

# India Office Market Update H1 FY22

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COVID-19 jeopardized the growth momentum of the Indian office real estate market which was seeing unprecedented growth over the last three years pre-pandemic. Until March 2020, both new completions and net absorption witnessed Y-o-Y rise across top 7 cities. Unlike previous years, when commercial real estate stood resilient to the slowdown (especially post DeMo and various structural policy changes), this time office real estate was severely impacted.

As we saw in 2020 post COVID-19, developers concentrated on retaining their old tenants rather than getting new ones. Rentals in office space remained more or less the same (neither increase nor decrease) because developers wouldn't want the market benchmark to change. Instead, they offered discounts such as rent deferrals, camp discounts or rental waivers (for 2-3 months as the case may be) so that the overall rental outgo of their tenants got reduced, and they got some relief.

As for 2021, the leasing activity once again gained momentum and H1 FY22 witnessed decent growth. If not for the second wave in first quarter of the ongoing financial year, the growth would have been more. That said, net absorption across the top 7 cities is yet to reach the pre-Covid levels. In H1 FY22, net absorption in the top 7 cities was 10.76 mn sq. ft. – 53% less than in H1 FY20 (the pre-pandemic period). Meanwhile, new office completion has picked up pace and already surpassed the pre-Covid levels by 2%. As much as 22.2 mn sq. ft. new area was completed in H1 FY22. Resultantly, office vacancies in the top 7 cities have risen by 2.60%. As noted, office vacancies in south cities like Bengaluru, Hyderabad and Chennai have risen the most among the top 7 cities - by 4.2%, 3.9% and 2.78% respectively in H1 FY22 vs same period in FY2021. In contrast, Pune and Kolkata saw office vacancy levels reduce during the same period.

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**2.35 Mn Sqft**

Highest Major Office  
Transactions recorded in  
Bengaluru

**3 %**

**Y-o-Y rise**

in Office Rentals of  
Bengaluru, Pune &  
Hyderabad  
in H1 FY22

**10.76 Mn Sqft**

Net Office Absorption  
in H1 FY22

(29% Y-o-Y Change)

**5 %**

**Y-o-Y Rise**

in Co-Working sector  
Leasing Space

**5 %**

**Y-o-Y Rise**

Rise in the Office  
Leasing Transactions  
sizing >0.1 Mn Sqft

**58 %**

of new office space  
completions contributed  
by the South Cities  
amongst the top 7 cities

**22.2 Mn Sqft**

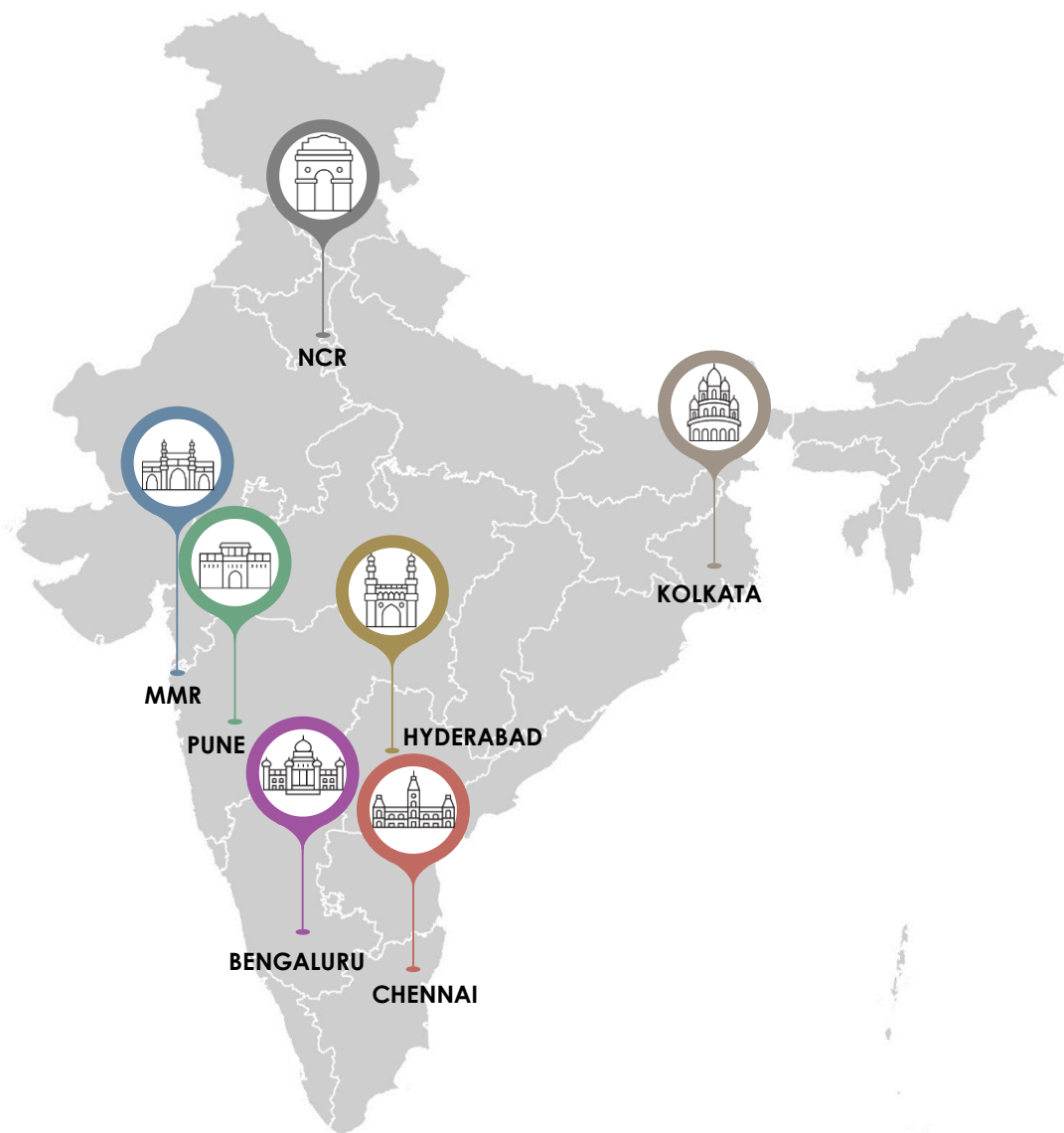
New Office Completions  
in H1 FY22

(53% Y-o-Y Change)

**16.1 %**

Office Market Vacancy  
in H1 FY22

(2.6% Y-o-Y Change)



City Names	New Office Completions		Net Office Absorption	
	H1 FY22 (Mn Sqft)	Y-o-Y Change (%)	H1 FY22 (Mn Sqft)	Y-o-Y Change (%)
Bengaluru	7.3	55%	3.2	-6%
MMR	4.1	128%	1.65	92%
NCR	3.9	123%	2.1	320%
Chennai	1.15	115%	0.85	143%
Hyderabad	4.5	-20%	1.6	-30%
Pune	1.25	92%	1.3	86%
Kolkata	0	0%	0.06	-70%

City Names	Vacancy Levels		Rental Values	
	H1 FY22 (%)	Y-o-Y Change (%)	H1 FY22 (INR/Sqft/Month)	Y-o-Y Change (%)
Bengaluru	10.75%	4.20%	79	3%
MMR	16.30%	2.80%	125	0%
NCR	30.20%	2.20%	77	-1%
Chennai	10.40%	2.78%	60	0%
Hyderabad	15.20%	3.90%	58	3%
Pune	4.50%	-0.30%	70	3%
Kolkata	26.00%	-0.40%	52	0%

- With office demand making a significant come back post the pandemic, new office completions across the top 7 cities have also improved and inched up from 14.55 Mn Sq ft in H1 FY21 to 22.2 Mn Sq ft in H1 FY22, an increase of 53% on yearly basis.
- Bengaluru and Hyderabad hold the highest share of new office completions in the current half-year of the ongoing fiscal, accounting for 33% and 20% of the overall pie, respectively.
- Interestingly, even while MMR and NCR comprised modest 18% share each of the total new office completions in H1 FY22, the two regions recorded a huge Y-o-Y increment of 128% and 123% respectively.
- Similar to the preceding year H1 FY21, Kolkata witnessed no or minimal new office completions in the current year.

New Office Completions (Mn Sqft)



## Region-Wise New Office Completions

- South Indian cities dominate the new office completions in H1 FY22, accounting for 58% of the total share. Within the south cities, Bengaluru comprises the largest pie with 56% of the completions.
- Whilst the completions in the South cities rose by modest 25% year-on-year, the North and West cities showcased massive jump by 123% and 118% respectively.
- The East city viz. Kolkata, like the preceding year, represented minimal or no significant office completions.



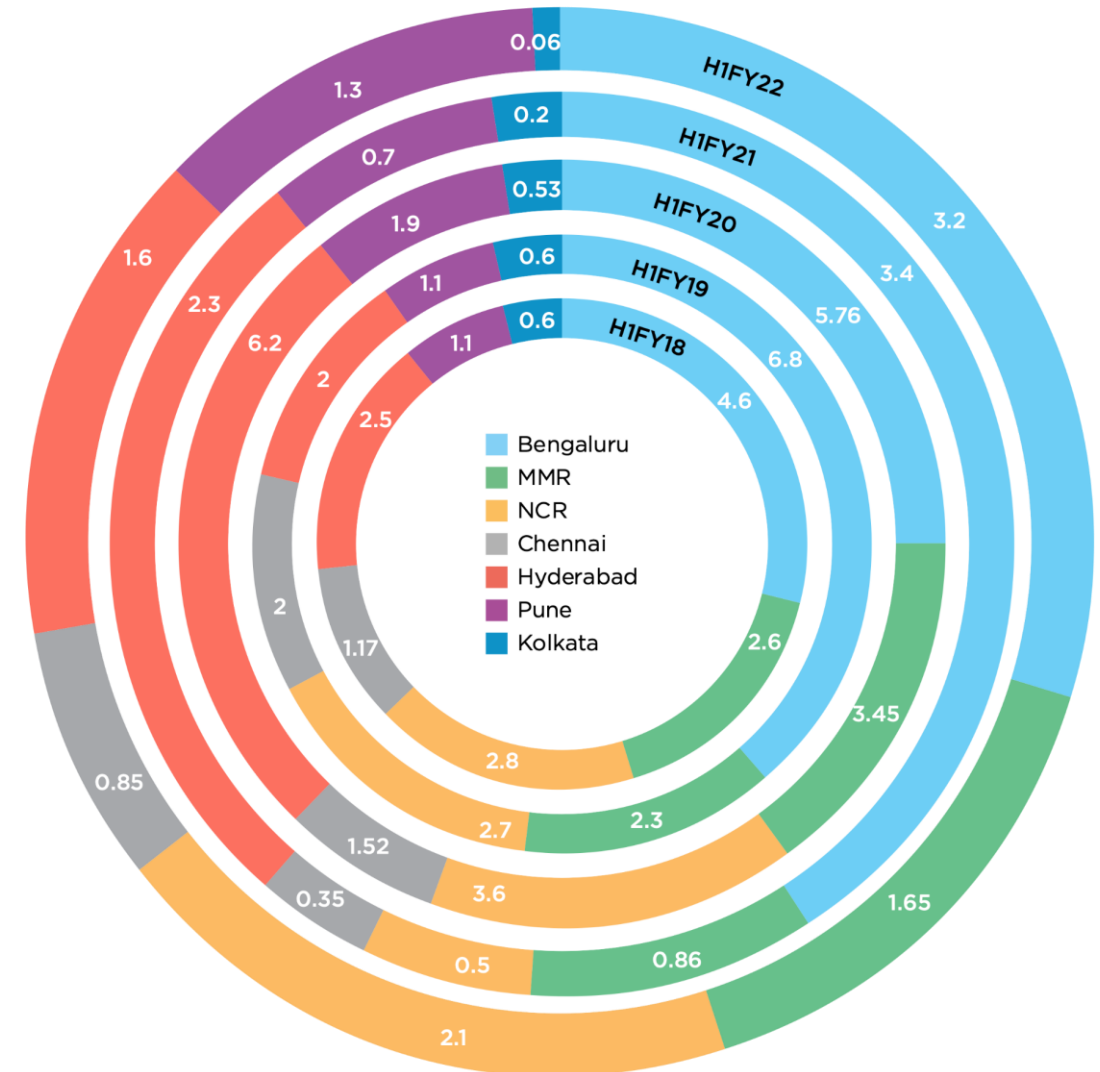
### Note:

- South Cities include Bengaluru, Chennai & Hyderabad
- West Cities include MMR & Pune

- North Cities include Delhi-NCR
- East Cities include Kolkata

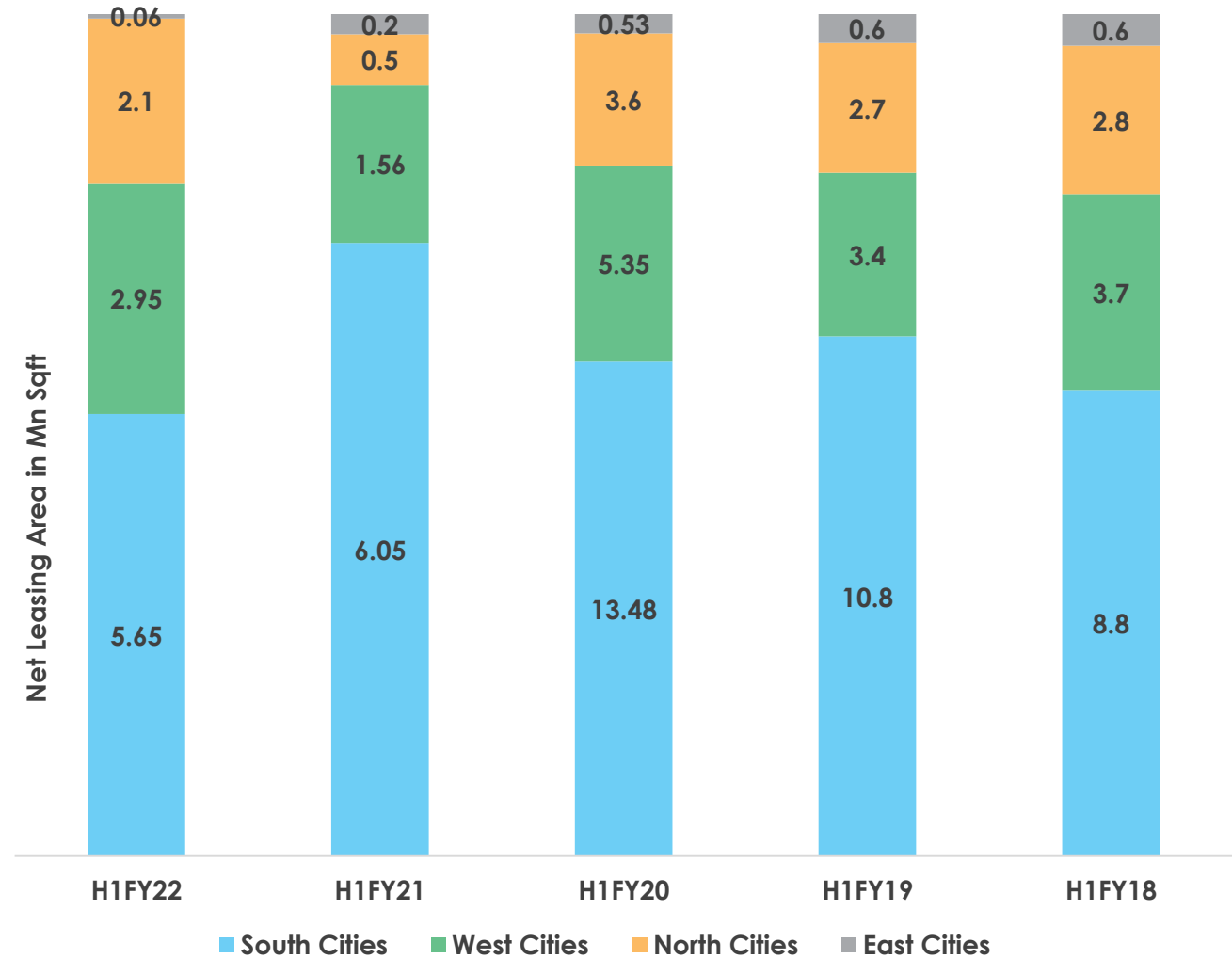
- Unlike the first half of FY21 which witnessed steep yearly decline of 64% in office absorption compared to previous year, H1 FY22 recorded a positive Y-o-Y growth in Net Office Absorption - by 29% - across the top 7 cities. As we see, businesses are rebounding from the impact of the pandemic with office spaces reopening and robust hiring in the IT/ITeS sector amongst others.
- Bengaluru remains the most favored market for the office occupiers in H1 FY22, accounting for 30% of the overall net office absorption, followed by 20% in NCR and 15% each in MMR and Hyderabad.
- Of the top 7 cities in India, four of them recorded Y-o-Y growth in terms of net office absorption. NCR and Chennai showcased a rise in the Y-o-Y absorption by 320% and 143% respectively while cities like Kolkata, Hyderabad and Bengaluru saw a decline of 70%, 30% and 6% respectively.
- Demand for the office space is set to strengthen in the coming months with the increasing rate of vaccinations, affordable rentals, businesses resuming their expansions plans and Work from Office for many of its employees amid the covid protocols.

New Office Absorption (Mn Sqft)



## Region-Wise Net Office Absorption

- South cities, despite registering a Y-o-Y dip of 7% in the net office absorption, have the largest share of 53% in the office leasing in H1 FY22. Within the South cities, Bengaluru holds the maximum pie of 57% of the leasing transactions.
- North Cities witnessed a significant jump of 320% Y-o-Y rise in the office leasing activity. The net office absorption in the West cities also inched up by 89% on yearly basis.
- The East city viz. Kolkata witnessed a downfall in the transaction activity by 70% in comparison to H1 FY21.

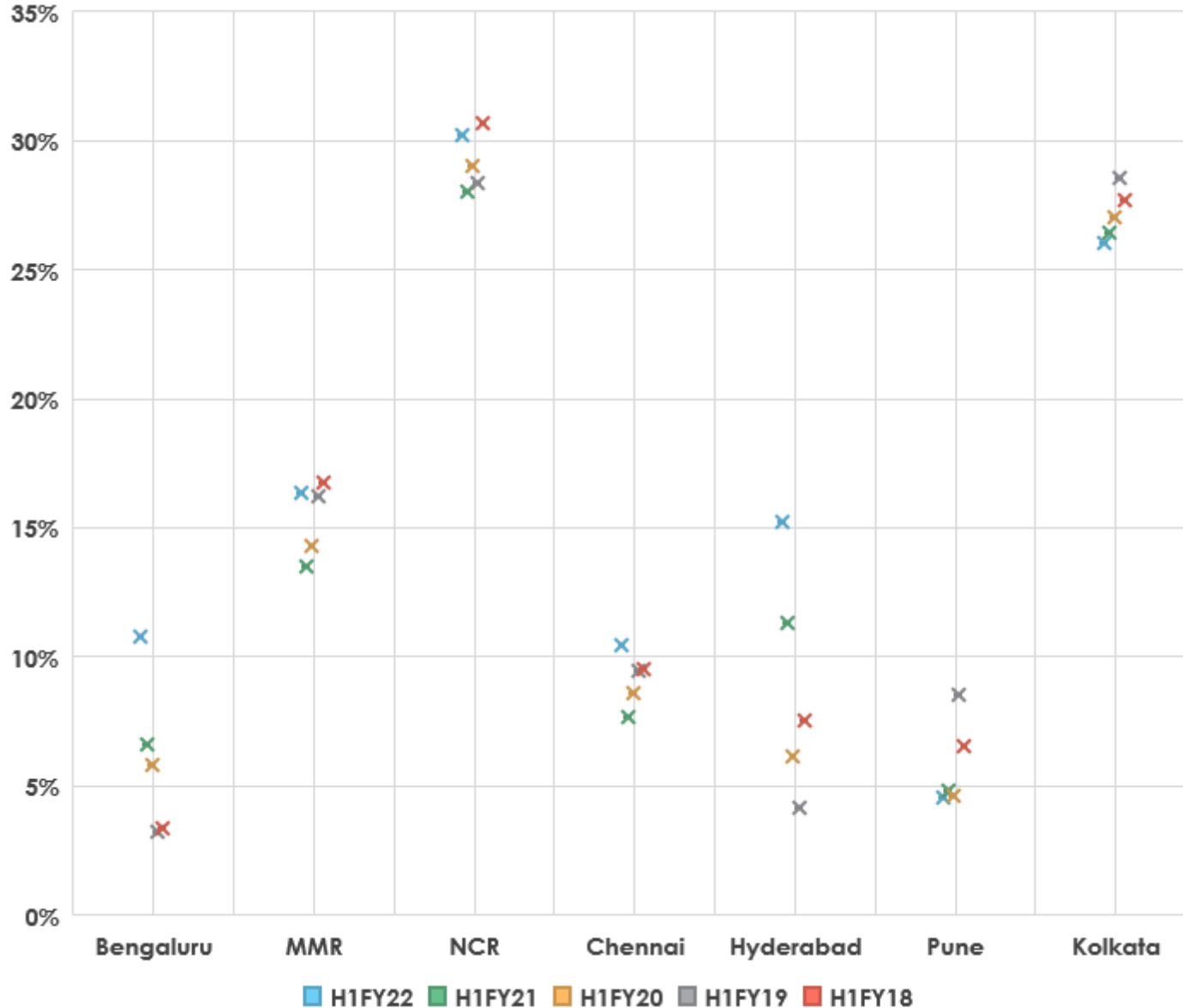


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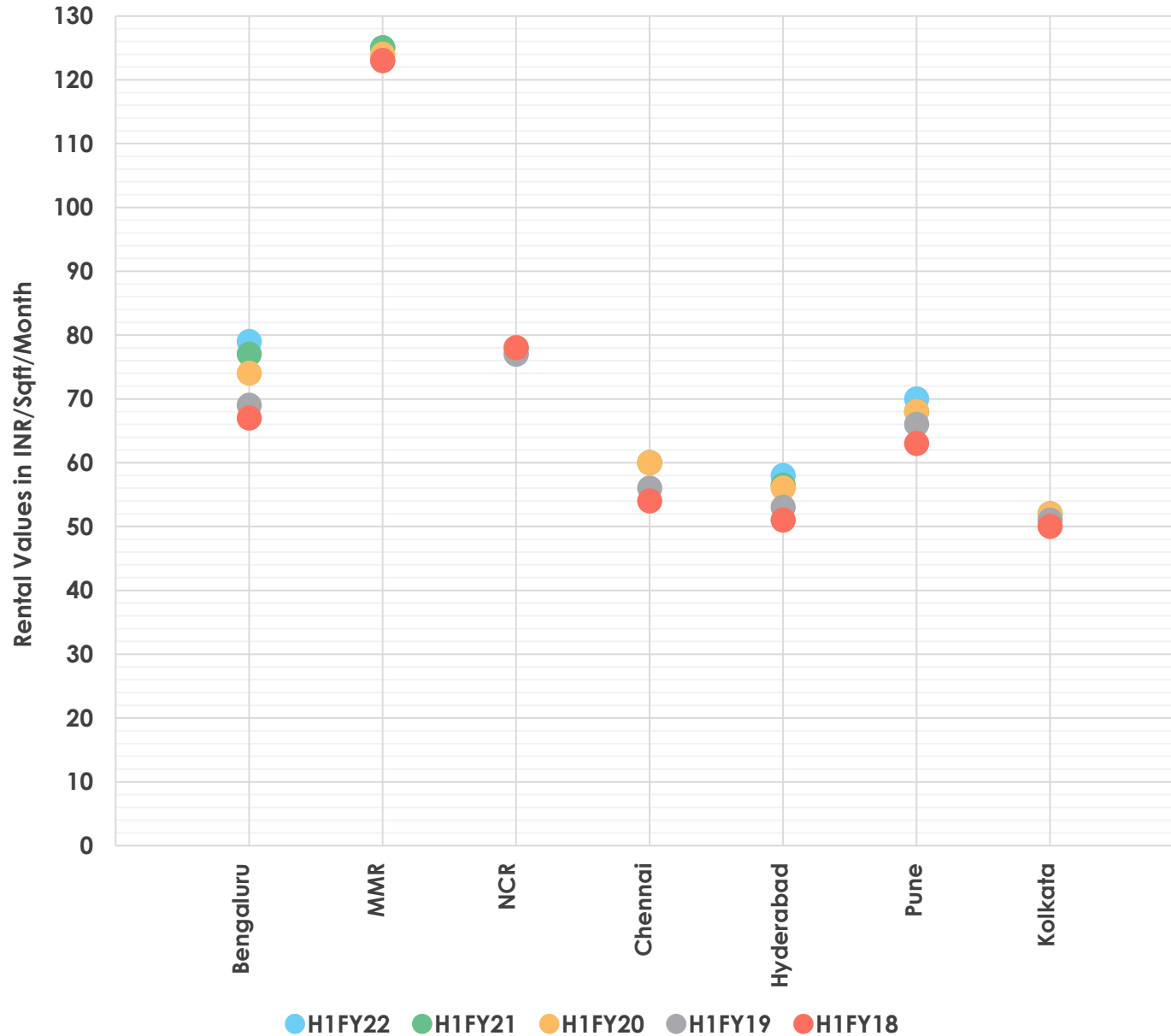
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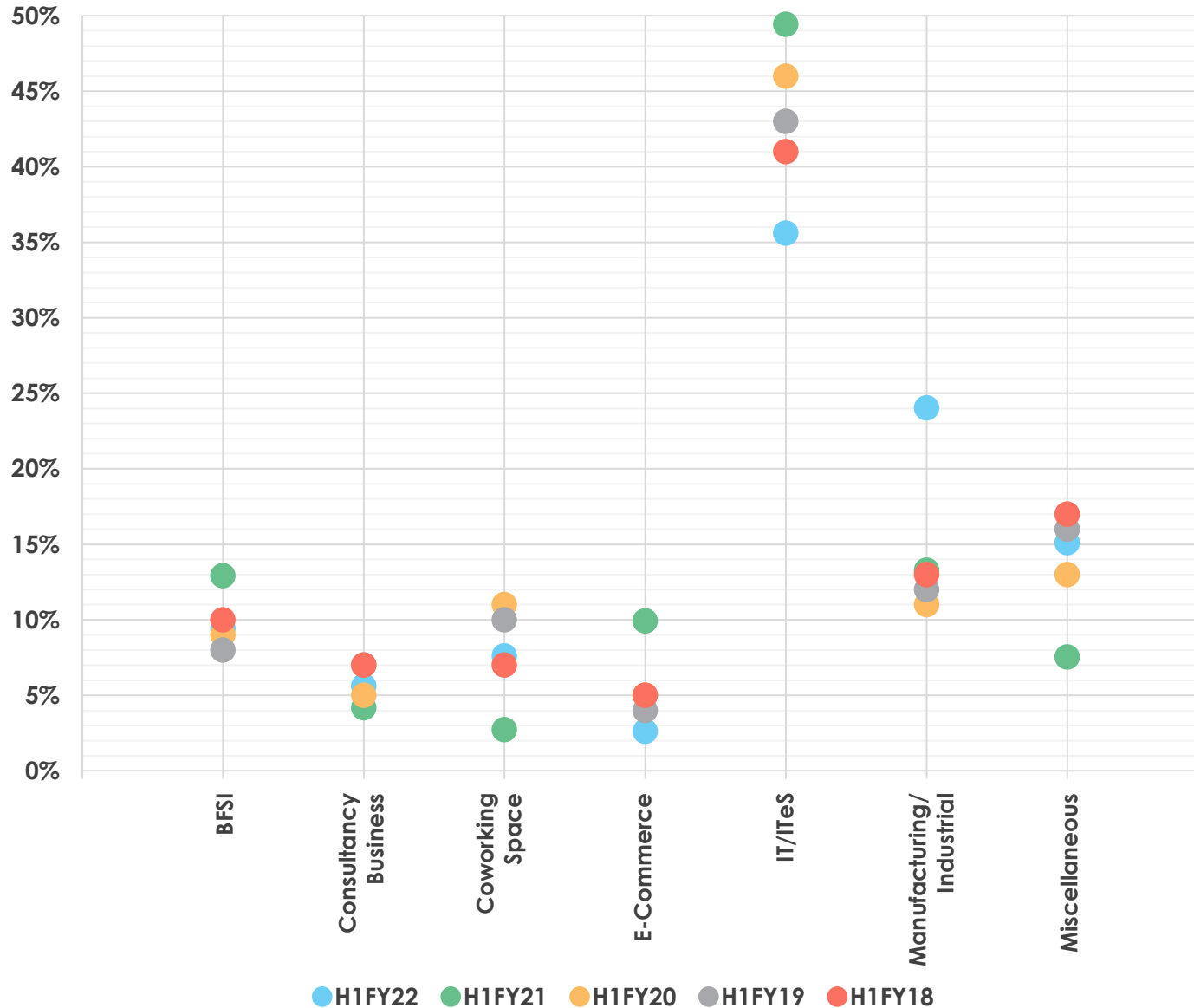


- India Office Market Vacancy levels inched up by 2.6%; from 13.5% in H1 FY21 to 16.1% in H1 FY22 across the top 7 cities.
- Amongst the 7 cities, NCR has the highest volume of office space vacant with 30.2% in H1 FY22, as against 28% in the preceding year.
- Despite high net absorption, persistent new office completions have pushed up the vacancy levels in South cities like Bengaluru, Hyderabad and Chennai by at least 4.2%, 3.9% and 2.78% respectively in H1 FY22 as against same period in H1 FY21. Among the south cities, Hyderabad has the highest vacancy levels at 15.20% in H1 FY22 as against 11.30% in year ago period.
- Pune and Kolkata were the only top cities to see office vacancies decline marginally in the period, by 0.3% and 0.4 % respectively.



- Average monthly rentals in the top 7 cities have remained largely the same at about INR 75 per sq. ft. in H1 FY22 against the corresponding period in preceding fiscal year.
- Interestingly, IT/ITeS hubs like Bengaluru, Hyderabad and Pune saw a marginal rise (of 3% each) in the average monthly office rentals in first half of the ongoing fiscal year 2021-22.
- In cities like NCR, MMR and Kolkata, avg. rentals have largely maintained status quo at INR 77 per sq. ft., INR 125 per sq.ft. and INR 52 per sq.ft. respectively.

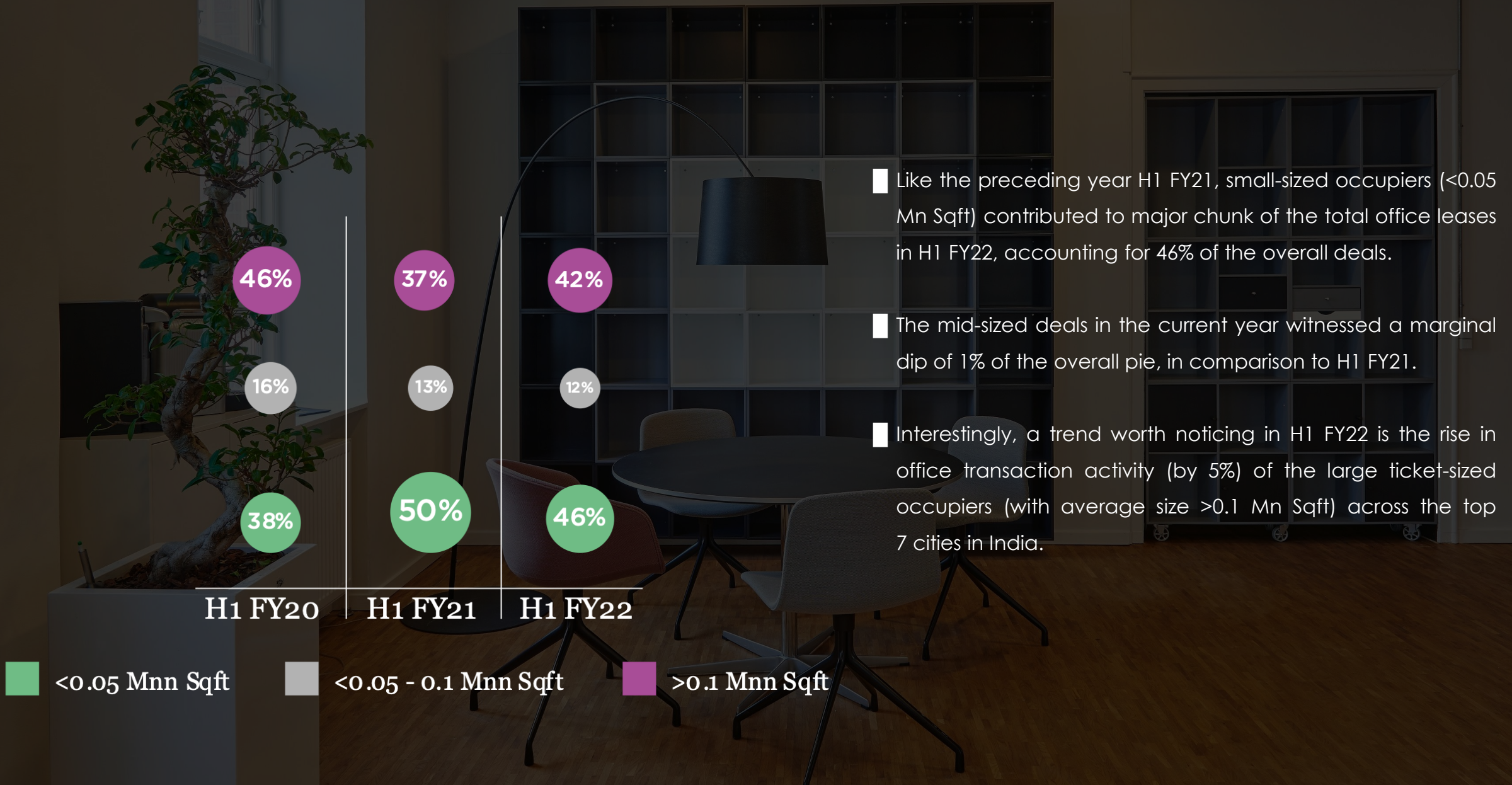
## Sector-Wise Office Transactions Split



- The Information Technology (IT) and Information Technology enabled Services (ITeS) continued to dominate the office transactions in H1 FY22 across the top 7 cities, holding a share of 36%. The sector's share, however, observed a reduction in the leasing activity by 14% Y-o-Y due to the IT/ITeS occupiers reconsidering their decisions to taking up new office spaces in the current pandemic period.
- Second highest volume of office transactions in H1 FY22 were witnessed in the manufacturing/industrial sector, growing by 11% compared to the preceding year H1 FY21.
- Demand for co-working spaces is on the rise. The share of co-working spaces has risen to 8% in H1 FY22 in contrast to the 3% share during H1 FY21; indicating a 5% Y-o-Y jump.
- Alongside IT and ITeS sector, E-Commerce and Banking, Financial Services and Insurance (BFSI) sectors recorded a Y-o-Y dip in the office space leasing by 7% and 3% respectively.

**Note:** Miscellaneous sectors include Telecommunication, Real Estate, Health care, Education and logistics amongst others

## Average Size of Office Leasing Transactions



City	Micro Market	Tenant	Building	Transacted Area (Mn Sqft)
Chennai	OMR	Caterpillar India Engineering	Brigade WTC	0.40
	Perungudi	Trimble	Stargate Vishranthi	0.29
Bengaluru	ORR	Western Digital	Helios Business Park	0.68
	Electronic City	Continental Automotive Components India	Sattva Alexandria Tech Park	0.85
	Bellary Road	Collins Aerospace	North Gate Office Park	0.30
	Whitefield	Legato	Bagmane Solarium	0.52
Hyderabad	Hi-Tech City Road	Smartworks	Aurobindo Galaxy	0.30
	Madhapur	AMD	Mindspace Block 11	0.18
	Madhapur	Legato	Avance Business Hub	0.28
MMR	Goregaon	Smartworks	Paradigm	0.10
	Lower Parel	RBL Bank	One Indiabulls Centre	0.09
	Thane Belapur Road	Clariant Chemical	Reliable Tech Park	0.18
Noida	LBS Marg	Future Technology Skill Foundation	Equinox Tower 1	0.19
	Noida Expway	Samsung	Candor Tech Space	0.38
	Sector 16B	Smartworks	World Trade Tower	0.20
Gurgaon	Sector 25A	Microsoft	DLF Downtown	0.18
	Golf Course Extn Road	Stryker	International Tech Park	0.15
Pune	Yerwada	Redbrick	Commerzone Building 3	0.05
	Viman Nagar	Piaggio Vehicles	Sky One Corporate Park	0.06
Kolkata	Rajarhat	Primetals Tech	DLF IT Park 1	0.05

As we can see, the devastating impact of the second covid wave on the economy and thereby on various sectors including commercial real estate has receded. In fact, with the economy estimated to see double digit growth in FY22 and the vaccination drive in full swing, the Indian office market is showing green shoots of revival.

As is, the IT/ITeS sectors have been on a hiring spree in 2020 and 2021 due to massive business accruals. To accommodate these employees in a future when we see a gradual return of employees and adoption of hybrid workplace practices by Infotech giants, office space demand will grow in 2022 and 2023. Bulk hiring by these firms will influence demand for large quality office spaces. As for now, many big corporates are renewing their leases while there are a few smaller companies that are also considering rationalizing space. More than anything, even while many employees continue to work from home, the social distancing norms will prompt companies to de-densify office spaces.

In another significant trend post Covid-19, we are also likely to see few of the major office occupiers de-centralize and bring their offices closer to their employees' homes in the peripheries. As we saw, homebuyer preferences changed perceptibly post the pandemic. The previous 'walk-to-work' concept no longer led home buying decisions – instead, bigger and more affordable properties in greener, less polluted areas found favour, driven by work-from-home and e-schooling compulsions as well as safety concerns. With several buyers thus moving to the peripheries, companies may look to move closer to them. In a major positive, these new developments in the peripheries will reduce the stress on the choked city-centres. As is, these peripheral areas are becoming increasingly viable with ongoing infrastructure projects such as Metros and ring roads which will further boost their connectivity to the city centres.

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