

# Chennai Offices





# Decadal leasing high propels Chennai to third place in India's office leasing landscape

## CHENNAI'S COMMERCIAL REAL ESTATE ACTIVITY

Chennai, with its rich historical background, is playing a crucial role in shaping the Indian real estate landscape. Over the past decade, the city has experienced a strong surge in office leasing, propelling it to the coveted third place among India's office leasing markets. This remarkable achievement is especially noteworthy considering the city's movement from fourth or fifth place a decade ago to holding a top-three position since 2022.

The demand for offices has been growing at a steady 4.03% CAGR, over a period of 12 years from 2011 to 2023 which is a testament

<sup>1</sup> The top 6 city markets comprise Bengaluru, National Capital Region, Mumbai, Hyderabad, Pune and Chennai.

to Chennai's growth and resilience. This year the gross absorption is expected to be approximately 9.0 million sq ft, demonstrating a significant 23% YoY increase.

The city boasts a sizeable existing commercial Grade A office stock of 86.2 million sq ft, accompanied by a vacancy level of 16.3% in Q3/2023. The city has strategically managed its supply, leading to a stable and balanced commercial office space stock over the years. The new commercial office Grade A supply for 2023 is expected to be around 8.4 million sq ft. In 2024, 6-6.5 million sq ft of new supply is projected.

Despite a healthy supply scenario, Chennai consistently faces a situation where demand outpaces supply, resulting in a

dynamic leasing landscape. The tight market conditions have led to increased competition for prime office space, underscoring the city's attractiveness as a preferred business destination. Chennai's strategic supply management has effectively reduced excess vacant inventory, contributing to a healthier real estate environment.

The surge in Chennai's commercial real estate activity is not merely a result of underlying market dynamics but is deeply rooted in a strategic and well-supported economic foundation. Despite being known for its IT dominant commercial occupier lineup, Chennai's strength in various other sectors has also played a pivotal role in its growth. The city's geographical positioning, coupled with its manufacturing prowess, has bolstered its appeal as a multifaceted business hub.

The state policies of Tamil Nadu have further augmented this success. With an impressive 15.7% share of all factories in India<sup>2</sup>, Tamil Nadu is a powerhouse in industrialization. The existing Tamil Nadu Industrial Policy 2021-2025, and its historic strengths (being India's most industrialized after Maharashtra<sup>3</sup> and the second wealthiest by GDP<sup>4</sup>), have together contributed to this success. The policy sets ambitious goals of attracting investment worth INR10 lakh crore (US\$135 billion), creating employment opportunities for two million people, achieving 15% annual growth in the manufacturing sector<sup>5</sup>, and providing subsidies.

Moreover, the Research & Development Policy 2022 and the Information Communication Technology (ICT) Policy of 2018 underline the state's commitment to transforming into a knowledge-based economy. These policies promote the IT and Information Technology Enabled Services (ITeS) sector, creating a conducive environment for businesses, startups, and established industries alike. The Electronics Corporation of Tamil Nadu Limited (ELCOT) has already made significant strides, managed IT infrastructure, and created about 77,000 jobs through IT Special Economic Zones (SEZs). The upcoming Global Investors Meeting in 2024 is poised to reinforce these efforts, emphasizing job creation, especially in the IT sector.

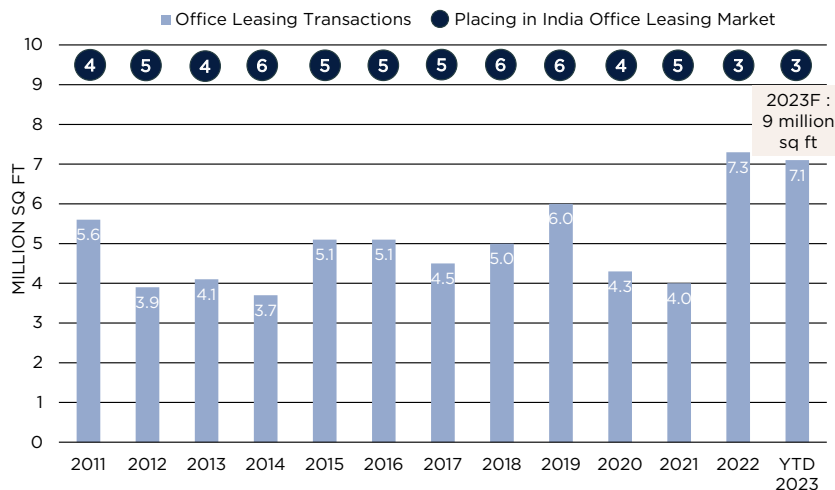
<sup>2</sup> <https://thefederal.com/states/south/tamil-nadu/tamil-nadu-accounts-for-15-of-all-factories-in-india-says-rbi-report/>

<sup>3</sup> <https://timesofindia.indiatimes.com/city/chennai/tamil-nadu-a-small-step-in-inclusivity-a-giant-leap-in-industry/articleshow/99926653.cms>

<sup>4</sup> <https://testbook.com/static-gk/richest-state-in-india#:~:text=Tamil%20Nadu%2C%20the%20second%2Dwealthiest,GSDP%20of%20over%20%24300%20billion.>

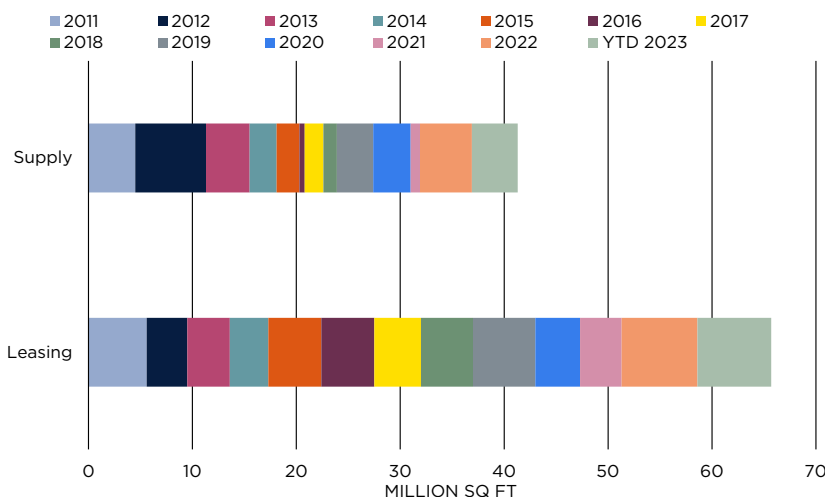
<sup>5</sup> <https://www.financialexpress.com/policy/economy-tamil-nadu-new-industrial-policy-aims-to-attract-rs-10-lakh-crore-investments-by-2025-2195974/#:~:text=Tamil%20Nadu%20government%20on%20Tuesday,20%20lakh%20people%20by%202025.>

GRAPH 1: Chennai Office Leasing Trend, 2011 to 2023



Source Savills India Research

GRAPH 2: Demand vs Supply, 2011 to YTD 2023



Source Savills India Research

The draft policy supporting the Animation, Visual Effects, Gaming, and Comics (AVGC) sector reflects a forward-looking approach, aligning with global trends. Globally, the AVGC industry is valued at US\$400 to US\$500 billion, and with India holding just a 1% market share<sup>6</sup>, there is immense potential for growth and economic impact.

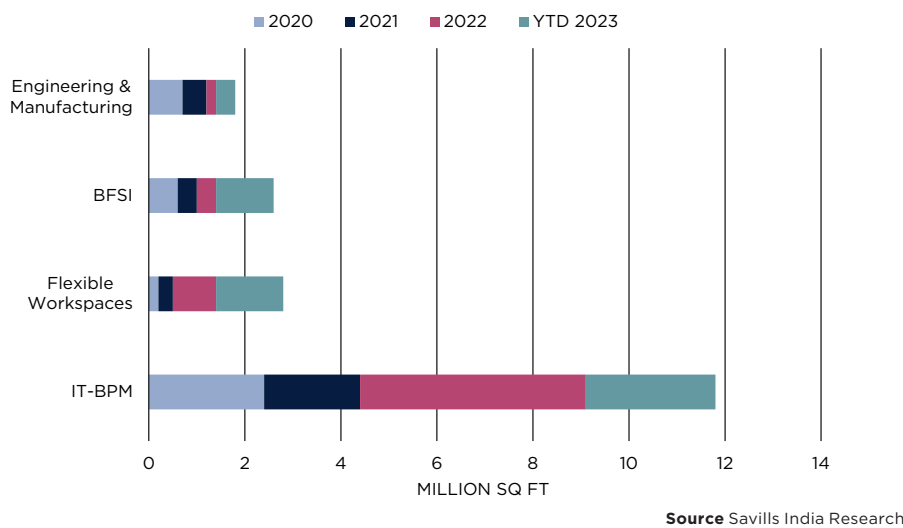
**THE RISE OF FLEXIBLE WORKSPACE**

In tandem with Chennai’s leasing successes, the city has witnessed a remarkable surge in the growth of flexible workspaces. The flexibility offered by these spaces has resonated particularly well with businesses,

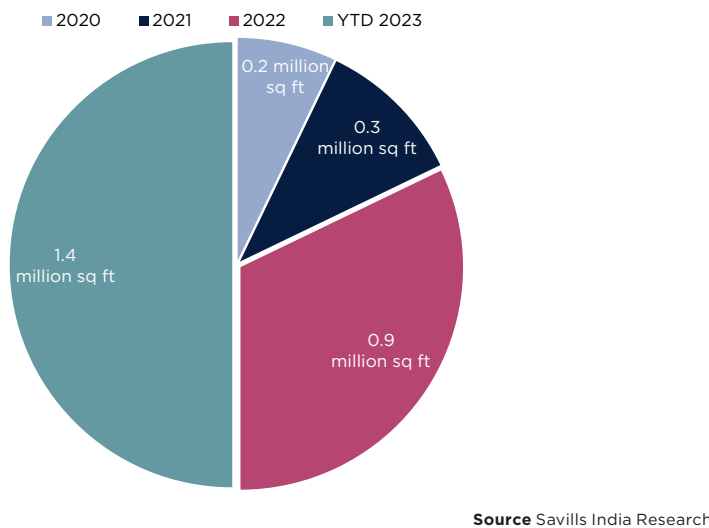
<sup>6</sup> <https://timesofindia.indiatimes.com/city/chennai/state-to-release-new-policy-to-grow-nurture-avgc-sector/articleshow/103877639.cms>

# Chennai’s remarkable ascent to the third place in India’s office leasing markets is owing to a dynamic real estate landscape which has played a pivotal role in the country’s commercial office sector growth.

**GRAPH 3: Chennai’s Diverse Sectoral Strengths, 2020 to YTD 2023**



**GRAPH 4: Growth of Flexible Workspaces in Chennai, 2020 to YTD 2023**



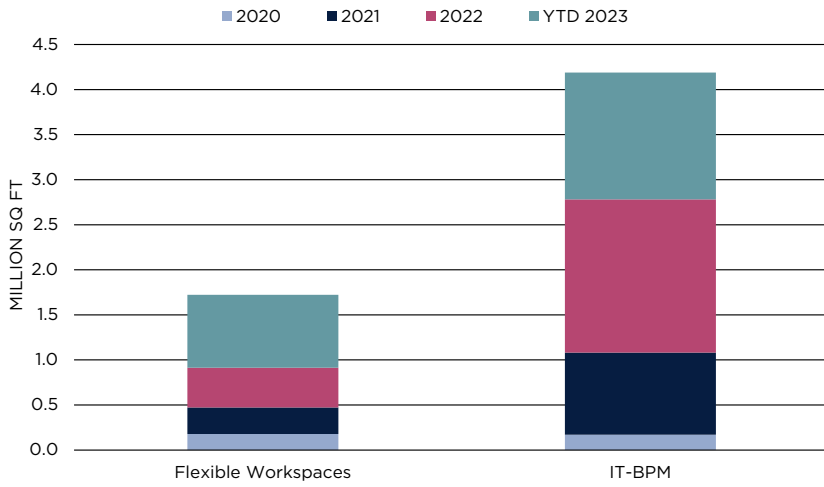
leading to a substantial increase in mid-sized deals, with flexible space operators accounting for the second largest share after IT-BPM occupiers. The proliferation of flexible workspaces aligns with the evolving dynamics of work, offering businesses the agility to respond to changing demands and facilitating collaborative and innovative work environments.

The rise of flexible workspace can be attributed to several factors, with businesses recognizing the need for adaptable and scalable solutions in an ever-changing market. In YTD 2023 (Jan -Sep), coworking space represented a 21% share of the gross absorption of 7.1 million sq ft, a significant increase from a 5% market share in 2020. Post-pandemic, many companies, particularly in the IT/ITeS sector, are opting for flexible workspace over traditional offices. The demand for flexible workspace is reflected in the expansion plans of several co-working operators in Chennai in 2023. Operators such as WorkeZ<sup>7</sup>, IndiQube<sup>8</sup>, Awfis<sup>9</sup>, Smartworks<sup>10</sup>, TEC<sup>11</sup>, Innov8<sup>12</sup> and Table Space<sup>13</sup> are actively expanding, contributing to the rising popularity of this type of working.

The city is poised to play a vital role in India’s economic advancement, contributing significantly to the goal of achieving an estimated US\$30 trillion economy by 2047, as per the Niti draft vision document, likely

<sup>7</sup> <https://timesofindia.indiatimes.com/business/india-business/workez-to-add-1-9-lakh-sq-ft-of-additional-office-space-in-chennai/articleshow/94054407.cms>  
<sup>8</sup> <https://www.thehindubusinessline.com/companies/flexible-workspace-provider-indiqube-to-add-10000-seats-annually-in-chennai/article67318205.ece>  
<sup>9</sup> <https://www.awfis.com/inspiration/press/awfis-opens-7th-centre-in-chennai-plans-4-more-by-2022-end-2>  
<sup>10</sup> <https://www.smartworksoffice.com/pressrelease/smartworks-expands-in-Chennai-2023/>  
<sup>11</sup> <https://www.dtnext.in/news/business/tec-invested-rs-100-crore-for-india-expansion-720805>  
<sup>12</sup> <https://economictimes.indiatimes.com/tech/technology/co-working-startup-innov8-to-double-capacity-in-fy-2023-24/articleshow/104720156.cms>  
<sup>13</sup> <https://economictimes.indiatimes.com/industry/services/property/-cstruction/office-space-operator-table-space-plans-to-expand-operations-with-rs-1000-crore-investment/articleshow/103194932.cms>

**GRAPH 5: Distribution of Mid-sized Deals Among the Top Occupiers, 2020 to YTD 2023**



**Source** Savills India Research  
 \* Mid-size deals (25,000-99,999 sq ft)

to be released by year-end<sup>14</sup>. The rich talent base, coupled with a traditionally strong entertainment industry, positions Chennai as a key player in this transformative process. Furthermore, as a thriving hub for the automobile industry, Chennai stands out as a manufacturing powerhouse, in addition to its strengths in information technology and startups.

The city’s diverse economic landscape adds a layer of resilience and versatility to its attractiveness as a business destination. Additionally, Chennai is gaining prominence as an ideal hub for businesses looking to diversify their supply chain capabilities. As the city continues to evolve into a multifaceted economic powerhouse, its strategic positioning in fostering a conducive business environment reinforces its role in India’s economic future.

<sup>14</sup> <https://timesofindia.indiatimes.com/business/30-trillion-economy-document-to-outline-reforms-pitch/articleshow/104806581.cms?from=mdr>



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