March 2024

India Office: Repurposed to **scale-up**

Foreword

Raj Menda

Chairman, FICCI Real Estate Committee and
Chairman of Supervisory Board, RMZ Corporation

The India Economy is poised to play a defining role as it leverages technologies and becomes a beacon for the world amid tough geopolitical scenario. The economy is likely to grow at 7.3% in FY24 and International Monetary Fund (IMF) has noted that growth is likely to be steady at around 6.5% for the next two fiscal years. In a nutshell, the momentum will be strong as the world recovers later this year with India in particular expected to witness broader economic growth.

India's office market has shown resilience with the infusion of 58.2 msf of leasing in 2023 enormously aided by the economy's growth path, business landscape and global occupiers. With a positive domestic outlook and promising growth prospects, the confidence of occupiers and developers will remain intact.

There has been a paradigm shift in India's office market necessitating the need to adapt to the changing workplace dynamics. A surge in space uptake from domestic occupiers, expansion of GCC and growth of new demand segments will continue to dominate the evolution of commercial office market. Skilled manpower and competitive real estate costs will continue to drive demand from global companies.

BFSI and engineering and manufacturing sectors have been pivotal in driving the overall office demand notching up a robust 65% and 87% YoY rise respectively in 2023. Flex spaces' demand surged 30% at 8.7 million sq ft. A significant development is a surge in large-sized leasing deals exceeding 100,000 sqft in 2023 with about half of the total leasing reported on such deals. This trend augurs well for the commercial property market and illustrates in no uncertain terms that businesses are expanding and corporates are gearing up for future employee expansions. The large-sized deals are likely to touch 50-55% this year.

The Government's decision to amend the SEZ rules to allow floor-wise denotification will give a virtual boost to the office leasing activity. Though 61% of Grade A office stock was green certified as of December 2023, an estimated 400-460 million sqft of existing office stock holds potential to achieve complete e-compliance in the coming years. This will offer substantial green investment opportunity. With pragmatic policy intervention leading to significant infrastructure upgrades nearing completion across major Indian cities, peripheral business districts (PBDs) are likely to witness another 50-60 million sqft of commercial space completions in the next two years. This will undoubtedly offer quality office space options for occupiers across diverse demand segments.

FICCI- Colliers report suggests that the growth of the office market will depend on the changing needs of occupiers. The report forecasts that in an optimistic scenario total office leasing would touch approximately 55-60 million sq ft across the top six cities this year. The domestic occupier activity will remain strong amidst healthy domestic outlook. 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 reflecting on the way forward.

Foreword

Badal Yagnik
Chief Executive Officer | Colliers

India continues to showcase resilience with its steadfast growth trajectory, maintaining its status as the world's fastest-growing major economy. Driven by a growing consumer base and continued focus on manufacturing sector, economic prospects for 2024 appear promising. The IMF takes cognizance of India's inherent strengths and has projected an annual GDP growth rate of 6.5% for 2024 and 2025. India's economic tenacity, coupled with a favorable investment climate and rapid urbanization, alongside robust infrastructure development, collectively contributes to a thriving real estate market.

Office market specifically, is undergoing a significant transformation globally, fueled by evolving work trends, technological advancements, and shifting occupier preferences. Amidst this dynamic landscape, India's office market continues to demonstrate robust growth year after year, recording consecutive all-time leasing highs in 2022 and 2023. This surge in demand for office spaces in India is underpinned by a myriad of factors. The country's compelling economic performance, coupled with a consumption pattern driven by its demographic dividend, creates a fertile ground for commercial real estate development. Moreover, the availability of skilled talent and the growing affinity of global occupiers to establish their capability centers in India further fuels the demand for office spaces across the country. The sustained uptick in leasing volume reflects the confidence of both domestic and international occupiers in India's commercial real estate market, instilling optimism for continued momentum in the near future.

As industry experts reflect on the successful navigation of global headwinds and initial uncertainties of 2023, one anticipates 2024 to be a year of consolidation, highlighting greater stability within India's office market. The positive year-to-date gains (5-15% as on Feb 26th 2024) for all three listed office REITs on benchmark indices underscore this sentiment, reflecting investor confidence and optimism for the future. The outlook for 2024 remains optimistic, buoyed by multiple driving factors including increasing demand for flexible workspaces, and continued investment in technology infrastructure. The adoption of green leasing practices is also expected to gain momentum, aligning with the global commitment towards sustainability.

Moreover, we expect domestic occupiers, GCCs, and flex activity to remain robust, maintaining leasing volumes similar to 2023 levels. Demand base diversification, meanwhile, is poised to continue, further enriching the commercial real estate landscape. As we navigate through this period of change and opportunity, it is clear that the office market is poised for further growth and innovation. With its resilience, attractiveness, and boundless potential, India will continue to solidify its position as a key player in the global commercial real estate arena, contributing immensely in shaping the future of workspaces worldwide.

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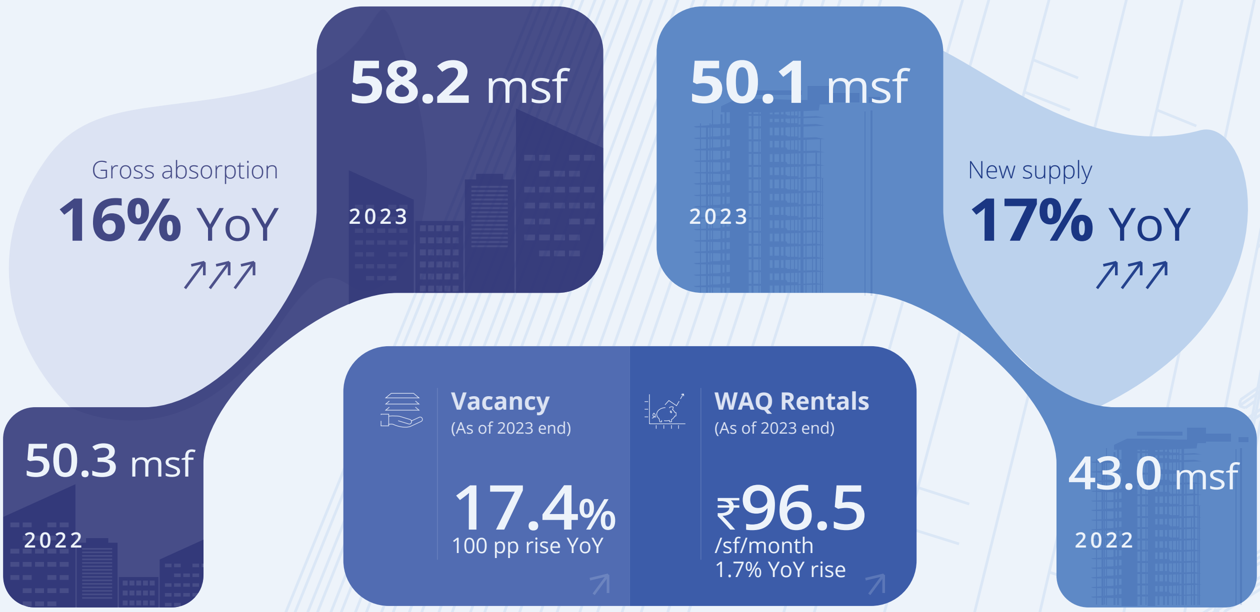
India office: setting new **benchmarks**

2023 performance overview and cues for 2024

Although office space demand treaded cautious waters in the initial few months of 2023, the inherent strengths of commercial real estate in India drove a remarkable turnaround especially in the second half of the year. 2023 recorded an impressive **58.2 million sq ft** of leasing activity, **16% higher** than previous high of 2022. The trend underscored the increasing demand for office spaces across the country, driven by a combination of factors such as economic expansion, evolving business & regulatory landscape, and the continuation of India as a preferred destination for global occupiers. The sustained uptick in leasing volumes reflected the confidence of both domestic and international occupiers in India's commercial real estate market, further fueling optimism for continued momentum in the near future. On the supply side too, developers reciprocated the confidence in heightened leasing activity. With infusion of more than **50 million sq ft** of **Grade A** developments, 2023 witnessed **17% higher** completions as compared to 2022.

If 2023 marked the successful navigation amidst global headwinds and domestic uncertainties, 2024 is anticipated to symbolize a period of consolidation on solid groundwork, signifying stability within India's office market. Offices across the globe are being repurposed as companies step up the pursuit of bringing employees back to the workplace. The return-to-work (RTW) trend reflects a gradual shift towards normalcy and the importance of in-person collaboration for productivity and innovation. The RTW trend is stronger in India as compared to peers in APAC, US and EU region. As companies in India navigate this transition, occupier requirements will persistently evolve, prompting continual realignment of market offerings. With promising growth prospects in the Indian economy and a positive domestic outlook, the confidence of occupiers and developers remain intact.

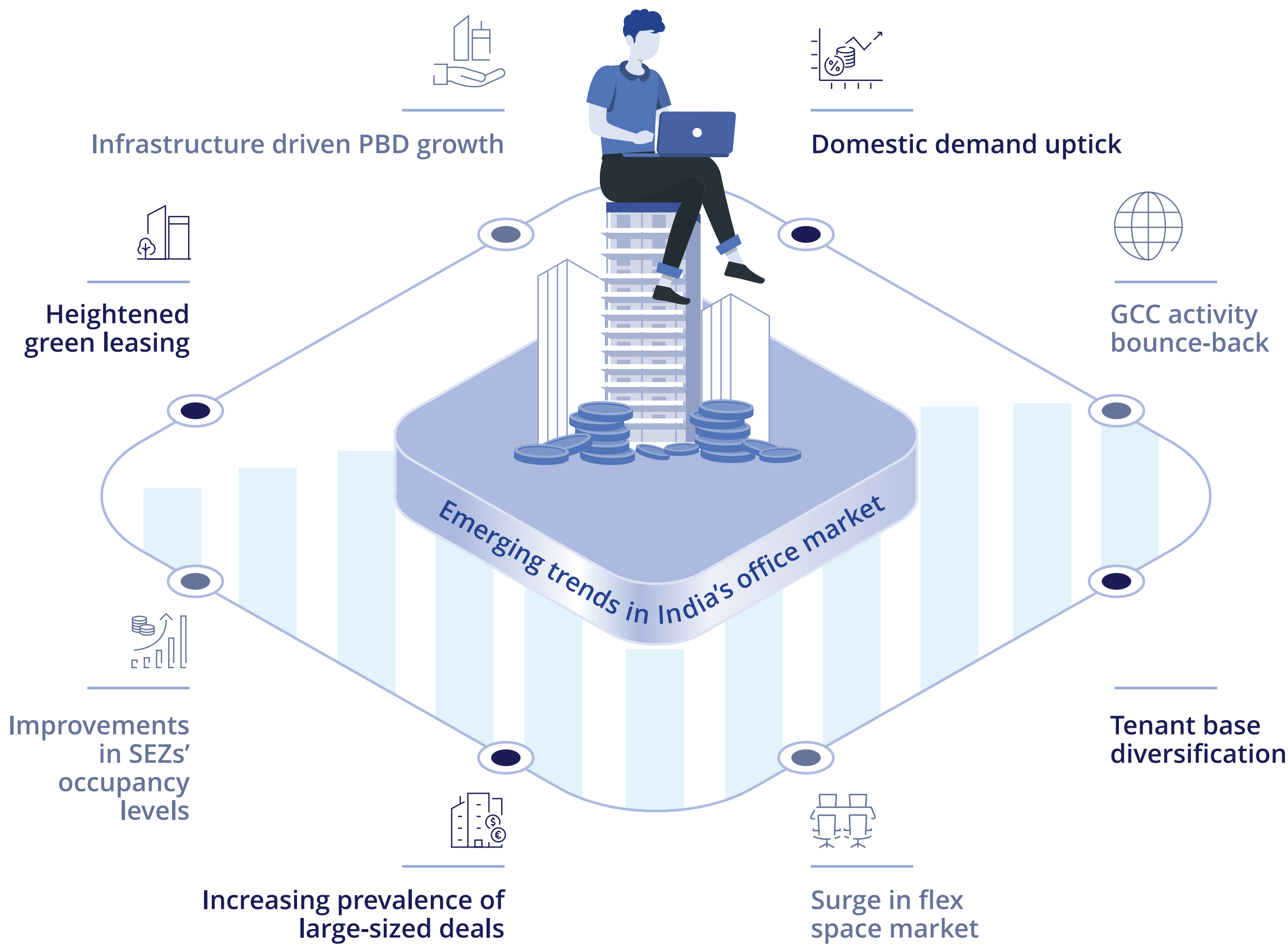
The balanced interplay between demand and supply will aid in improved occupancies; potentially accommodating a rental upside across major office markets of the country.



Source: Colliers | Data pertains to Grade A buildings only
Data pertains to top 6 cities- Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai, and Pune

Emerging trends in **India's office market**

India's office spaces are in a transitionary phase, continuously adapting to the changing workplace dynamics. Several factors will be at the cornerstone of shaping office demand in years to come. Increasing space uptake from domestic origin occupiers, expansion of Global Capability Centers (GCCs), and growth of new demand segments will play a prominent role in the evolution of commercial office market in India. Additionally, the growing prominence of sustainability and technology will increasingly influence businesses to prioritize eco-friendly office spaces adept with technologically advanced features. These multifaceted factors underscore a dynamic shift signaling a new era of innovation and adaptation in India's commercial real estate sector.

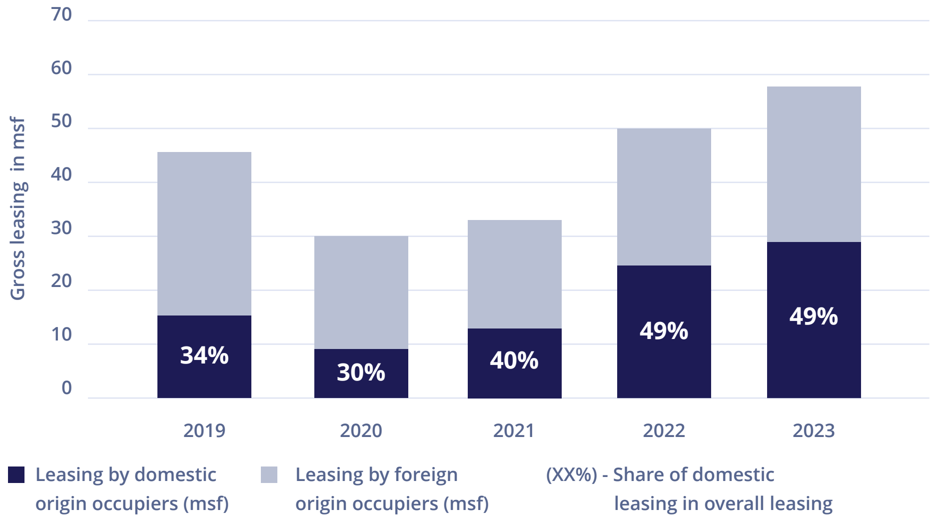


Source: Colliers

Domestic enterprises to bolster overall leasing activity

In the past 2-3 years, amidst relatively lower space uptake from foreign-origin companies, domestic firms have emerged as key drivers of office space demand in India. During 2023, domestic companies accounted for about half of the total leasing across the top six cities, compared to 34% in 2019. This trend is likely to continue in 2024, as **domestic companies will continue to capitalize on India's rapidly growing economy, favorable demographics and increasing urbanization**. Expansion of corporate India operations is likely to increase employment opportunities and ultimately provide a spurt to real estate demand in Tier I cities of the country. Moreover, continued government focus on programs such as 'Make in India' and sector-specific Production Linked Incentives (PLIs) will further foster a conducive ecosystem for domestic enterprises, encouraging them to invest in office spaces to accommodate growth. With a focus on innovation, talent acquisition, and newer market penetration, these domestic enterprises are likely to seek larger office spaces to accommodate their growing workforce and facilitate collaboration, driving further momentum in India's commercial real estate sector.

Domestic vs. Foreign occupiers office leasing trend in msf (2019-2023)

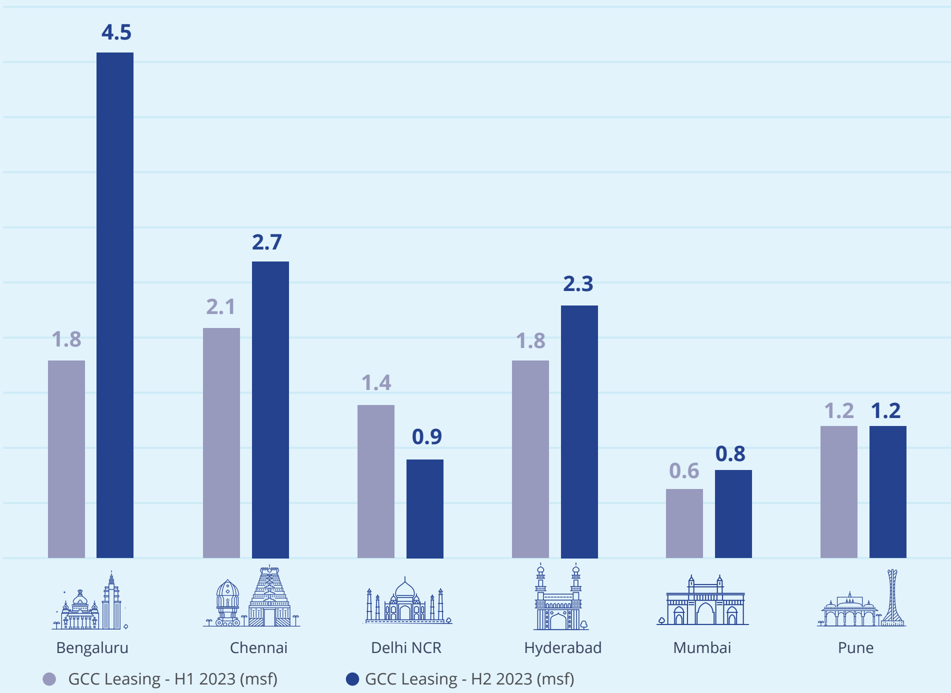


Source: Colliers
Data pertains to Grade A buildings only | Data pertains to top 6 cities- Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai, and Pune
Note: Origin centres have been arrived at by analysing the leasing data through a broad-based framework of occupier profile, operative region, etc . This is used as a proxy to determine the indicative geographical split of businesses.

GCC activity to pick up pace

One of the brightest prospects for India's office market is the anticipation of an increase in GCC leasing activity in 2024 and beyond. Heightened GCC activity, coupled with expectation of continued healthy demand provides credibility to a positive outlook for the overall India office market. Gathering confidence from continuity of the India growth story, Global Capability Centers (GCCs) in India have already resumed their office leasing activities in a steadfast manner. In 2023, GCC demand for Grade A office space saw a steady uptick registering a 14% YoY rise. H2 2023 specifically saw highest GCC leasing since 2020 at 12.4 million sq ft across the top 6 cities of the country. Amidst improved business sentiments and country's positive economic outlook, **GCCs in India are likely to gain further ground, contributing to over 40% of the total office demand in the next 1-2 years**. Technology and BFSI sectors will continue to dominate GCC leasing activity, while growing interest from engineering & manufacturing and healthcare will further diversify the landscape.

Strong momentum in GCC activity – A tale of two distinct halves in 2023
City wise gross GCC leasing in msf-



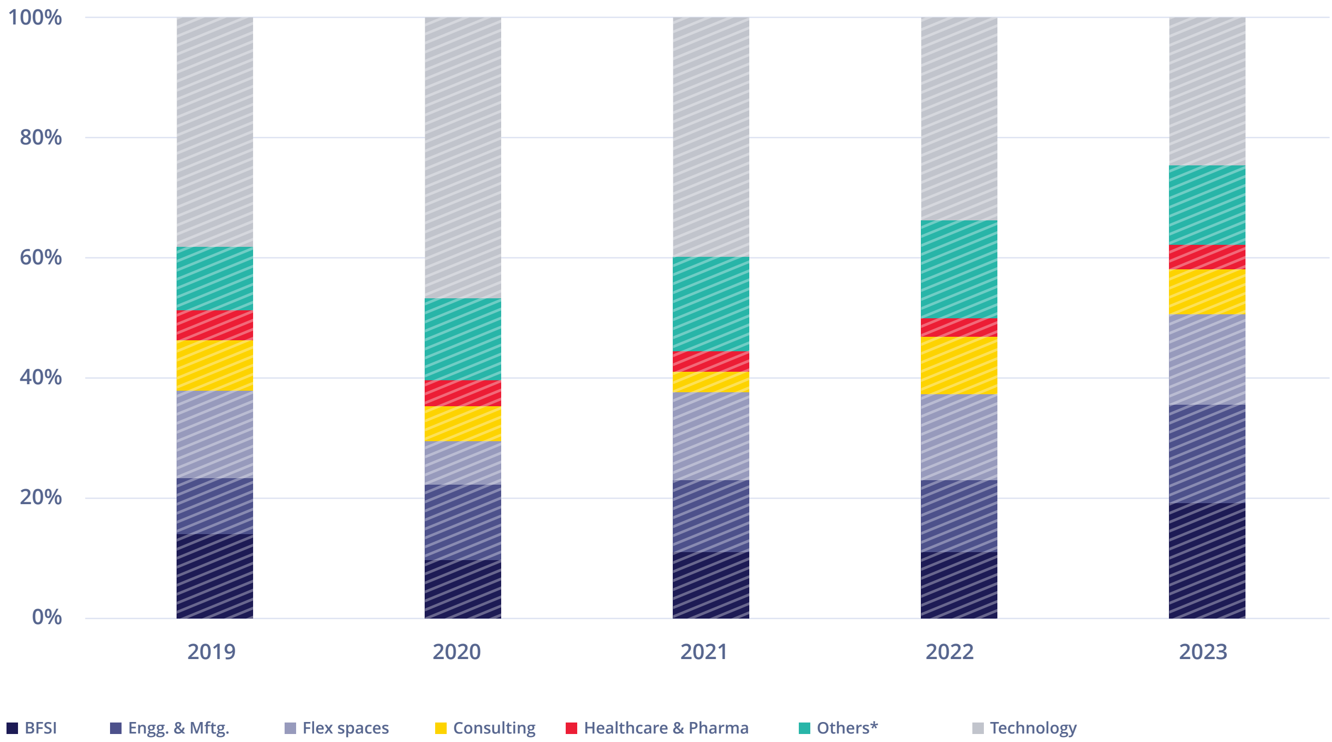
Source: Colliers | Data pertains to Grade A buildings only

Effectiveness in terms of both skilled talent and real estate costs will continue to attract global companies from markets such as the US and EU to ramp up their India operations. Furthermore, GCCs in India will continue to evolve from pure back offices to knowledge, innovation, and R&D centers. Despite rising competition, India is likely to remain the top choice for global companies for expansion of their capability centers. Cultural affinity, English proficiency, data protection, and time zone compatibility with origin centres and data protection norms, will continue to attract GCCs and MNCs in India. Furthermore, a robust IT infrastructure, coupled with an effective regulatory framework will contribute to heightened GCC activity in the near-mid-term and this will play a crucial role in demand for office spaces in the country.

Tenant base diversification to continue

Over the past few years, the occupier profile in India’s office market has undergone a noticeable diversification, marking a significant shift from its historical reliance on Technology sector. Once a highly dominant influencer in overall Grade A office space uptake, leasing activity of occupiers from the Technology sector has encountered a relative slowdown over the last 2-3 years. This can be attributed to numerous factors ranging from cautious global economic environment, growing adoption of hybrid work policies and workforce realignments to real estate cost optimization. The declining prominence of technology sector's share in overall office leasing, is evident from the contribution steadily decreasing from 47% in 2020 to 25% in 2023. **At the same time, BFSI and Engineering & Manufacturing sectors have been pivotal in driving overall office demand of the country, registering a significant 65% & 87% YoY rise respectively in 2023.** Additionally, government initiatives to promote sectors like startups, healthcare, and renewable energy are further stimulating demand across varied sectors by encouraging investment and expansion. Concurrently, the overall leasing landscape is anticipated to grow and diversify, with flex spaces, BFSI, Engineering & Manufacturing contributing to significant office space demand in the near to medium term.

Sectoral demand pattern in gross leasing (2019-2023)



Source: Colliers
Data pertains to Grade A buildings only | Data pertains to top 6 cities – Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai, Pune | Others include Consumables, Logistics, E-commerce etc.

Evolving work-models to spruce up flex space market

45.6 msf
Total Grade A flex stock (as of 2023)

35 msf
Upcoming flex supply 2024-26

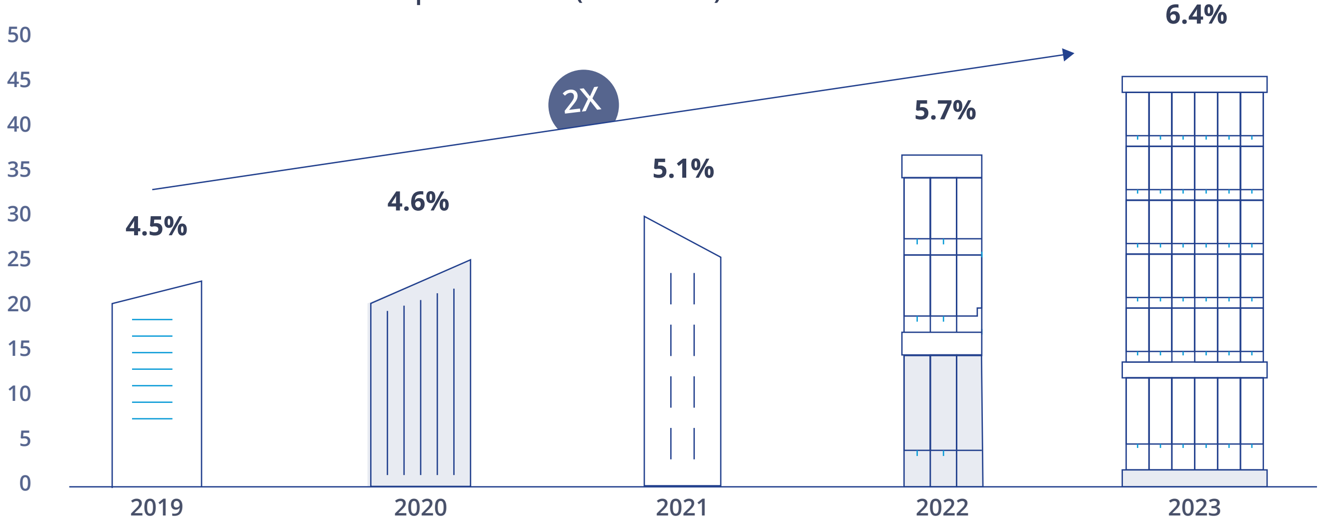
2x
Rise in Flex stock since 2019

8.7 msf
Flex leasing in 2023

Source: Colliers | Data pertains to Grade A buildings only | Data pertains to top 6 cities – Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai, Pune

Flex spaces, offering cost-effective alternatives to traditional offices and greater flexibility in lease terms, are poised to remain integral to the future of work, providing dynamic solutions that align with the evolving demands of the modern workforce. The flex space stock in India has experienced robust growth, almost doubling up in 2023 vis-a-vis 2019. The expansion has closely followed the overall spurt in demand for flex spaces in the country, which has surged 30% at 8.7 mn sq ft in 2023 compared to 2019.

Year-wise flex stock and flex stock penetration (2019-2023)



Source: Colliers
Data pertains to Grade A buildings only | Data pertains to top 6 cities – Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai, Pune | XX% - values show the penetration of flex spaces in the total Grade A office stock in each city

As flex spaces increasingly go mainstream and establish themselves at the core of evolving hybrid work models, the outlook for flex spaces remains optimistic. Interestingly, Tech sector's rising preference for flex space is likely to support growth and expansion of such spaces across the top six cities. Share of flex space in Tech occupiers' portfolio has risen from 5-8% in 2019, to 10-12% in 2023, and is further anticipated to rise in next 1-2 years. **The overall flex stock penetration, meanwhile, is expected to reach double digits in the next 2-3 years, compared to 6-7% currently**.

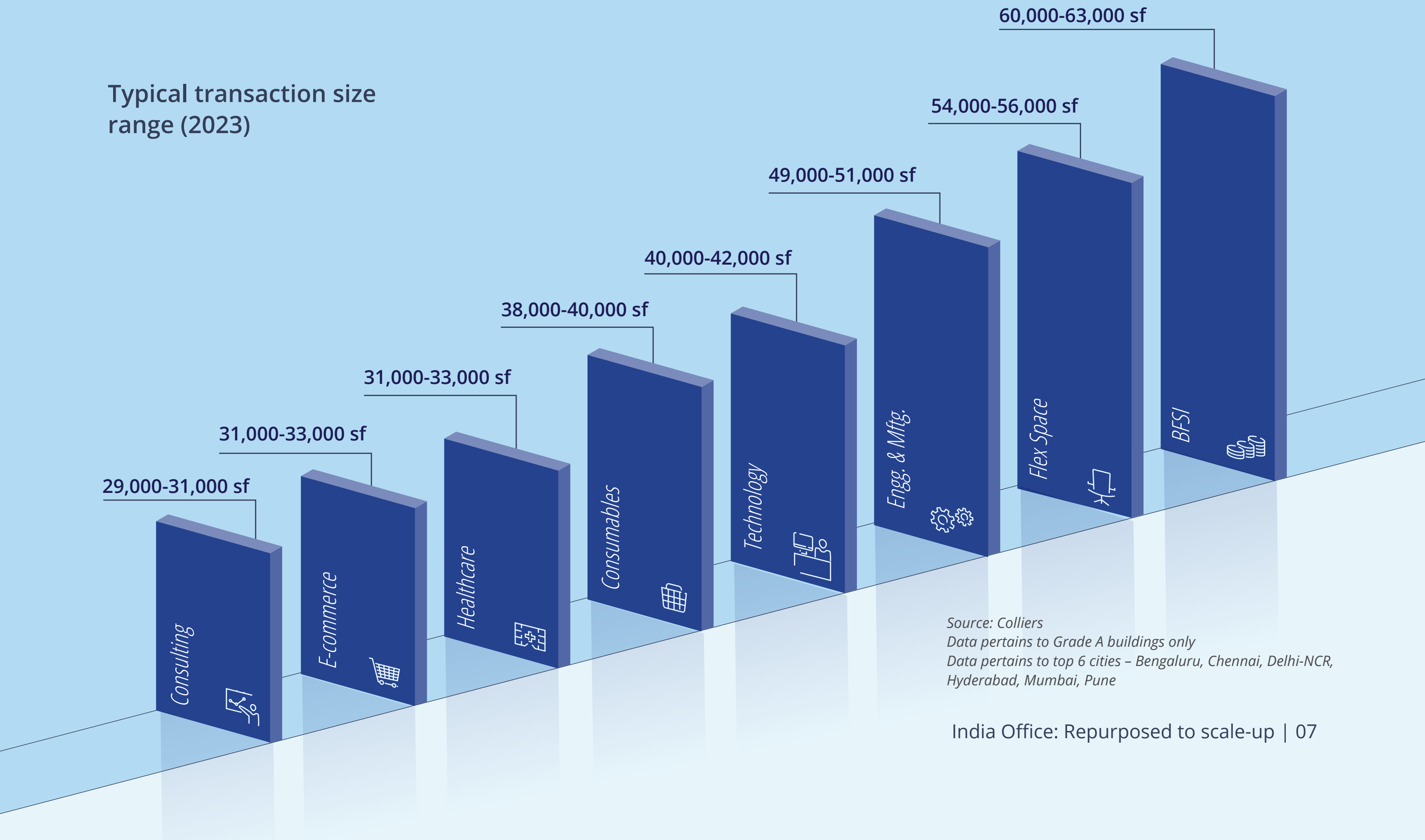
Given the dynamism flex operators provide, flex spaces are best suited to bridge the demand supply gap of high-quality commercial assets in Tier II and III cities of the country. Furthermore, flex activity is likely to get a boost as organizations increasingly prefer having a **decentralized work model**, with a hub office in central area and satellite offices in sub-urban/peripheral areas of the city. Simultaneous prevalence of **hybrid work**, occupier adoption of **core + flex strategies** and increasing **return to office mandates** in corporate India will boost overall flex space demand in the country. **2024 is likely to witness 15-20% of Grade A office demand emancipating from flex spaces**.

Large-sized deals to drive leasing even in 2024

Large-sized deals (≥100,000 sq ft) have seen a notable resurgence in India's office leasing market, spanning across various occupier sectors. During 2023, about half of the total leasing was through large-sized deals. BFSI, Engineering & Manufacturing and Flex spaces particularly witnessed increase in large sized transactions contributing significantly to the total space uptake. As businesses seek to consolidate operations and capitalize on emerging opportunities, the revival of these sizable transactions is poised to further propel India's office leasing market into a new phase of growth and dynamism. **The share of large-sized deals in the overall demand of office spaces in India is likely to be at 50-55% in 2024, slightly up from the 45-50% 2-3 years ago.** Although the percentage change may not be significant, given the current base, the volume of large-sized deals in 2024 is anticipated to be worthy of attention. The anticipated growth in large sized deals is also a leading indicator that businesses are expanding and corporates are planning for future employee expansions.

Year-wise number of large deals (≥100,000 sq ft) (2019-2023)

Typical transaction size range (2023)



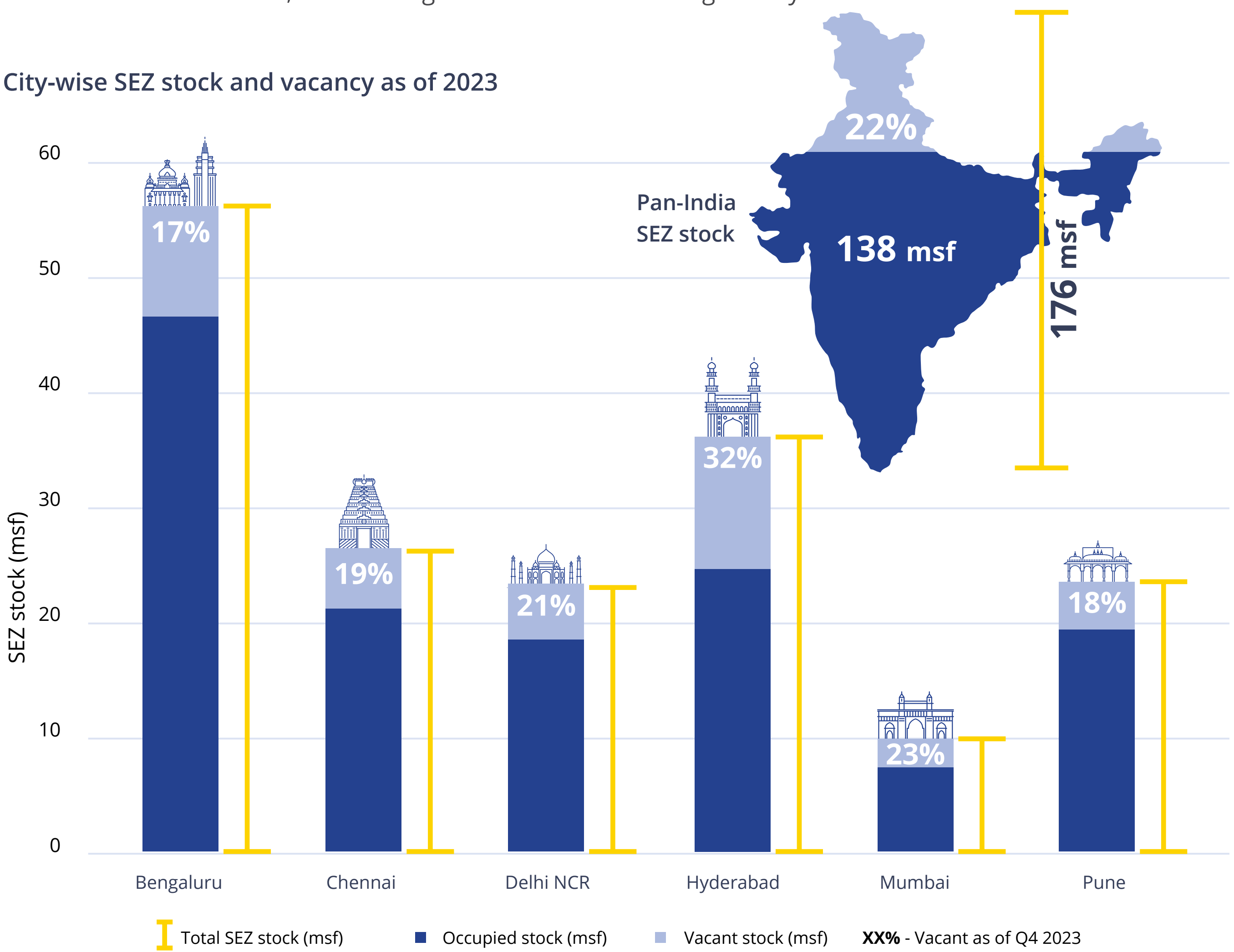
Source: Colliers
Data pertains to Grade A buildings only
Data pertains to top 6 cities – Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai, Pune

SEZ developments can witness improved occupancy levels

Source: Colliers | Data pertains to Grade A buildings only | Data pertains to top 6 cities – Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai, Pune
Others include Consumables, Logistics, E-commerce etc.

As of 2023, SEZs account for about 25% of the existing Grade A office stock across the top six cities. Since the last few years, SEZs have been recording high vacancy levels of over 20% due to stringent provisions and lack of incentives in the old SEZ policy. Furthermore, ever since direct tax benefits were taken away for new units in SEZs from March 2020, SEZs lost their appeal leading to significant occupier exits and relocations to non-SEZ office spaces. As a result, the share of SEZs in the overall office leasing dropped from 22% in 2019 to mere 7% in 2023. However, the 2023 decision to amend SEZ rules and allow **floor-wise denotification is expected to boost the leasing activity across SEZs, improving occupancy levels by about 5% in next 1-2 years**. Going forward, SEZs are projected to attract a diverse tenant base, including both export-oriented and domestic businesses, accelerating the overall office leasing activity across SEZs.

City-wise SEZ stock and vacancy as of 2023

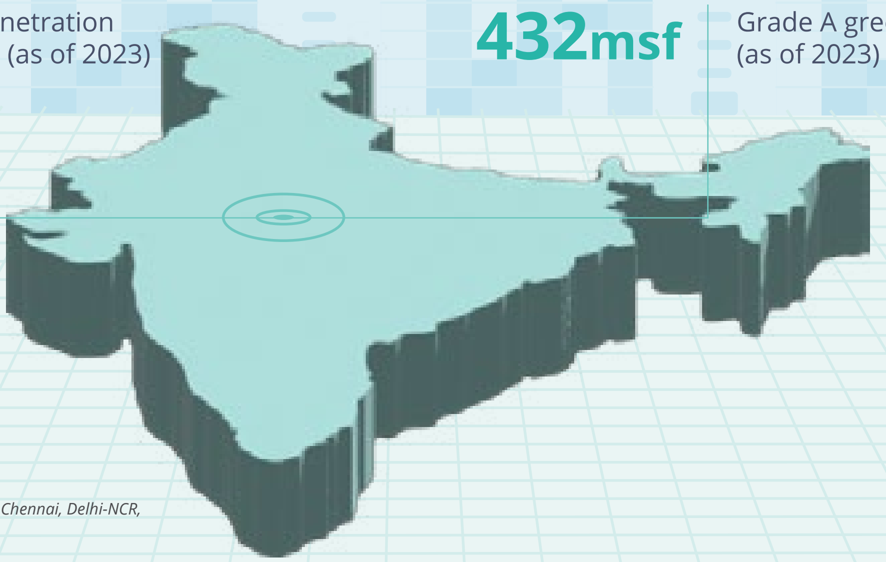


Source: Colliers
Data pertains to Grade A buildings only

Green penetration to make further inroads

61% Green penetration Pan India (as of 2023)

432msf Grade A green stock (as of 2023)

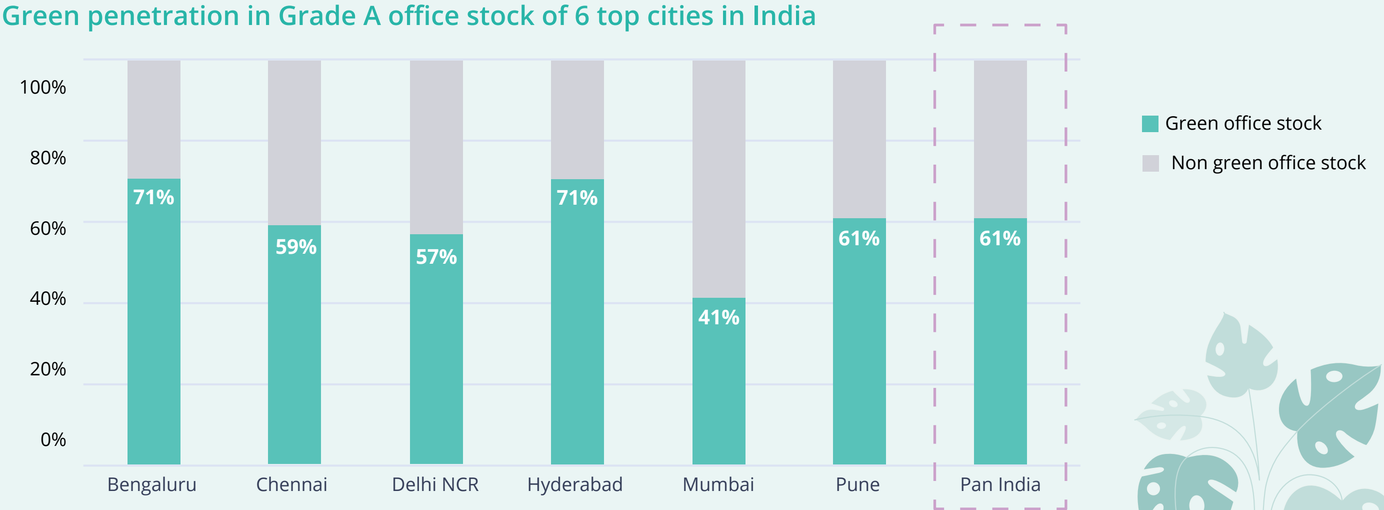


Source: Colliers
Data pertains to Grade A buildings only
Data pertains to top 6 cities – Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai, Pune

Amidst increasing global awareness of climate change, sustainable practices in India's commercial real estate sector have been gaining traction. Sustainable practices in India, though predominantly voluntary, are gaining momentum, particularly within the realm of commercial realty. As of December 2023, 61% of Grade A office stock was green certified, with Bengaluru and Hyderabad leading the growing adoption of sustainable elements in office buildings. Stakeholders across the sector are increasingly embracing sustainability reporting, reflecting a broader commitment to eventual net-zero targets. Green leasing is also expected to gain momentum as occupiers and developers continue to align with ESG principles.

Looking ahead, **an estimated 400-460 million sq ft of existing office stock holds potential to achieve complete E-compliance either through retrofitting (major refurbishment) or E-upgrade (minimal capex) in the coming years. This will offer substantial green investment opportunities in the office market of the country**. Furthermore, a significant proportion of upcoming commercial developments are likely to become E-compliant from day 1 of operation. This has the potential to translate into green-certified Grade A office stock surpassing 550 million sq ft (65-70% of overall office stock in India) by 2026. Developers will take cognizance of tangible benefits of green buildings and thus E-upgrade/retrofitting initiatives are certain to be more pervasive in the India office market. E-upgrades to existing buildings typically tend to offer significant net cash flow benefits through enhanced energy efficiency and improved occupancy levels.

Green penetration in Grade A office stock of 6 top cities in India

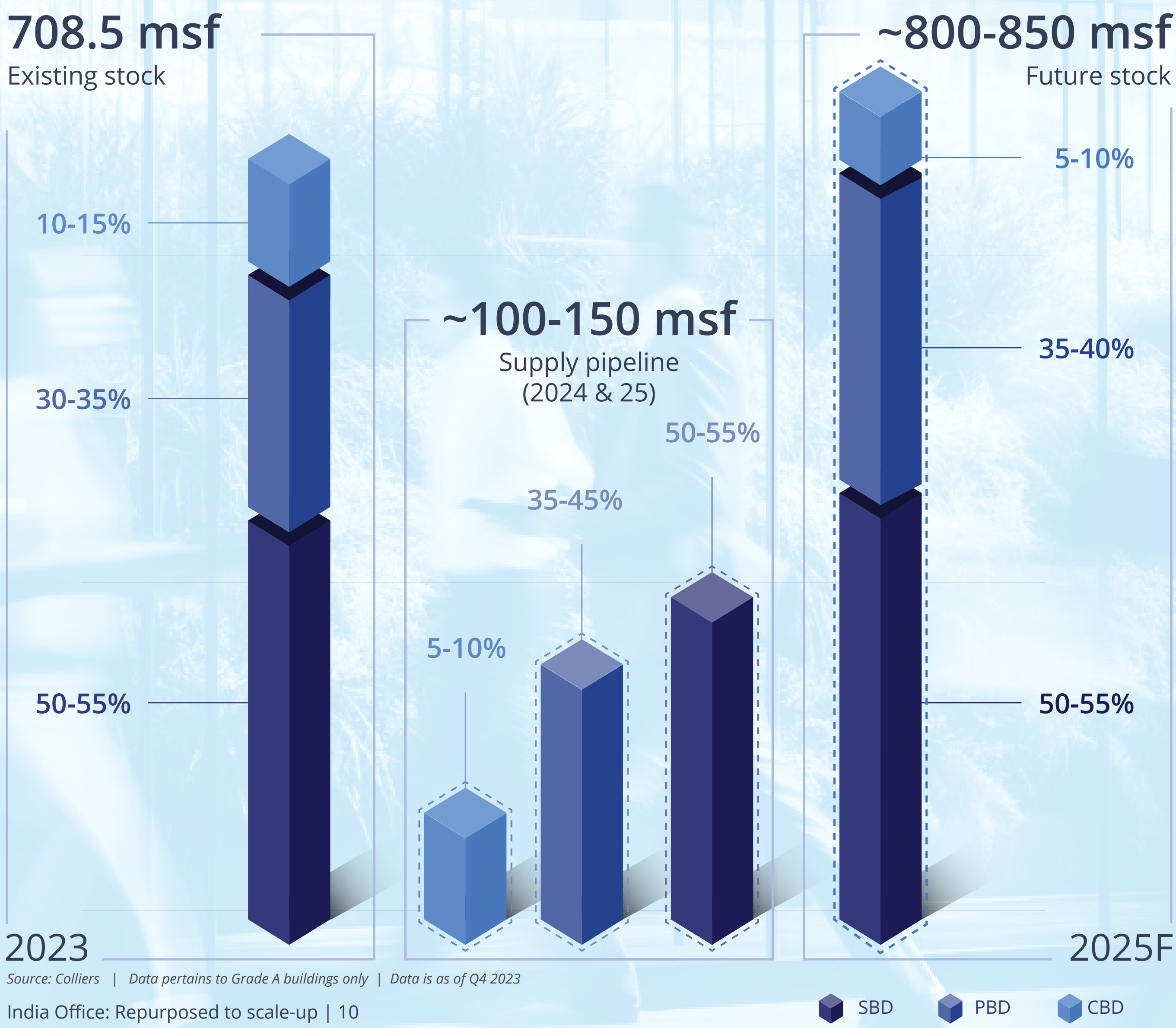


Source: Colliers
Data pertains to Grade A buildings only | Data is as of Q4 2023
Percentage indicates share of green stock in total office stock

Infrastructure upgrades to complement office market in PBDs

With significant infrastructure upgrades nearing completion across major Indian cities, the office market is set to receive a significant boost in 2024. Since key projects connect outskirts to central areas of respective cities, the impact of infrastructure upgrade is likely to be more pronounced in Peripheral Business Districts (PBDs) as compared to Secondary and Central Business Districts (SBDs and CBDs). Developers in anticipation of heightened leasing activity in PBDs are expected to increasingly focus on timely completion of marquee commercial developments in such localities. At present, with 232.8 million sq ft, around 33% of the total Grade A office stock across the top six cities is located in PBDs. Peripheral locations are likely to witness **another 50-60 million sq ft of completions in the next 2 years, which will offer superior quality office space options for occupiers across diverse demand segments**. As employees are being encouraged to return to offices in increasing numbers, organizations are likely to prefer incremental space take up in peripheral and secondary business districts which are close to residential catchment areas. Grade A commercial developments in PBDs offer a rental advantage over similar properties in SBDs and CBDs. This will continue to boost leasing activity in micro markets typically identified as PBDs, bringing down the average vacancy levels to 10-15% from current levels of 15-20%.

Micro market wise anticipated supply and stock trend in India office market

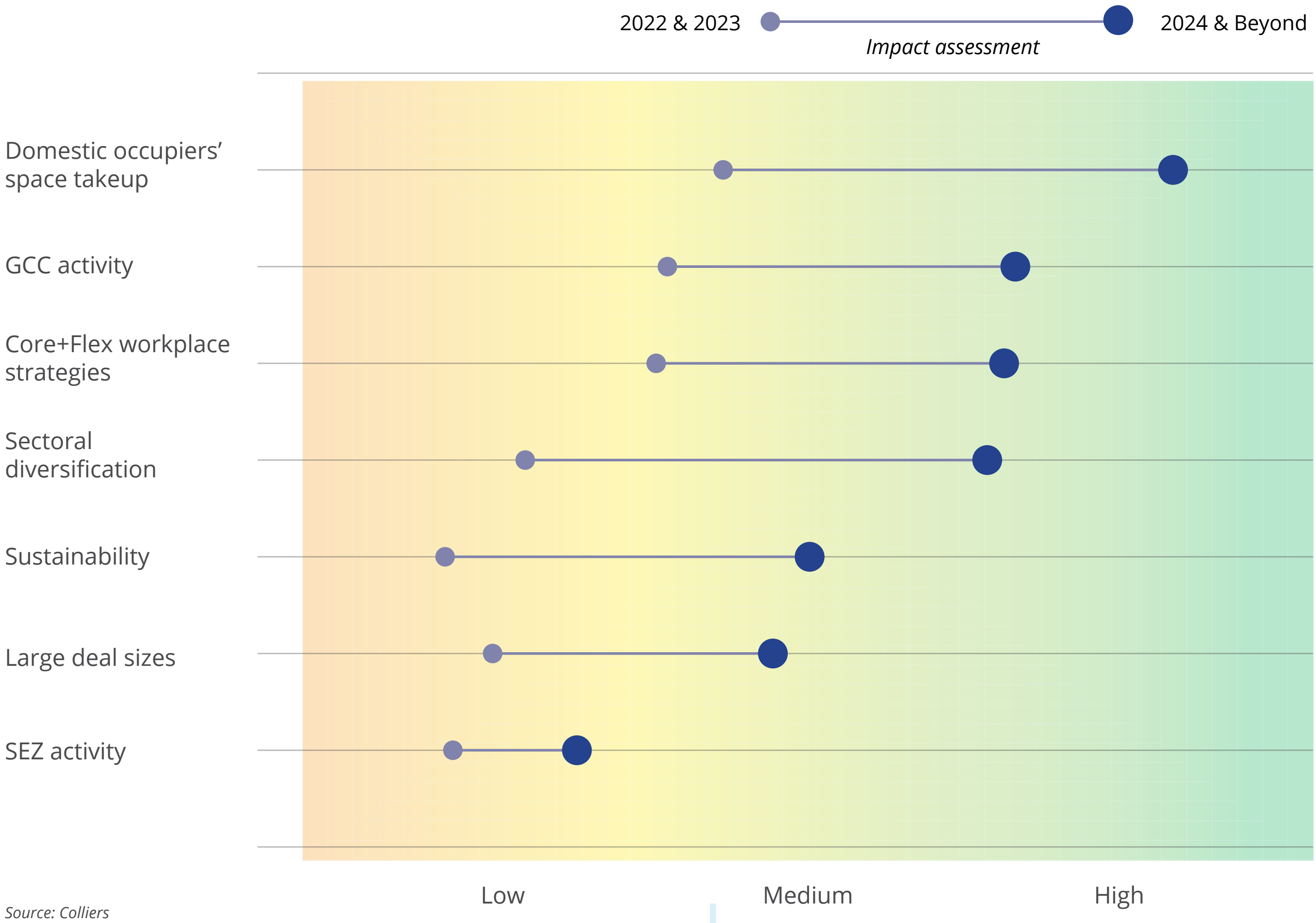


Source: Colliers | Data pertains to Grade A buildings only | Data is as of Q4 2023

India office demand to remain **strong in 2024**

India's office leasing market has exhibited resilience year after year, with ongoing growth buoyed by numerous factors including uptick in demand from domestic occupiers, resurgence in GCC confidence, etc. In the backdrop of a strong performance in 2023, the Indian commercial real estate market paces confidently in 2024. Stakeholders are poised to embrace multiple emerging trends that promise to reshape contours of the Indian office landscape. Fueled by a blend of domestic optimism and global dynamism, the year ahead holds potential for solidification of the new benchmark in the office arena. Notwithstanding unforeseen events, annual leasing activity and supply infusion upwards of 50 million sq ft are likely to be a regular feature in the Indian office market for the next few years.

Impact of key drivers on office leasing in 2024



Source: Colliers

2024 office market forecast

The trajectory of the office market's growth in 2024 will rely significantly on the evolving space requirement of occupiers. Multifaceted factors such as global economic undercurrents and domestic consumption will play elemental roles in shaping the course of commercial real estate in India. Colliers has modelled three probabilistic scenarios to assess the demand and supply of Grade A office space across six major cities of the country in 2024; the scenarios being optimistic, pessimistic, and realistic.

In an optimistic scenario, we anticipate economic tailwinds to pick up pace, boosting the overall confidence of occupiers in business expansion activities. Under this scenario, Colliers forecasts total office leasing of approximately 55-60 million sq ft across the top six cities, with minimal impact of unforeseen events or geopolitical tensions. Real estate space uptake from GCC occupiers, especially from the US and EU will witness impressive growth as compared to the muted activity of past few years. With most operators realizing their expansion plans successfully, flexible spaces will further solidify their presence in India.

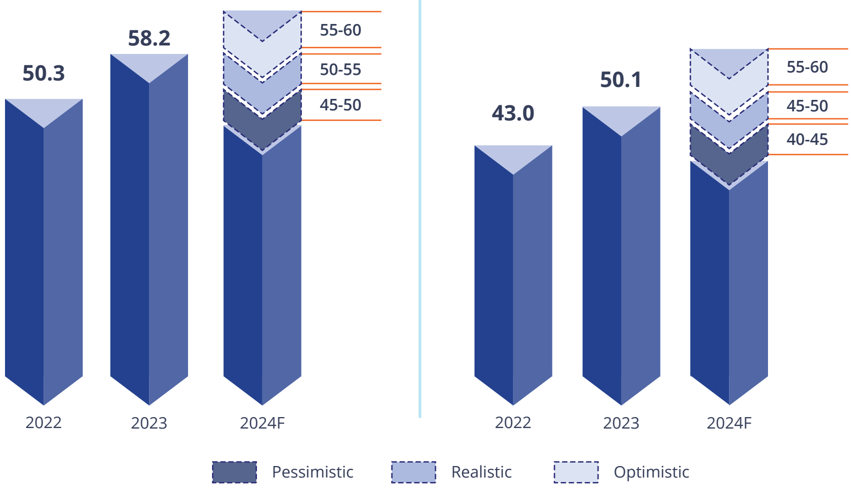
In a realistic scenario, impact of externalities will be moderate, and a fair degree of global volatility will affect India office market sentiments. In this case, the demand will remain steady and stay put around 50-55 million sq ft. Domestic occupier activity will remain strong amidst healthy domestic economic outlook, while space enquiries from foreign origin companies may not witness an uptick as envisaged in the optimistic scenario.

Alternatively, in a pessimistic scenario, prolonged economic headwinds may dampen leasing activity, leading to postponements in decision-making by occupiers amid expansionary uncertainties. In such circumstances, we project office leasing to be in the range of 45-50 million sq ft.

Nevertheless, in all likelihood domestic occupier, GCC and flex activity are likely to remain strong, keeping the overall leasing volume similar to 2023 levels. Demand base diversification will continue in 2024 as well. While there is a strong supply in the pipeline across key markets, the actual influx of office space is anticipated to closely align with demand. Prevailing market sentiments and pre-commitments will be critical in developers standing by their project completion timelines. Rental rates and vacancy levels are forecasted to stay rangebound.

Gross leasing forecast 2024 in msf

New Supply forecast 2024 in msf



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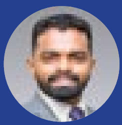

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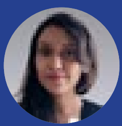

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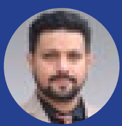

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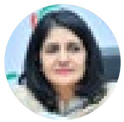

About Colliers

Colliers (NASDAQ, TSX: CIGI) is a leading diversified professional services and investment management company. With operations in 66 countries, our 19,000 enterprising professionals work collaboratively to provide expert real estate and investment advice to clients. For more than 29 years, our experienced leadership with significant inside ownership has delivered compound annual investment returns of approximately 20% for shareholders. With annual revenues of $4.3 billion and $98 billion of assets under management, Colliers maximizes the potential of property and real assets to accelerate the success of our clients, our investors and our people. Learn more at corporate.colliers.com, X @Colliers or LinkedIn.

About

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 debate, 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.