

India - H1 2020

SPOTLIGHT  
Savills Research

# Bangalore Market Watch Office





## World Economic Features

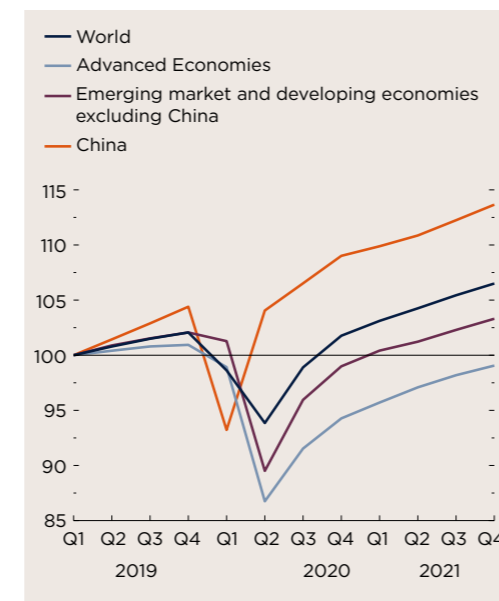
The world entered 2020 with expectations of steady GDP growths across geographical pockets, with significant improvements in emerging economies.

The projections and estimates, however, were deeply dented by the entirely unforeseen event – the Black Swan – COVID-19. IMF’s World Economic Outlook Update June 2020 (A Crisis Like No Other, An Uncertain Recovery) highlights a few things, which are important indicators. The chart below encapsulates the summary of the update.

The key features are:

1. Global growth is projected at -4.9% in 2020.
2. China may remain the only economy in the positive-growth zone at the end of 2020.
3. Emerging economies may require the complete 2020 calendar year to stage a recovery.
4. The advanced economies, however, may face a greater uphill task and for longer.
5. Despite the damage, it still conveys, as of June 2020, a hope for V-shaped recovery, as has abundantly been evidenced.

**Quarterly World GDP**  
(2019:Q1 = 100)



Source IMF staff estimates

## India’s Economy & Real Estate

The same report, projects India’s real GDP growth to tread into the negative zone (at -4.5%) during the 2020 fiscal year. However, the recovery is expected to be sharp in the following year, i.e. in 2021 fiscal year, at 6%.

The Reserve Bank of India, on May 22nd 2020, estimated that the impact of the COVID crisis may last till the mid-2021.

The exemplary lockdown which stretched to nearly 50 days, before the unlocking process began towards the close of H1-2020, was one of the largest implemented lockdowns. Amidst the crisis and the resultant slowdown, the central government announced an economic package of approx. USD 265 billion, which was approx. 10% of the country’s GDP. It is

reckoned to be among the largest financial supports globally.

Overall, the economic recovery is rivetted strongly on a scientific solution to the current problem. The hopes of a breakthrough have consistently risen as the first half of 2020 ended.

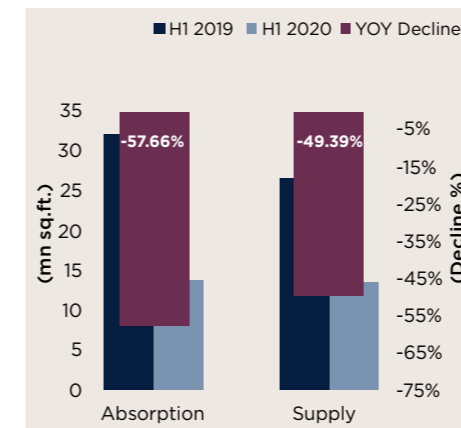
### India’s Office Real Estate in H1-2020

The office markets have clearly mirrored the overall economic pattern in the country.

For the top 6 markets of Delhi NCR, Mumbai, Bangalore, Chennai, Pune & Hyderabad (which we reported in Office Market Watch Year-end 2019) Office absorption and supply recorded significant Y-O-Y declines, as shown here.

From nearly 32.3 mn sq. ft. of space absorbed in H1-2019, the H1-2020 absorption fell to approx. 13.7 mn sq. ft. Similarly, the cumulative supply addition was 13.5 mn sq. ft. in H1 2020, compared to 26.6 mn sq. ft. in H1 2019.

**H1 2019 vs H1 2020**



### Citywise Demand Split & Comparisons

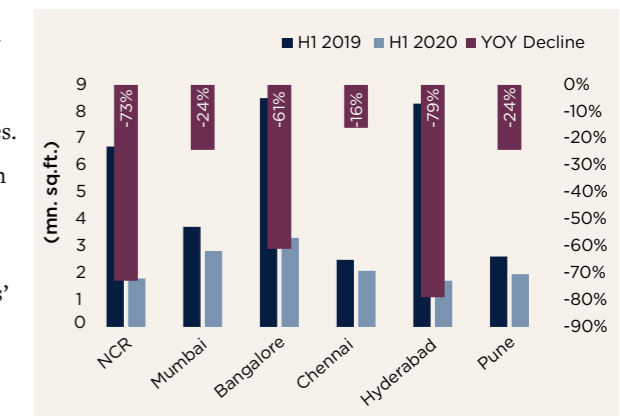
It is important to take a quick view of the mid-year demand patterns and present a brief year-on-year comparison for each of the six cities.

The demand continues to be driven by BFSI and IT across all the cities, with Mumbai experiencing a substantial 36% from Consulting firms (incorporated within ‘Others’ in the chart below).

A broader and macro look reveals an interesting pattern. Except Mumbai, all other markets in the COVID & lockdown phase remained dependent on three core sectors, namely, BFSI (Banking Financial Services & Insurance), Technology and Manufacturing. While this pattern may change during the second half, if the pandemic led crisis persists, India’s focus on its traditional sectors may need to increase, necessitating vital policy initiatives as well.

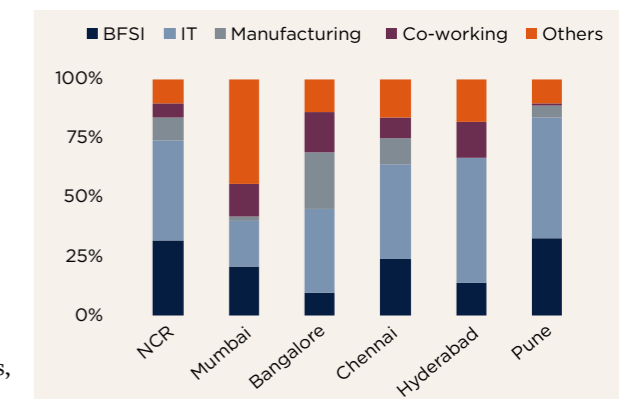
This section has presented a top-level summary of office markets’ performance on the national scale. Further details on absorption, stock and supply, rentals, vacancies, sectoral splits, etc. are provided in each city section.

**Demand Comparisons: H1 2019 vs H1 2020**



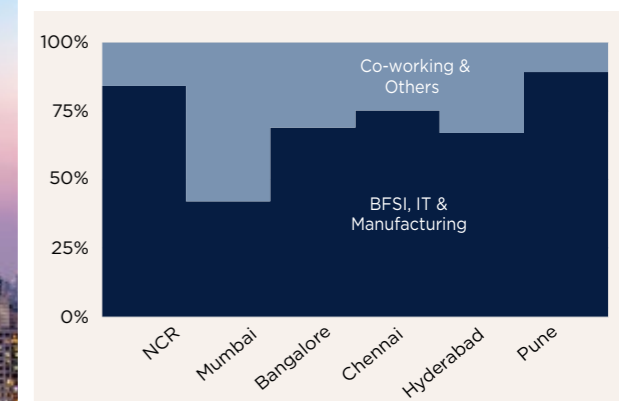
Source Savills India Research

**Demand Sectors in H1 2020**



Source Savills India Research

**Core Demand Sectors in H1 2020**



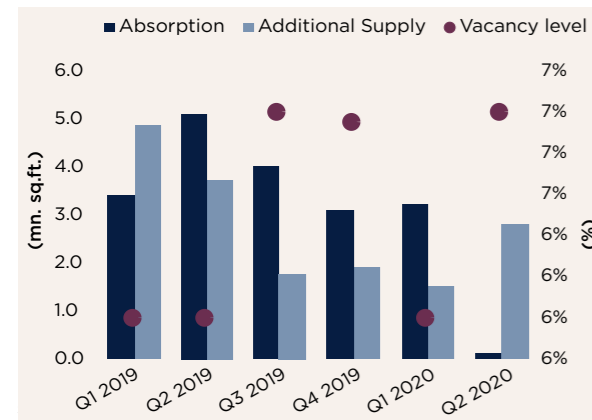
Source Savills India Research





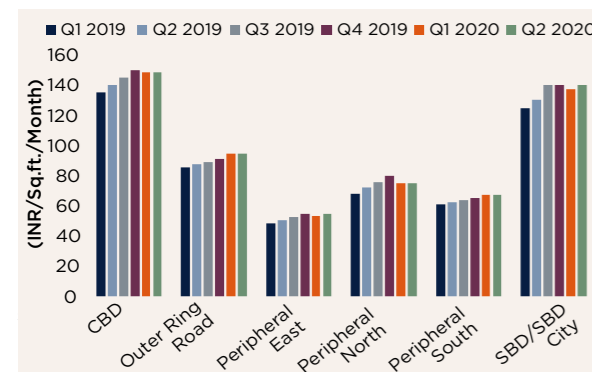
# Bangalore

**Bangalore Absorption, Additional Stock and Vacancy, Q1/2019 to Q2/2020**



Source Savills India Research

**Rental Trends - Micro market Wise, Q1/2019 to Q2/2020**



Source Savills India Research

## BANGALORE COMMERCIAL OVERVIEW

### Demand:

Bangalore has been the frontrunner in office space demand for years. The market witnessed an all-time high absorption of 15.6 mn sq. ft. in 2019, highest in the country (~ 27% of pan India leasing activity) and the trend continues in H1-2020 with 3.3 mn sq. ft. of activity, which represents almost 35% of office space demand in the top 6 cities of the country.

Of the overall city-wide absorption, approximately 75% was concentrated in East Bangalore- Whitefield, Brookefield and Outer Ring Road (ORR). This trend was observed in H1-2019 as well.

Despite Bangalore's comparatively healthy leasing activity in H1-2020 on a country wide level, there has been a drop of over 60% demand when compared to H1-2019. (3.3 mn sq. ft. vs 8.5 mn sq. ft.). The lower demand was on account of business uncertainties during the period of complete lockdown.

Few interesting trends have emerged in the city in the first six months of the year. While over 70% of the leasing activity came from captive clients, there was a drop in SEZ space take up by about 85%.

### Supply:

On the supply front, on account of the COVID-19 pandemic related issues, there has been an understandable reduction

in additional supply in H1-2020, as compared to H1-2019. Around 4.3 mn sq. ft. of additional stock was delivered in the city market in H1-2020, with a majority of this supply being completed in Q2-2020.

Of the total incremental supply, 3.5 mn sq. ft. was added in East Bangalore- ORR, Brookefield and Whitefield. This is in line with the micromarket wise demand for office space as well. At the end of H1-2020, the total stock in the city stood at around 162 mn sq. ft.

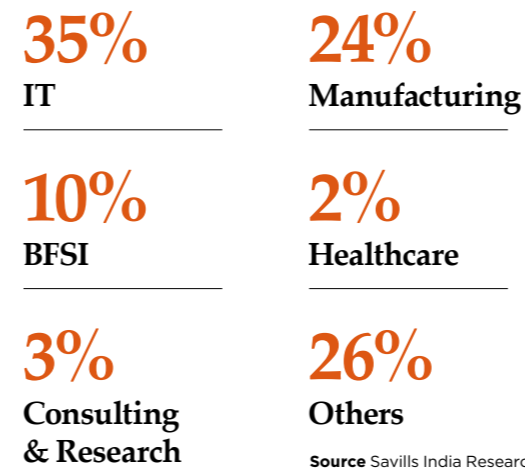
In the beginning of the year, Bangalore market was projected to have an additional stock of 17.3 mn sq. ft. However, a shortfall is expected due to the current pandemic- the supply addition in 2020 is expected to be in the range of 10-13 mn sq. ft.

### Vacancy, Rentals and Segmental Demand:

Vacancy levels have been rangebound between 6-7%. ORR, Central and Secondary Business Districts continue to have negligible vacancy (less than 3%) due to demand of premium grade buildings in these micromarkets. Average rentals have remained steady across all areas of the city.

As far as sectoral demand is concerned, manufacturing and BFSI sectors increased their space take-up during this period. IT and co-working sectors continue to occupy the top 2 positions at 35% and 17% respectively.

H1-2020: Absorption demand split sector wise



## IMPACT OF COVID-19 AND OVERALL OUTLOOK

The adverse impact of COVID-19 was felt both on supply and demand of commercial office spaces in the city. While many projects were almost nearing completion, suspension of construction activities and shortage of labour during the period of total lockdown has pushed the delivery timelines. H2-2020 is expected to be much better in terms of completions and leasing activity continues to be dominated by captives, companies from BFSI, IT security, cloud computing verticals and niche development clients. Flexi-space players, which form a significant portion of demand in the city, will have to remain agile and adaptable to the changed landscape in the post-covid world. Major operators offering enterprise space solutions are expected to remain competitive in the altered scenario also.



## Key Office Transactions, H1-2020

Building	Tenant	Micro-market	Sq ft*
Bagmane Capital - Kyoto	Google	ORR	400,000
Bagmane Solarium City	Baker Hughes (GE)	Peripheral East	100,000
Bagmane Capital - Luxor	First Bank of Abu Dhabi	ORR	100,000
Standalone Building	We Work India Management Private Limited	CBD	100,000
RGA Tech Park	Accenture	ORR	90,000

Source Savills India Research

### BANGALORE MICROMARKETS:

**Central Business District (CBD)** - MG Road, Millers Road, Vittal Mallya Road and Residency Road  
**Outer Ring Road (ORR) - Zone1:** Sarjapur to Marathahalli, **Zone2:** Marathahalli to KR Puram, **Zone3:** KR Puram to Hebbal  
**Secondary Business District (SBD) City** - Indira Nagar, Old Airport Road, CV Raman Nagar, Koramangala, Jayanagar, Domlur, Bannerghatta Road, Rajaji Nagar and Malleshwaram  
**Peripheral East** - Whitefield  
**Peripheral South** - Electronic City, Hosur Road and Mysore Road  
**Peripheral North** - Bellary Road, Thanisandra Road, Tumkur Road and Hebbal to Yelahanka

\*Approximate and indicative area only



## Terms & Acronyms

### Recovery Shapes

Harvard Business Review suggested various possible recoveries from the Corona crisis. Three of those are commonly used, namely V, U & L shapes. V-Shaped is a strong recovery after the debacle, U-shaped is a slower and long-drawn recovery, while an L-shaped aftermath is where the previous peak is not recovered.

### BFSI

Banking, Financial Services and Insurance

### DELHI NCR

National Capital Region. For our report purposes, we include New Delhi, NOIDA & Gurgaon (however, in general parlance it is meant to include several others like Ghaziabad, Dwarka, Faridabad, etc.)

### BKC

Bandra Kurla Complex, now the established main business district of Mumbai, supplanting the erstwhile Central Business District of Nariman Point



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