

Delhi-NCR Offices



Emerging strongly from the pandemic

ECONOMIC OVERVIEW

2022 has been a year of challenges for most economies. Supply chain disruption and geopolitical events such as the Russian invasion of Ukraine and the subsequent spiralling of energy prices among other things, have meant that inflation has remained beyond the comfort level of most central banks.

In India, elevated retail inflation has prompted the Reserve Bank of India to

scale back growth prospects and withdraw from its accommodative stance. With a view to ease inflationary pressures, the RBI has increased the benchmark lending rate to 5.9%, up from 4.0% in first half of the current fiscal year. A depreciating Indian Rupee has been the other concern for policy makers and the RBI had to intervene in the forex market to check its freefall. Consequently, forex reserves dipped to a 2-year low of US\$524.5 billion in the third

week of October 2022.

However, despite these concerns, the Indian economy, has proved remarkably resilient with several indicators remaining favourable. According to the October 2022 edition of World Economic Outlook published by the International Monetary Fund (IMF), with a GDP growth rate forecast of 6.8% for FY23, India will remain the fastest growing major economy next year. The Purchasing Managers Index (PMI) for the service industry was recorded at 59.2 in June 2022, an 11-year high in terms of expansionary activity. Goods & Services Tax (GST) collections surpassed the INR1.4 trillion mark for a 7th consecutive month in September 2022. Interestingly, with US\$669.6 billion of exports in 2021, trade activity has been at a decadal high. The overall unemployment rate, on account of rising agricultural activity in rural India during the monsoon, stood at a six-month low of 6.8% in July 2022.

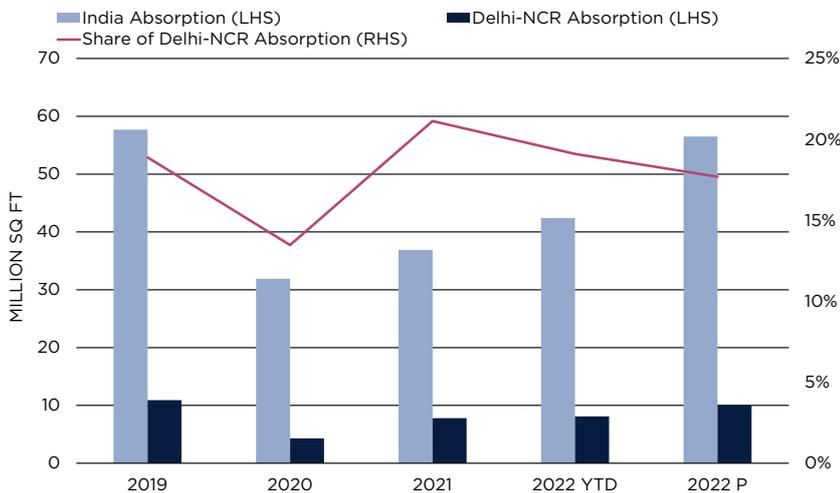
DELHI-NCR OFFICE MARKET OVERVIEW

The National Capital Region (NCR) includes Delhi and several districts in the adjoining states of Haryana, Uttar Pradesh and Rajasthan. From a commercial real estate standpoint, Delhi-NCR (or, simply NCR) currently comprises Delhi, Gurugram and NOIDA¹. Whereas New Delhi (or Delhi) is a historic city with large organic as well as planned precincts, Gurugram (in the state of Haryana) and NOIDA (in Uttar Pradesh) are relatively recent and planned urban developments. Delhi-NCR has consistently featured among the top-ranked office markets in India. Except for 2020, the year of stringent lockdowns, Delhi-NCR has contributed almost one-fifth of all India office space demand in the each of the last four to five years.

On the supply side, the total stock of premium Grade-A office buildings in the region stands at approximately 135 million sq ft. Out of the total stock in Delhi-NCR, about 65%, is concentrated in Gurugram alone, highlighting its crucial role in the market. In terms of new completions in Delhi-NCR, 5.3 million sq ft has been added in 2022 itself up to the third quarter of the year and is projected to exceed the record 6.1 million sq ft of new supply in 2021.

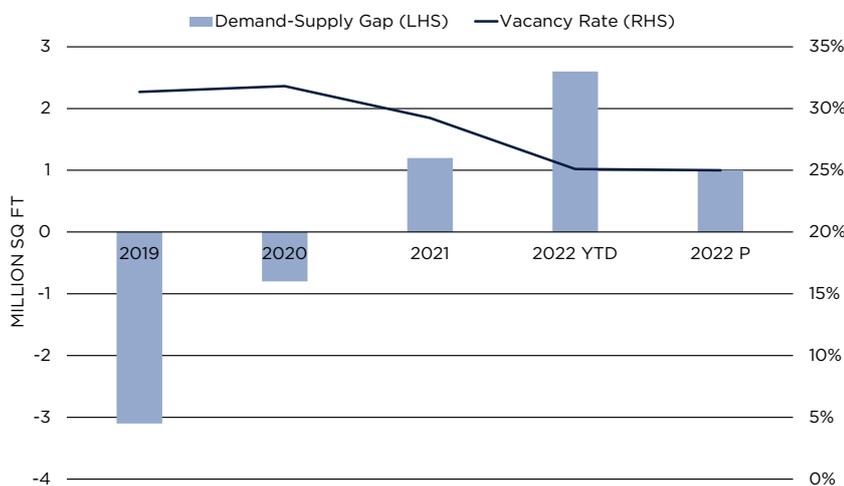
¹ New Okhla Industrial Development Authority

GRAPH 1: Delhi-NCR Absorption vs India Absorption, 2019 to 2022P



Source Savills India Research

GRAPH 2: Delhi-NCR: Demand-Supply Gap and Vacancy Levels, 2019 to 2022P



Source Savills India Research

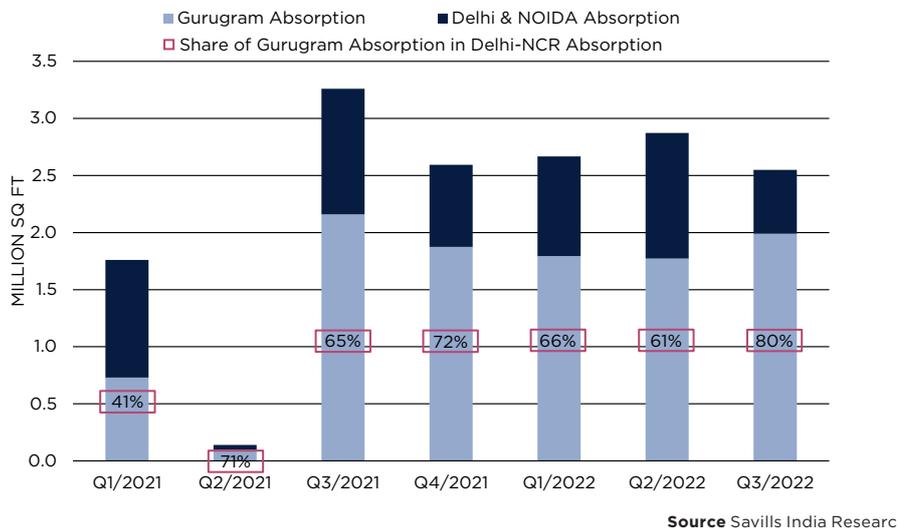
Interestingly, the cumulative absorption in Delhi-NCR has outpaced the total supply infusion by approximately 1.2 times since 2020, resulting in a noticeable drop in overall vacancy levels; from 31.4% in 2019 to 25.1% in Q3/2022.

GURUGRAM OFFICE MARKET OVERVIEW

Limited land supply and fast-escalating real estate prices in Delhi in the 90s made Gurugram an attractive location for real estate developers and investors. Affordable office rents played a major part in the city gradually becoming a hub for technology

Delhi-NCR has registered 8.1 million sq ft of gross office space absorption to Q3/2022, up 58% YoY. With the further reopening of offices across sectors, leasing momentum is expected to continue in late 2022, reaching close to pre-pandemic levels.

GRAPH 3: Gurugram Absorption vs Delhi & NOIDA Absorption, Q1/2021 to Q3/2022



industries. Supply of quality offices and consistent demand from multi-national companies has made DLF CyberCity and Golf Course Road the real estate hotspots within Gurugram.

A closer reading of leasing patterns demonstrates the pre-eminent position of Gurugram in Delhi-NCR region. On average, approximately 70% of the absorption in Delhi-NCR over the last six quarters has been concentrated in Gurugram. In terms of fresh supply to Q3/2022, Gurugram has already witnessed an increase of over 100% compared to the first three quarters of 2021.

DELHI-NCR DEMAND DRIVERS: INFORMATION TECHNOLOGY & COWORKING

IT and technology are the major drivers of leasing activity in Delhi-NCR region. These sectors account for around 25% of the leasing activity in the current year. Further, flexible workspace operators have contributed significantly towards the demand for office space in the region. Total demand from the coworking sector in the first three quarters of 2022 has already witnessed a 3x annual increase. This is indicative of increased adoption of the hybrid work culture by occupiers across sectors. The market has also witnessed increased demand from law firms in the current year. Most of such occupiers have opted to relocate to Grade-A buildings and occupy spacious offices, enabling a safe return to the workplace.

GRAPH 4: Delhi-NCR Sectoral Break-up of Demand, YTD 2022

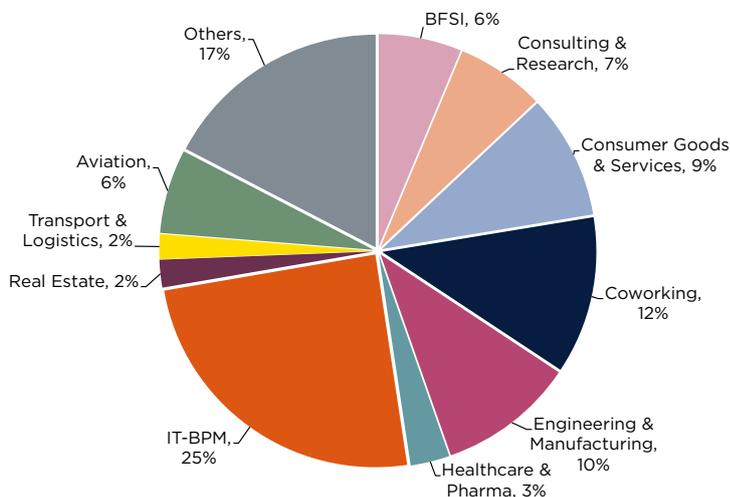


TABLE 1: Key Transactions in Delhi-NCR, 2022 YTD

TENANT	BUILDING	MICROMARKET	AREA (SQ FT)*
Zomato & Blinkit	Pioneer Square	Gurugram Others	350,000
Reliance Group	Splendor Trade Tower	Gurugram Others	250,000
Tablespace	BPTP Capital City	NOIDA Expressway	225,000
Spinny	Capital Business Park	Gurugram Others	200,000

Source Savills India Research
* Indicative and approximate numbers only

OUTLOOK

Delhi-NCR has already registered 8.1 million sq ft of office space absorption to Q3/2022, up by 58% YoY. With the further reopening of offices, the leasing momentum is expected to continue over the remaining months of 2022. As a result, the full-year figure is likely to come close to the pre-pandemic peak.

On the supply side, approximately 5.3 million sq ft of projects are in various stages of construction, and are expected to be completed in the next 12 to 15 months. That should take the overall stock of Grade-A office space to 144 million sq ft by 2023. With anticipated demand outpacing supply by over two times in 2023, vacancy levels are likely to drop below 20%. A developer's market coupled with lower vacancy levels is likely push rents upwards marginally in select micro markets of Delhi-NCR in 2023.



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