

H1 2021

SPOTLIGHT  
Savills Research

# Bengaluru Market Watch Office



# INDIAN ECONOMY 2021

This section contains a narration of the socio-economic scenario of India during January to June 2021 period. It has a direct bearing on all businesses and hence on real estate.

A systematic, sequential and detailed reporting on all events during this period is presented in 12 unique #SavillsRoundUp, which we publish on fortnightly basis.

Please refer to the below link and follow #SavillsRoundUp on our social media handles to know about the events chronologically and in real time.



[Click here to read](#)

Note: This section contains figures in Indian system of lakhs and crores (refer Appendix for international conversions). 1 USD = Approx. 74.28 INR on June-30, 2021

## OUT OF RECESSION, BUT...

India witnessed a protracted wave of pandemic in 2020, which peaked on 17<sup>th</sup> September. A technical recession occurred, as two consecutive quarters reported negative GDP growth. However, the new year started with hope, as vaccination was rolled out in India on 16<sup>th</sup> January 2021, beginning with frontline services personnel. Soon, the country was out of recession with a small but noteworthy 0.4% GDP growth for the Oct-Dec 2020 quarter (Q3 of FY 2020-21). It was followed by 1.6% growth in Q4 of FY 2020-21. This created a belief that India had overcome the virus through a single wave, whereas most large economies around the world had suffered two or more waves. In early March, vaccination was opened to common public, amid rising confidence.

In a strong reversal though, by the end of March, a second wave began and rose to enormous proportions in a matter of weeks. Lockdowns returned as India's daily infection rate peaked at 4.14 lakh in the first week of May. This was almost 4.25 times the single-day peak of the first wave.

Nevertheless, it recorded a steady decline from there, with estimates of complete control in July. Vaccination continued, despite numerous roadblocks during this time, as India overtook the US by administering 32.36 crore doses on 28<sup>th</sup> June. Anxiety regarding a third wave later this year, hangs heavily on the horizon though.

## UNION BUDGET 2021-22 & POLICY

The central government's annual budget, presented before the second wave, had six key elements impacting real estate, as shown in the Annexure. Notable among these was the PLI scheme of approximately INR 2 lakh crores, which aims to significantly boost manufacturing and allied sectors. Further, there was push for affordable housing, through focus on investments, stressed asset resolution and tax holiday extensions. While these announcements were made before the second wave, some others on policy and fiscal fronts came later.

In a virtual follow-up of the three Atma Nirbhar Bharat schemes of 2020, the Finance Minister announced a package scheme of INR 6.29 lakh crores, including help for the beleaguered travel and allied sectors. These are among those key sectors which continue in the negative growth zone (chart-2).

Another key event of the period was the central cabinet's approval to Model Tenancy Act. It is a watershed development which paves the way for rental housing creation in India. Hopefully, it will also create a suitable platform for private sector participation. It is important to look at this in conjunction with the announcement of ARHC Guidelines of July 2020.

SEBI announced a change in application value for REITs and InvITs to INR 10,000 and INR 15,000 respectively, from INR 50,000 and INR 1 lakh earlier. Also, the trading lot size was reduced to one. This move has immense potential to attract retail investors and open more avenues for investment.

## Monetary Policy & RBI

The Monetary Policy Committee (MPC) of the Reserve Bank of India contributed by keeping the benchmark lending rate constant at 4% during this period. The RBI also approved a transfer of INR 99,122 crores as surplus to the government.

## COVID Specific Support

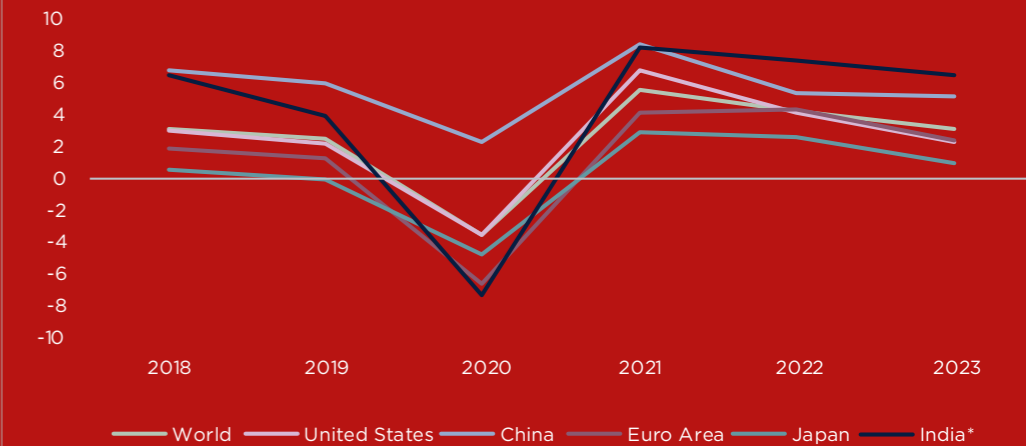
As measures for COVID specific support, the government announced 100% guarantee cover for loans of up to INR 2 crores for hospitals and nursing homes, for setting up oxygen generation plants. Also, COVID treatment items have been exempted from IGST till August 2021.

## REST OF 2021

Contrary to the upbeat sentiment in the early weeks of 2021, the turn of events in March and the rest of H1 has created an atmosphere of uncertainty. A third wave of the pandemic has neither been ruled out nor clearly projected at this stage. Various international and domestic agencies have repeatedly changed India's growth forecast during this period. Towards the close of H1, Moody's and S&P estimated the growth to be approximately 9.6% and 9.5% respectively for FY 2022.

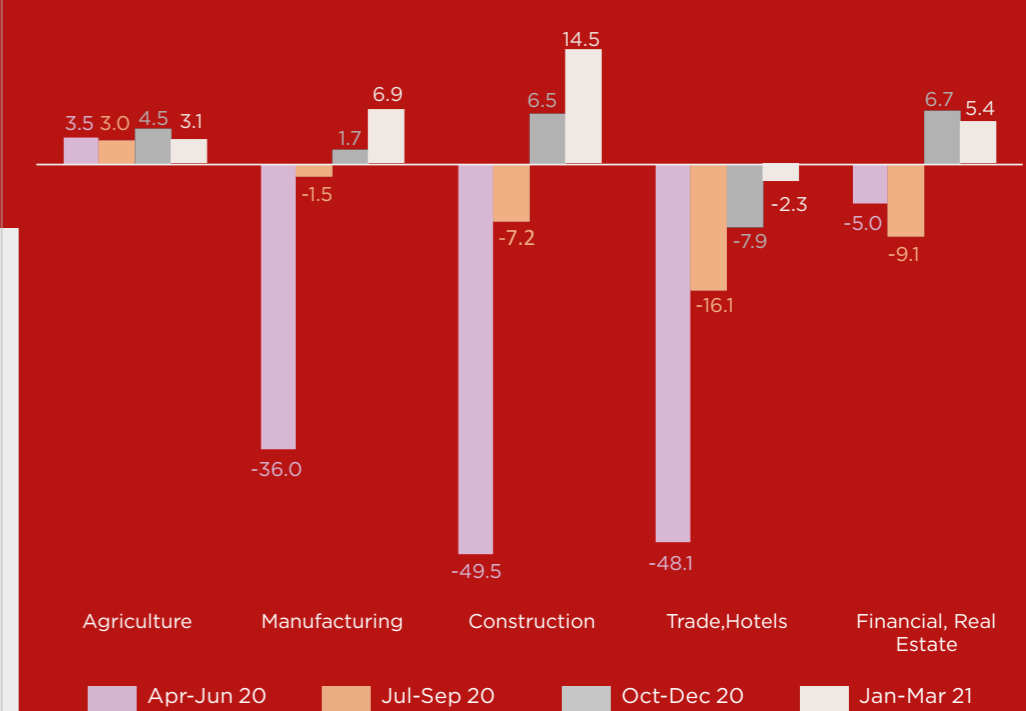
The second wave appears to be receding at the end of H1. Businesses are expected to recover on the strength of advancing vaccinations in the months ahead.

Chart 1: GDP Growth (annual % change)



Source IMF World Economic Outlook  
\* The statistics for India are for Financial Year, while for the rest of the countries, its for Calendar Year.

Chart 2: COVID impact on Sectoral GDP (%)



Source MoSPI, Government of India

India's GST collections remained at over INR 1 lakh crore for 8 consecutive months.

India started with two vaccines, viz., Covishield & Covaxin and added two more, Sputnik-V and Moderna during H1 2021. A fifth one is also expected during the year.

# INDIA OFFICE MARKET UPDATE



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The year began with optimism and reimagined workspaces, as lessons from the first wave of the pandemic were getting implemented and businesses started to stabilize. But the unanticipated second wave hit hard in the second quarter, leading to a temporary pause in expansion plans and dragging the leasing activity to a six-year low.

The second quarter saw 65% QOQ decline in leasing activity, owing to lockdowns and the severity of infection. In the next few sections, we highlight the performance of the office sector during the first half of the year 2021.

## ABSORPTION HIGHLIGHTS: 10.9 mn sq. ft.

At 10.9 mn sq. ft. gross office space absorption across India's six major cities<sup>1</sup> registered a 38% YOY decline as occupiers paused expansions and resumed portfolio optimisation plans. The pecking order was not a surprise as Bengaluru continued to lead with 4.1 mn sq. ft. of leasing activity representing 37% share in H1 2021. It also saw the lowest decline of 16% YOY, compared to the other five cities.

Following Bengaluru, Delhi-NCR witnessed leasing activity of 2.0 mn sq. ft. in H1 2021, recording a 38% YOY decline. While Mumbai and Hyderabad shared third place with approximately 1.4 mn sq. ft. absorption, the annual decline in leasing was sharper for Hyderabad at 48% compared to 39% for Mumbai.

The top cities of Bengaluru, Delhi-NCR and Mumbai constituted around 69% of the total leasing activity in H1 2021. Pune recorded approximately 0.9 mn sq. ft. leasing, which was the lowest in volume as well as the largest decline among these six cities. Chennai just managed to breach 1.0 mn sq. ft., recording an annual decline of about 48%.

Mumbai & Hyderabad tie at 3<sup>rd</sup> spot with similar levels of absorption but the annual decline is steeper for Hyderabad.

1. Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai and Pune

## KEY STATISTICS: H1 2021

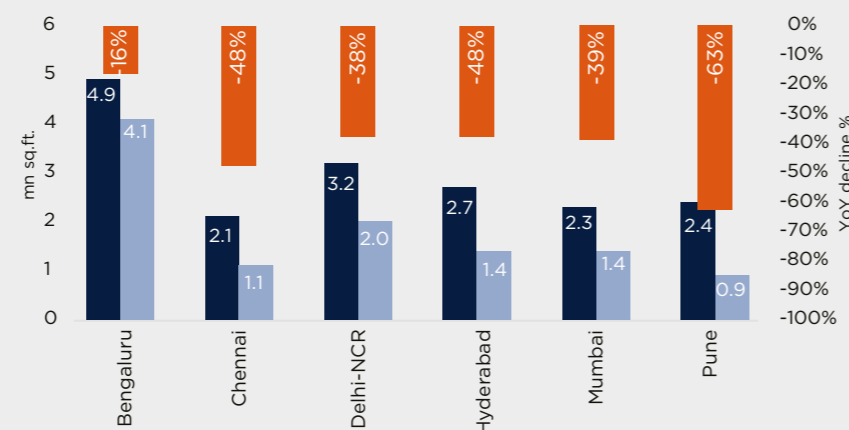
Total India Stock  
**621.8**  
mn sq. ft.



New Supply  
**18.0**  
mn sq. ft. **4%** YOY change

Gross Absorption  
**10.9**  
mn sq. ft. **-38%** YOY change

### Gross Absorption in Major Cities



### Large deals continue despite the cautious approach

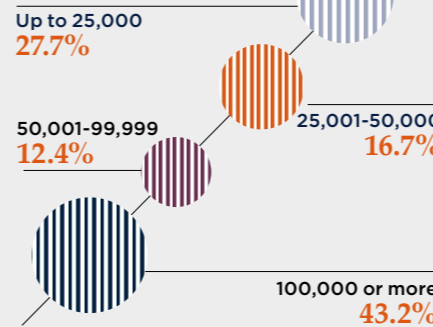
Sizeable consolidations and expansions have contributed to the share of large deals (deal size more than 100,000 sq. ft.) in H1 2021, accounting for about 43.2% of the overall pie. Bengaluru witnessed the highest share of large deals at 51%, followed by Delhi-NCR and Hyderabad.

Interestingly, small-sized occupiers (<25,000 sq. ft.) also continued to optimize their portfolios that resulted in a 27.7% share of the total office leases in H1 2021.

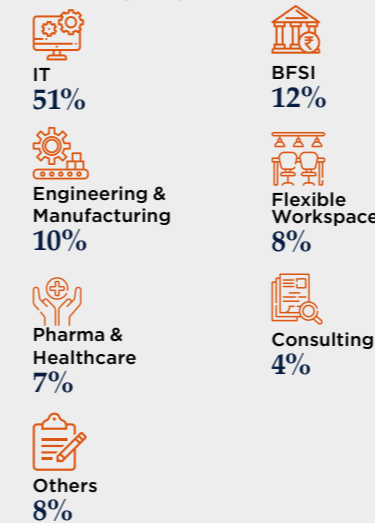
### Technology occupiers continue to drive demand and large leases

The technology sector continued to be the primary demand driver for office real estate in India with a 51% share, higher than last year's 48% share during the same period. The Banking, Financial Services and Insurance (BFSI) occupiers' share declined to 12.3% compared to 15% in H1 2020 as they expanded cautiously. While Engineering and Manufacturing accounted for 10.1% share which was higher than last year's 8.0% share; the flexible workspace segment's share declined to 8.3% in H1 2021 from 11.3% in H1 2020.

### Deal Distribution: Share in Total Leasing (in sq. ft.)



### Demand Split by Sectors



Technology occupiers continue to lead followed by BFSI. While the share of tech companies has increased, their combined share of approximately 63% is same as in H1 2020.

## COMPLETIONS & VACANCY HIGHLIGHTS

New completions increased marginally by 4% YOY to about 18.0 mn sq. ft. Bengaluru has recorded the highest infusion of new supply constituting a 36% share, followed by Hyderabad and Delhi-NCR at 28% and 22% shares, respectively.

Interestingly most cities namely Bengaluru, Hyderabad, Mumbai and Pune saw an increase in new completions compared to the same period last year. This is on account of deferred supply getting completed, since construction activities were not hampered in partial lockdowns imposed by the State governments.

Overall India vacancy levels increased to 16.2% at the end of June, as supply addition exceeded the pace of leasing activity. Also, some occupiers optimised their real estate portfolios to an efficient space, thereby spiking the vacancy rates in select markets. It should be noted that this can be a temporary phenomena in markets which are in a state of flux.

### Rental trends

Most markets have seen a decline in average rental values compared to last year, to the tune of about 6% YOY. A few micro markets have seen a sharper decline as landlords exhibited flexibility to attract new clients, while prime locations with limited availabilities saw stable rents. NCR submarkets saw softening of rents among other markets as depicted in the table below.

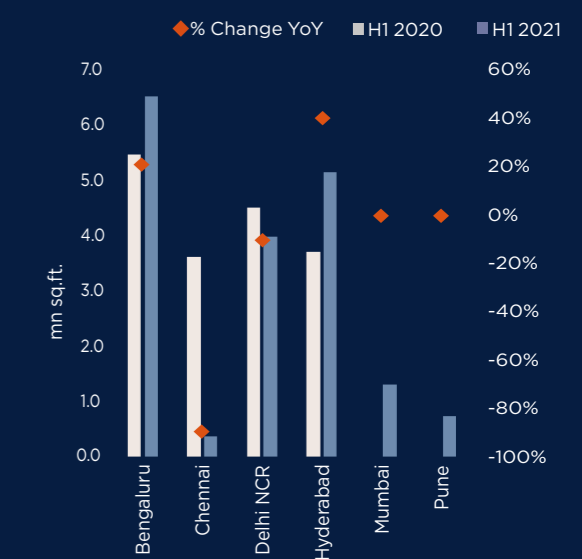
Select pockets kept overall rents under pressure, thereby creating conditions favourable to occupiers.

### Rental Range in H1 2021

in INR per sq. ft. pm	Low	High	Average YOY change*
Bengaluru	40	156	0%
Chennai	36	110	-1%
Hyderabad	35	70	-3%
Mumbai	45	400	-5%
NCR-Delhi	95	270	-6%
NCR-Gurugram	45	140	-3%
NCR-Noida	50	80	-9%
Pune	40	115	0%

\*Averages do not reflect YOY changes within micro markets or select premium buildings in certain localities  
Source Savills India Research

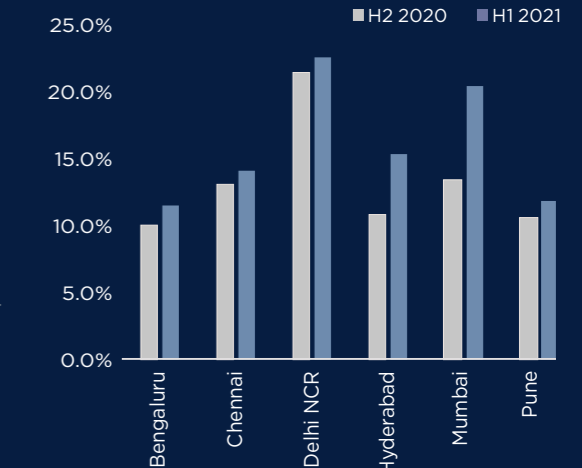
### Supply Addition: H1 2021 vs H1 2020



Source Savills India Research

Only two cities, namely Chennai and Delhi-NCR, saw reductions in new completions compared to H1 2020.

### Vacancy Levels

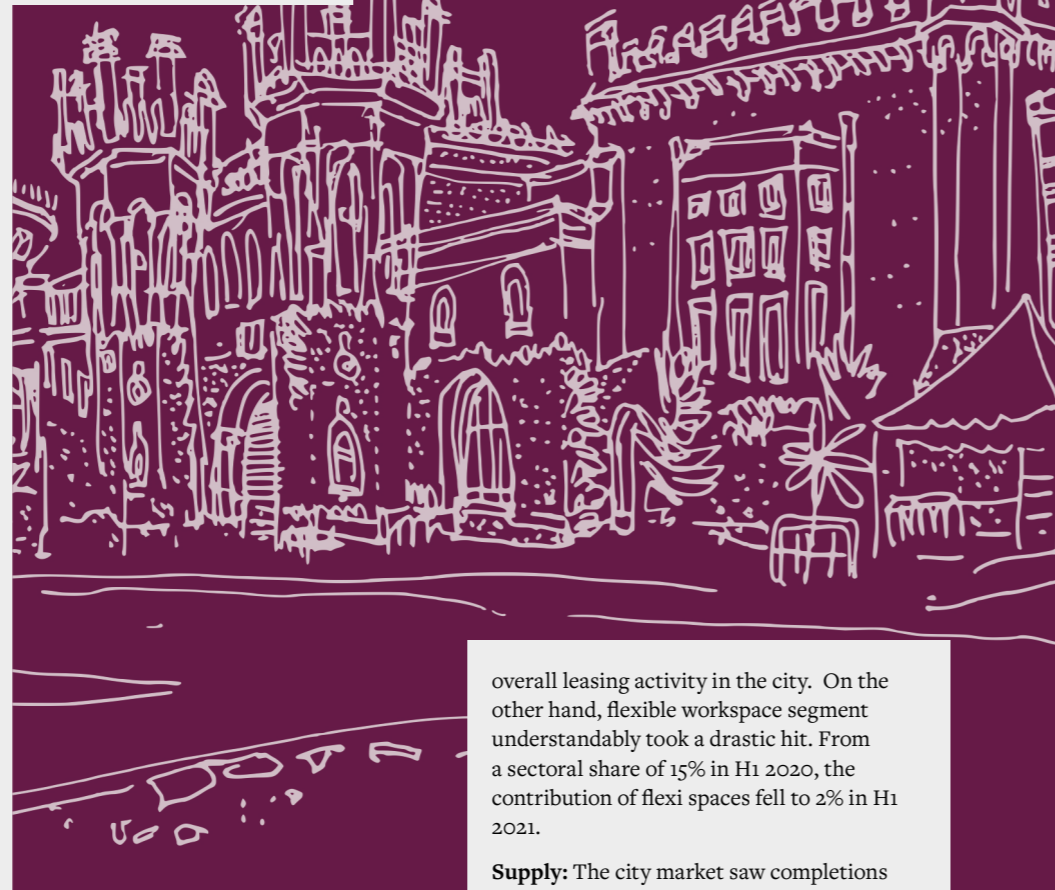


Source Savills India Research

# BENGALURU OFFICE MARKET UPDATE



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## BENGALURU'S KEY HIGHLIGHTS

**Resilience despite second wave of infections:** The city saw the lowest decline in demand for office space of about 16% YOY, despite the prevailing concern with respect to second and upcoming waves of COVID infections. This reflects the strong belief of most of the occupiers in holding existing space as well as taking up additional space as per demand. The remaining top five cities of the country registered a 38-63% decline in leasing activity in H1 2021 as compared to H1 2020.

**Large sized deals continue to drive the city market:** Historically, large-sized IT deals shaped the overall absorption levels in the city. The same continued in the first half of the ongoing year as well. Deals of 100,000 sq. ft. or more contributed to more than 60% of the demand activity in the city. The large-sized deals included not only expansions but also incremental real estate requirements.

## KEY STATISTICS: H1 2021

New Supply **6.5** mn sq. ft. **19%** YOY change

Gross Absorption **4.1** mn sq. ft. **-16%** YOY change

## LEASING AND COMPLETIONS

**Absorption:** With 4.1 mn sq. ft. of transactions, Bengaluru once again topped office market absorption in the first half of 2021, registering approximately 37% of leasing activity in the country. The comparatively healthy demand was led by Outer Ring Road (ORR), which accounted for one-third of the city-wide share. ORR was followed by the secondary business district and eastern peripheral micro markets, primarily Whitefield and Brookefield. Both the micro markets contributed around 25% of the leasing activity in the city.

**Sector Split:** Although leasing activity in IT sector was impacted by "Work From Anywhere" phenomenon to a large extent, it still had a majority share in the demand pie of the city. Interestingly, companies from Engineering & Manufacturing sectors contributed notably (~13%) towards the

overall leasing activity in the city. On the other hand, flexible workspace segment understandably took a drastic hit. From a sectoral share of 15% in H1 2020, the contribution of flexi spaces fell to 2% in H1 2021.

**Supply:** The city market saw completions of about 6.5 mn sq. ft. in H1 2021, a 19% YoY growth. This reflected higher confidence of the developers with respect to space take-up and less stringent lockdown during the second wave of infections as compared to nationwide lockdown of 2020. In terms of micro market-wise addition, supply mirrored the leasing activity to a large extent, with ORR and eastern peripheral areas witnessing a total of 71% of the city's new supply addition.

## VACANCY RATE

City-wide vacancy increased to 11.5% in H1 2021 as compared to 10.0% at 2020 year end. The increased vacancy levels can be attributed to portfolio optimisation by occupiers.

## RENTS

Rents remained rangebound in the first half of the year. Premium developments commanded higher rents compared to same period last year, but overall, the rentals remained stable.

# BENGALURU MARKET OUTLOOK

## DEMAND

The overall leasing activity in 2021 is expected to be at similar levels as 2020 as occupiers remain optimistic. Hence, space take-up in the second half of the year is expected to accelerate and culminate into 7-8 mn sq. ft. of transactions.

## SECTORS

The high leasing volumes of the city will continue to be driven by sectors such as Information Technology, Engineering, Manufacturing and Financial Services. Additionally, there will be some traction by the flexible space segment owing to flexibility, cost-effectiveness, accelerated technology adoption, out-of-box additional services and wellness factors.

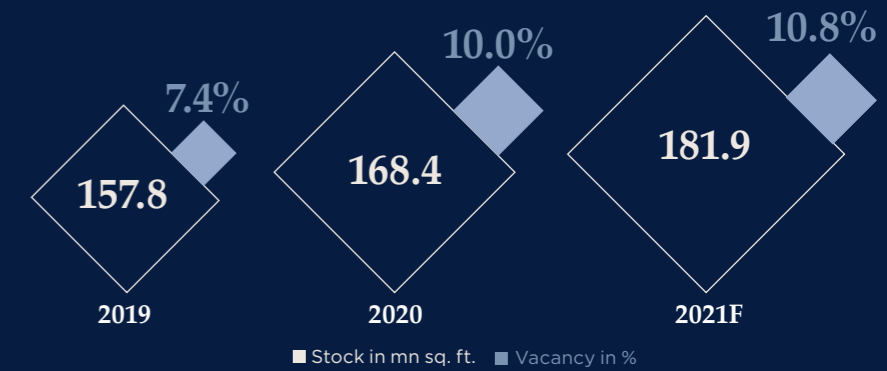
## RENT & VACANCY

2021 is expected to be a stable year for average rentals across micro markets. Superior grade A buildings with negligible vacancy levels are likely to continue commanding premium rentals.

## SUPPLY

We anticipate about 7-8 mn sq. ft. to get completed in the second half of the year. As a result, the overall stock of office space in the city is expected to exceed 180 mn sq. ft. by the end of 2021.

## Grade - A Office Stock & Vacancy



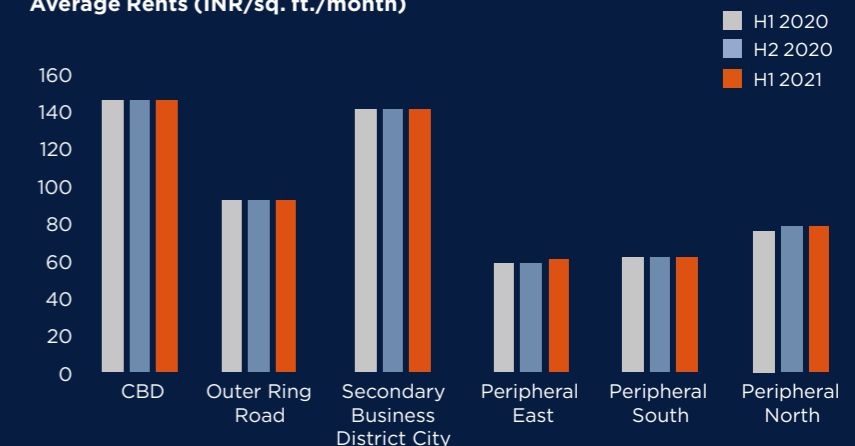
Source Savills India Research

## Office Absorption (mn sq. ft.) in Bengaluru



Source Savills India Research

## Average Rents (INR/sq. ft./month)



Source Savills India Research

## MAJOR TRANSACTIONS H1 2021

Tenant	Micro market	Building	Transacted Area* (sq. ft.)
Harman International	Peripheral East	Salarpuria Knowledge Court	550,000
BYJU'S	ORR	Prestige Technology Park	275,000
Intel	ORR	Ecospace	226,000
Lam Research	SBD City	Bagmane Tech Park	219,000
Teva Pharmaceuticals	Peripheral North	Brigade Senate	176,000

## BENGALURU MICRO MARKETS

**Central Business District (CBD)** - MG Road, Millers Road, Vittal Mallya Road, 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, Malleswaram  
**Peripheral East** - Whitefield  
**Peripheral South** - Electronic City, Hosur Road, Mysore Road  
**Peripheral North** - Bellary Road, Thanissandra Road, Tumkur Road, Hebbal to Yelahanka

\*Approximate and indicative areas only

# ANNEXURE: KEY BUDGETARY ANNOUNCEMENTS AND REAL ESTATE IMPLICATIONS



## PLI schemes of INR 2 Tn

- Major step for making India a hub for manufacturing and exports
- **Key sectors:** Pharma, Auto, Textiles, Electronics, Telecom and Food products
- **Pharma one of the favourites:** Local advanced pharmaceutical ingredient manufacturers already received PLI approvals
- Sector specific parks to be set up as well

01

**Sector Impact** Manufacturing & Warehousing



## Professionally managed Development Financial Institution; Debt route for REITs

- Better monetisation of real estate assets
- Expectation of greater participation by institutional investors

02

**Sector Impact** Infra sector including Manufacturing, Logistics, and Warehousing



## Infra Push: 35% allocation increase

- Proposed building of 8,500 kms of National Highways by March 2022
- Additional 11,000 kms by March 2024

03

**Sector Impact** New RE development corridors Industrial & Logistics push



## Disinvestment of land and monetisation of non core PSU assets

- Model Tenancy Act approved to create inclusive rental housing market
- Stake sales of PSUs including banks and insurance
- SPVs to monetise land owned by PSUs
- Crucial land availability for housing sector
- Favourable for Model-1 of ARHC scheme

04

**Sector Impact** Affordable Housing



## Affordable housing focus and tax holiday extensions

- Tax holiday extension and interest benefits on affordable housing home loans
- Boost investor confidence in recently launched ARHC scheme

05

**Sector Impact** Affordable Housing



## Speeding up stressed asset resolution

- New bad loan bank to be set up
- Faster revival or disposal of stuck projects in RE sector

06

**Sector Impact** Residential & Urban Development

# APPENDIX

## Glossary

### Atma Nirbhar Bharat Scheme

Atma Nirbhar Bharat schemes are COVID-19 specific relief packages (worth approximately INR 29.87 trillion) announced in 2020 by the Government of India, targeted at various sectors of the economy.

### Model Tenancy Act, 2021

Model Tenancy Act, 2021 aims to create an effective regulatory ecosystem in India to govern landlord-tenant relationship benefiting the urban middle class, working professionals, students and floating population.

### Affordable Rental Housing Complexes (ARHCs) Scheme

It provides the guidelines for affordable rental accommodation targeted at migrant workers & urban poor. Under the scheme, existing vacant government-funded housing complexes across major cities will be converted into ARHCs and offered to concessionaires for 25 years to rent out the units to urban poor and migrant workers. The government will

incentivize private and public entities to develop such housing complexes on their own available vacant land also.

### Production Linked Incentives (PLI) Scheme

PLI Scheme aims to provide incentives to companies on incremental sales from products manufactured in domestic units to boost domestic manufacturing. The scheme also aims to invite foreign companies to set shops in India.

### Integrated Goods & Service Tax (IGST)

Under GST, IGST is a tax levied on all Inter-State supplies of goods and/or services, governed by the IGST Act and tax will be shared between the Central and State Government.

## Abbreviations & Acronyms

BFSI - Banking, Financial Services and Insurance  
bn. - Billion  
GDP - Gross Domestic Product  
InvITs - Infrastructure Investment Trust  
INR - Indian Rupee  
INR per sq. ft. pm - INR per square foot per month  
IT - Information Technology

IMF - International Monetary Fund  
mn. - Million  
MPC - Monetary Policy Committee  
MoSPI - Ministry of Statistics & Programme Implementation  
RBI - Reserve Bank of India  
REIT - Real Estate Investment Trust  
sq. ft. - Square Feet

## Key Definitions

Term	Definition
<b>Stock/Inventory</b>	<ul style="list-style-type: none"> <li>Includes all constructed / completed buildings listings</li> <li>This includes existing buildings plus new completions</li> </ul>
<b>Supply</b>	<ul style="list-style-type: none"> <li>New office buildings that have received their certificates of occupancy within the period</li> <li>Buildings that have their structure ready and have occupier/s operating out of it or fit-outs are being carried out</li> </ul>
<b>Gross absorption/Gross Leasing/ Leasing activity</b>	<ul style="list-style-type: none"> <li>Sum of all leases including expansion, relocation and consolidations</li> <li>Does not include full-term renewals which are after the nine-year lease expiry</li> <li>Includes leasing of entire tower by an occupier within an IT park/development</li> </ul>
<b>Average Rental Values/ Rents</b>	<ul style="list-style-type: none"> <li>A fair estimation of asking rent and deal closure rent</li> </ul>
<b>Vacancy</b>	<ul style="list-style-type: none"> <li>Total vacant space as a percentage of Inventory/Stock</li> </ul>

Term	International Definition
<b>Crore</b>	<ul style="list-style-type: none"> <li>Ten Million (10,000,000)</li> </ul>
<b>Lakh</b>	<ul style="list-style-type: none"> <li>One Hundred Thousand (100,000)</li> </ul>



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## Research

**Arvind Nandan**  
Managing Director  
Research & Consulting  
arvind.nandan@savills.in

**Megha Maan**  
Director  
Research & Consulting  
megha.maan@savills.in

**Suryaneel Das**  
Assistant General Manager  
Research & Consulting  
suryaneel.das@savills.in

**Diksha Gulati**  
Senior Manager  
Research & Consulting  
diksha.gulati@savills.in

**Abhinav Pal**  
Manager  
Research & Consulting  
abhinav.pal@savills.in

## Central Management

**Anurag Mathur**  
Chief Executive Officer  
Savills India  
anurag.mathur@savills.in

**Kaustuv Roy**  
Managing Director  
Business Solutions  
kaustuv.roy@savills.in

**Naveen Nandwani**  
Managing Director  
Commercial Advisory & Transactions  
naveen.nandwani@savills.in

## Media Queries

**Nitin Bahl**  
Director  
Marketing, Sales and Strategy  
nitin.bahl@savills.in

## Regional Management

**Bhavin Thakker**  
Managing Director - Mumbai  
Head - Cross Border Tenant Advisory  
bthakker@savills.in

**Sarita Hunt**  
Managing Director  
Bengaluru  
sarita.hunt@savills.in

**Shweta Sawhney**  
Managing Director  
Delhi-NCR  
shweta.sawhney@savills.in

**Praveen Apte**  
Managing Director  
Pune  
praveen.apte@savills.in

**Anup Vasanth**  
Managing Director  
Chennai  
anup.vasanth@savills.in

**Sesha Sai**  
Managing Director  
Hyderabad  
sesha.sai@savills.in

## Gurugram

3-A, Second Floor, Building 9B  
DLF Cyber City, Phase 3  
Sector 24, Gurugram 122002  
Haryana, India

## Chennai

Savills, 5th Floor, North Wing  
Harmony Square, New No. 48 & 50  
Praksam Street, T. Nagar  
Chennai 600017  
Tamil Nadu, India

## Mumbai

403, Tower B, Level 4, The Capital  
Street 3, G Block, Bandra Kurla Complex  
Bandra East, Mumbai 400 051  
Maharashtra, India

## Pune

WeWork Futura  
Magarpatta Road  
Pune 411 028  
Maharashtra, India

## Bengaluru

15th Floor, SKAV SEETHALAKSHMI  
Corporation No.21, Kasturba Road  
Bengaluru 560001  
Karnataka, India

## Hyderabad

Office No. 02A114, WeWork  
Krishe Emerald, Hitech City  
Hyderabad 500081  
Telangana, India



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