playing spoilsport, vacancies have entered the double-digit territory and stood at ~14.8% at end-CY23 (up 30bp QoQ).

On the other hand, vacancy levels in Gachibowli, which stood at 7.5% in Q2CY20, have steadily increased to 42.3% in Q4CY23.

Madhapur provides bulk of office space in Hyderabad and has the lowest vacancy rate among all micro-markets

Exhibit 56: Vacancy continues to increase in Madhapur

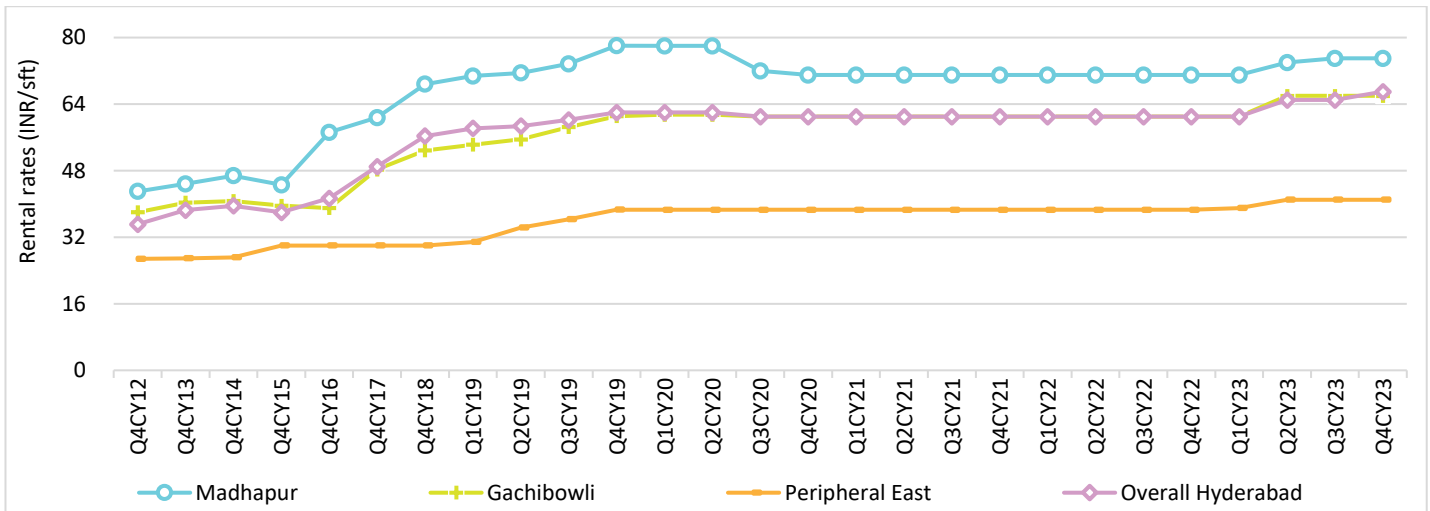


Source: Cushman & Wakefield, Nuvama Research

Rentals in Hyderabad have been stable since Q1CY20 after having surged ~60% on average over CY13–19 before rising again in Q2CY23.

Rentals: Despite an increase in vacancy levels, rentals grew 3% QoQ/10% YoY in Q4CY23. Average rentals in Gachibowli rose 8% YoY followed by Peripheral East and Madhapur 6% YoY each.

Exhibit 57: Overall rentals increase 3% QoQ in Q4CY23



Source: Cushman & Wakefield, Nuvama Research

Exhibit 58: Major leasing transactions during Q4CY23

Micro-market	Property	Tenant	Area (sft)	Mode
Madhapur	L&T Metro Next Avenue Tower 1	LTIMindtree	3,22,637	Fresh Lease
Madhapur	ITPH Block A	Bristol Myers Squibb (BMS)	3,17,799	Fresh Lease
Madhapur	RMZ The Spire Tower 100	Sanofi	2,31,395	Fresh Lease
Gachibowli	BSR Tech Park Tower 1	Medtronic	62,611	Fresh Lease
Gachibowli	Laxmi Infobahn - Block 2 & 4	Pepsi Co	4,19,300	
Madhapur	Capital Park	PrimEra Medical Technologies	1,48,000	

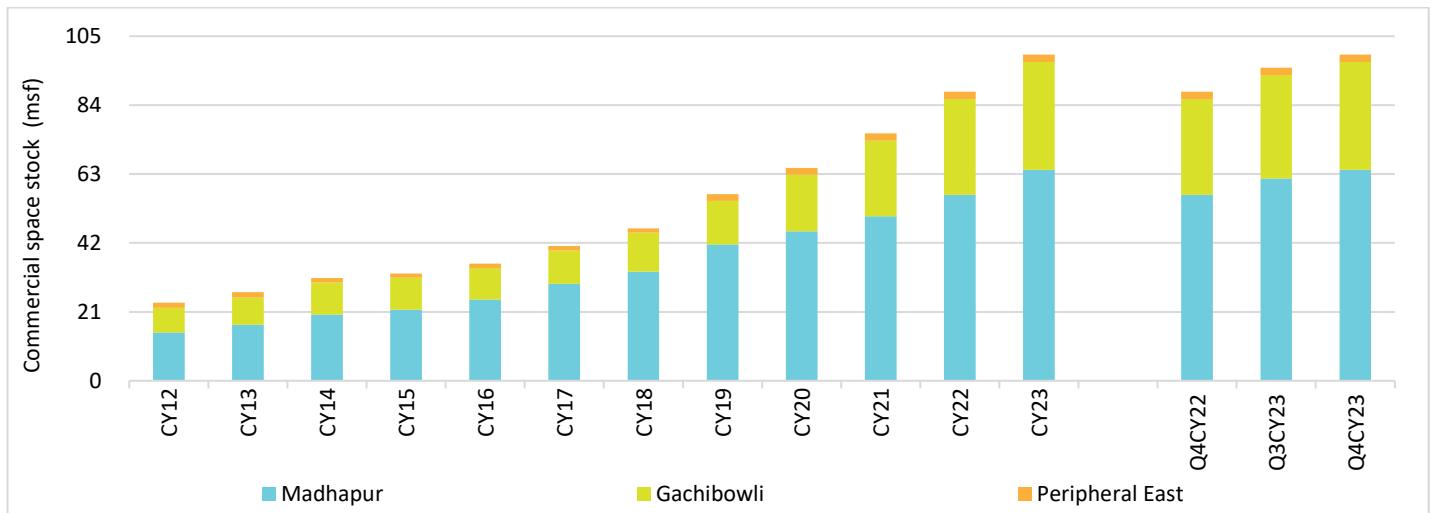
Source: Cushman & Wakefield, CBRE, Nuvama Research

Major developments during Q4CY23 in Hyderabad office market

- Micro markets in Pune, Chennai and Hyderabad attracting office space occupiers due to sub-dollar rents : Report [\(ET\)](#)
- Wipro to sell office assets in Hyderabad, Bengaluru [\(ET\)](#)
- Cognizant plans to sell office assets in Hyderabad, Bengaluru [\(ET\)](#)
- Hyderabad office sector to witness an addition of 35-38 mn. sq. ft. of investment-grade business parks by 2023-25 [\(ET\)](#)

Office stock addition: Hyderabad’s office stock addition has in fact been higher than even Bengaluru, albeit on a lower base. The office stock in the city has quadrupled since CY13, with overall stock breaching the 100msf levels and touching ~102msf as at end-CY23.

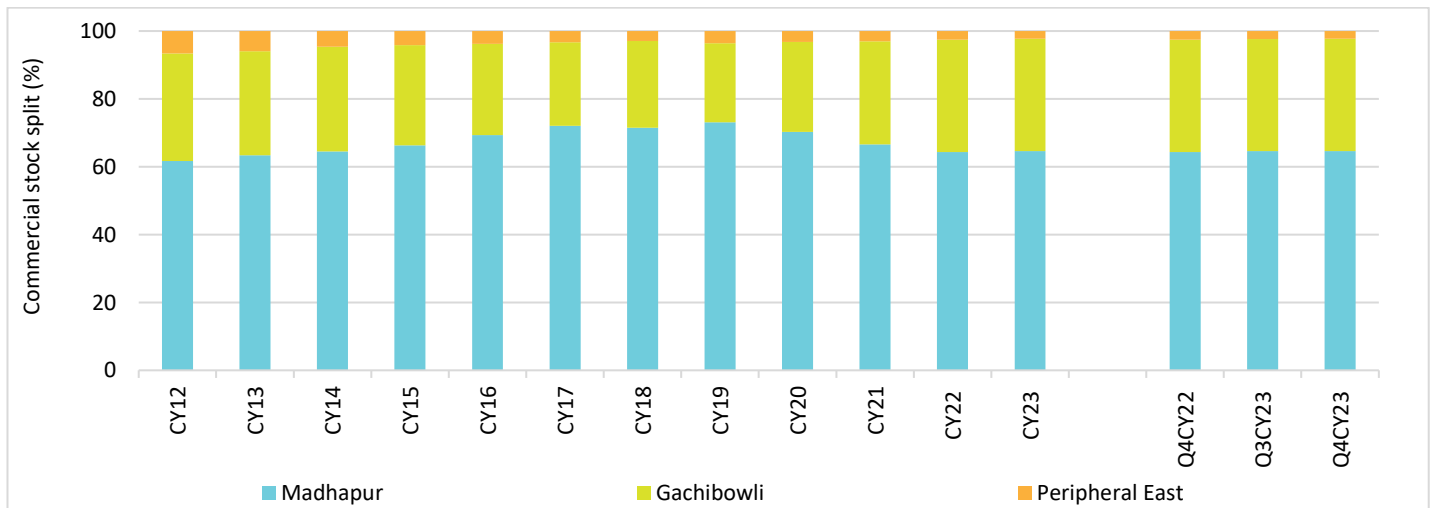
Exhibit 59: Office stock has risen steadily



Source: Cushman & Wakefield, Nuvama Research

In terms of share in overall stock, the lion’s share comes from Madhapur (including Madhapur, Kondapur, Raidurg), which has historically provided about two-thirds of the overall pie. Its share stood at ~65% at end-CY23.

Exhibit 60: Madhapur maintains dominant position



Source: Cushman & Wakefield, Nuvama Research

Exhibit 61: Major projects likely to be completed in CY24

Sub-Market	Property	SF	Completion date
Gachibowli	BSR Tech Park Tower –II	13,00,000	Q1CY24
Madhapur	Aparna Technopolis	17,00,000	Q2CY24
Madhapur	The Spire Tower 110	10,20,000	Q4CY24

Source: Cushman & Wakefield, Nuvama Research

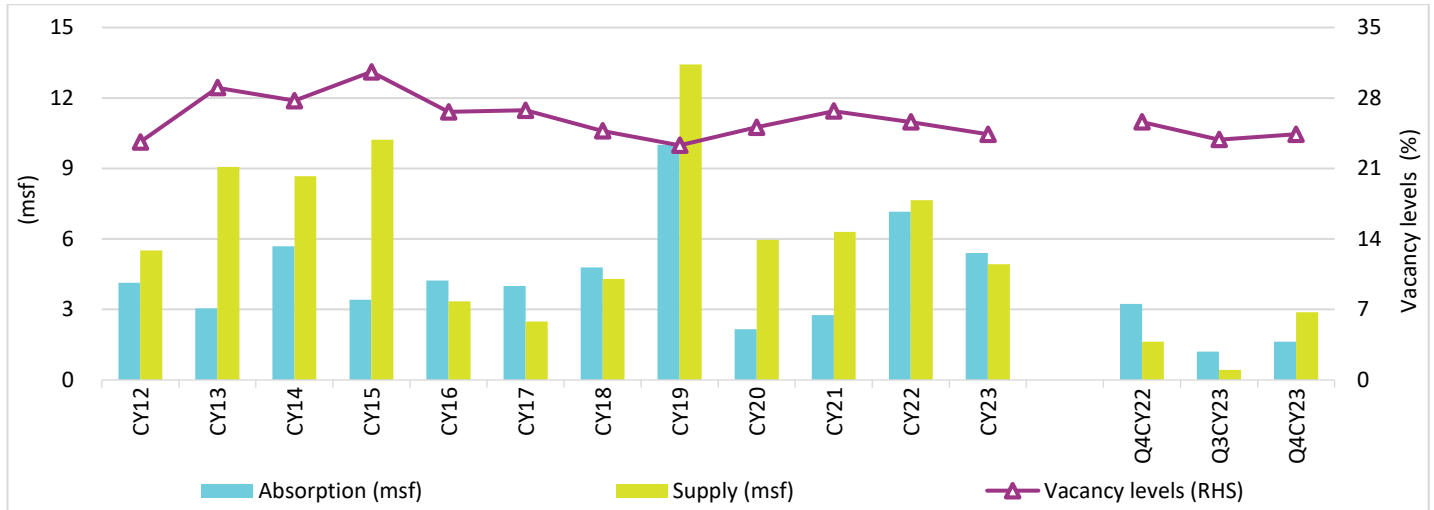
Outlook: We expect vacancies to increase in the Hyderabad office market in the near term. Our views on various operational parameters are summarised below:

- **Demand:** With increase in leasing traction due to return to work scenarios, leasing is likely to improve going ahead. We foresee a broad-based recovery in leasing led by demand from across the sectors.
- **Supply:** Supply is expected to remain strong with ~41msf of planned and under-construction projects expected to come on stream by CY26. Around 72% of this supply is in Gachibowli micro-market. Around 15msf completions are expected in CY24.
- **Vacancy levels:** Vacancy levels are expected to inch up over the next 12–18 months due to i) supply exceeding demand, and ii) tenants shifting their preference over to hybrid model. Vacancies in Gachibowli are expected to be under pressure due to high upcoming supply.
- **Rentals:** Despite increase in vacancy levels, rentals have broadly remained range-bound in Hyderabad. This phenomenon is expected to continue. With a few developers taking an accommodative stance and offering perks such as higher rent-free period and lower security deposit, there is a possibility of rents reducing in the short-to-medium-term, especially in Gachibowli. Madhapur, on the other hand may witness rents firming up, aided by strong pre commitments in some upcoming projects and slower new completions.

NCR: Vacancies correct YoY in CY23

The NCR market comprises Delhi, Gurugram and Noida. There are wide variations between these cities and even between the different micro-markets in the same city. In terms of demand, it was the third-largest market in India after Bengaluru and Hyderabad over CY16-18 before emerging at the top of the heap in CY19. However, the city was among the worst-hit in CY20 with demand decreasing 78% YoY.

Exhibit 62: Absorption and vacancies fall; supply increases YoY



Source: Cushman & Wakefield, Nuvama Research

Leasing activity remained healthy in the NCR during Q4CY23

Demand: Q4CY23 recorded gross leasing of 3.7msf (up 12% QoQ but down 1% YoY). Noida led the leasing during the quarter with a 34% share followed by Gurugram–others and NH8–Prime (20-25% each). Fresh leasing (83%) contributed a lion’s share of gross leasing during Q4CY23, followed by pre-commitments (11%). Gross leasing in CY23 stood at 13.6msf (down 3% YoY).

Net leasing during the quarter stood at ~1.6msf (up 34% QoQ but down 50% YoY).

Demand drivers: Flexible workspaces led the leasing activity during the quarter with a 24% share in gross leasing, followed by IT-BPM (23%), and Engineering & Manufacturing (22% share).

In CY23, the leasing demand was led by IT-BPM accounting for 27% of the overall leasing activity followed by Engineering & Manufacturing (17%) and Flexible workspaces (15%).

Supply: The NCR saw ~2.9msf (up 77% YoY/571% QoQ) of office completions during the quarter. Gurugram-Others micro-market contributed 79% of the supply during the quarter whereas Noida (18%) and South-East Delhi (4%) contributed the balance.

Overall, CY23 saw 4.9msf of supply (down 36% YoY).

Overall vacancy levels: Due to a surge in supply during the quarter, overall vacancy levels inched up 50bp QoQ (down 120bp YoY) to 24.4% during Q4CY23.

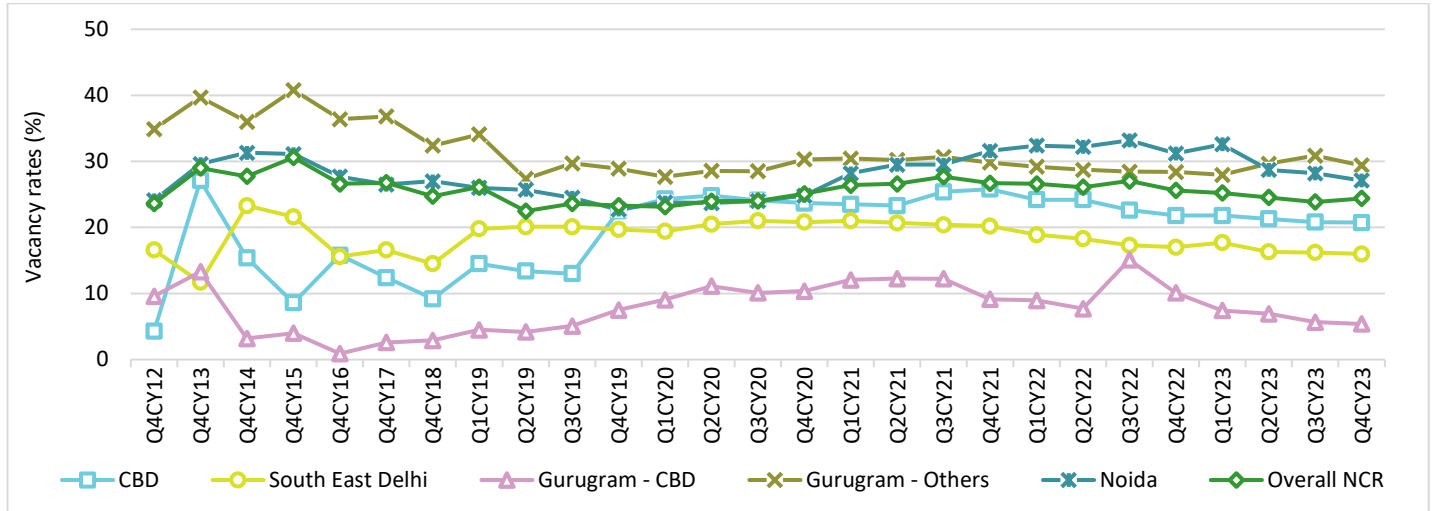
Vacancy levels in various micro-markets: As the NCR is made up of multiple cities, vacancy rates differ widely among its micro markets. Gurugram-CBD was the best-performing market within the NCR and had been enjoying single-digit vacancies since CY13. Vacancy levels here had finally entered double-digit territory in Q2CY20; but they have reduced to 5.4% by the end of CY23.

Many micro-markets in the NCR are still struggling with high vacancy levels; Gurugram-CBD and Delhi Airport, on the other hand, have enjoyed relatively low vacancies

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On the other hand, Delhi-CBD and Noida micro-markets continue to languish with vacancies hovering north of 20% levels despite Noida witnessing ~100bp QoQ decline in Q4CY23. Gurugram-Others has the highest vacancy levels in the NCR region at 29.4% currently (down ~150bp QoQ). Vacancies declined marginally by 20-60bp QoQ each in South-East Delhi and Delhi Airport micro-markets in Q4CY23.

Exhibit 63: Vacancies vary across micro-markets in NCR

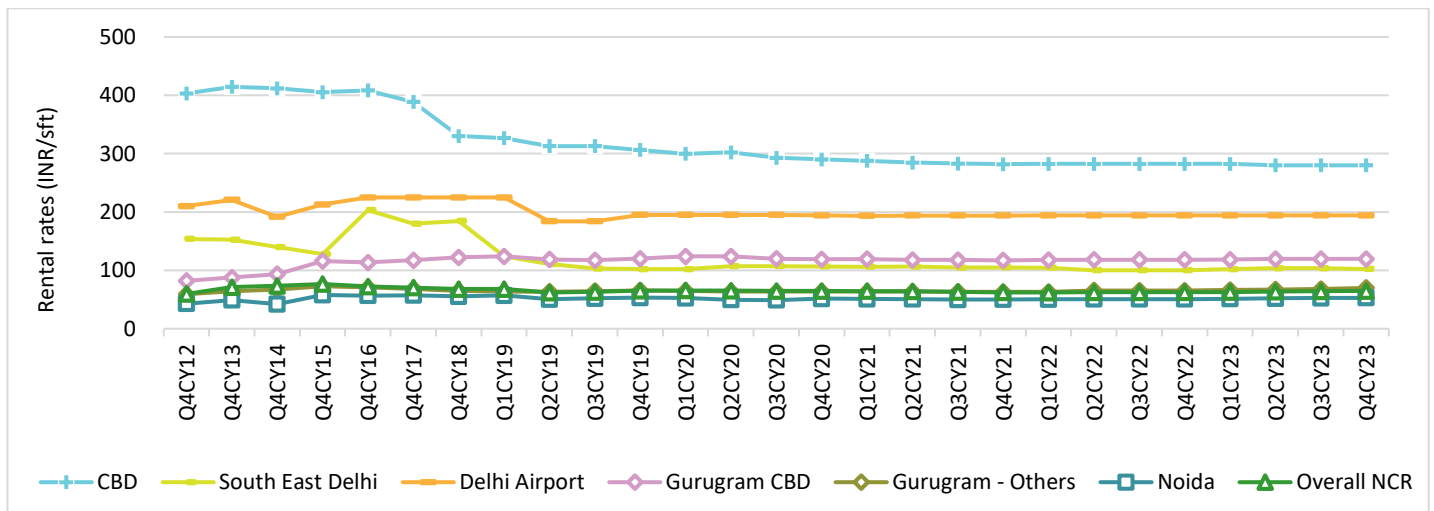


Source: Cushman & Wakefield, Nuvama Research

Rents in Gurugram-CBD have jumped ~50% since CY12; on the other hand, rents in Delhi-CBD have dipped ~30%

Rentals: With vacancies varying across micro-markets, it is no surprise that rental performance has also differed widely. While rentals in the overall NCR market had appreciated ~9% between CY12 and CY19, performance varied greatly across the board. During Q4CY23, Gurugram–others witnessed rentals rising 3% QoQ/7% YoY due to demand being healthy amid improving occupier confidence. While rentals in Noida were up 1% QoQ/5% YoY, there were largely flat QoQ in other micro-markets during the quarter.

Exhibit 64: Divergent rental performance across micro markets in NCR



Source: Cushman & Wakefield, Nuvama Research

Exhibit 65: Major leasing transactions during Q4CY23

Micro-market	Property	Tenant	Area (sft)	Mode
Southern Periphery Road	E Novation Centre2	Air India Limited	4,60,000	Fresh Lease
Noida Expressway	Assotech Business Cresterra2	TCS	4,00,000	Fresh Lease
DLF Cyber City	DLF Downtown Block 4	Schneider Electric	88,000	Pre-commitment
Gurugram Others	One Qube	Citi bank	1,50,000	
Noida Expressway	Max square	NDTV	1,07,000	

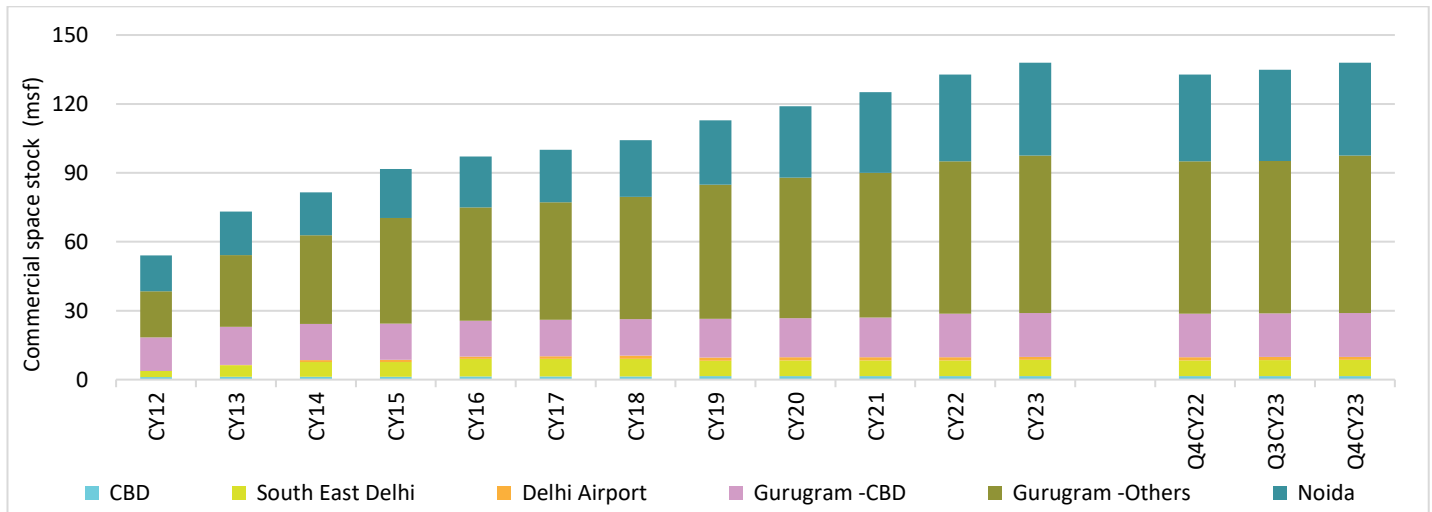
Source: Cushman & Wakefield, CBRE, Nuvama Research

Major developments during Q3CY23 in NCR office market:

- Maruti leases 270,000 sq. ft. at Tag Avenue in Gurugram [\(ET\)](#)
- Air India leases seven floors of Gurugram building for INR240-mn annual rent [\(Money Control\)](#)
- Air India leases 620,000 sq. ft. in Gurugram for training centre [\(ET\)](#)

Office stock addition: Despite high vacancy levels, office stock addition in the NCR has remained healthy. Overall, the office stock in the region has touched 138msf, up ~69% since CY14.

Exhibit 66: Office stock has risen steadily

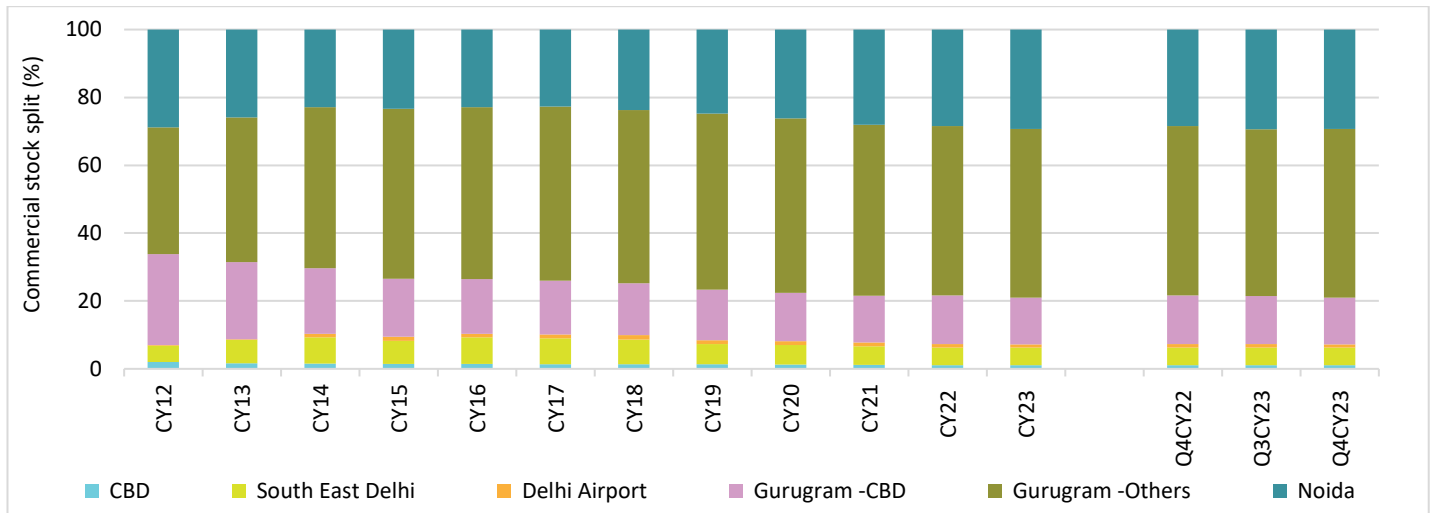


Source: Cushman & Wakefield, Nuvama Research

Significant office space has been added in Gurugram, but outside CBD

Gurugram continues to contribute about two-thirds of the overall office stock in the NCR. However, within this, the share of Gurugram-CBD has plummeted ~1,300bp since CY12 to ~14% now. This has been captured by Gurugram-Others (includes rest of Gurugram, excluding Manesar). The share of Gurugram-Others has improved ~1,200bp during this period and is near the 50% mark now. Noida has remained steady in the 23–29% range.

Exhibit 67: Gurugram-Others has overtaken Gurugram-CBD



Source: Cushman & Wakefield, Nuvama Research

Exhibit 68: Major projects likely to be completed in CY23–24

Sub-Market	Property	SF	Completion date
Gurugram Others	The Headquarters 27	5,25,993	Q1CY24
Noida Expressway	Embassy Oxygen Phase 2 Tower 1	7,37,000	Q1CY24

Source: Cushman & Wakefield, Nuvama Research

Outlook: We believe the NCR market would remain steady over the next few quarters. Our views on various operational parameters are summarised below:

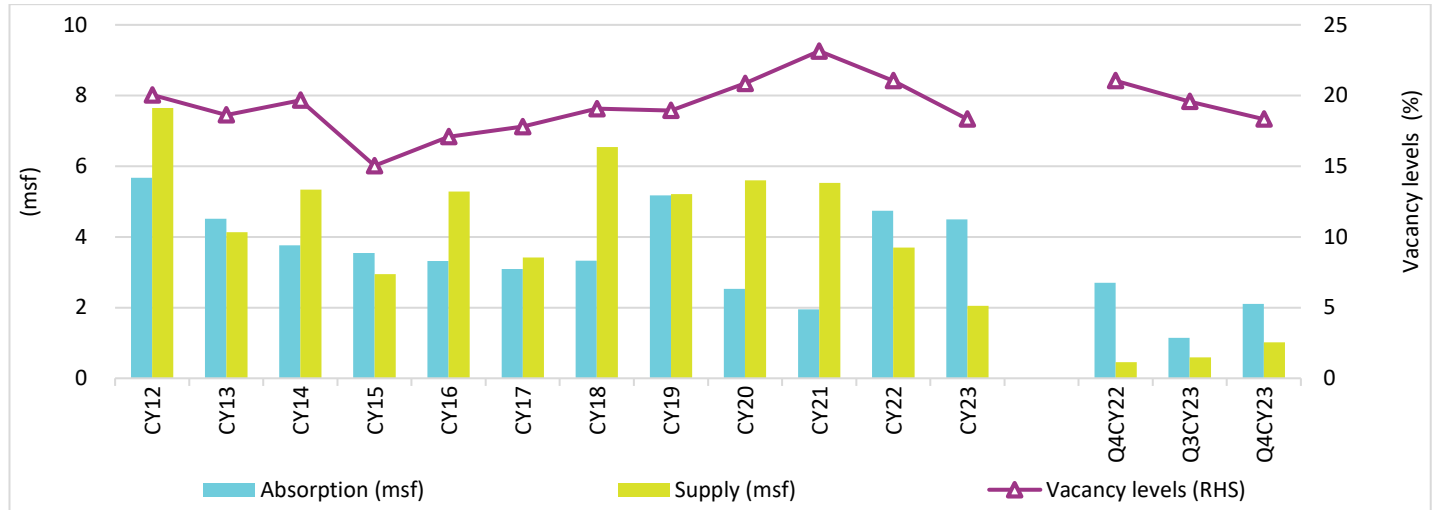
- **Demand:** Leasing activity is likely to gain momentum as covid-related challenges are largely behind us and healthy hiring coupled with the return to office has commenced for employees.
- **Supply:** By CY26, about 19msf supply is expected to come online; of this, nearly 38% is in Noida (Noida Expressway and Noida City) while ‘Gurugram-Others’, NH-8 and Delhi Airport have a share of 12-18% each.
- **Vacancy:** Demand is expected to remain healthy going ahead; however, higher supply is likely to exert some pressure on vacancies in the coming quarters.
- **Rentals:** Healthy leasing activity coupled with supply of high-quality office assets should lead to an uptick in overall rentals going ahead.

Vacancies in MMR had bottomed in CY15 and have risen sharply since then

MMR: Demand remains healthy; vacancies continue to correct

The MMR market comprises Mumbai, Thane and Navi Mumbai (Vashi). There are wide variations, not only between these cities, but even among micro-markets within them. The MMR market has lost some of its prominence over the past few years—from a share of more than 20% in all India absorption during CY12–13 (when it was among top-two markets in the country), to 10–13% since CY13.

Exhibit 69: Vacancies continues to correct YoY in MMR in CY23



Source: Cushman & Wakefield, Nuvama Research

Demand: Gross leasing during Q4CY23 was 5.2msf, up 53% QoQ/15% YoY. Of this, the share of fresh leasing was 60%. Malad-Goregaon (~20%) and Central Suburbs (~17%) contributed significantly to the leasing volumes during the quarter; they were followed by Lower Parel, Andheri-Kurla, Powai and BKC micro-markets with 10–14% share each.

Higher fresh leasing led to net absorption surging 84% QoQ (down 22% YoY) to 2.1msf in Q4CY23.

Gross leasing in CY23 stood at ~14.2msf (down 6% YoY), half of which was from fresh leasing.

Demand drivers: BFSI (25%) and Professional Services (21%) drove leasing during the quarter.

Supply: There was ~1msf of office supply during the quarter in the MMR (up 72% QoQ/120% YoY); of this, nearly half (~47%) was in Worli while Andheri-Kurla and Thane-Belapur Road contributed ~20% each.

Overall, the market witnessed ~2msf of new supply during the year (down 45% YoY).

Overall vacancy levels: Consistent leasing coupled with low levels of supply led to vacancy levels in the MMR correcting by ~125bp QoQ/270bp YoY to 18.3% as at end-Q4CY23.

Vacancy levels in various micro-markets: Since there are a large number of micro-markets in the MMR, vacancy rates also vary significantly and are in the 10–37% range.

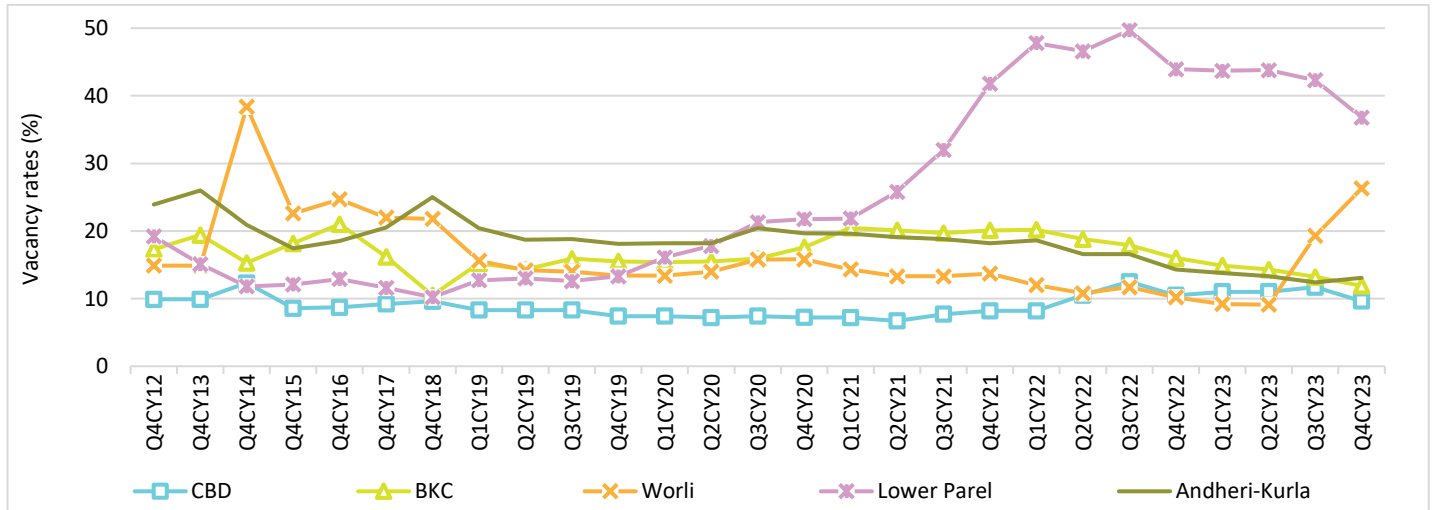
Mumbai CBD (Nariman Point) continued to enjoy single-digit vacancy till Q1CY22. Vacancies here entered the double-digit territory in Q2CY22 but now stand at 9.6% levels.

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Vacancy levels vary widely across micro-markets in the MMR with Nariman Point, Vashi and Powai having low vacancies.

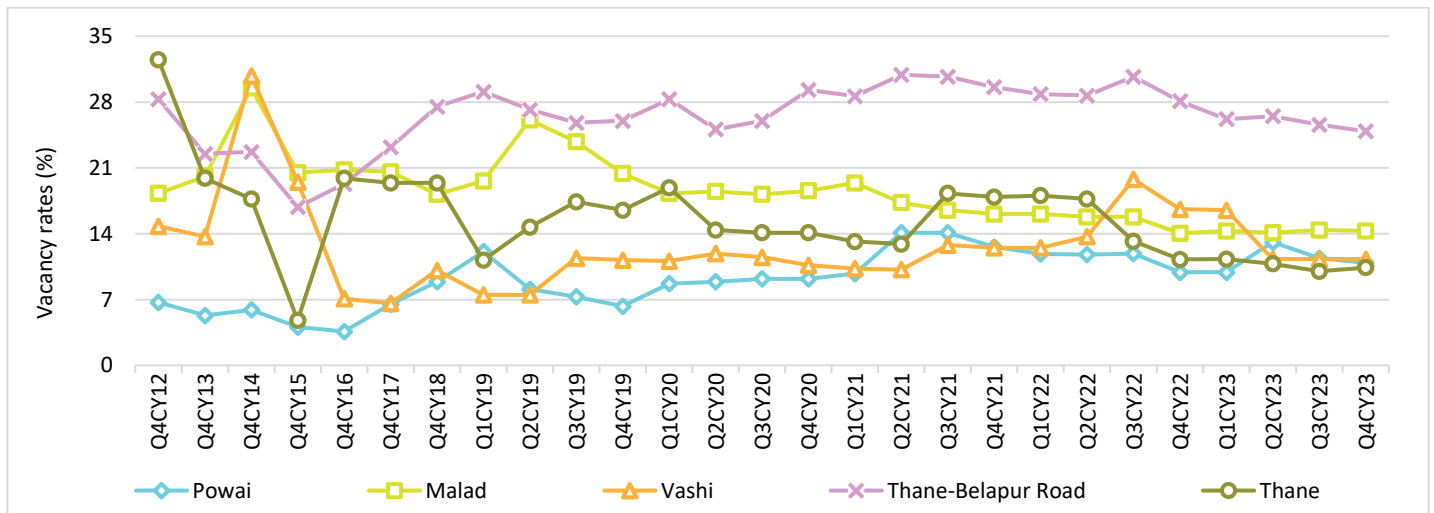
While most micro-markets saw a reduction in vacancies QoQ, Worli saw a ~700bp QoQ increase in vacancies to 26.3% due to huge supply. On the other hand, healthy leasing in Lower Parel during the quarter meant that vacancies here corrected ~550bp QoQ to ~36.8%, still the highest in the city. Vacancies in all other micro-market remain in the range of ~10-13% each (except Thane-Belapur Road with ~24.9% vacancy levels). Vacancies across most micro-markets witnessed a drop of ~70-130bp QoQ each during Q4CY23, except Andheri-Kurla (where they increased ~70bp QoQ) and Malad and Vashi micro-markets (where they remained broadly stable).

Exhibit 70: Vacancies in 10–37% range in major micro-markets in Mumbai city



Source: Cushman & Wakefield, Nuvama Research

Exhibit 71: Divergent vacancy trend in MMR



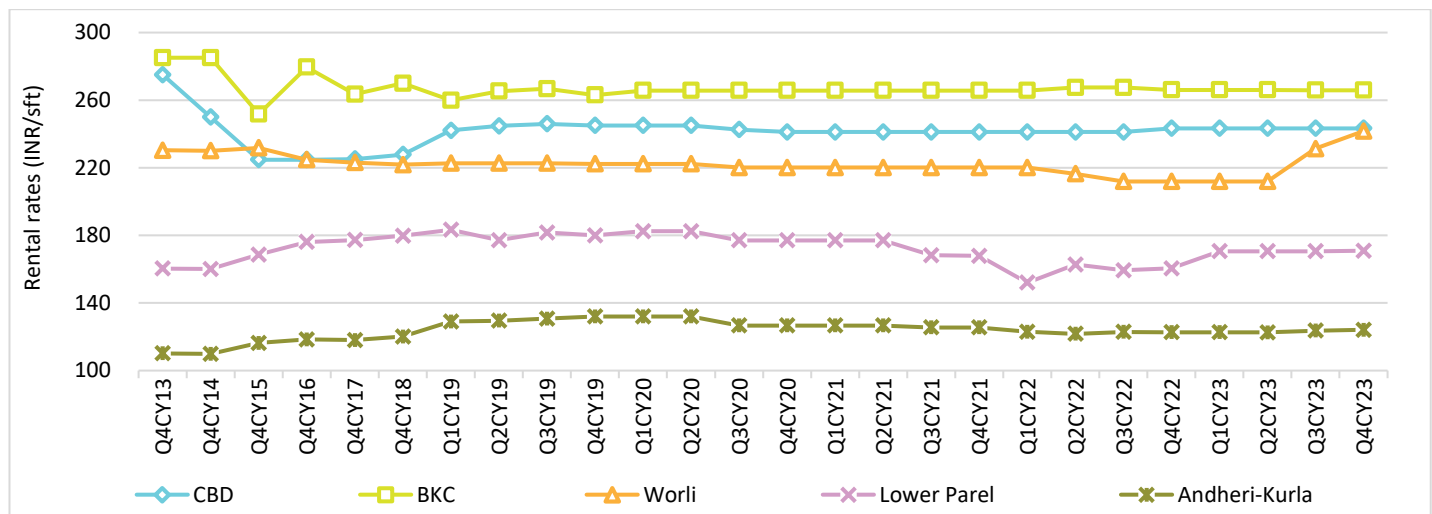
Source: Cushman & Wakefield, Nuvama Research

Rentals on an average were up 1% QoQ/2% YoY in Q3CY23 in the MMR, with wide divergence across micro-markets.

Rentals: Historically, there has been a wide divergence in rental performance between various micro-markets in the MMR. Rentals in micro-markets outside Mumbai city had surged 13–26% YoY in CY19. During CY20–23, rents were range-bound in these regions (-6% to 4% YoY).

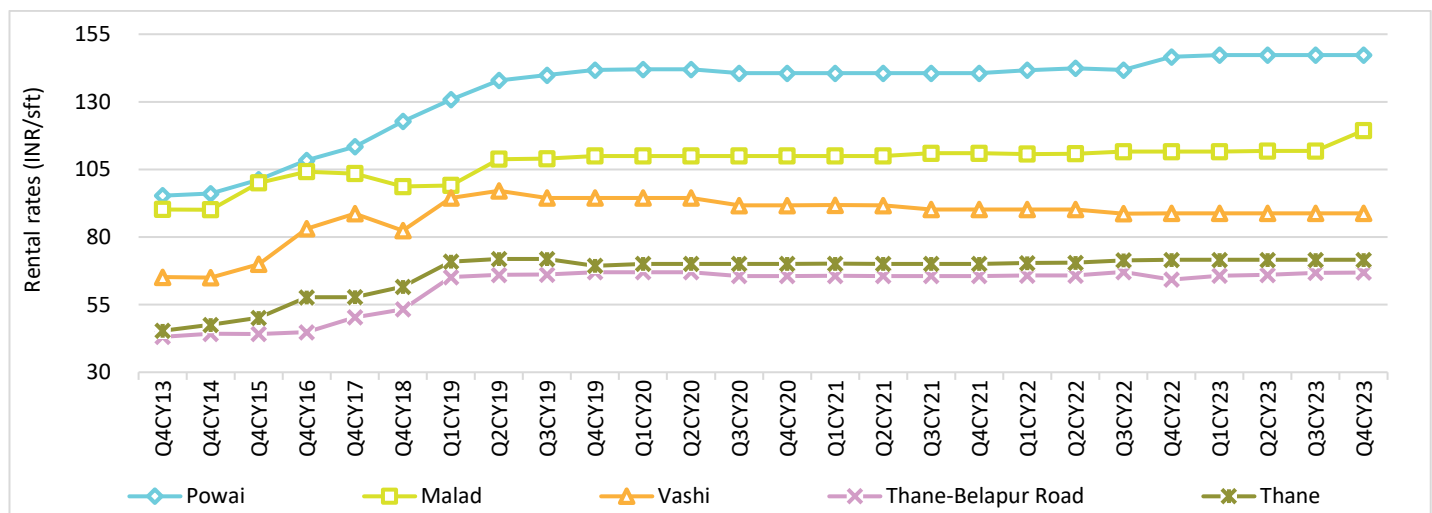
Overall rentals in Q4CY23 were up 1% QoQ/4% YoY in the MMR during the quarter. They rose the most (7% QoQ and YoY) in Malad and by 4% QoQ/14% YoY in Worli. Thane-Belapur and Lower Parel micro-markets too witnessed 4-6% YoY increase in rentals each during the quarter (flat QoQ).

Exhibit 72: Rental trajectory varies across major micro-markets in Mumbai city



Source: Cushman & Wakefield, Nuvama Research

Exhibit 73: Divergent performance on rental front in Q4CY23



Source: Cushman & Wakefield, Nuvama Research

Exhibit 74: Major leasing transactions during Q4CY23

Micro-market	Property	Tenant	Area (sft)	Mode
Lower Parel	One International Centre	Viacom18	4,10,000	Fresh Lease
Powai	247 IT Park	SMFG India	1,94,000	Fresh Lease
Malad Goregaon	Prism Towers	ICICI Prudential	1,90,000	Fresh Lease
Malad Goregaon	Nirlon Knowledge Park	Morgan Stanley	1,45,000	Term Renewal
Thane-Belapur Road	Arihant Aura - C	HDFC	1,95,000	

Source: Cushman & Wakefield, CBRE, Nuvama Research

Major developments during Q4CY23 in MMR office market

- Netflix leases 1.4 lakh sq. ft. prime office space in Bandra’s Godrej BKC building [\(FE\)](#)
- Rekha Jhunjunwala’s company buys office spaces for INR7.39bn in Mumbai’s BKC, Andheri [\(ET\)](#)
- Canada’s TD Bank’s India HQ lease in Mumbai’s BKC sets new record [\(ET\)](#)

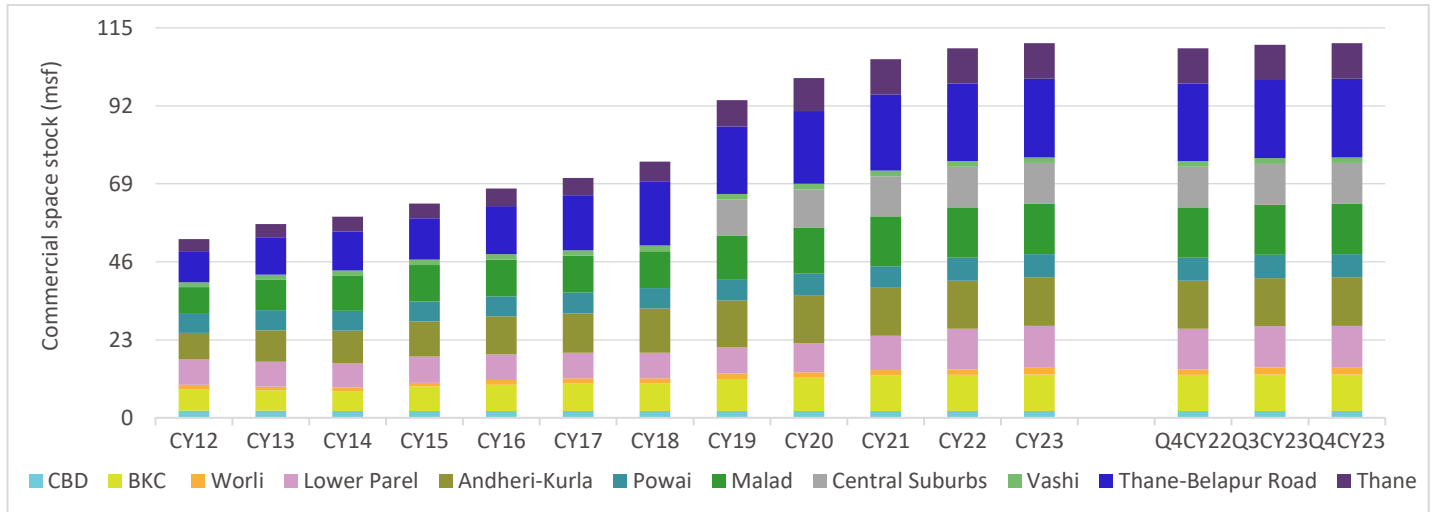
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Thane-Belapur Road has seen maximum office stock addition in MMR over the past few years

Office stock addition: Overall office stock in the MMR touched ~110msf at end-CY23 with Thane-Belapur Road being the star performer in terms of stock addition over the past few years.

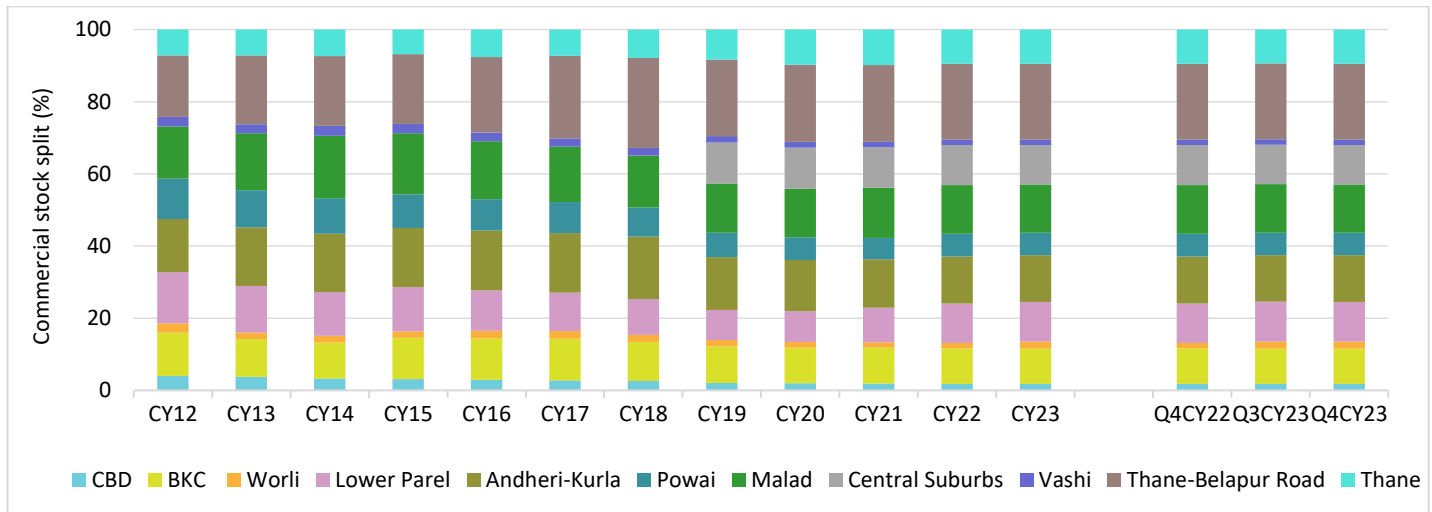
While Mumbai city continues to make up about two-thirds of the overall office stock in the MMR, the Thane-Belapur Road micro-market has seen maximum stock addition since CY12. It now contributes more than a fifth to the overall office stock in the MMR.

Exhibit 75: Steady uptick in office stock



Source: Cushman & Wakefield, Nuvama Research

Exhibit 76: Thane-Belapur Road’s share has been on the rise



Source: Cushman & Wakefield, Nuvama Research

Within Mumbai, Andheri-Kurla and Malad regions have seen large stock additions of about 6.5–7.0msf each since CY12.

Exhibit 77: Major projects likely to get completed in MMR in CY24–25

Sub-Market	Property	Major Tenant	SF	Completion date
Malad – Goregaon	Oberoi Commerz 3	Morgan Stanley	18,00,000	Q2CY24
Thane	Centaurus	NA	20,00,000	Q1CY25
Andheri-Kurla	Waterstone Business Park	NA	12,50,000	Q4CY25

Source: Cushman & Wakefield, Nuvama Research

Outlook: Our views on various operational parameters are summarised below:

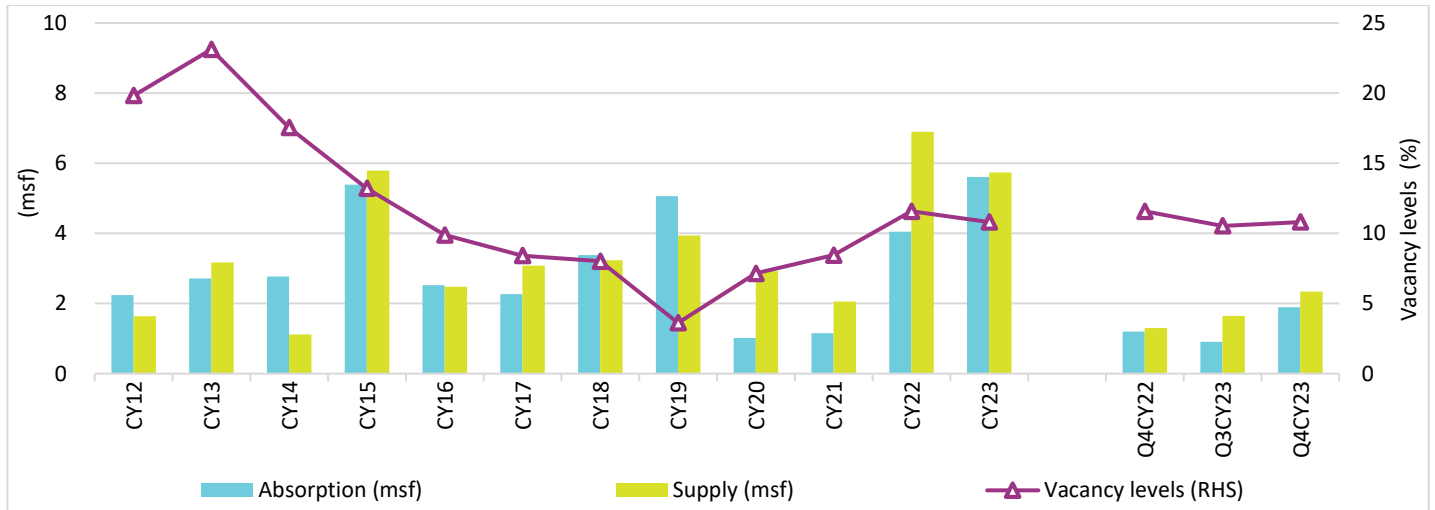
- **Demand:** Given the easing of covid restrictions and return to office picking up, we expect the uptick in demand to sustain in the future.
- **Supply:** New supply remained contained in CY23; however, ~26msf of new completions are expected over CY24-26. Andheri-Kurla, BKC and Thane Belapur Road together contribute nearly half of the upcoming supply.
- **Vacancy:** With a steady uptick in leasing coupled with rising supply, vacancy levels are expected to remain stable or moderate a bit from the current levels over the coming quarters.
- **Rentals:** With an uptick in the leasing activity going ahead, decreasing vacancies and completion of new metro lines, rents are likely to inch up over coming quarters.

Supply trailed absorption in most years in Pune in the past decade, but the trend has reversed since CY19

Pune: Supply eclipses demand; vacancies increase QoQ

Vacancy levels in the Pune market had been in single digits over the past couple of years. In CY22, it entered the double-digit territory but the city continues to have the lowest vacancy levels in India. Robust demand from IT/ITeS companies coupled with constrained supply has kept the market buoyant.

Exhibit 78: Vacancy increased QoQ in Q4CY23



Source: Cushman & Wakefield, Nuvama Research

As a result of tight supply, Pune had enjoyed single-digit vacancy over CY16–21. It again entered the double-digit territory in Q3CY23, but still remains the lowest in the country.

Demand: During Q4CY23, gross leasing came in at ~2.5msf, up 154% QoQ/135% YoY. Fresh leasing accounted for 80% while term renewals accounted for the balance 20% of the gross leasing volumes during the quarter. SBD East accounted for majority of the leasing activity during the quarter with ~51% share, followed by SBD West and PBD West (21-24% share each).

For the year as a whole, gross leasing stood at ~9.7msf (up 45% YoY) led by higher share of fresh leasing (55%) followed by term renewals (40%).

Net absorption rose 58% YoY/109% QoQ during the quarter to 1.9msf.

Demand drivers: Captives (31%), Flex spaces (19%) and engineering and manufacturing sector (17%) accounted for the bulk of leasing during the quarter.

Supply: Total supply during the quarter surged 42% QoQ/79% YoY to 2.3msf. Nearly half (46%) of the supply during the quarter came from the SBD East micro-market whereas a third came from PBD West and the balance from SBD West.

Supply in CY23 came in at 5.7msf (down 17% YoY).

Overall vacancy levels: Vacancy levels had declined consistently since CY13, reaching mere ~3.6% at CY19 end. However, relocations, consolidations, exits and delayed transaction closures had led to vacancy level rising to ~7% in CY20, which further increased to 8.4% by end-CY21.

During Q4CY23, vacancy levels rose ~30bp QoQ (down ~80bp YoY) to 10.8%; however, they still remain the lowest in the country.

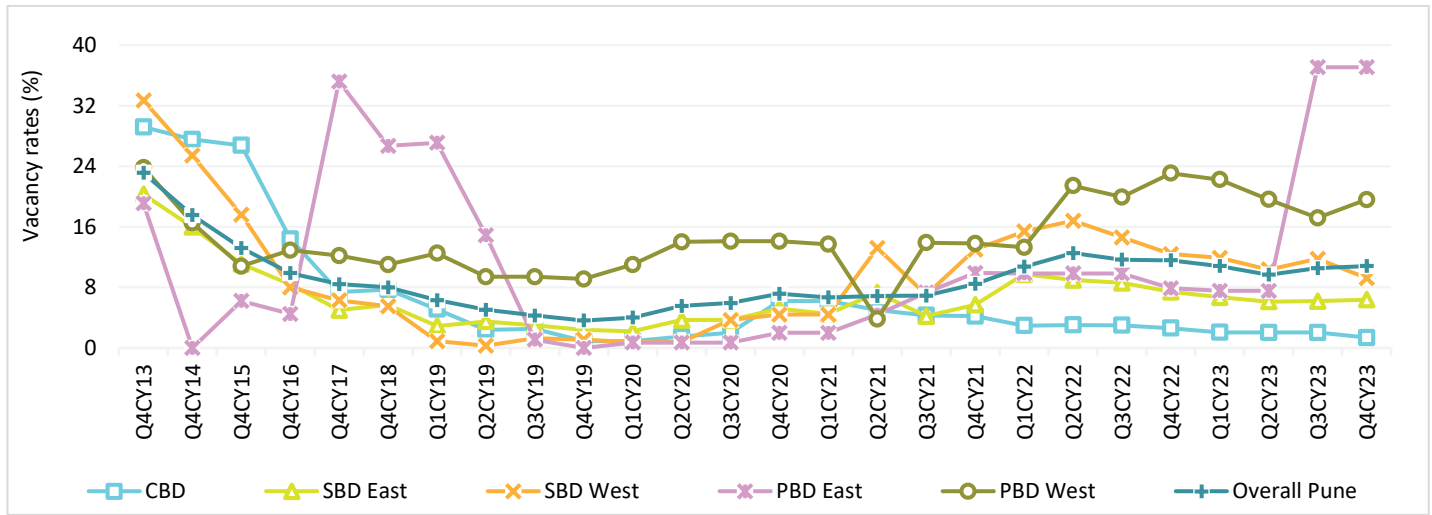
Vacancy levels in various micro-markets: Except the PBD West micro-market, vacancy levels in all other micro-markets in the city were in single digits in Q3CY21.

Vacancies increased 240bp QoQ in PBD West to 19.6% in Q4CY23 but declined ~250bp QoQ in SBD West (to 9.2%) and by ~70bp in CBD. They were flat QoQ in the

Except PBD West, all other micro-markets in Pune had single-digit vacancy levels till Q3CY21; however, vacancy levels vary widely now

remaining micro-markets. Vacancies differ widely across the micro-markets in Pune, remaining as high as 37% in PBD East and as low as just 1.4% in CBD.

Exhibit 79: Vacancies decline YoY in all micro-markets except PBD East in Q4CY23



Source: Cushman & Wakefield, Nuvama Research

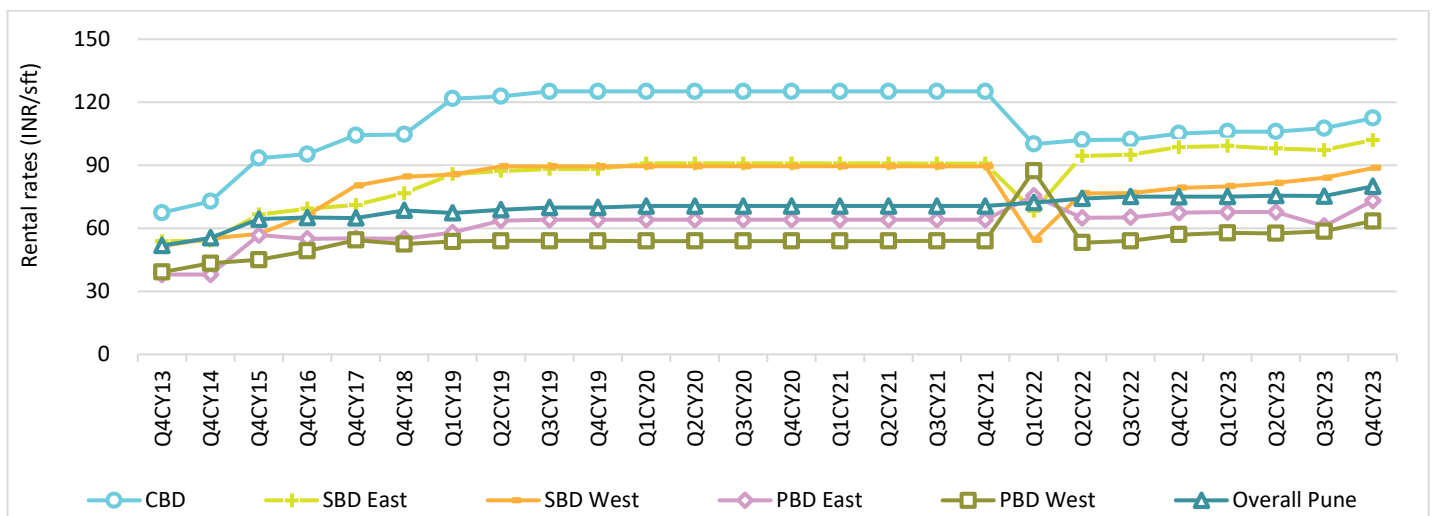
Rentals: Due to low vacancy levels in the city, rental performance has been good over the past few years.

Rental growth across micro-markets over CY13–19 was in the 38–86% range. Among various micro-markets, appreciation in rents was the highest in CBD, with the lowest being in Peripheral Western suburbs. Rentals in CY20–CY21 had remained broadly flat across micro-markets. However, in CY22, rentals rose 5–9% YoY each in PBD and SBD East micro-markets but decreased 12–16% YoY in CBD and SBD West.

At an overall level, rentals in CY23 rose 7% YoY; however, by individual micro-market, they rose 3% YoY in SBD East, 7-9% YoY in PBD East and CBD and by 11-12% YoY in SBD West and PBD West.

On a quarterly basis, rentals were up 6% QoQ in Q4CY23 at an overall basis, surging as high as 20% QoQ in PBD East and 4-8% QoQ in all other micro-markets.

Exhibit 80: Overall rentals increase during Q4CY23



Source: Cushman & Wakefield, Nuvama Research

Exhibit 81: Major leasing transactions during Q4CY23

Micro-market	Property	Tenant	Area (sft)	Mode
SBD West	Cummins IOC/Panchshil Business Park Phase 1 Tower C	Siemens Industry Software India Private Limited	3,41,863	Term Renewal
SBD East	Gera Commerzone R3/B5	BP Business Solutions India Private Limited	2,04,000	Fresh Lease
SBD East	Commerzone B8	Schlumberger India Technology Centre Private Ltd	88,900	Term Renewal
SBD West	Agile M	Apex Funds	63,000	Fresh Lease
SBD East	Trion IT Park	Bajaj Finserv	97,000	
SBD East	EON Free Zone (B Block)	Genpact	36,200	

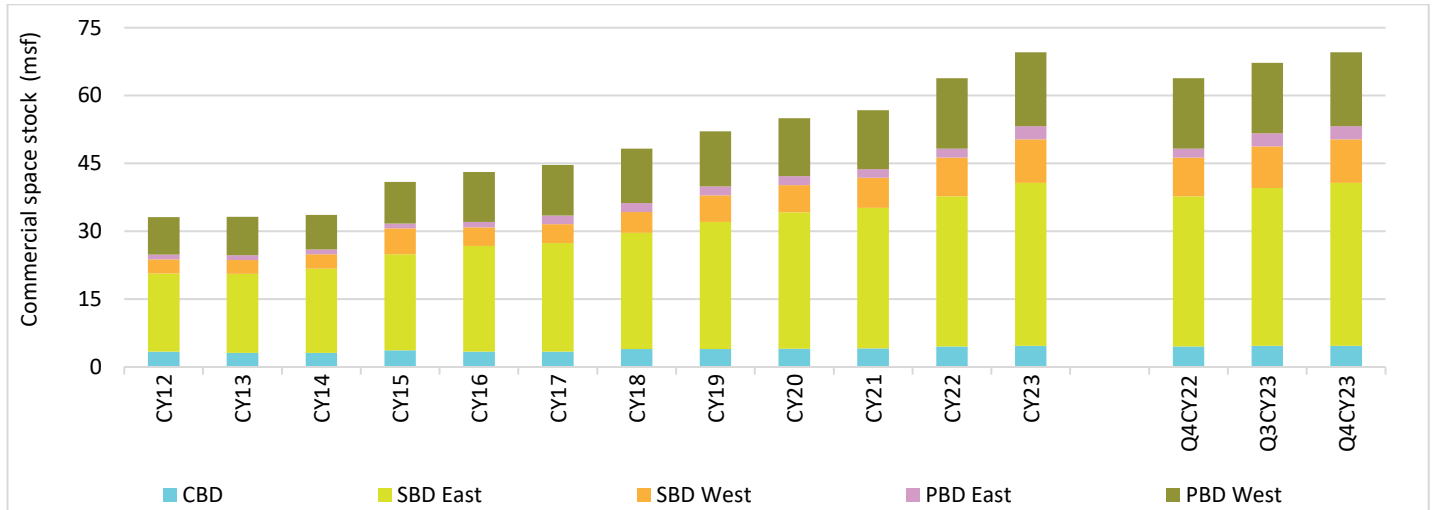
Source: Cushman & Wakefield, CBRE, Nuvama Research

Major developments during Q4CY23 in Pune office market:

- Micro markets in Pune, Chennai and Hyderabad attracting office space occupiers due to sub-dollar rents : Report [\(ET\)](#)

Office stock addition: Pune’s office stock addition has remained healthy over the past few years; overall office stock has touched ~70msf and has doubled since CY13.

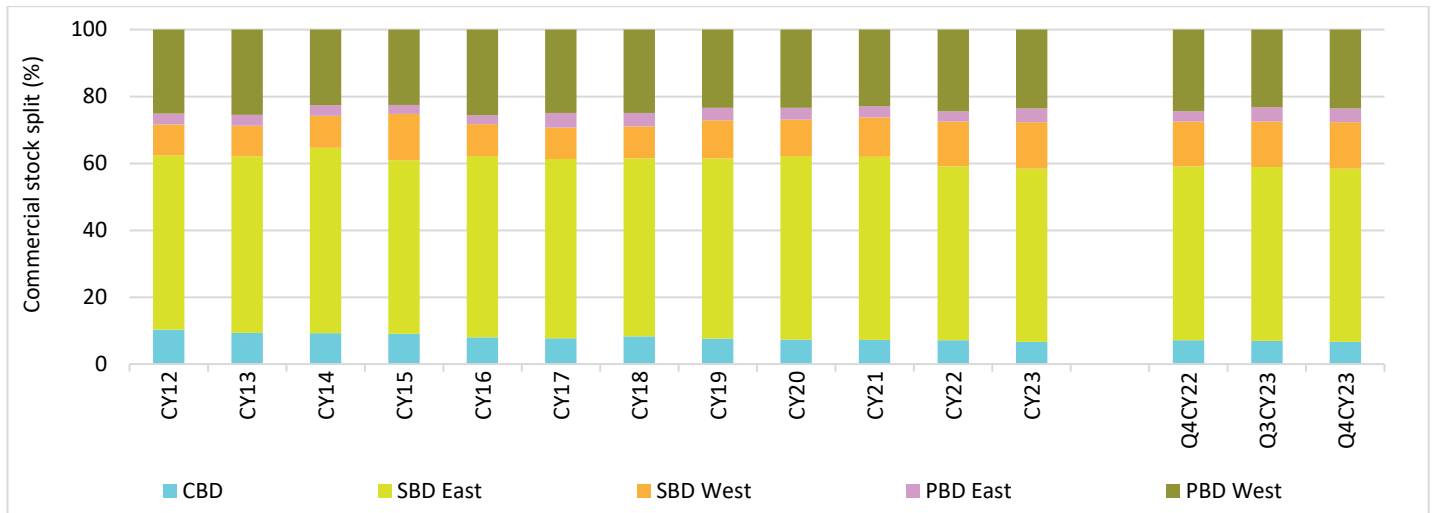
Exhibit 82: Office stock up marginally QoQ



Source: Cushman & Wakefield, Nuvama Research

The contribution of major micro markets in Pune to the overall office stock has remained broadly consistent since CY12. Eastern suburbs continue to account for more than half of the overall office stock in the city.

Exhibit 83: Eastern suburbs maintain dominance



Source: Cushman & Wakefield, Nuvama Research

Exhibit 84: Major projects expected to be completed in this year

Sub-Market	Property	Tenant Sector	SF	Completion date
SBD East	Gera Commerzone Building B1	IT/ITes	7,00,000	Q1CY24
SBD East	Prestige Alphatech	BFSI	9,66,000	Q1CY24

Source: Cushman & Wakefield, Nuvama Research

Outlook: We believe activity in the Pune market would gather pace, going ahead. Our views on various operational parameters are summarised below:

- **Demand:** Demand is likely to increase as companies have started implementing their return to office plans. IT-BPM and Flexible workspaces are expected to continue to drive the leasing activity going ahead.
- **Supply:** The city is expected to witness addition of about ~27msf of new office stock by CY26, more than half of which would be in SBD East (61%); the PBD West and SBD West micro-markets together will contribute around 24% of the upcoming supply, while another 16% would come from the CBD micro-market.
- **Vacancy:** Completion of Grade-A office stock and increase in leasing activity would aid in keeping vacancy levels under control. Furthermore, with the allowance of floor-wise de-notification in SEZ areas, vacancies are likely to contract in SEZ-dominated micro-markets like PBD West and SBD East.
- **Rentals:** Low vacancies over the past few years have pushed rental rates to an all-time high. Healthy leasing coupled with declining vacancies and increased demand for newly completed office spaces has led to rental hikes in some micro-markets. Going ahead, rentals will remain range bound or might increase to some degree owing to high supply from the organised developers and sustained demand in these assets.

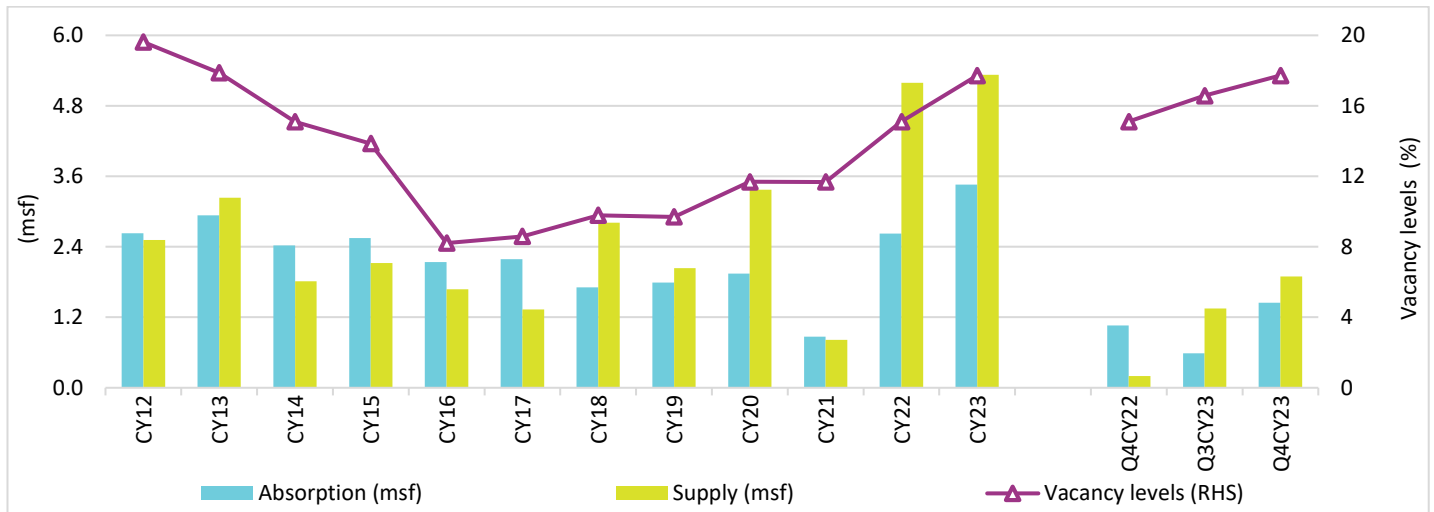
Vacancies continue to decline in Kolkata but inch up in Chennai

Chennai and Kolkata together absorb <10% of office space in India

Chennai and Kolkata markets are relatively less important as far as commercial realty market in India is concerned. While Chennai's share in all India absorption has been ~8%, on an average, since CY13, Kolkata's has been even lower at ~3%.

Kolkata has, in fact, the lowest annual absorption and the highest vacancy level across major cities in the country. Chennai's annual demand, on the other hand, has been 2–3msf since CY12.

Exhibit 85: Demand, supply and vacancy, all increased YoY and QoQ in Chennai in Q4CY23



Source: Cushman & Wakefield, Nuvama Research

Demand: Gross leasing in Chennai during the quarter stood at 3.5msf (up 97% QoQ/109% YoY). Fresh leasing contributed almost entirely (~94%) to gross leasing. Suburban South accounted for more than half (53%) of the demand during the quarter followed by South-West and Peripheral South (15-17% share each).

Many large-sized deals got executed during the quarter, as a result net absorption stood at 1.4msf (up 146% QoQ/37% YoY) in Q4CY23.

CY23 gross leasing stood at ~9msf (up 17% YoY), led by fresh leasing (88% share).

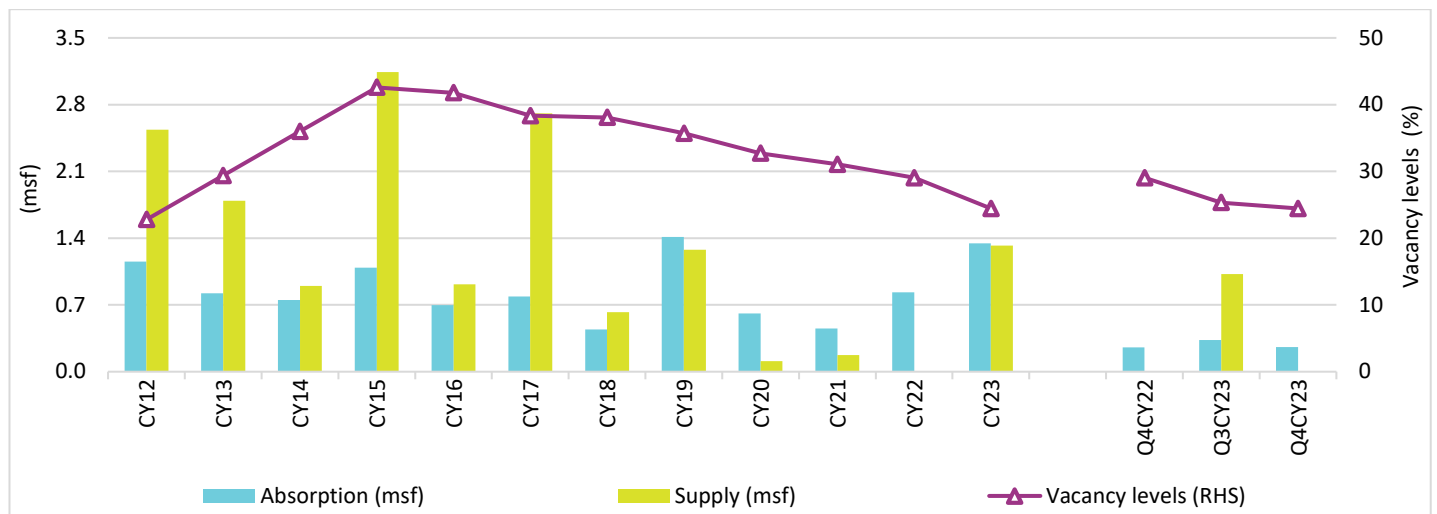
Demand drivers: GCCs in the BFSI and Engineering and Manufacturing sectors emerged as the largest demand driver (42% share) followed by Flexible workspaces (14%) in Q4CY23.

Leasing demand in CY23 was driven by IT-BPM with a 32% share followed by captives with a 22% share.

Supply: Chennai saw ~1.9msf of new completions during the quarter (up 40% QoQ/849% YoY). The entire supply during the quarter came from the Suburban South micro-market.

CY23 supply stood at 5.3msf (up 3% YoY).

Exhibit 86: Vacancies in Kolkata continued to decline in Q4CY23, but still remain the highest in the country



Source: Cushman & Wakefield, Nuvama Research

Demand in Kolkata: Gross leasing came in at 0.4msf (up 10% QoQ but down 36% YoY) during Q4CY23. Sector-V, Salt Lake micro-market constituted nearly one-third (60%) of the total gross leasing during the quarter followed by SBD with 33% share.

Net absorption in Q4CY23 plunged 23% QoQ but was up 2% YoY to 0.3msf.

Gross leasing in CY23 stood at 1.3msf (up 62% YoY).

Demand drivers in Kolkata: IT-BPM contributed 22% of the demand during the quarter followed by telecom (20%), professional services (16%) and engineering and manufacturing (15%).

IT-BPM (38%), followed by BFSI (22%) and flexible workspaces (11%) led the demand in CY23.

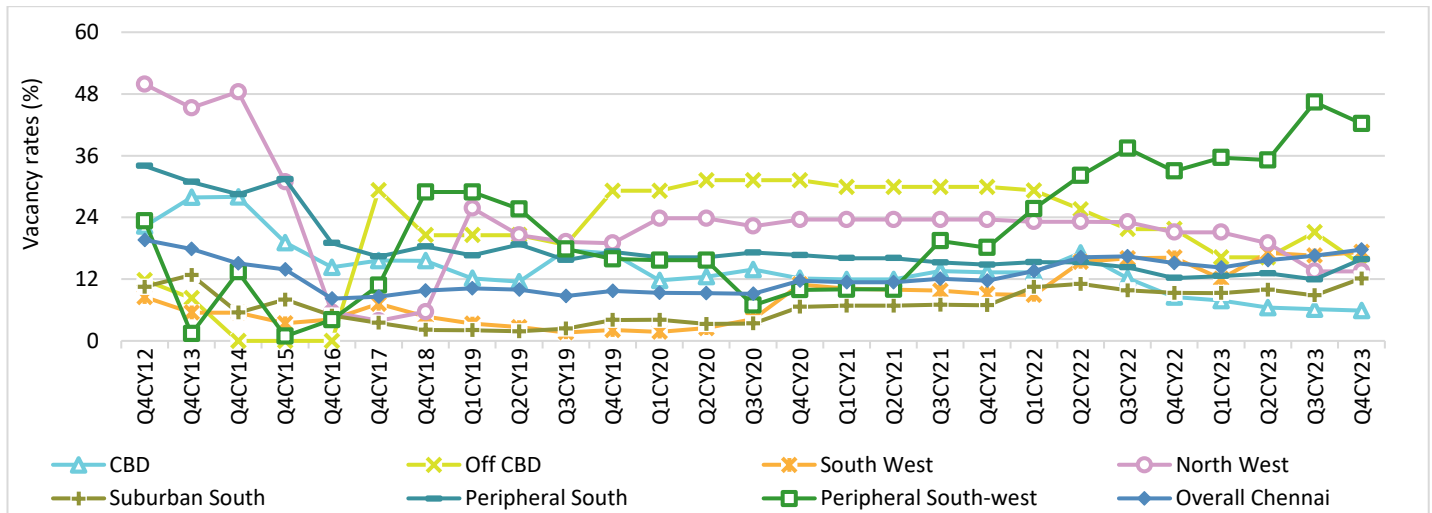
Supply in Kolkata: There was no new supply in Kolkata during the quarter against 1msf of space added in Q3CY23 and nil supply in Q4CY22.

The city has historically seen very low supply compared with the remaining top cities (~1.3msf in CY23, nil in CY22, ~0.2msf in CY21 and ~0.1msf in CY20).

Overall vacancy levels: Vacancy trend in the Chennai market has been divergent in the current decade. It had plummeted over CY12–16 to ~8%, before rising to ~10% in CY19. In CY20, vacancies in Chennai rose by another 200bp to 11.7% and remained flat YoY in CY21. With supply eclipsing demand in the current year, vacancies rose to 17.7% as at end-CY23 (15.1% at end-CY22).

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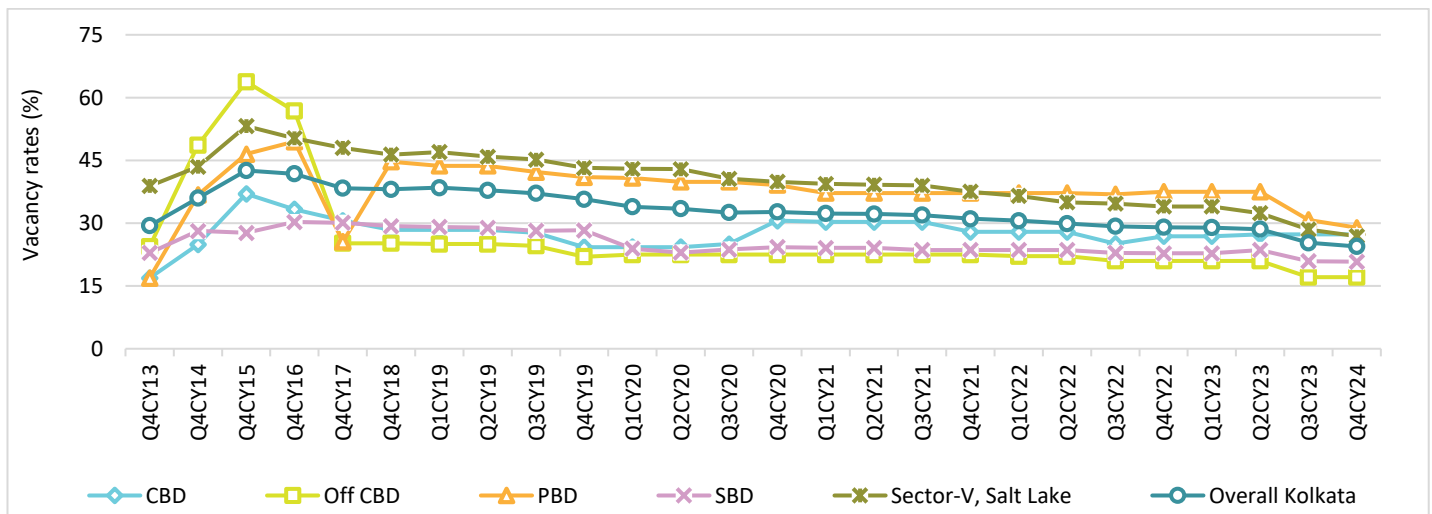
Exhibit 87: Vacancy rates in Chennai micro-markets have been volatile



Source: Cushman & Wakefield, Nuvama Research

In the Kolkata market, vacancies have remained high in the current decade. They were above 40% in CY15 and CY16, and remained at ~38% till CY18, before slipping to ~36% at CY19 end. With very low supply over the past three years, vacancies fell to 33% by end-CY20, 31% at end-CY21 and further improved to 24.4% by end-CY23.

Exhibit 88: Vacancy rates have declined, but remain elevated in Kolkata



Source: Cushman & Wakefield, Nuvama Research

Vacancy levels in various micro-markets: Vacancy rates within various micro-markets of Chennai have been volatile over the past few years, even as they differ widely from each other.

Vacancies in CBD had dipped from ~30% in CY14 to ~13.3% in CY21. They entered the single-digit territory by end-CY22 and ended CY23 at a vacancy of just ~5.9%. Suburban South micro market (provides more than one-fourth of office space in the city) had enjoyed single-digit vacancy level since CY13. Vacancies here entered the double-digit territory in Q1CY22 and ended CY23 at 12.1% level.

Vacancies in the South-West micro market, which stood at 9% in the beginning of CY22, surged to 16.2% by end-CY22 and further to 17.3% in Q4CY23. While vacancies corrected ~400-600bp in Off-CBD and Peripheral South-West, they inched up ~330-400bp QoQ in Suburban South and Peripheral South.

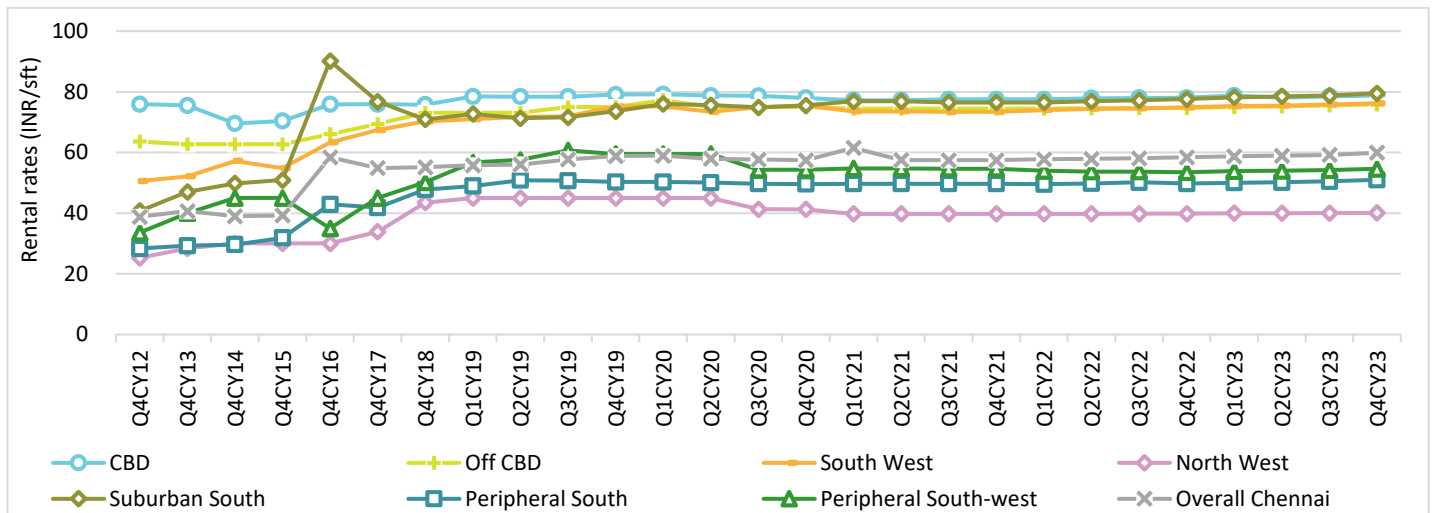
While most markets have vacancies in the range of 14-17%, Peripheral-South west has high vacancy of 42.3%.

As far as Kolkata is concerned, while vacancy rates in all micro-markets have declined since CY15, they continue to remain high. Vacancies in the micro-markets stands in the range of 17-27%, except the PBD market, which has 29% vacancy levels. Salt Lake region and PBD witnessed 160-190bp QoQ reduction in vacancies in Q4CY23.

Kolkata continues to have high vacancy levels

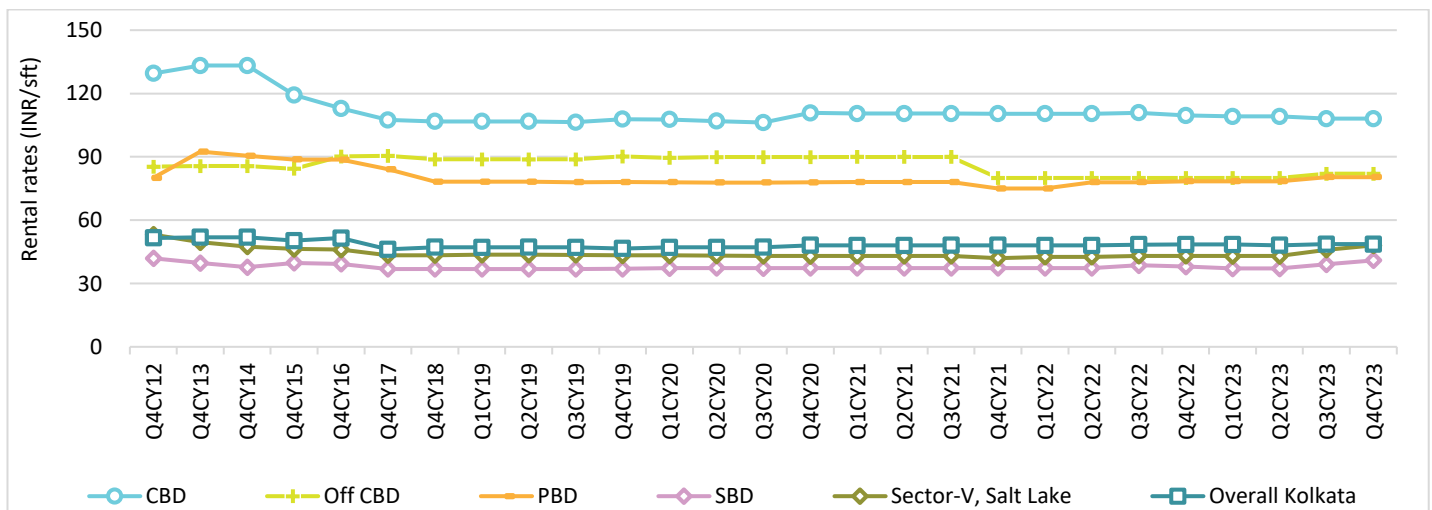
Rentals: Except the CBD region (where rentals had remained flat over CY13-Q2CY21), rentals have improved sharply in most micro-markets of Chennai, although the rate of growth differs widely (20-70%). Overall rentals inched up 1% QoQ/3% YoY in Q4CY23 in Chennai, improving marginally by 1% QoQ/ 1-2% YoY in all micro-markets during the quarter.

Exhibit 89: Rentals increased 1% sequentially in Chennai



Source: Cushman & Wakefield, Nuvama Research

Exhibit 90: Overall rentals remained flat YoY and QoQ both in Kolkata



Source: Cushman & Wakefield, Nuvama Research

Rentals have been soft in Chennai and Kolkata in the current year

Kolkata is the only market among major cities in India, wherein rentals have declined over the past few years, courtesy high vacancy rates. The off-CBD region is the only micro-market wherein rentals have risen marginally over CY13-20; they were down ~17% in CBD and ~6-16% in other micro-markets.

While overall rentals remained flat QoQ, they rose 4-5% QoQ/8-11% YoY each during Q4CY23 in Sector-V, Salt Lake and SBD (Rajarhat). They were also up 2–3% YoY in PBD and Off-CBD but down 1% YoY in CBD micro-market in Q3CY23.

Developers have offered benefits such as lower CAM charges and higher rent-free period to occupiers even as they kept nominal rents unchanged.

Exhibit 91: Major leasing transactions during Q4CY23 in Chennai

Micro-market	Property	Tenant	Area (sft)	Mode
Suburban South	DLF Downtown Taramani	Bank of America	7,11,260	Fresh Lease
Peripheral South West	International Tech Park Chennai, Radial Road	Vestas	2,40,000	Fresh Lease
Peripheral South	TECCI Park - Phase II	Cactus Coworking	1,83,700	
CBD	RMZ One Paramount	Tata Telecommunications	1,19,800	

Source: Cushman & Wakefield, CBRE, Nuvama Research

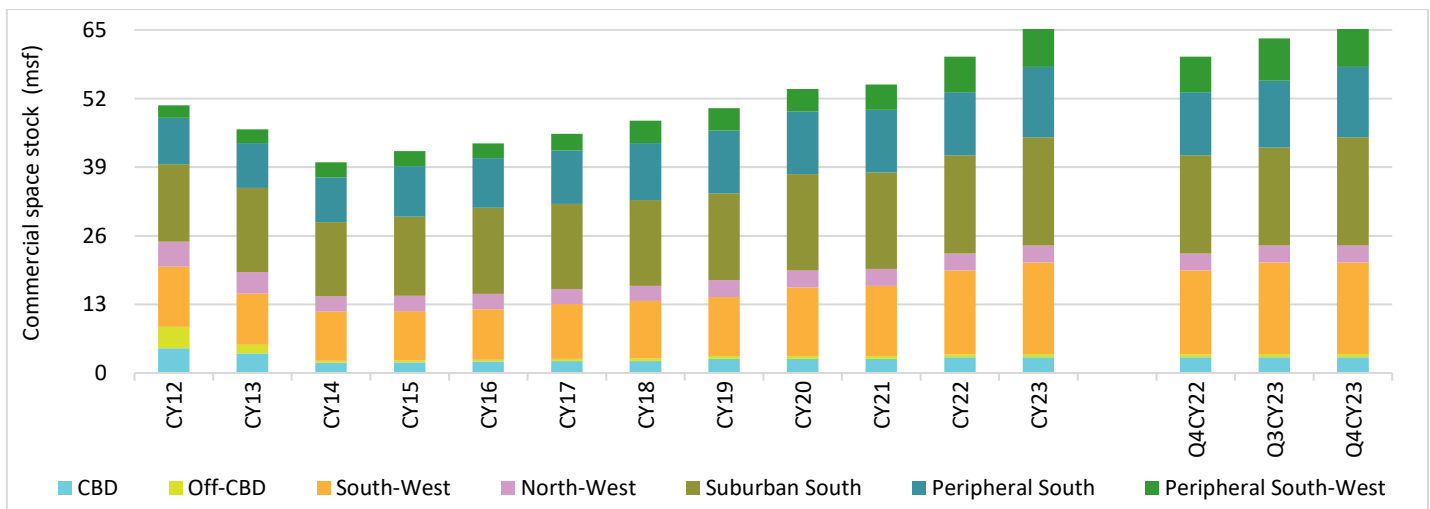
Exhibit 92: Major leasing transactions during Q4CY23 in Kolkata

Micro-market	Property	Tenant	Area (sft)	Mode
Rajarhat	DLF IT Park II	British Telecom	85,000	Term Renewal
Sector V, Salt Lake	BIPL	EY	70,000	Fresh Lease
Sector V, Salt Lake	BIPL	Sun Knowledge	36,000	Fresh Lease
Rajarhat	Mani Casadona	Cloud	25,000	Fresh Lease
Rajarhat	DLF IT Park I	Kaptan	24,000	Fresh Lease
Rajarhat	Millennium City	Northern IT services	41,000	
Rajarhat	Merlin Infinite	Bajaj Finance	30,000	
Park Circus Connector	South City Business Park	L'Oreal	20,000	

Source: Cushman & Wakefield, CBRE, Nuvama Research

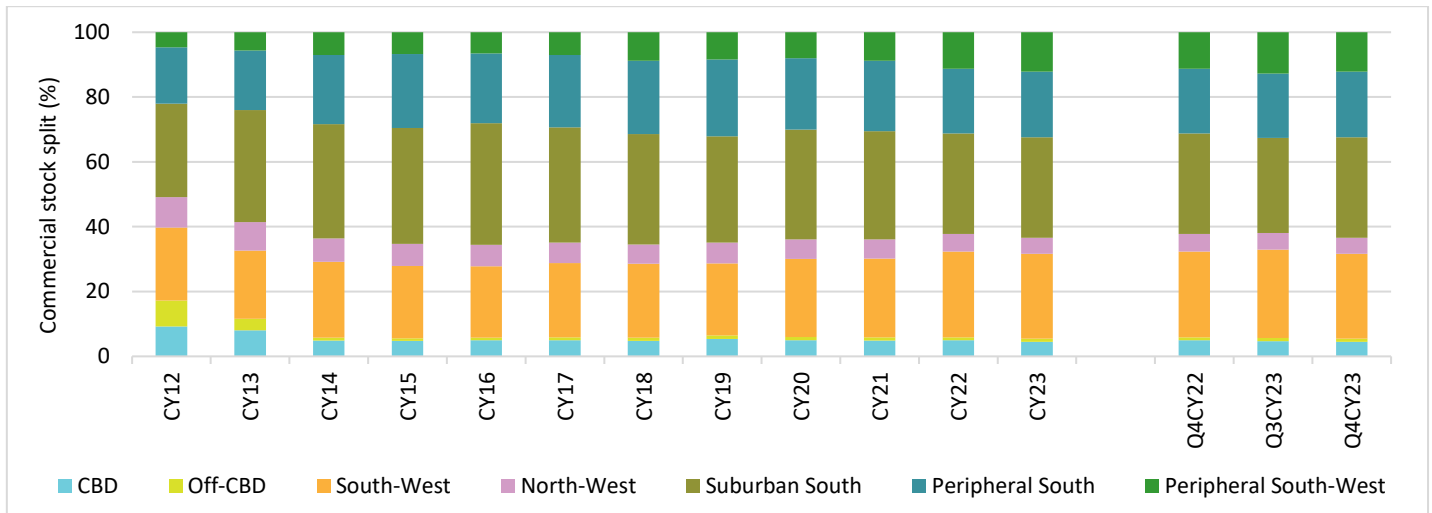
Office stock addition: After a dip over CY12–14, Chennai’s office stock has increased gradually since CY14. It rose 66% over CY14–CY23 and touched ~66msf.

Exhibit 93: Chennai office stock has risen since CY14



Source: Cushman & Wakefield, Nuvama Research

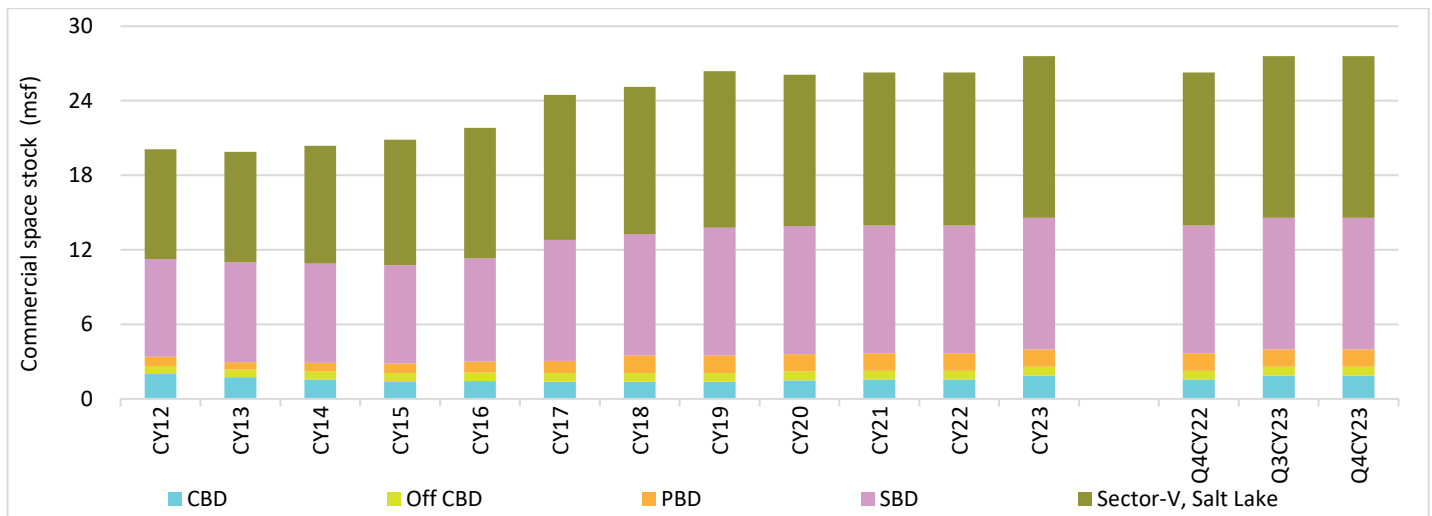
Exhibit 94: Southern region has gained share gradually in Chennai



Source: Cushman & Wakefield, Nuvama Research

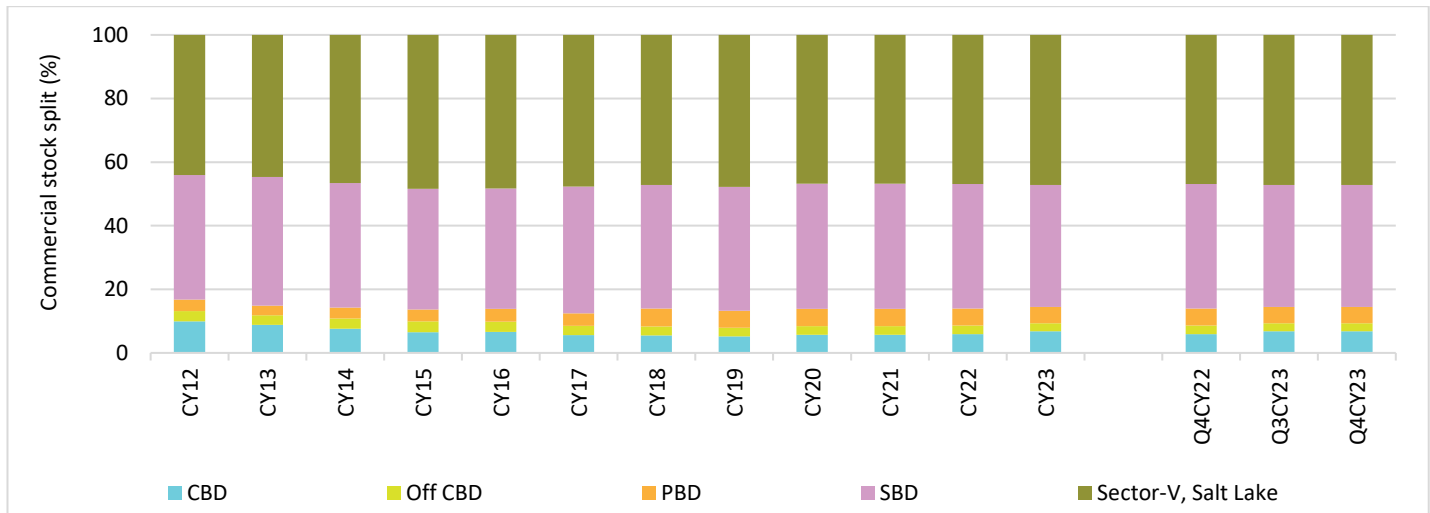
By micro-market, the share of Southern regions (Suburban South and Peripheral South) improved gradually—from 53% in CY13 to ~56% in CY21. This had largely come at the expense of a decline in the share of CBD. However, this share dropped to 51% by end-CY23 with Peripheral South-West witnessing new supply.

Exhibit 95: Kolkata office stock has remained steady since CY19



Source: Cushman & Wakefield, Nuvama Research

Exhibit 96: Salt Lake region maintains dominance



Source: Cushman & Wakefield, Nuvama Research

The bulk of office space addition in Kolkata since CY13 has been in the Salt Lake region

As far as Kolkata is concerned, the office stock continued to rise till CY18 despite high vacancy levels; since then it has stabilised and is now at ~28msf. The Salt Lake region witnessed the bulk of addition during this period and now contributes nearly half of the office stock in the city. On the other hand, the share of CBD has continuously declined.

Exhibit 97: Major projects likely to get completed in Chennai over CY23–24

Sub-Market	Property	Major Tenant	SF	Completion date
Suburban South	DLF Downtown Taramani Tower C	Standard Chartered	12,00,000	Q4CY24
Peripheral South	Commerzone Pallikaranai Block 3		6,60,000	Q3CY24
South-west	ASV ASV CRN Enclave		1,60,000	Q1CY25

Source: Cushman & Wakefield, Nuvama Research

Exhibit 98: Major projects likely to get completed in Kolkata over next year

Sub-Market	Property	SF	Completion date
Sector V, Salt Lake	Arch Square	1,67,360	Q1CY24
Park Circus Connector	Ideal Unique Centre	6,00,000	Q2CY24
Sector V, Salt Lake	Emami Business Bay	2,64,000	Q1CY25

Source: Cushman & Wakefield, Nuvama Research

Outlook for Chennai market: We believe the Chennai market will remain stable going ahead. Our views on various operational parameters are summarised below:

- **Demand:** Leasing demand is expected to improve on the back of strong demand from the IT-BPM and BFSI sectors and higher interest in the new upcoming spaces especially in the southern markets.
- **Supply:** Supply of ~16msf is anticipated in the medium term over the CY24-CY26 period, almost evenly spread across South-West, Suburban South, Peripheral South and Peripheral South-West micro-markets. ~27% of the new supply expected in CY24 is already pre-leased.
- **Vacancy:** Vacancy levels are expected to increase in the near term due to large-scale completions, mainly in the South-West and Peripheral South-West micro-markets.

- **Rentals:** With more premium office spaces expected to come up in the near term quoting higher rents, overall rents are also expected to inch up.

Outlook for Kolkata market: Our views on various operational parameters are summarised below:

- **Demand:** Leasing volumes is expected to remain healthy with good demand for the premium Grade A office spaces.
- **Supply:** ~3msf supply is expected to come on stream by CY26. ~58% of the total expected supply is in the Salt Lake region while the balance would be in the SBD and off-CBD micro market.
- **Vacancy:** New supply addition is likely to put pressure on vacancy levels going ahead. However, healthy demand from the IT sector would keep vacancies under control.
- **Rentals:** Due to high supply and high level of overall vacancies, rents are likely to remain stable in the near term to attract the new and retain the existing occupiers.

All price charts cannot be included given the large of number of companies in our coverage. Specific charts may be available upon request

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