VESTIAN

Azadi Ka Amrit Mahotsav

FICCI

Shifting Trends In Indian Office Market

Understanding The New Cogs



2022

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Preface



Mr Sanjay Dutt
Joint Chairman, FICCI Real Estate Committee and
MD & CEO, Tata Realty & Infrastructure Ltd.

With the structural paradigm shift in our lives and working styles, real estate continues to attract capital, demonstrating its stability and attractiveness compared to other asset classes. As the space continues to mature and more partnerships and transactions are formed between PropTech and developers, the demand for smart real estate technology is increasing. ESG has become a strategic necessity for our portfolio to create sustainable and responsible businesses while meeting the demands of investors, tenants, and employees. The most energy-efficient offices achieve rent growth as corporate real estate trends demand the highest levels. Many ESG-sensitive companies are looking for sustainable buildings, hence it has become imperative to grow responsibly.

With several ongoing industrial corridor development projects as part of the National Industrial Corridor Programme aimed towards the development of futuristic industrial cities, along with the Metro and Rail projects, a balanced approach is envisaged towards Tier I and Tier II cities for infrastructure development, bridging the gap between these cities. These initiatives will eventually provide increased scope for the commercial sector given that the smaller cities will have better development and connectivity in the future.

Moreover, the 'Make in India' and 'Atmanirbhar Bharat' program would boost localized manufacturing, encouraging the growth of over 25 sectors ranging from pharmaceuticals to automobiles and IT & BPM. The scheme of seven mega-investment textile parks, along with the already in place GatiShakti national multi-modal connectivity plan, will open huge prospects for the warehousing and logistics sector.

Thus, with requisite policies in place as well as support from the government, as evidenced by its focus on sustainability in the Union budget 2022, India would well be on its way towards creating a sustainable built environment and achieving its net-zero ambition.

FICCI and Vestian have co-created this report on **"Shifting Trends in Indian Office Market: Understanding The New Cogs"** which talks about the emerging trends being adopted in the office space by companies all across the country leading to changing work cultures and environments.

I am confident, the findings of the Report would be most useful not only for realtors, but also for consumers, Government, research & academic institutes, and the industry. The ideas and deliberations arising out of this Report would go a long way in addressing the regulatory challenges and reflecting on the way forward.



Dr. Shrinivas Rao, FRICS
CEO, Vestian

Over the span of a decade, India's real estate sector has witnessed a paradigm shift in all aspects – right from a regulatory environment that brought forth radical changes, the emergence of alternative avenues of investment, to innovative business continuity strategies owing to the deadly COVID-19 outbreak. The sector has striven to surmount the pandemic-induced challenges in the past two years and despite taking a severe hit, its resilience has shone through.

One of the major observations during these pandemic times has been the adaptability of the workforce. WFH arrangements gained widespread acceptance, largely owing to increased tech support - a key factor augmented by the pandemic. Presently, with the COVID-19 outbreak reaching an endemic status, offices are opening up and a large share of the workforce is already back in office. A number of key issues are still in the process of deliberation and evolution – one of them being the appropriate model to be adopted for office operations. Given the constricted environment ruled by economic constraints and the current geopolitical situation, a sizeable segment of occupiers is likely to discourse over a hybrid space concept even as they expand their footprint. The fact that there has been a perceptible increase in co-working/managed office space offtake, signifies the relevance of the office as a preferred place of work.

The office market of the country, today, is picking up pace at a good momentum, having nearly weathered through the pandemic-led predicament by dint of its strong fundamentals. In these past two years, several interesting trends have been observed in the key office markets of the country. The continued presence of the pandemic notwithstanding, factors such as strong hiring activity evinced by the IT/ITeS sector, focus on the manufacturing industry, emergence of a robust start-up ecosystem and increased institutional investor interest in real estate have revived optimism in the market.

This report aims to provide an insight to the various facets that emerged during the pandemic, most of which is still evolving constantly in tandem with the change in scenario. With the COVID-19 event impacting occupier expectations and consequently leading to a shift in market dynamics, it is imperative to understand the opportunities presented in the new environment. Newer cogs such as proptech, ESG implementation and policy changes have emerged on the real estate scene, that harbours potential to take the sector to the next level of development. I hope this report provides you with enough food for thought regarding the state of office market in India and that you enjoy reading it.

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The Pandemic Years:
The Story Till Now

The black swan event of COVID-19 outbreak that manifested itself early in 2020, its impact all- pervasive, caught the world off-guard and unprepared for anything of that scale. Economies across the globe plunged into deep precipices as governments strove to navigate their way through this unprecedented event in modern history. Ironically, the year 2020 was expected to be an exceptional year, beset with high expectations from the Indian real estate industry regarding another splendid performance of the office market, after the one witnessed in 2019.

As it turned out, things took a very different turn. The COVID-19 crisis put a spin to all expectations and potential harboured towards the real estate market in 2020. It effectively set a pause to conventional set-ups across the wide spectrum of human thinking and business operations alike, opening up a plethora of alternative and innovative approaches. Be it office design, the quantum of office space required, or the type of office operation, workplaces were looked upon in a new light. Debates raged on whether the office had finally come of age, led by the advancements of technology, and if WFH was here to stay. More importantly, deliberations arose over if the era of commercial real estate was over. Yet, by the end of the second year of the pandemic, most organisations had opened up their offices, buoyed by a successful vaccine rollout in India that lent confidence to employees to get back to offices. This also reinstated the fact the office would always remain an integral part of the societal fabric.

There is no denying the fact that we are passing through a defining moment in the history of time and there are innumerable factors that would determine how the real estate market would behave in the forthcoming period, based on the lessons learnt during the pandemic. The report endeavours to take a look at the key insights that were perceptible in this tumultuous period.

Key Highlights

2019 Pre-pandemic Period

- Landmark real estate absorption of 58.6 million sqft across 7 key office markets
- Approx. 36 million sqft of new office space supply noted
- Co-working segment space take-up recorded at 7 million sqft, accounting for 12% of the total absorption
- Institutional investment in real estate observed to be USD 7 billion
- Commercial assets witnesses highest share of total investment, to the tune of 80%, followed by the warehousing sector
- In contrast, economic indicators observed to be at a relatively low phase with industrial growth shrinking the most

2020 Pandemic Period

- COVID-19 virus detected in India in March; nationwide lockdown commences
- Work from home takes precedence as businesses close office
- Construction activity halts as labour migration begins
- Occupiers postpone their expansion plans; negotiations take place actively on contracts
- Economy contracts by 24.4% during the April-June quarter, the worst contraction in the history of the Indian economy
- Absorption of office space takes a hit, declines by 35% on an YoY comparison
- New office completion, too, sees an YoY dip of 19%
- Institutional investment constricts to USD 5 billion in the light of tight situation
- Despite the decline in absorption, the year ends on a positive note with office market seeing a fair upturn

Pandemic Period 2021

- Nation-wide phased vaccination drive initiated in January
- Even as the economy strove to recover, the country is hit by the potent second wave of the pandemic in April
- The first two quarters of the year sees a cautious office market; active vaccination program, pent-up demand and strategic growth plans of large corporates leads the market to bounce back in subsequent period
- Despite apprehensions of a new variant during the last quarter, office space absorption across India's seven major cities rose by 8% to 39.61 million sqft
- New completion grew 20% to 39.25 million sqft
- The co-working/managed office space segment strengthens substantially, accounting for 15% of the total absorption
- Institutional investment in real estate remains stable, recorded at USD 5.2 billion
- Warehousing and data centres see increased investor interest

Pandemic Period H1 2022

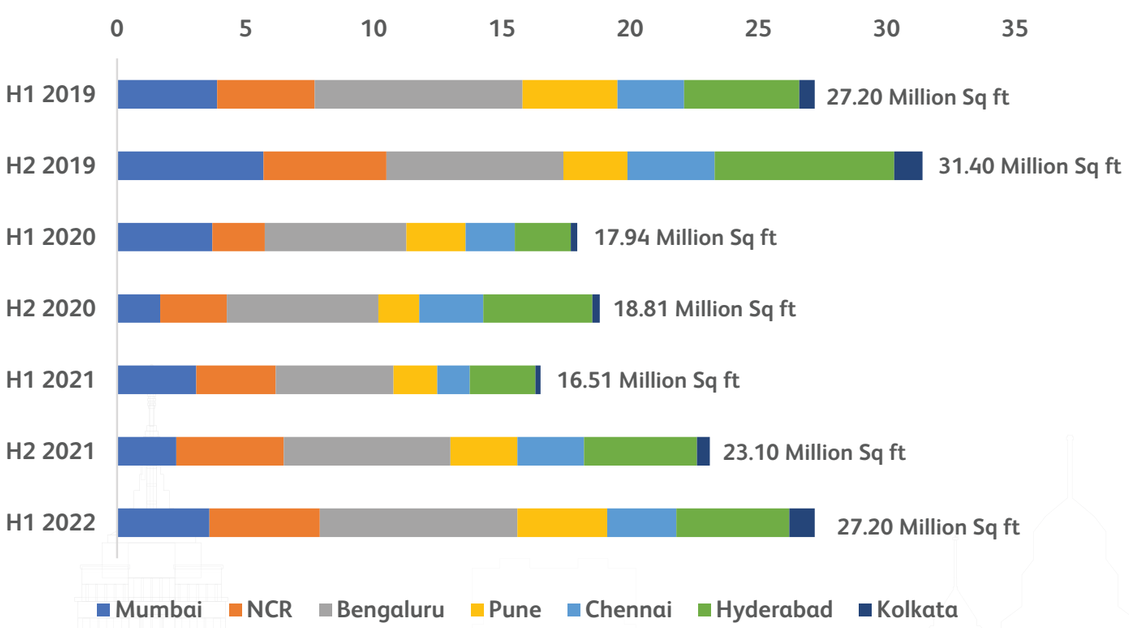
- GDP grows to 4.1% in the Jan-Mar quarter; inflation touches double-figure
- Return to office plans in full swing as more organisations curtail their remote working arrangements
- Office market in the seven key cities records total leasing of approximately 27.2 million sqft of office space, shows 65% YoY growth
- Co-working sector accounts for nearly 20% of the transacted space
- New office completions pegged at 26.9 million sqft, depicting 32% YoY improvement
- Approx USD 2.5 billion institutional investment in real estate observed
- Retail and hospitality market see a slight upturn

Pan-India
Office Market Trends

Office Market Snapshot:
H1 2019 to H1 2022

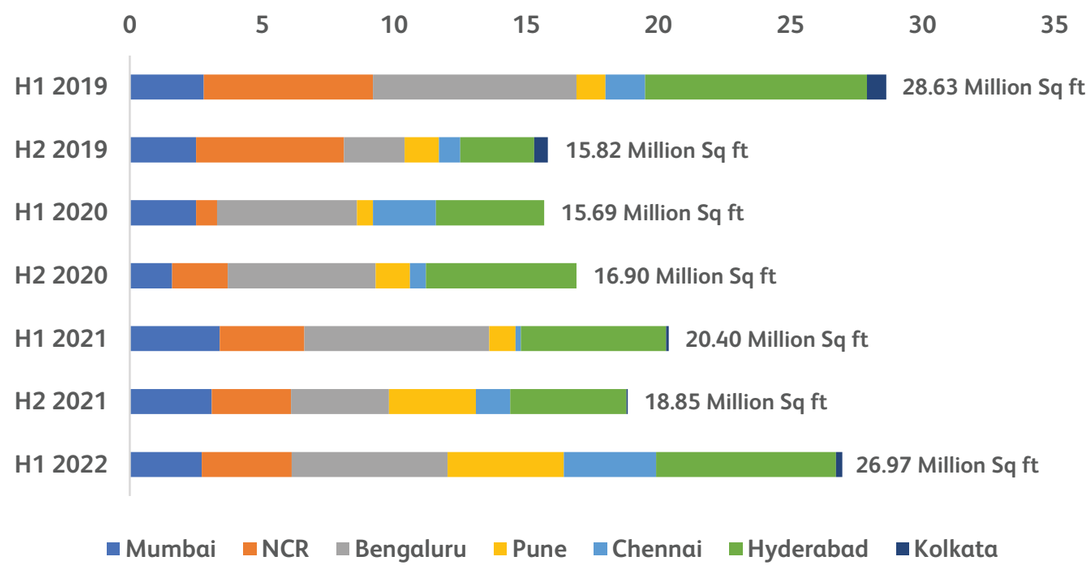
> Increased traction in the market: Office absorption in the first half of 2022 equals the absorption witnessed during pre-pandemic period of H1 2019.

Office Space Absorption



Source: Vestian Research

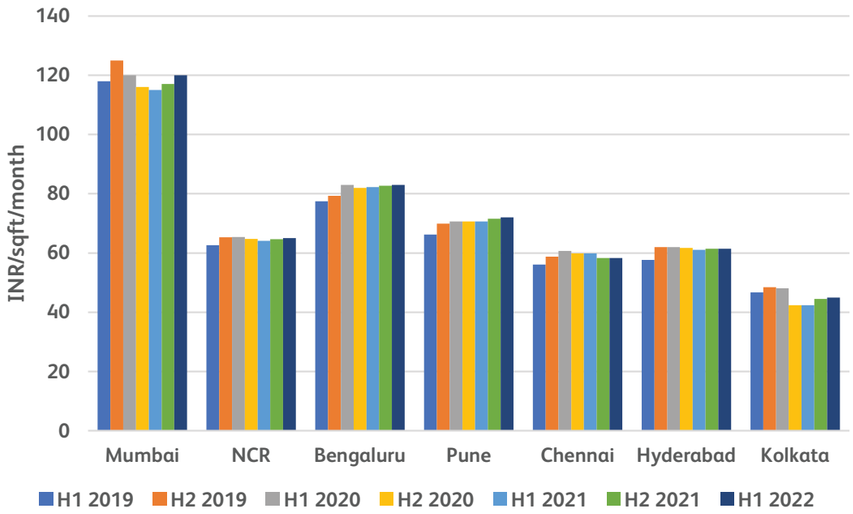
New Completion



Source: Vestian Research

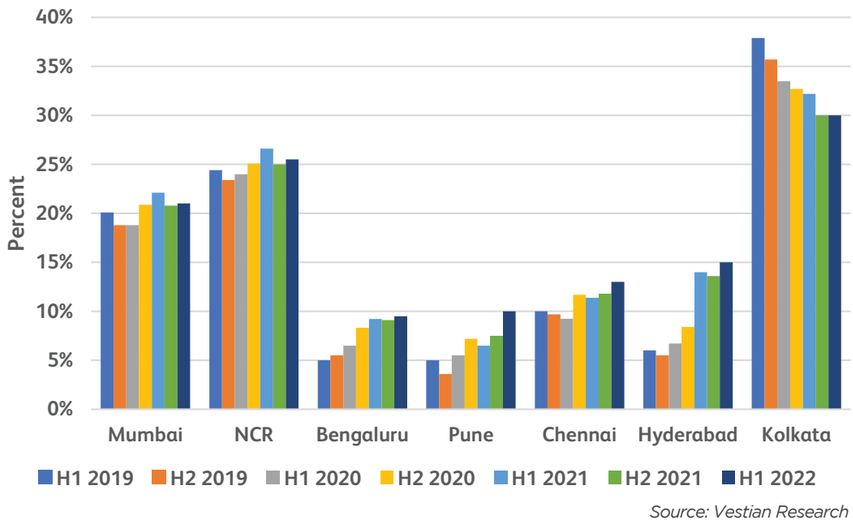
> The pandemic-impacted period spanning H1 2020 to H1 2022 saw total absorption of 103.56 million sqft and new completion of 98.8 million sqft. In both cases Bengaluru occupied the highest share followed by Hyderabad.

Rental Value



Source: Vestian Research

Vacancy



Source: Vestian Research

> While weighted average rentals have improved in recent months since witnessing a dip of 2-6% when the pandemic hit, vacancy rates have moved upwards on account of restrained leasing activity coupled with supply infusion in the market.

Key Observations:

- Office market of the seven key cities of the country are upward bound post a subdued yet relatively resilient pandemic inflicted period, the absorption in H1 2022 equalling that of the pre-pandemic period of H1 2019.
- Around 103.56 million sqft of office space were leased during the pandemic period spanning H1 2020 to H1 2022, out of which Bengaluru accounted for the highest share of 29%, followed by Hyderabad and NCR at 17% and 16% share respectively.
- Interestingly, NCR market has witnessed substantial growth momentum in terms of absorption since H1 2021.
- New completions that had constricted significantly in the period following the pandemic outbreak have improved and despite the slowing economy and rising cost of construction, H1 2022 saw 32% growth over H1 2021, lagging behind the quantum in pre-pandemic period of H1 2019 by just 6%.
- Around 98.8 million sqft of new office space became operational during the pandemic period of H1 2020 to H1 2022, out of which Bengaluru accounted for the majority share of 28%, followed closely by Hyderabad at 27%.
- Most office markets across the country saw their weighted average rental values weaken by 2-6% when the pandemic hit, though the rentals have improved reasonably well in the recent months and are almost on par with pre-pandemic values.
- Meanwhile, vacancy levels have moved upwards across most of the office markets during the pandemic period on account of restrained leasing activity coupled with a fair quantum of supply entering the market.



City-wise Business District
Demand Trends



Maps are for representational purpose not to scale

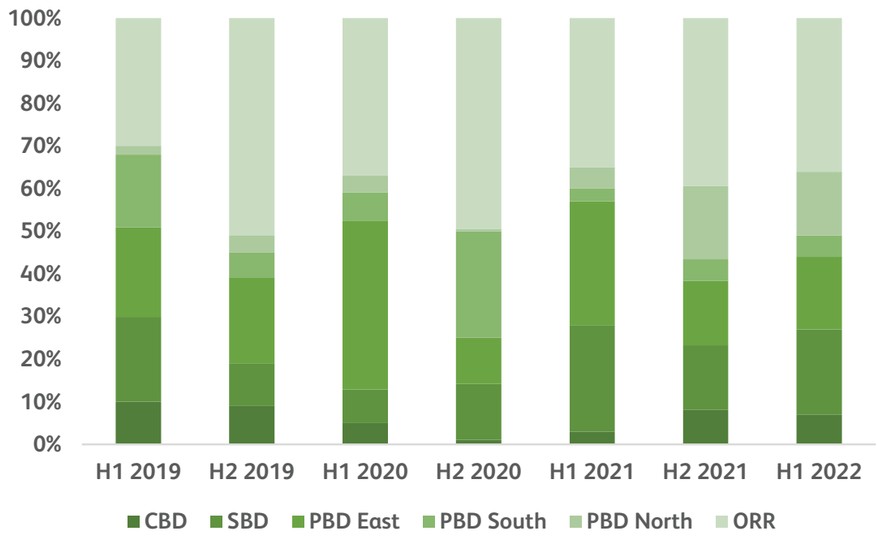
Bengaluru

Bengaluru has occupied the epithet of being the foremost office destination in the country. The fact that it is one of the fastest growing metropolitan regions in the country, along with the added advantages of a salubrious climate, a vibrant cosmopolitan population and a growing knowledge economy – provides the city an edge over other key Indian cities.

Business District Classification

Business District	Locations
Central Business District (CBD)	M.G. Road, Kasturba Road, Lavelle Road, V.M. Road, Ulsoor Road, Infantry Road
Suburban Business District (SBD)	Indiranagar, Koramangala, Inner Ring Road, Old Airport Road, Bannerghatta Road
Outer Ring Road (ORR)	Stretch from Hebbal to Silk Board junction
Peripheral Business District (PBD)-East	Whitefield
PBD-North	Bellary Road
PBD-South	Electronics City, Mysore Road, Sarjapur Road

Business District Absorption Share



Source: Vestian Research

Key Observations:

» The ORR office market, touted to be most preferred by the IT/ITeS sector, has continued to lead occupier demand, accounting for 42% share in H1 2022. This has come as a breather for the office sector, particularly at a time when prolonged WFH adopted by the IT/ITeS companies held ominous implications for the market.

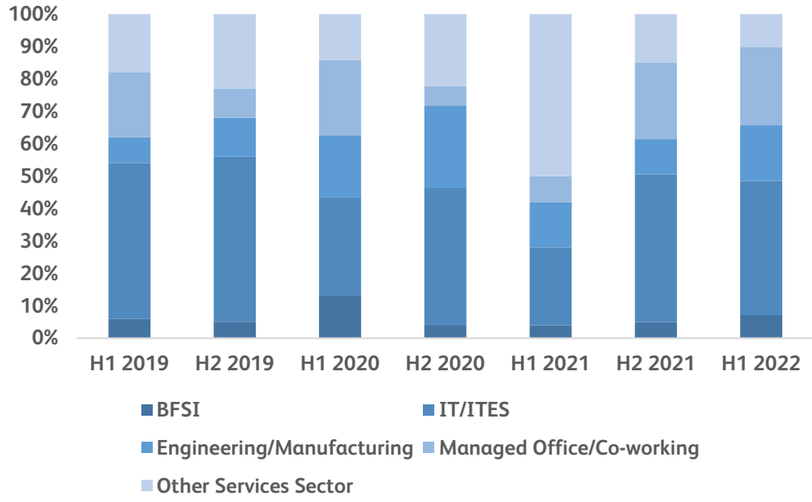
» PBD East market, another IT hub, had witnessed increased demand just before the pandemic struck. However, its share has reduced to 17% in H1 2022, largely attributable to the traffic woes while metro rail awaits completion.

» The hitherto overlooked PBD North market has gained momentum on occupiers' radar, occupying a substantial share of the total absorption in H2 2021 and H1 2022. The fact that the northern region has a significant office supply in pipeline, along with a continually increasing residential catchment, bodes well for the region's growth.

Bengaluru



Occupier Profile: Share in Absorption



Source: Vestian Research

Key Observations:

» Contrary to demand constriction expected from IT/ITeS companies, owing to large scale WFH arrangements, the sector continued to drive demand in Bengaluru's office market, accounting for 41% share of the absorption in H1 2022.

» Demand from the sector had, however, witnessed a sharp decline in H1 2020 when the pandemic struck. By H2 2021, the sector was back on track buoyed by a hiring spree observed amongst the major IT players.

» Another interesting trend seen was regarding the managed offices/co-working segment operators. While the segment went through considerable apprehensions during the initial pandemic period, with most tenants requesting for rent waivers or renegotiations on their term agreements, it picked up pace in H2 2021 with the opening up of offices and saw its share in absorption pegged at 24% in H1 2022.





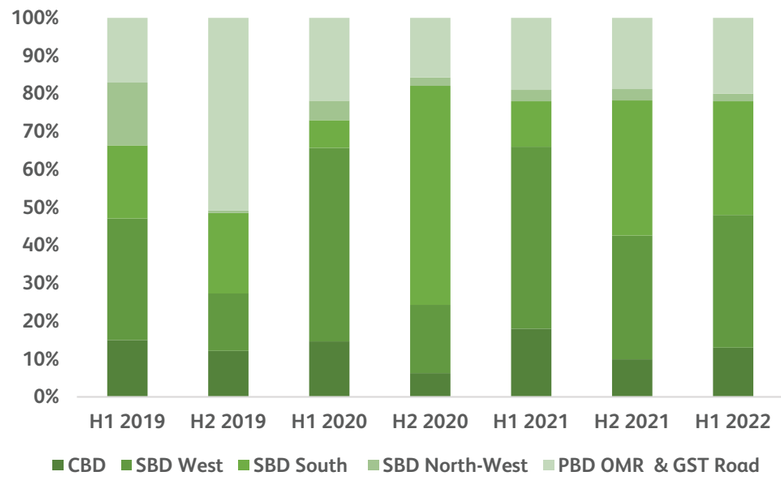
Chennai

Chennai, known for its robust trading and manufacturing-based economy, has been one of the early movers to realize the potential of the technology sector. With a strong talent pool to cater to the needs of the IT/ITeS sector, Chennai has seen formidable growth in its office market.

Business District Classification

Business District	Locations
Central Business District (CBD)	Anna Salai, Cathedral Road, Dr. R. K. Salai, Nungambakkam, T Nagar, Alwarpet, Egmore
Suburban Business District (SBD) West	Guindy, Mt. Poonamallee Road, OMR (Madhya Kailash to Taramani)
Suburban Business District (SBD) North-West	Ambattur, Koyambedu, Padi
SBD-South	Velachery, OMR Pre-toll (Taramani to Perungudi Toll)
Peripheral Business District (PBD)-OMR (Post-toll) & GST Road	Thoraipakkam, Shollinganallur, Siruseri, Padur, Tambaram, Perungalathur, Guduvanchery, Chengalpattu

Business District Absorption Share

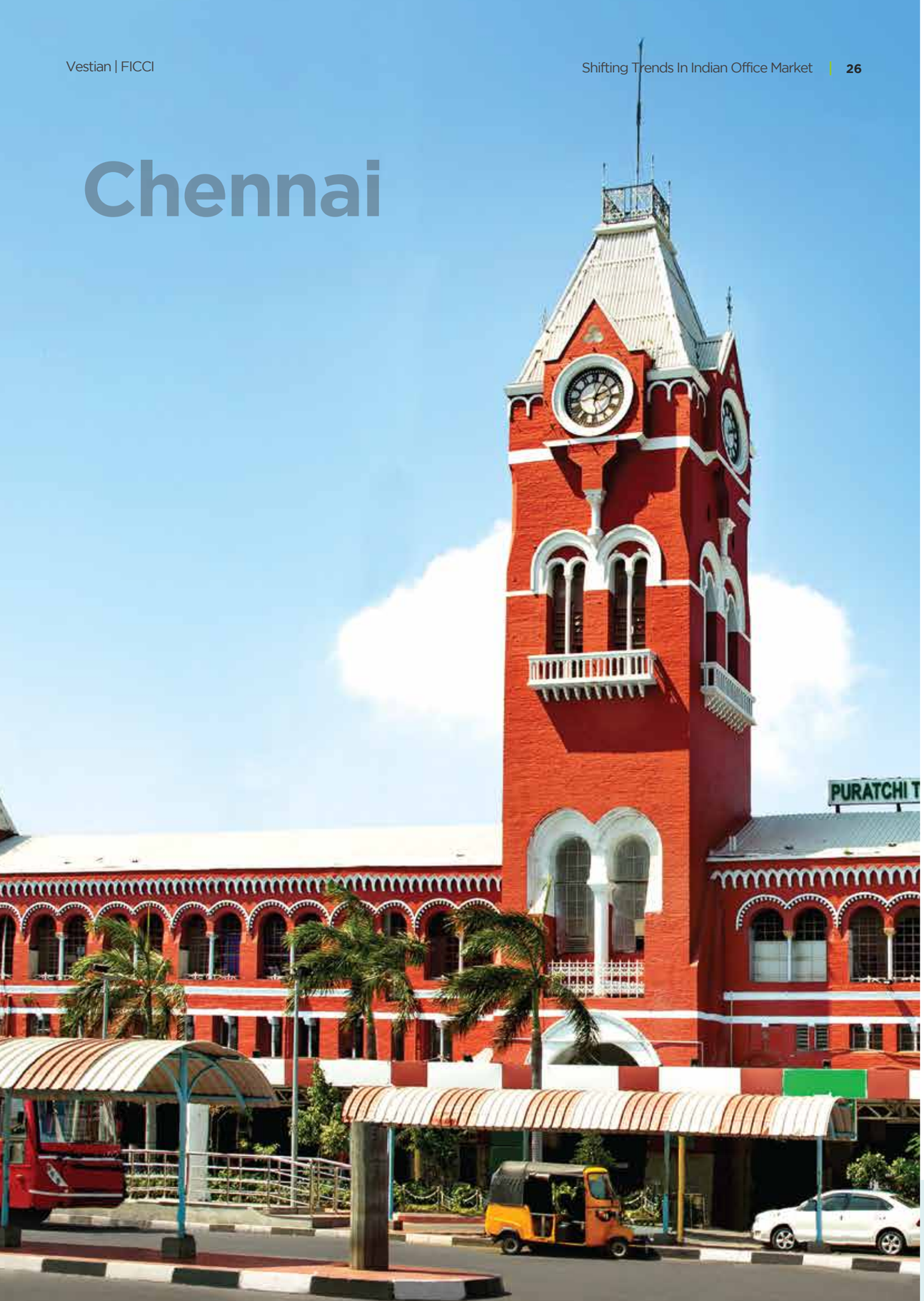


Source: Vestian Research

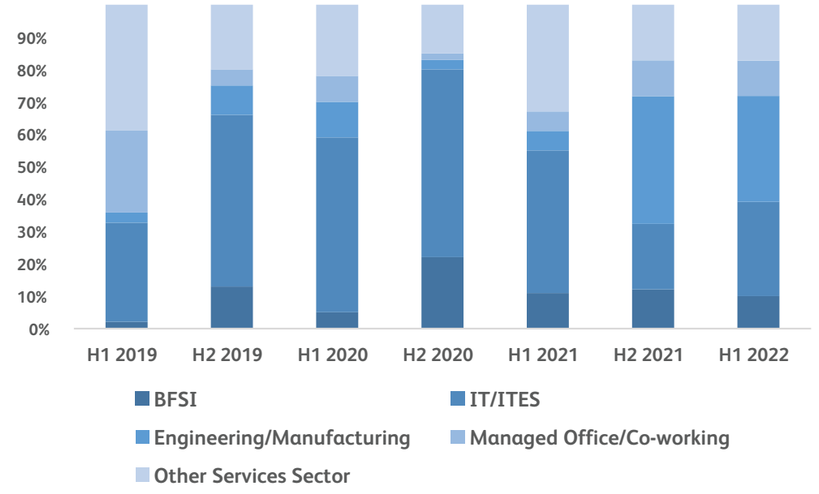
Key Observations:

- Chennai office market, despite its stronghold over the IT talent pool, has been struggling on both demand and supply front when compared against its southern counterparts Bengaluru and Hyderabad.
- The suburban office markets towards the west and the south continued to lead office market demand both before and post the pandemic hit, primarily owing to presence of Grade A office space in large IT parks in both the business districts.
- Meanwhile, the peripheral office markets along GST Road and OMR saw constricted supply and occupier cautiousness, even with relatively lower rentals, thereby leading the markets in this business district to slow down.

Chennai



Occupier Profile: Share in Absorption



Source: Vestian Research

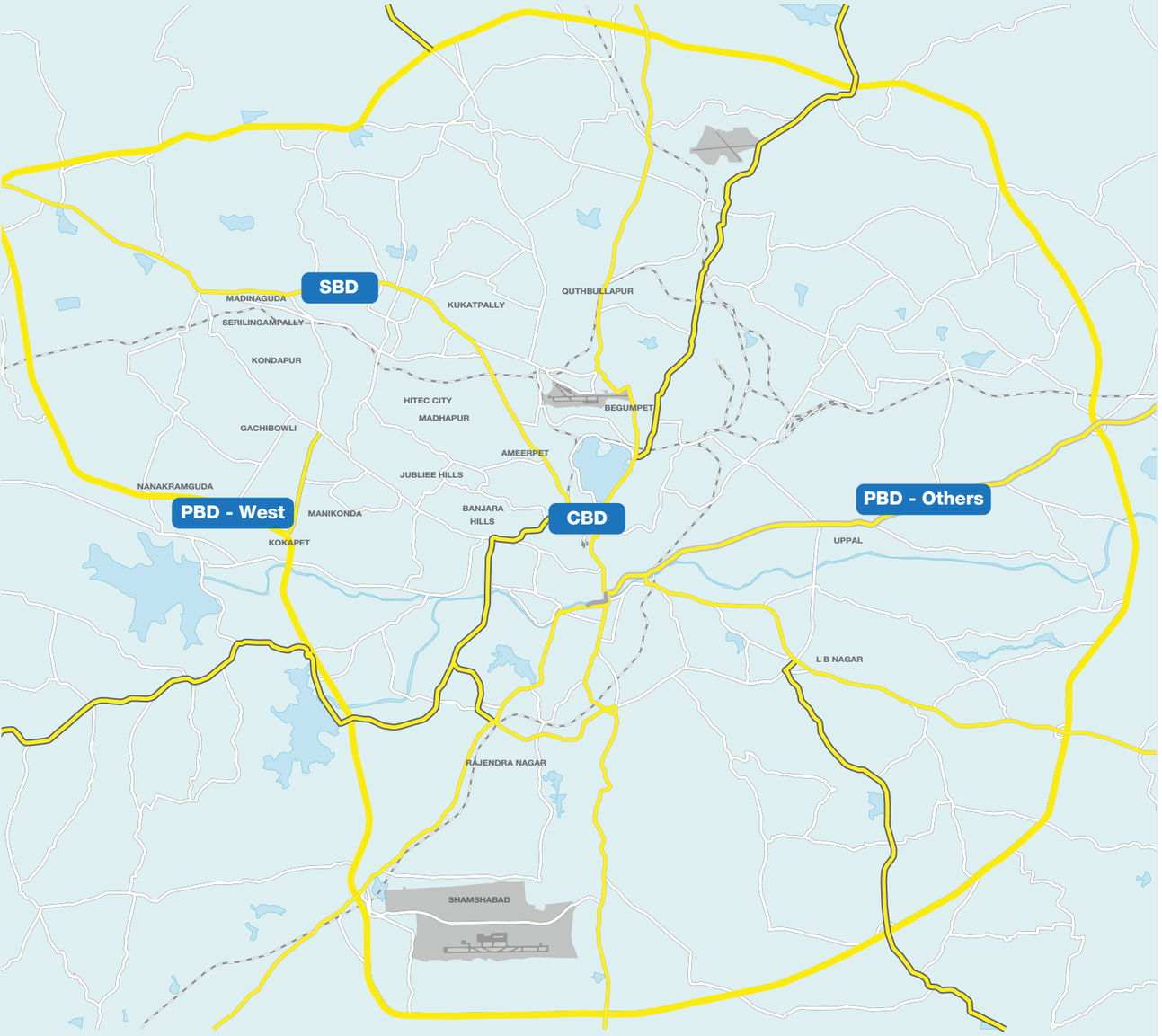
Key Observations:

» With the IT/ITeS sector choosing to defer its leasing activity in the city, partly attributable to the dearth of ready availability of Grade A office space, Chennai witnessed the sector's share shrink considerably in the last one year.

» In contrast, the occupier share of engineering/manufacturing companies has increased substantially, exceeding that of the IT/ITeS sector.

» Another significant trend observed has been the gradual rise of the co-working/managed office space sector. Interestingly, majority of the tenants belonged to the IT/ITeS sector, that were led to occupying such space by the increasing need of flexibility in such uncertain times.





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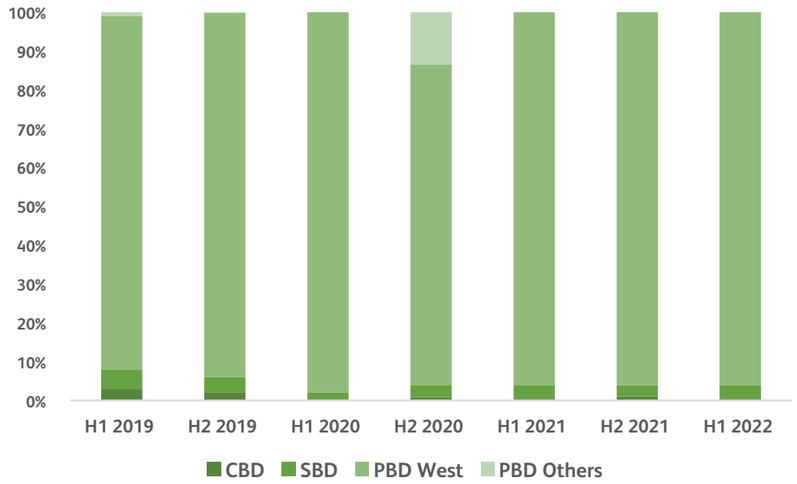
Hyderabad

Hyderabad has gradually emerged as one of major IT/ITeS destinations in the country. The advantages offered by the city, such as good infrastructure and conducive business environment, are both persuasive as well as competitive. Other major sectors which have their presence in the city include biotechnology, hardware, pharmaceuticals and telecommunications.

Business District Classification

Business District	Locations
Central Business District (CBD)	Begumpet, Somajiguda, Raj Bhavan Road, SP Road
Suburban Business District (SBD)	Banjara Hills, Jubilee Hills
Peripheral Business District (PBD)-West	HITEC City, Gachibowli, Nanakramguda, Raidurg, Kokapet, Puppalaguda, Manikonda
PBD-Others	Pocharam, Uppal, Shamshabad

Business District Absorption Share



Source: Vestian Research

Key Observations:

» Despite a decline in office space absorption, Hyderabad office market did not witness much shift in business district, chiefly because over 90% of the Grade A office space, preferred by the IT/ITeS sector and others, is located in the peripheral region towards the west.

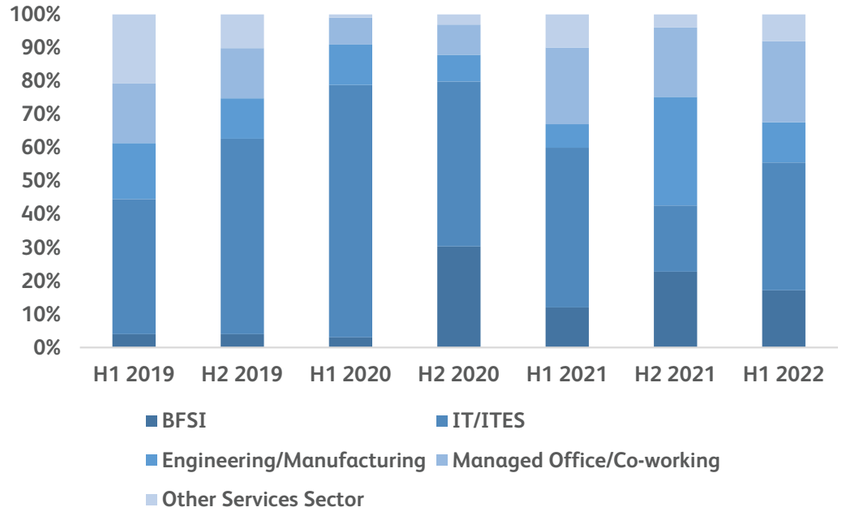
» Thus, PBD West market, comprising locations such as Madhapur, Gachibowli, Raidurg and Nanakramguda, continued to lead the office demand.

» Meanwhile, although the government has been striving towards creating a more equitable development of office space across the city and away from the western hub, not much movement was seen in the peripheral markets towards the east and the south.

Hyderabad



Occupier Profile: Share in Absorption

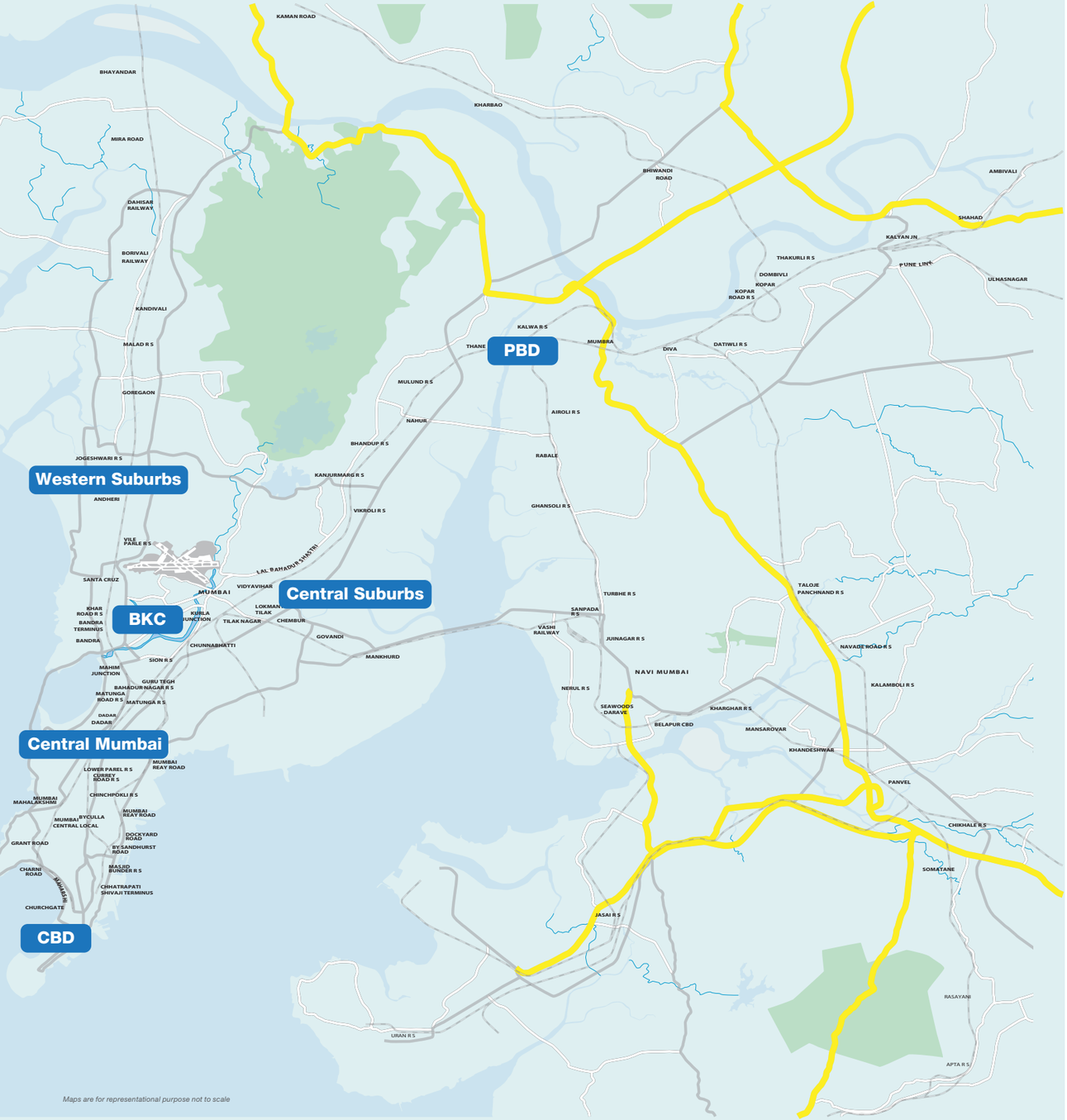


Source: Vestian Research

Key Observations:

- The decline in office space absorption notwithstanding, the IT/ITeS sector – the mainstay of Hyderabad office market, continued to lead the demand, barring H2 2021.
- The period H2 2021 saw engineering/manufacturing segment take centre stage, their share exceeding that of IT/ITeS sector's by a fair margin. Interestingly, hardware manufacturers formed a large share of the segment, depicting the growth of Hyderabad as a preferred hub for such activity.
- While several IT/ITeS companies postponed their expansion plans during the pandemic, many of them opted to take up space in co-working/managed offices as a business continuity measure. Consequently, the share of co-working operators' segment has increased substantially since 2021, recorded at 24% of the total absorption in H1 2022.





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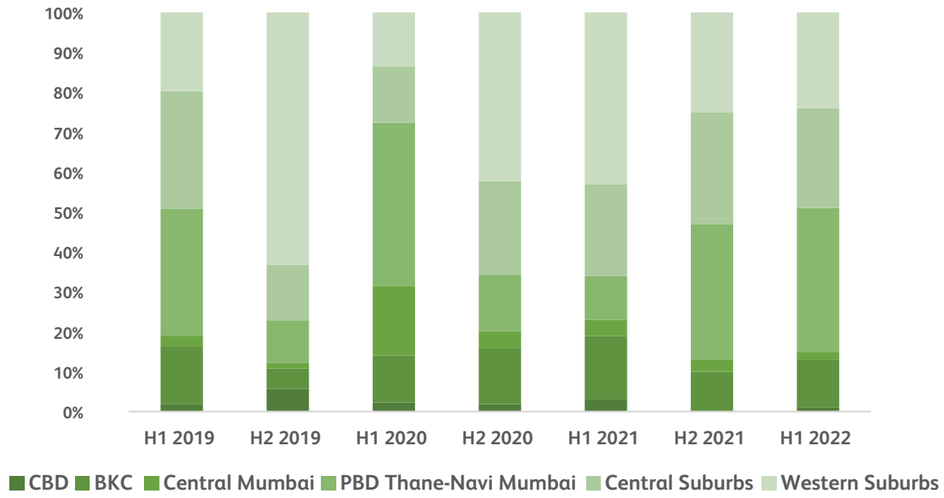
Mumbai

The distinction of being the financial capital of the country puts Mumbai at the forefront of the economic landscape. Mumbai's office market is driven by companies from the Banking, Financial Service, Insurance (BFSI), IT/ITeS and other service sector. Besides, it is the base for corporate headquarters of Indian as well as multinational companies. This ensures that the city has a well-diversified mix of corporate office occupiers.

Business District Classification

Business District	Locations
Central Business District (CBD)	Nariman Point, Cuffe Parade, Ballard Estate, Fort
Bandra Kurla Complex (BKC)	BKC, Bandra East
Central Suburbs	Kurla, Ghatkopar, Vikhroli, Kanjurmarg, Powai, Bhandup, Chembur
Western Suburbs	Andheri, Goregoan, Malad
Central Mumbai	Parel, Lower Parel, Dadar, Prabhadevi
Peripheral Business District (PBD) Thane-Navi Mumbai	Thane, Airoli, Vashi, Belapur

Business District Absorption Share



Source: Vestian Research

Key Observations:

» In another struggling office market of the country, Mumbai's Western Suburbs office market saw its share in absorption vary in vast degrees over 2019-2022. While its share was recoded at over 60% in H2 2019, it declined substantially in the pandemic hit period of H1 2020. Having revived subsequently, its share has again declined in the past one year.

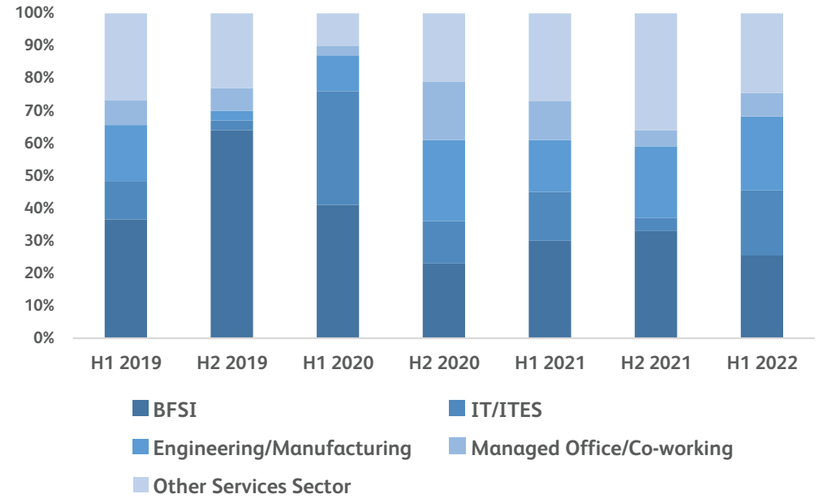
» In contrast, the peripheral office markets along the Thane-Navi Mumbai belt has shown better traction in past 12 months, its share exceeding that of the pre-pandemic period.

» The Central Suburbs market, too, have been picked up its pace post witnessing a lull during the 2020.

Mumbai



Occupier Profile: Share in Absorption



Source: Vestian Research

Key Observations:

- Being the financial hub of the country, the major demand driver for the city's office market has been the BFSI sector and it continued to lead occupier share during 2019-2022, though it declined greatly post the pandemic. From a high of 63% share in H2 2019, it reduced to 28% in H2 2022.
- The engineering/manufacturing companies, however, saw their share in absorption strengthen. From 15% share in pre-pandemic period of H1 2019, its share improved to 25% in H1 2022.
- Interestingly, in contrast to the increasing share of co-working/managed office space operators in other key office markets, Mumbai saw a reduced share of the segment in the past one year.





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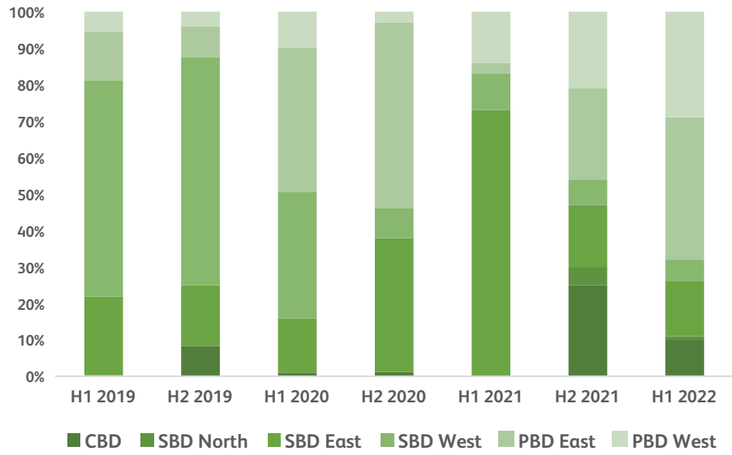
Pune

Pune, known as a key industrial powerhouse of India, has emerged as one of the leading software exporters in the country and a preferred business destination. With the development of several large-scale infrastructure projects in recent years, Pune has become a much sought-after destination attracting corporate interest.

Business District Classification

Business District	Locations
Central Business District (CBD)	Bund Garden Road, S B Road, Camp, Deccan, Pune Station Road
Suburban Business District (SBD) East	Kalyani Nagar, Hadapasar, Kharadi, Airport Road,Viman Nagar, Yerwada, Nagar Road, Vishrantwadi
SBD-West	Wakdewadi, Aundh, Baner, Kothrud, Pashan, Paud Road, Khadki, University Road
Peripheral Business District (PBD)-East	Phursungi, Wanowrie, Wagholi, Saswad Road
PBD-West	Hinjewadi, Bavdhan, Wakad, Balewadi, Pimpri, Bhosari, Chinchwad, Pimple Saudagar

Business District Absorption Share



Source: Vestian Research

Key Observations:

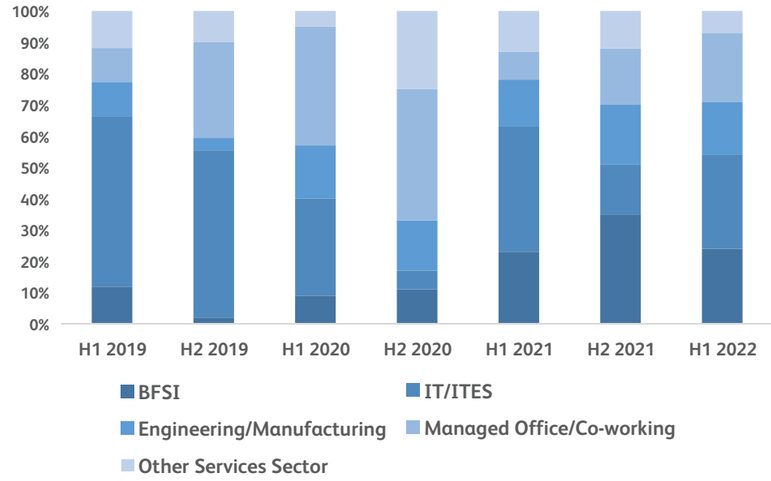
» Pune has seen significant changes in its office market dynamics before and during the pandemic. The suburban west market, that saw the highest share of absorption, to the tune of almost 60% in H1 2019 before the pandemic struck, has reduced to just 6% share in H1 2022, mainly owing to deferred expansion by IT occupiers.

» The suburban east market, in contrast, saw remarkable traction post the pandemic-hit, recording absorption share of around 71% in H1 2021, which later reduced to 15% share on H1 2022.

» Meanwhile, the peripheral markets in the east and the west have shown greater leasing activity during pandemic times. The PBD East market, in particular, saw a substantial share of nearly 50% in H2 2020, from 8% share in pre-pandemic period of H2 2019.

Pune

Occupier Profile: Share in Absorption

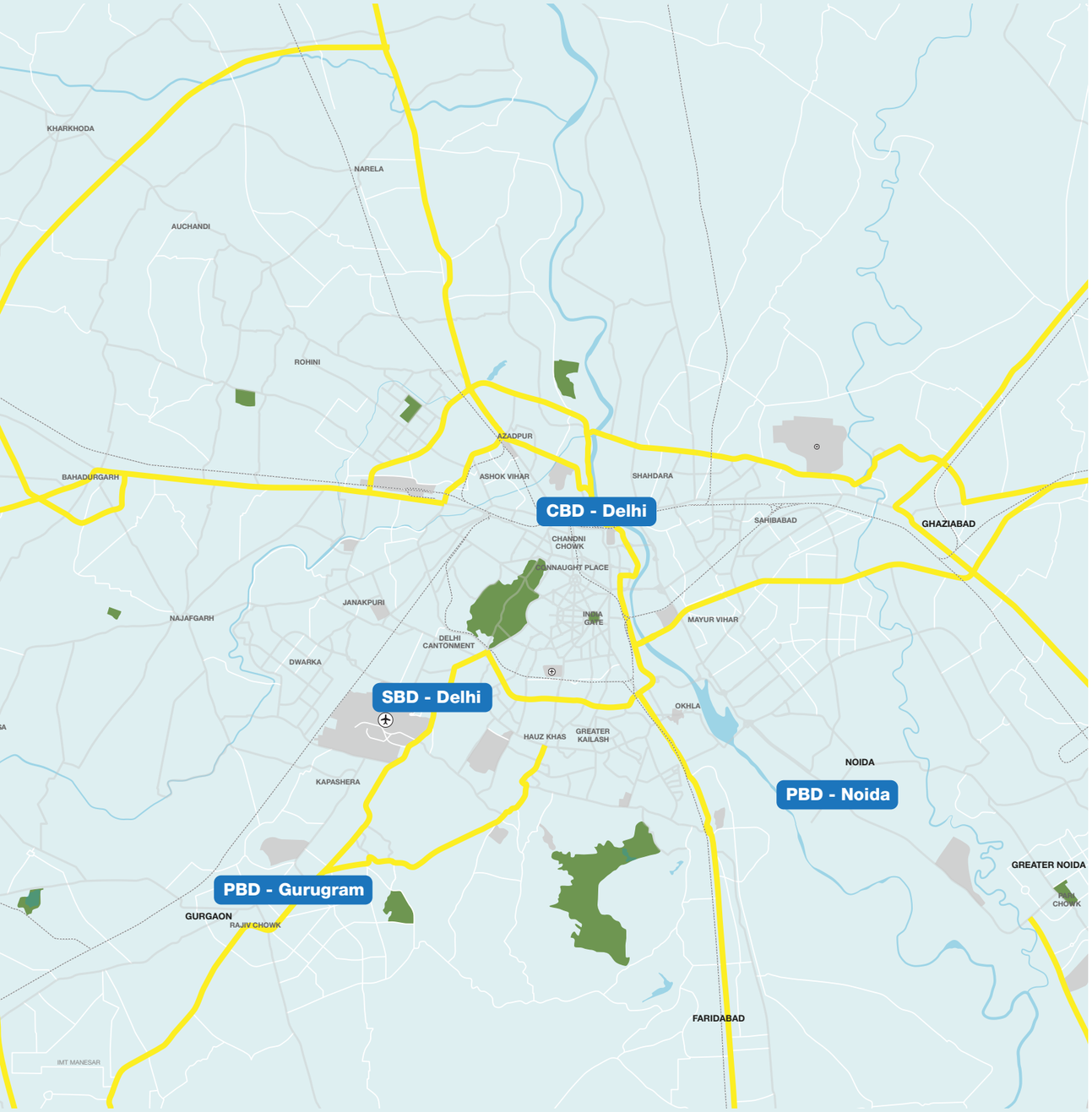


Source: Vestian Research

Key Observations:

- The IT/ITeS sector, the chief demand driver of office space in the city, deferred their expansions plans to a large extent during the pandemic. Consequently, its share dropped from over 50% in H1 2019 to just 7% in H2 2020, before regaining somewhat to occupy 30% share in H1 2022.
- The co-working/managed offices segment, that had shown promise even before the pandemic, continued its growth momentum. The constriction in supply, however, has brought down the segment's share in the past one year.
- Meanwhile, the BFSI companies' share has increased noticeably since the pandemic struck. While the segment's share was recoded at 12% in H1 2019, before the pandemic, it has increased to 24% share in H1 2022.





Maps are for representational purpose not to scale

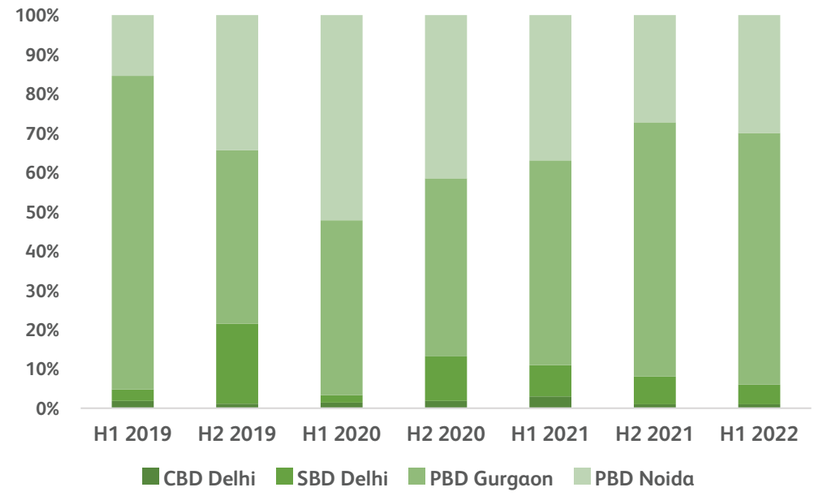
National Capital Region (NCR)

National Capital Region (NCR) is the prime hub of business activity in northern India. Delhi forms the core of commerce in the region with Gurugram, Noida, Faridabad and Ghaziabad being the other important markets. Over the years, extensive infrastructure development in NCR led to the development of peripheral micro-markets in Gurugram in the west and Noida towards the east. These markets have grown to become some of the most preferred office destinations in the country.

Business District Classification

Business District	Locations
Central Business District (CBD) Delhi	Connaught Place, Barakhamba Road, KG Marg, Minto Road
Suburban Business District (SBD) Delhi	Nehru Place, Saket, Jasola, Bhikaji Cama Place, Mohan Co-operative, Okhla, Aerocity
Peripheral Business District (PBD) Gurugram	MG Road, NH-8, Golf Course Road, Golf Course Extn Road, DLF Cybercity, Sohna Road, Udyog Vihar, Gwal Pahari, Manesar
Peripheral Business District (PBD) Noida	Sectors 16, 18, 62, 63, Noida-Greater Noida Expressway

Business District Absorption Share



Source: Vestian Research

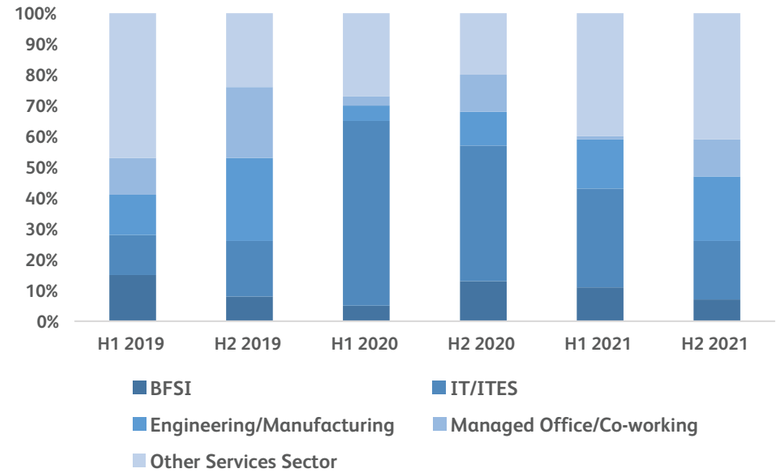
Key Observations:

- The NCR market has shown marked resilience by making a fast turnaround after witnessing a constricted market in the second quarter of 2021 owing to the pandemic second wave.
- The PBD Gurugram market, considered to be the most preferred business district in NCR, continued to lead occupier demand through the pandemic period as well.
- PBD Noida market, another favoured office destination, had witnessed increased demand just before the pandemic struck. However, its share has been on a gradually reducing trend in the past two years, majority of the occupiers looking towards the Gurugram micro-markets.

NCR



Occupier Profile: Share in Absorption



Source: Vestian Research

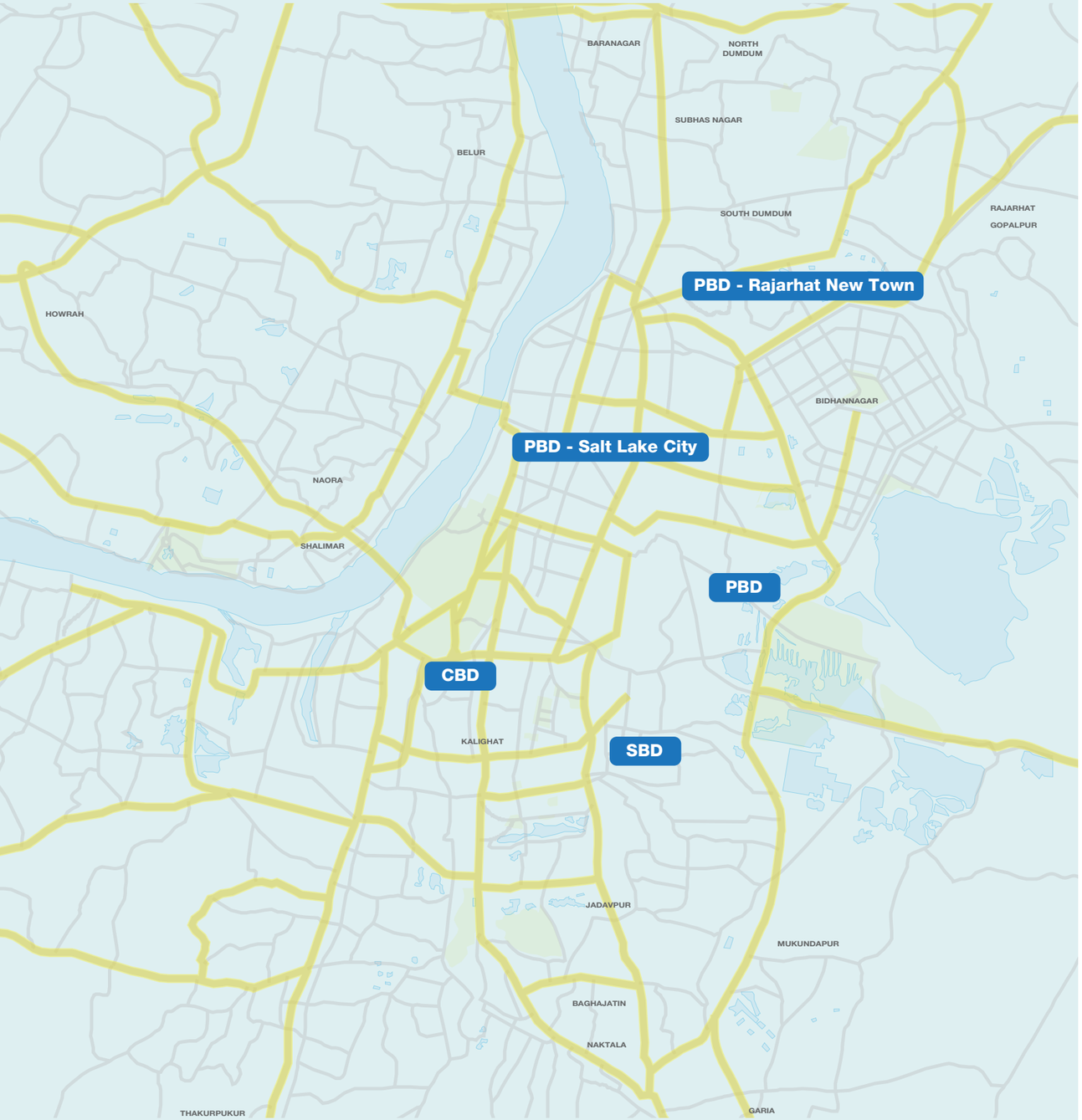
Key Observations:

» In sharp contrast to the other key cities, the 'Other Services sector' in NCR accounted for a major share of the total leasing in both pre-pandemic and during the pandemic scenarios, chiefly consisting of occupier segments like learning and education, healthcare and other diversified business conglomerates that took up space. However, its share had reduced right before and after the pandemic hit, before regaining ground in H1 2021.

» The IT/ITeS sector, at the same time, saw its share increase just before and post the pandemic outbreak, recording nearly 60% share in H1 2020 before cooling down to 19% share in H1 2022, given that most companies are still working in hybrid mode.

» The growth of the co-working/managed office space segment has been rather erratic and with some of the IT sector's demand shifting to co-working spaces due to a change in real estate strategies, its share has picked up pace in H1 2022.





Maps are for representational purpose not to scale

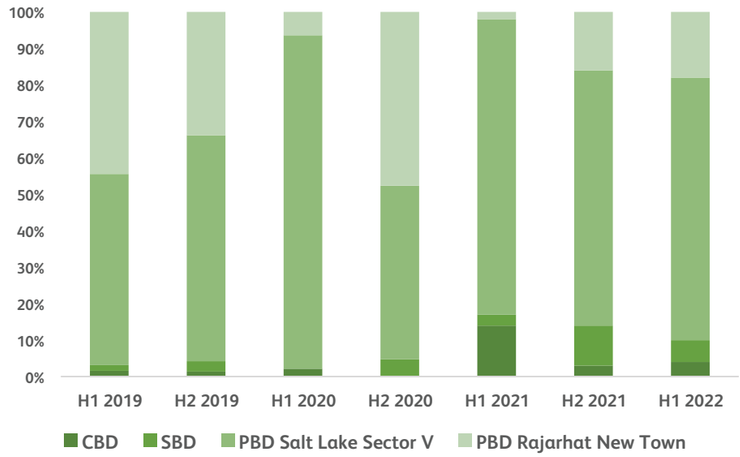
Kolkata

Kolkata has traditionally been the seat of administration for the state. The city's office market witnessed a paradigm shift with the opening up of Salt Lake Sector V, a new business district in the suburbs that was dedicated to the development of the IT sector. Subsequently, office projects came up in the newly developed Rajarhat area, thereby extending the scope of IT development in the city.

Business District Classification

Business District	Locations
Central Business District (CBD)	AJC Bose Road, Park Street, Camac Street, Dalhouse Square, Chowringhee
Suburban Business District (SBD)	EM Bypass-Park Circus Connector, Topsia, EM Bypass-Rashbehari Connector, Ballygunge, Gariahat, Jessore Road
Peripheral Business District (PBD) Salt Lake City	Salt Lake Sector V
Peripheral Business District (PBD) Rajarhat New Town	Rajarhat New Town, BT Road, Bantala

Business District Absorption Share



Source: Vestian Research

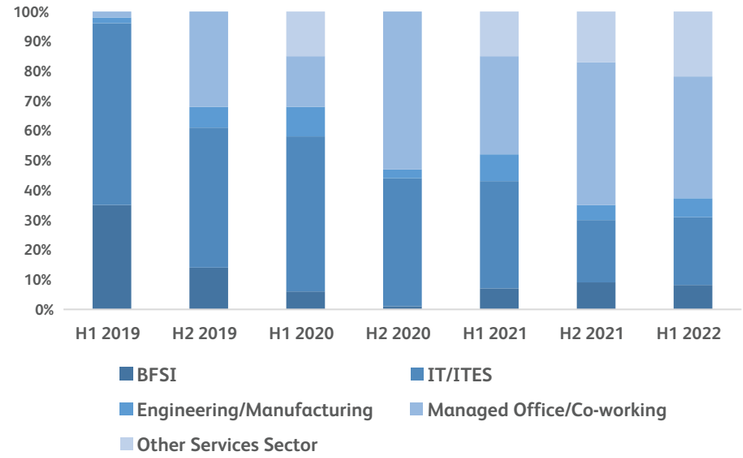
Key Observations:

- The Kolkata market had come to a standstill in the wake of the pandemic, till some activity was witnessed H2 2021 onwards reflecting improved business sentiments in the city.
- Of the constricted leasing activity that was witnessed in the city's office market, Salt Lake Sector V catered to majority of the office space requirements of companies.
- The office market in Rajarhat New Town, another key employment hub, accounted for almost equal share of the transactions witnessed by Sal Late Sector V post the pandemic outbreak in H2 2020. However, it could not maintain its hold over potential occupiers and its share has substantially reduced since then.

Kolkata



Occupier Profile: Share in Absorption



Source: Vestian Research

Key Observations:

- The IT/ITeS sector, the prime demand driver of office space in the city's office market, has seen its share reduce gradually with the pandemic hit, largely owing to the cautious stance adopted by the companies. From a share of 60% in pre-pandemic H1 2019, it has declined to 25% in H1 2022.
- The BFSI companies, too, adopted restraint post the outbreak while 'Other Services Sector' companies such as consulting and education have increased their footprint during the pandemic years.
- Meanwhile, the share of co-working/managed offices segment has grown substantially as companies considered them as a suitable option as it gives business owners access to a fully equipped office premise without having to invest in a long-term lease commitment.



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Gearing Up
For The Future

The New Cogs in Office Market Dynamics



Infrastructure push and policy initiatives

- While the COVID-19 outbreak led to severe setbacks in the country, a slew of focused measures took better control of the aftermath. Increased allocation towards critical infrastructure segments, including transportation, supply chain, industrial capacity, digital environment as well as sustainability, were applied to support the economy.
- Capital expenditure with the allocation of INR 7.50 lakh crore in 2022-23, increased to more than 2.2 times the expenditure when compared with 2019-20.
- With several ongoing industrial corridor development projects as part of the National Industrial Corridor Programme aimed towards the development of futuristic industrial cities, along with the Metro and Rail projects, a balanced approach is envisaged towards Tier I and Tier II cities for infrastructure development, bridging the gap between these cities. These initiatives will eventually provide increased scope for the commercial sector given that the smaller cities will have better development and connectivity in the future.
- Additionally, the Smart Cities project would accelerate the process of urbanisation by developing satellite towns of larger cities and modernizing existing mid-sized cities.
- Moreover, the 'Make in India' and 'Atmanirbhar Bharat' program would boost localized manufacturing, encouraging the growth of over 25 sectors ranging from pharmaceuticals to automobiles and IT & BPM. The scheme of seven mega-investment textile parks, along with the already in place GatiShakti national multi-modal connectivity plan, will open huge prospects for the warehousing and logistics sector.
- The rebuilding of the SEZ norms will also undeniably stimulate growth of export-oriented businesses in manufacturing and service sectors, thus having a positive impact on SEZ developers.

> Granting infrastructure status to Data centers and a draft data centres policy submitted by the Ministry of Electronics and Information Technology will escalate the digital transformation process in India, leading to an upsurge of end-users from different segments, including e-commerce, online banking, entertainment, and education. Cities such as Mumbai, Chennai, Hyderabad, and Bengaluru will see a rise in commercial real estate demand to power these information highways.



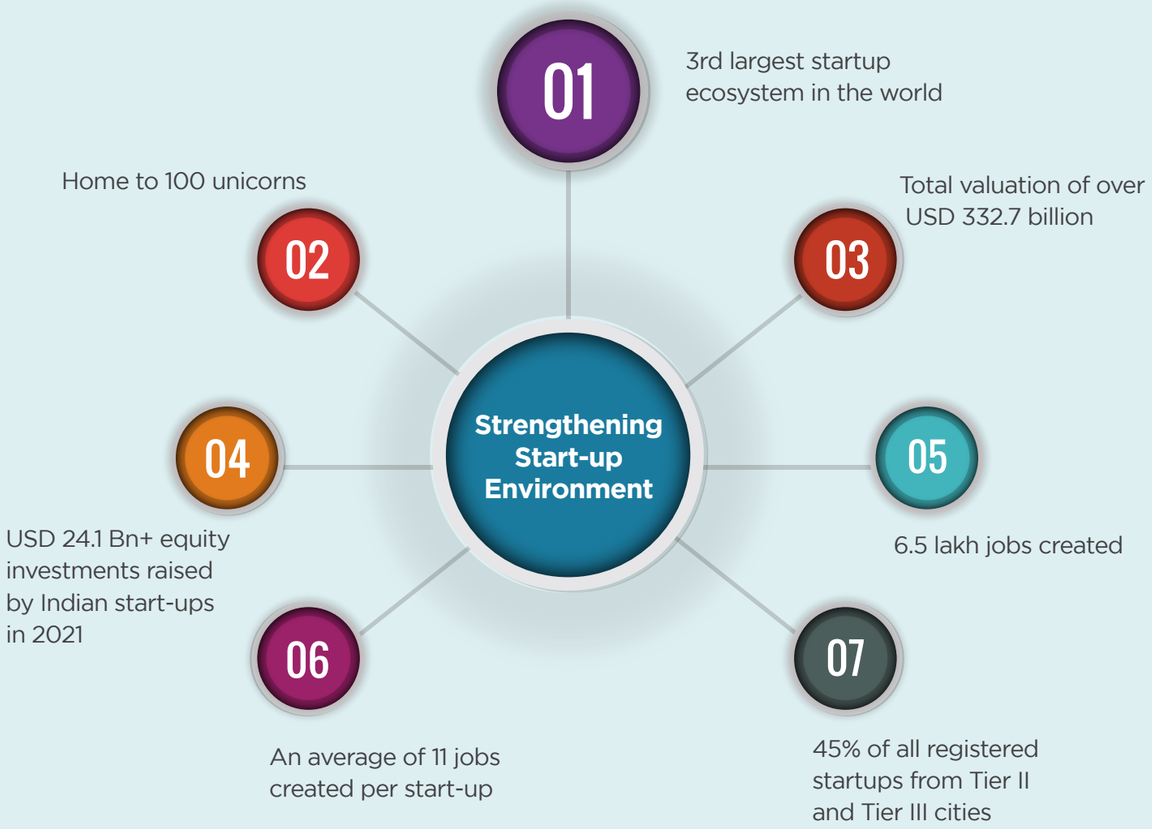
Positive hiring intentions

- Home to the largest qualified talent pool, India is the world's principal sourcing destination for IT professionals. Post COVID-19, the Indian IT sector has proven to be a resilient one. With surging demand for digital skills, especially for talent around AI, Data Science, Cloud Computing, Information Security, and Blockchain due to the expediting digitization and automation of businesses, India's tech industry employee base is estimated to reach 5.1 Mn in FY2022 from 4.7 Mn in FY2021, which would explicitly have a bearing on the office space market.
- Thus, while the technology sector is the largest occupier segment in the country, fresh hiring intentions would further bolster the commercial real estate market. In FY 2021, approximately 30 companies have hired 3.6 lakhs freshers out of which India's top 5 companies such as TCS, Infosys, Cognizant, HCL Tech, and Tech Mahindra have hired 2.3 lakhs freshers. This alone would translate into absorption of over 18.5 million sqft of office space in India. Despite global gloom, the IT sector is expected to grow by 350 billion by 2025 and the positive hiring intentions of these giant IT companies will have a significant impact on the future demand for office space.

> The hiring of freshers in FY22 increased by 10% when compared with FY21, and the number will further strengthen as more than 20 GCCs were added in Q1 2022 while over 100 MNCs are poised to set up GCCs in India. GCCs generate direct employment of 1.2 to 1.3 million, which is around 25% of the employment generated by the IT/ITeS industry providing indirect employment of 3.1 to 3.2 million in ancillary industries such as real estate, IT and telecom, professional services, amongst others. As per Deloitte & NASSCOM Report, in next 5 to 6 years, there is a potential to increase the growth rate from 12% to 15-20% resulting in 450 – 700 new GCCs.e next 5 – 6 years.

Strengthening start-up environment

- India has witnessed a sea change in its entrepreneurial landscape in the last decade and half. As per the Economic Survey 2021-22, 14,000 new start-ups were recognized by the GoI in 2021-22 as against merely 733 in 2016-17 with the country's better Global Innovation Index ranking moving up to 46 from 81.
- Despite the pandemic, 2021 saw unparalleled growth in Indian startups having snagged more than USD 24.1 Bn of funding, a two-fold increase - overshadowing pre-pandemic highs. As a result, India has become the third-largest startup ecosystem in the world after the US and China. India is today home to 100 unicorns with a total valuation of USD 332.7 billion. It is noteworthy that, out of the total number of unicorns, 44 unicorns with a total valuation of USD 93 billion were born in 2021 and 14 unicorns with a total valuation of USD 18.9 billion were born in 2022.
- With twice the funding since pre-pandemic times, start-ups have been instrumental in increasing direct and indirect job opportunities with a 30% CAGR for direct jobs since 2011. Currently, recognized start-ups have reported more than 6.5 lakh jobs with an average of 11 jobs created. The tremendous growth in the start-up ecosystem and job opportunities will have a significant impact on the demand and absorption of office space not only in Tier I but Tier II and Tier III cities as well, as nearly 45% of all registered startups are from Tier II and Tier III cities.



Tier II and Tier III cities hold scope as new growth corridors

- Till recently, increasing urbanisation and the overall economic and infrastructural soundness had led the economic growth in India to be concentrated in a few major cities of the country. With the COVID-19 pandemic lending concern to living in high density metro cities, people took to reverse migration, moving towards the Tier II and Tier III cities. Low rents, cheaper cost of living, and the scope of being able to purchase larger homes with space for office set-ups were the key factors affecting the decision of reverse migration. Although uncertain whether this was a short-term or a long-term phenomenon, it impacted the choice of people as they started preferring employment opportunities in their hometowns.
- Today, companies are eyeing at robust pan-India presence and are keen to tap into Tier II and Tier III cities like Coimbatore, Jaipur, Indore, Lucknow, Bhubaneswar, Madurai, and Mysuru, as these cities have adequate infrastructure, availability of talent pool, low attrition rate of the workforce and quality space at lower rents. Expansion in these cities comes with a lower cost of living – the cost of living in Jaipur is 35% lower when compared with Delhi while the cost of living in Kochi is 30% lower than Chennai.
- In the IT/ITeS sector, companies such as Infosys saw almost 60% of their employees go back to their hometowns, leading companies to deliberate upon expanding offices in different cities across the country to retain existing employees and hunt for a new talent pool. Notably, Infosys already has offices in Tier II cities like Indore and Nagpur with an investment of USD 27 million and are now planning to set up offices in Coimbatore, Vizag, Kolkata, and Noida.



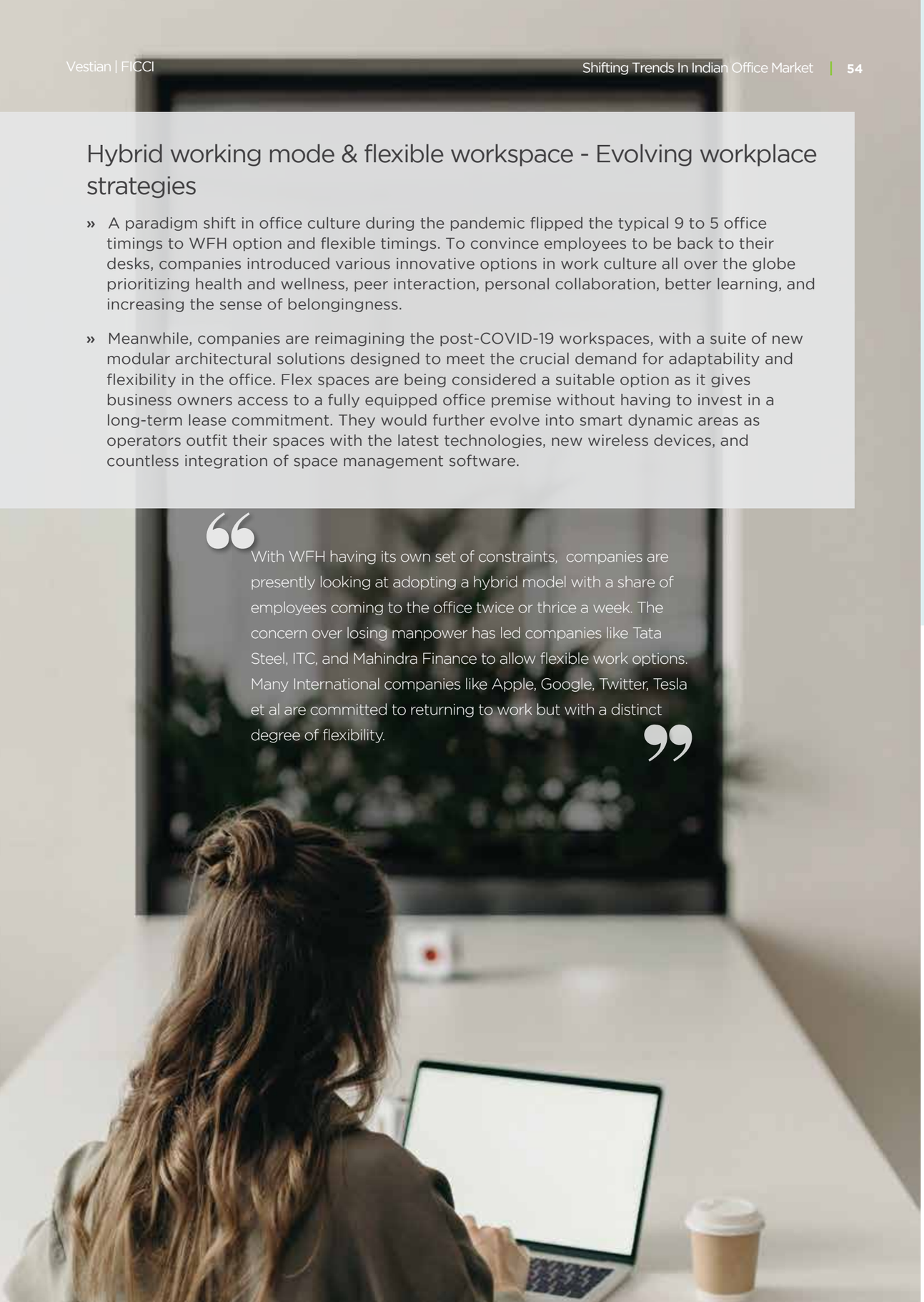
> Some of the intrinsic advantages of being in a smaller non-metro city include lower cost of setting up a business and relatively cheaper manpower and real estate costs. Of late, the advent of co-working space operators in non-metros such as Indore, Ahmedabad, Rajkot, Udaipur, Jaipur, Kota, Surat, and other smaller cities has made it easier for start-ups to work without a hefty initial investment. The government has also been emphasizing strongly on funding incubators and encouraging innovation. Programmes like Start-up Chhattisgarh and Kerala Start-up Mission have set the ball in motion for entrepreneurs in these smaller cities.

Hybrid working mode & flexible workspace - Evolving workplace strategies

» A paradigm shift in office culture during the pandemic flipped the typical 9 to 5 office timings to WFH option and flexible timings. To convince employees to be back to their desks, companies introduced various innovative options in work culture all over the globe prioritizing health and wellness, peer interaction, personal collaboration, better learning, and increasing the sense of belongingness.

» Meanwhile, companies are reimagining the post-COVID-19 workspaces, with a suite of new modular architectural solutions designed to meet the crucial demand for adaptability and flexibility in the office. Flex spaces are being considered a suitable option as it gives business owners access to a fully equipped office premise without having to invest in a long-term lease commitment. They would further evolve into smart dynamic areas as operators outfit their spaces with the latest technologies, new wireless devices, and countless integration of space management software.

> “With WFH having its own set of constraints, companies are presently looking at adopting a hybrid model with a share of employees coming to the office twice or thrice a week. The concern over losing manpower has led companies like Tata Steel, ITC, and Mahindra Finance to allow flexible work options. Many International companies like Apple, Google, Twitter, Tesla et al are committed to returning to work but with a distinct degree of flexibility.”



The rise in co-working space segment across the country

» Post-pandemic priorities have changed in the corporate world – cost-effectiveness, flexible hours, and proximity to the workplace from home has become some of the important criteria to choose for any employee, thereby leading to increased preference for co-working spaces. Not surprisingly, the sector accounted for nearly 20% of the transacted space during H1 2022 as against 15% in 2021.

» As dedensification and social distancing became imperative after the pandemic, companies’ focus shifted from mandatory attendance in the office to better employee performance and high productivity. As companies were uncertain about the present and future office space requirements, modern co-working spaces offered options to restrict fixed capital investment and budget-friendly options.

» India’s co-working spaces, initially occupied by start-ups and freelancers are now seeing increasing preferences by larger corporations in Tier I as well as Tier II cities. Recently, Deloitte and Freshworks have bought large co-working spaces that cover 3,000 seats in Tier I and Tier II cities like Coimbatore, Pune, and Meerut as it is a cost-effective and resource cost-saving option when compared with resource costs in other metros.

» Going forward, we expect the demand for modern-day coworking offices, which come at optimized costs, with better amenities, tech-driven professional set-up and a relatively better environment will increase in the coming days.

Co-working space stock

2019 **30** million sqft

BY 2023 **55** million sqft

Share of co-working segment in total office space absorption

12% 2019

H1 2022 20%

Office space absorption

2019 **07** million sqft

2021 **06** million sqft





Increasing significance of ESG compliance

- With the ongoing pandemic, the deliberations that began with sustainability soon grew to include ESG accountability in the industry. ESG or environmental, social, and governance refers to the three central factors measuring sustainability and the social impact of investment in a company.
- Over the years, these factors have assumed much significance in the real estate sector, becoming an integral part of organisation strategies as they benefit the stakeholders not only from a financial returns perspective but also from an environmental sustainability standpoint.
- Not surprisingly, real estate projects with green certification such as LEED, or WELL certification, et al, are increasingly being preferred by stakeholders with a large number of investors integrating ESG criteria into their investment strategies.
- ESG, today, is fast getting imbibed into developer and investor objectives and is turning into a key factor in decision making. The responsibility of the developers to conform with ESG has presently widened to include occupiers who anticipate some amount of sustainable initiatives that enhance energy efficiency, water usage, and wellness. This has become pertinent given the commitment of a large number of companies towards achieving net-zero goals.
- India has huge development potential and holds vast opportunities to come up with new real estate projects that uphold ESG values, unlike developed nations that largely require retrofitting or a refurbishment of the existing structures to become ESG compliant.
- Thus, with requisite policies in place as well as able support from the government, as evidenced by its focus on sustainability in the Union budget 2022, India would well be on its way towards creating a sustainable built environment and achieving its net-zero ambition.

> With ESG coming into the picture, the emphasis on sustainability has driven up considerable investment in green buildings and clean energy infrastructure. When compared with conventional structures, buildings with stronger environmental credentials that depict ESG compliance generate higher rents, fetch higher sale prices, increase retention rates, and also demonstrate lower rates of obsolescence. These enhance the valuation of green buildings, leading them to be considered secure credit assets and credible collateral. Such projects relay improved satisfaction in occupiers, thus providing an opportunity for higher lease renewal rates.

Proptech shaping the future

- Proptech has been linking real estate with technology to have an online listing of properties, aiding co-working companies to connect with their tenants and help in tenant management, as well as supporting other functions such as tech-enabled construction management, sales, marketing, and CRM start-ups.
- With total investment in proptech recorded at USD 9.5 billion in 2021, the proptech segment in India is bound to grow further. Impetus from the real estate sector will increase the demand for seamless services for remote working, ease in construction management and smarter co-working spaces.
- With 5G high-speed internet connectivity being rolled out across India, 5G will potentially transform the real estate sector and will act as a catalyst in enhancing the use of innovative products in proptech. It will not only unleash opportunities in the commercial real estate industry by enabling a fully connected, mobile, web, and intelligent computing experience but also will offer advanced AI computing products and innovative services over the cloud.

> With the adoption of proptech minimizing cost and improving employee experience, emerging sectors such as co-working has seen an upsurge in efficiency. Technology such as the Internet of Things, Augmented Reality, Virtual Reality, Artificial Intelligence, Robotics, et al, are enablers used to work collaboratively and improve the efficiency of the sales process. Developers are nowadays using Building Information Modelling, Machine learning, Drones, 3D printing, Robotics, and Virtual Reality in the Construction & Management of property to improve the process and cut down time, resources, money, error and reduce risk of human life."



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Future Perspective

- Given the market traction witnessed in H1 2022, the office market of the country holds good potential to regain its momentum that was witnessed in the pre-pandemic era, and while the pandemic continues to make its presence felt, the strong fundamentals ruling the market will prove resilient enough.
- The fact that companies are planning the steady return of employees to offices despite the pandemic continuing, coupled with positive hiring intentions for Q2 2022, will also fortify demand for office spaces in the key office markets of the country.
- There would be more demand for quality work-spaces that are well-located and offer convenience to the employees besides a gamut of other facilities that promote well-being and hygiene.
- Flexibility of lease terms will form the core of most deals, which would again work to the advantage of operators of co-working/managed office space. Flexible workspaces are already being viewed as a measure of viable business continuity plan and a part of occupiers' agile yet cost-effective strategies.
- Meanwhile, as employees return to office, there would be several considerations at play in order to determine the office space required by an organization. With hybrid work model being increasingly seen as a preferred mode of working post the pandemic, companies must now contemplate upon a futuristic vision for the workplace, determining the areas of investment and retraction, and come up with a stable strategy on how to meet the changed requirements of the workforce.
- With an increasing number of organizations committing to ESG and net-zero goals, companies would soon look towards occupying workspaces that support and adhere to such environmentally consistent guidelines. Thus, as we progress through 2022, we expect to see the office market gearing up to meet these imminent occupier requirements and move in the direction of improved work environment in the near future.

About **FICCI**

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialisation, and its emergence as one of the most rapidly growing global economies. A not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging ebate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 250,000 companies. FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.



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About **Vestian**

Vestian, is a contemporary workplace solutions firm that specializes in providing occupier-focused solutions for commercial, residential, industrial, retail and hospitality sectors. Our service portfolio includes Integrated Service Delivery, Project Services, Investment & Consultancy Services, Transaction Advisory Services, Retail Business Solutions & Integrated Facilities Management Services.

We align and measure our key deliverables based on clients' strategic business goals. Our commitment to achieve excellence and consistency in our service delivery models has helped us attain high standards of quality and raise the bar for the industry. Our experienced team has the required expertise and exposure in different sectors. Combining global best practices and local knowledge, the team provides an integrated solution for all real estate requirements. Moreover, the belief in our corporate philosophy - Delivering Measurable Results - helps us to provide solutions, in keeping with global delivery standards. Vestian is certified in both quality management systems and environmental health & safety standards - ISO 9001, ISO 14001, ISO 37001 and ISO 45001. We are also a member of the Indian Green Building Council.

Investment & Consultancy Services (ICS) is the Research, Consultancy and Investment solutions arm of Vestian. We provide value-added end-to-end investment advisory and consultancy services. Our clients include multinational and Indian corporations, investors, private equity (PE) funds, global and national financial institutions, government organizations, international, national and local real estate developers and landlords in tier I, II and III cities across the country.

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