SPOTLIGHT

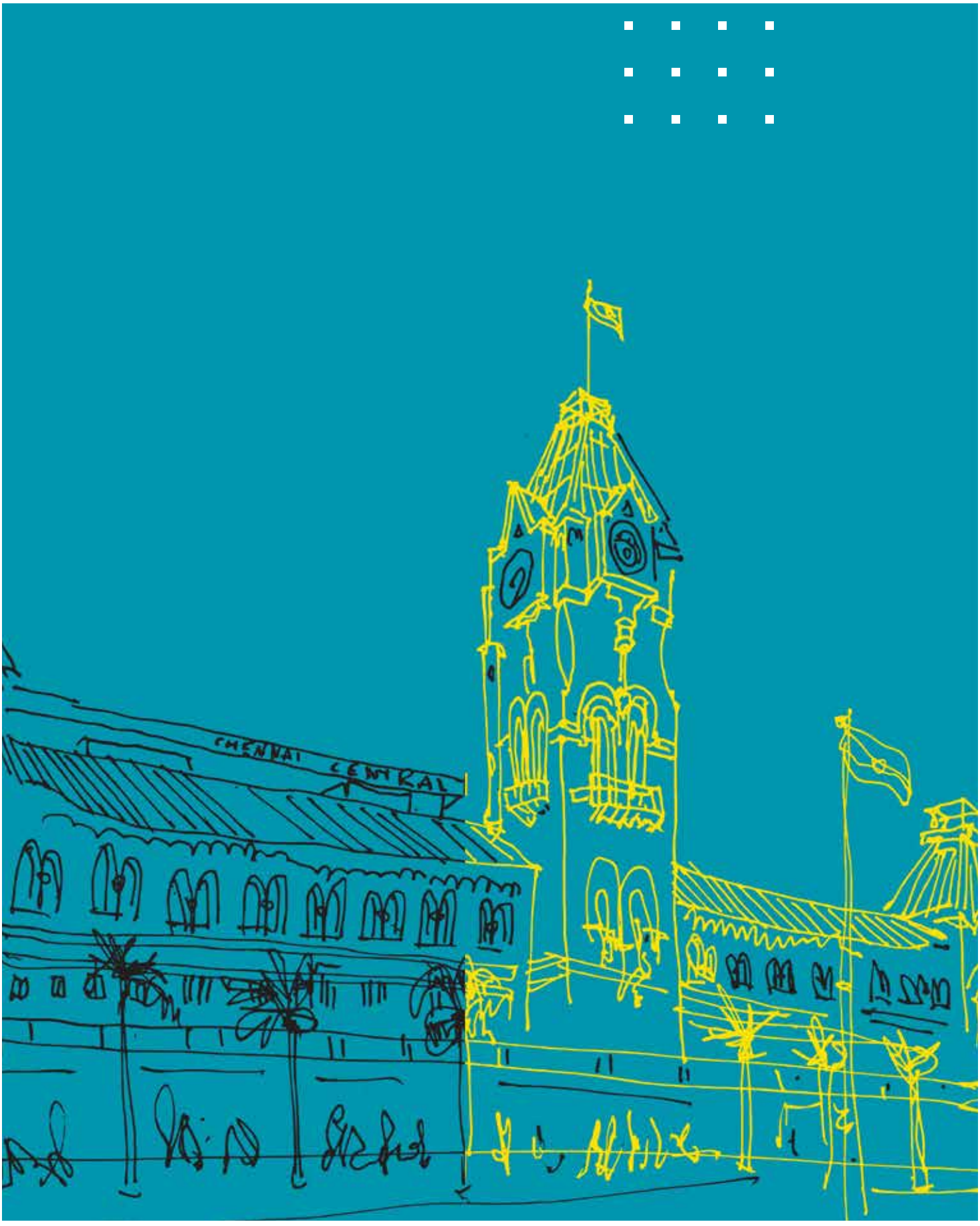
Savills Research

H1 2024

Chennai Market Watch

Office

savills



INDIAN ECONOMY
H1 2024

The first half of 2024 has been eventful, not only for the Indian economy but globally. Several countries held general elections in H1 2024, with more to follow in the latter part of the year. India's general elections, the world's largest democratic exercise, concluded with the National Democratic Alliance (NDA) securing a third consecutive term, led by Narendra Modi, who returned as a third-term Prime Minister.

The past few years have profoundly impacted the global economy, causing transitions and adaptations in principles. During this transitional phase, marked by a 'polycrisis' of multiple economic and geopolitical challenges, the Indian economy emerged as a strong performer with a remarkable 8.2% GDP growth in FY24. In April 2024 edition of its flagship report, World Economic Outlook, the International Monetary Fund (IMF) revised the global growth forecasts to 3.2% for 2024 from 3.1% earlier. In contrast, India's growth was projected at a healthier 6.8%. This growth differential (*Refer Chart 1*) underscores India's potential as a major driver of global economic activity.

ECONOMIC REALIGNMENT

Inflation remained well within the tolerance zone, with May 2024 recording a 12-month low of 4.75%. This is a significant improvement compared to two years ago, when CPI inflation was at 7.8% in April 2022. Food inflation remained a key contributor, exacerbated by erratic weather. However, core inflation was more stable, reflecting effective monetary policies and supply-side interventions. The RBI forecasts FY25 inflation at 4.5%.

The RBI has raised the FY25 GDP growth estimate to 7.2% from 7% earlier. The IMF has also recalibrated growth prospects for all countries, including India, due to better resilience and stability expectations, despite some uncertainties.

A Period of Peaks

H1 2024 has seen numerous macroeconomic indicators reaching their peaks, marking a period of substantial economic growth. GST collections were at a record high at INR 2.10 lakh crores in April 2024 (up 12.4% YoY) driven by strong domestic demand. Forex reserves, a key indicator of overall economic health, hit a new all-time high of USD 656 bn in June 2024.

Strong growth in Sensex and NIFTY highlight the strength of capital markets. In a remarkable achievement, both indices reached all-time highs in the last week of June 2024, with Sensex trading at 79,000 and NIFTY at 24,000. This historic surge reflects robust corporate earnings, sustained foreign investment inflows, and a favourable policy environment.

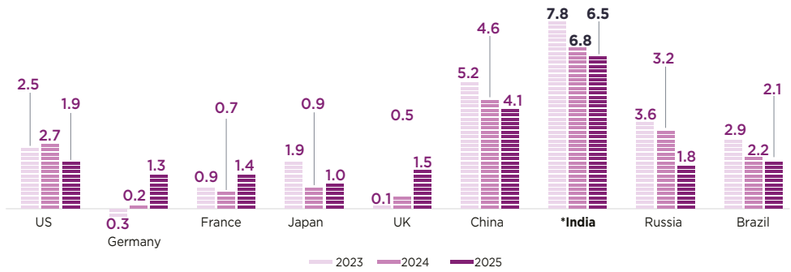
Strong Economic Metrics

Purchasing Managers' Index (PMI)[1] for both manufacturing and services sectors indicated expansionary trends. The Manufacturing PMI consistently stayed above the 50-mark throughout the first half, rising to a 16-year high of 59.1 in March 2024, reflecting robust industrial activity. Similarly, the Services PMI showed one of the strongest growth rates in over 13.5 years, reaching 61.2 in the same month, highlighting significant growth in the services sector. (*Refer Chart 2*)

In a remarkable turnaround, India's current account deficit (CAD) has turned surplus after 10 consecutive quarters. This shift marks a crucial milestone in the country's economic recovery, reflecting improved trade balances and stronger service exports. (*Refer Chart 3*)

INDIAN ECONOMY GROWTH POTENTIAL

Chart 1: GDP Growth Projections across the World



Source: IMF WEO Apr 2024, Savills India Research
*Data presented on a fiscal year basis

1. PMI or a Purchasing Managers' Index (PMI) is an indicator of business activity - both in the manufacturing and services sectors. A figure above 50 denotes expansion in business activity. Anything below 50 denotes contraction. Higher the difference from this mid-point, greater the expansion or contraction.

Click here to read #SavillsRoundUp: A fortnightly reporting of economic and real estate news

Click here to read

POLICY SUPPORT

Keeping Inflation Under Control

The central bank is committed to maintaining price stability while supporting growth through calibrated monetary measures. The repo rate was held steady at 6.5% for the first half of 2024. This reflects the persistence on the 'withdrawal of accommodation' policy to anchor inflation expectations and ensure macroeconomic stability.

Budgetary Announcements

The government presented an interim budget for 2024-25, focusing on the vision of 'Viksit Bharat' to elevate India to the status of a developed nation by 2047.

The interim budget maintained its emphasis on capex-driven growth, allocating 3.4% of GDP, equivalent to INR 11.1 lakh crore, up from 3.3% in the previous fiscal year. This strategic increase underlines the commitment to infrastructure development and long-term economic growth. Additionally, it hinted at next-generation reforms aimed at creating an aspirational economy over the next five years, thus setting the stage for future economic and social advancements.

Real Estate Specific Announcements

Direct real estate announcements included the construction of two crore houses in the next five years under the Pradhan Mantri Awas Yojana (Gramin) and intent to launch a scheme to help the middle class buy or build their own houses.

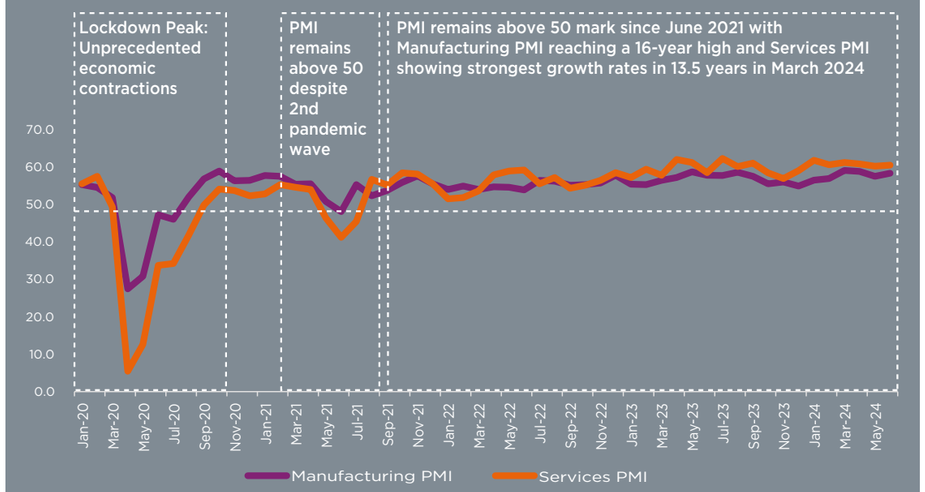
Additionally, several key announcements aimed at benefiting the real estate sector were made. These include enhancing multi-modal connectivity through economic railway corridor programmes, expansion and strengthening of the electric vehicle ecosystem via manufacturing and charging infrastructure and greater adoption of e-buses, domestic tourism promotion via long-term interest-free loans to states for comprehensive development of iconic tourist centres and related amenities, and the launch of a new scheme for strengthening deep-tech technologies for defence purposes. All these initiatives are expected to revitalise the real estate market and attract more investments into the sector.

A POWER-PACKED YEAR

The Indian economy in H1 2024 has seen robust growth, stable inflation and proactive policy. Despite global headwinds, India's strategic focus on infrastructure and inclusive growth sustained its momentum.

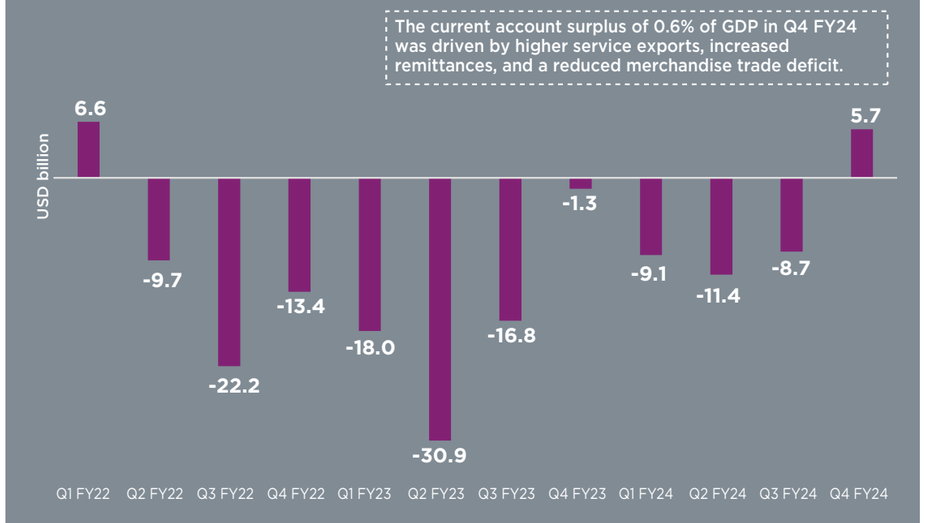
The real estate sector's performance for the rest of the year hinges on a multitude of factors, including a series of global events, several domestic state elections, monetary policy and the Union Budget 2024-25; with expectations on income tax resets, deeper infrastructure funding, as well as benefits for housing. Stronger reboots for affordable and mid-segment housing are key. In 2024, India is on course to record all time high demand for industrial, warehousing and office real estate. The PE investment scenario appears significantly improved too. If no major setbacks occur, 2024 could well be an inflection point for the rest of the decade.

Chart-2: Manufacturing & Services PMI of India



Source: S&P Global PMI, Savills India Research

Chart-3: Current Account Balance Trend



Source: Trading Economics, Savills India Research

Manufacturing sector's share in the GDP is anticipated to increase from 17% in 2023 to 25% by 2025. FDI inflow in the sector surged by 55%, totaling USD 148.9 billion during the period from 2014 to 2023.

GST collection in FY 2023-24 recorded at INR 2,018 billion, the highest since its implementation.

INDIA

OFFICE MARKET UPDATE

Scan to download

Key Statistics: H1 2024

TOP ABSORPTIONS
mn sq. ft.
Bengaluru: 9.7
Mumbai: 6.4
Hyderabad: 5.7

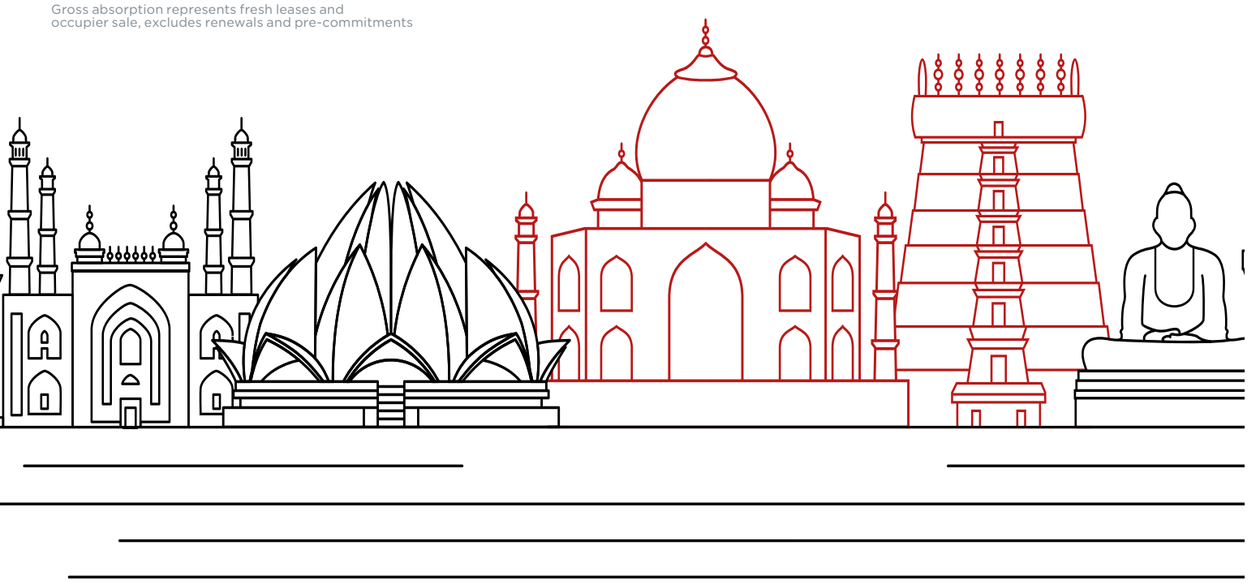
New Supply
17.4
mn sq. ft.

YOY Change
-32%

Gross Absorption
34.8
mn sq. ft.

YOY Change
29%

Gross absorption represents fresh leases and occupier sale, excludes renewals and pre-commitments



The demand for offices reached a new peak in H1 2024 on the back of strong economic growth, and in some measure, owing to anticipation of political continuum.

The robustness of business confidence is reflected particularly by IT-BPM and BFSI occupier space take-up; which needs to be viewed in the context of mandated return- to-office for employees. The recovery from the pandemic-induced slowdown has been steady. We expect the year to end stronger, creating a record new absorption year.

The pace of new supply infusion is relatively slower, owing to election period approvals and construction schedules. This is expected to improve rapidly in the second half.

In this report, we present a detailed account of office market performance in H1 2024.

H1 2024 demand at an all-time high; new peak in 3 cities

The six1 key office markets of India recorded a gross demand of 34.8 mn sq. ft., a new historic peak registering a 29% annual growth. The demand continues to depict U-shape patterns over the last 10 half-years (refer India Gross Absorption Trend chart), reaching new highs in each of these cycles.

This year, three cities, namely Hyderabad, Mumbai and Pune recorded new absorption peaks of 5.7 mn sq. ft., 6.4 mn sq. ft. and 4.6 mn sq. ft. respectively for the H1 period.

Except Chennai and Delhi-NCR that saw a 3% and 33% decline respectively, all cities witnessed growth in gross absorption over the last year. Mumbai saw the strongest annual growth of 113% over the last year, followed by Hyderabad and Bengaluru with 59% and 49%, respectively. Pune recorded a 39% growth in demand, with 4.6 mn sq. ft. of absorption levels.

Bengaluru and Mumbai continued to be among the top-3 markets, with Hyderabad making it to the list in H1 2024. Together, these accounted for 63% of the total leasing activity.

[1] 1Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai and Pune

India Gross Absorption: Last 10 Years

Source: Savills India Research

Large deals continue to dominate

Although large-sized deals (over 100,000 sq. ft.) continued to drive the leasing activity with 43.5% share in total leasing activity, these saw the lowest growth of 17% YOY in absolute terms compared to other segments. Small-sized deals (up to 25,000 sq. ft.) saw the highest annual growth of 47% followed by medium-size deals (25,001-99,999 sq. ft.) which registered 35% YOY growth.

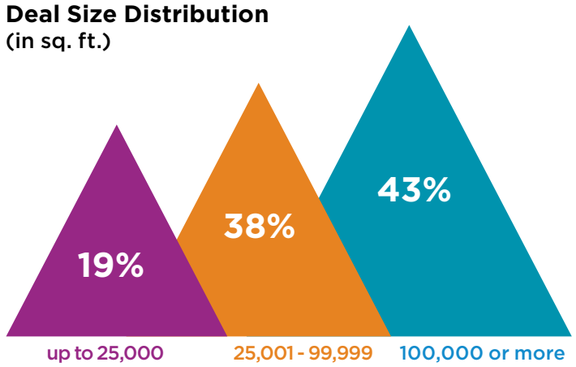
Bengaluru and Hyderabad's leasing activity comprised large deals of 62% each in H1 2024, in contrast to Mumbai where small-size transactions dominated with 39% of its demand.

Tech occupiers led demand

The tech sector led the leasing activity with a 39.3% share in overall absorption, followed by BFSI at 16.9% and flexible workspace at 13.9% respectively.

In volume terms, leasing by the tech sector increased notably by 61% YOY and BFSI by 51%, while the flexible workspace segment saw a 16% YOY decline in take-up.

Deal Size Distribution
(in sq. ft.)



Source: Savills India Research

TOP Sectors

IT
39.3%

BFSI
16.9%

Flexible Workspaces
13.9%

Source: Savills India Research

SUPPLY & VACANCY

New supply saw a sharp decline of 32% YOY with 17.4 mn sq. ft. of completions in H1 2024. Except Mumbai, all cities saw a reduction in new completions.

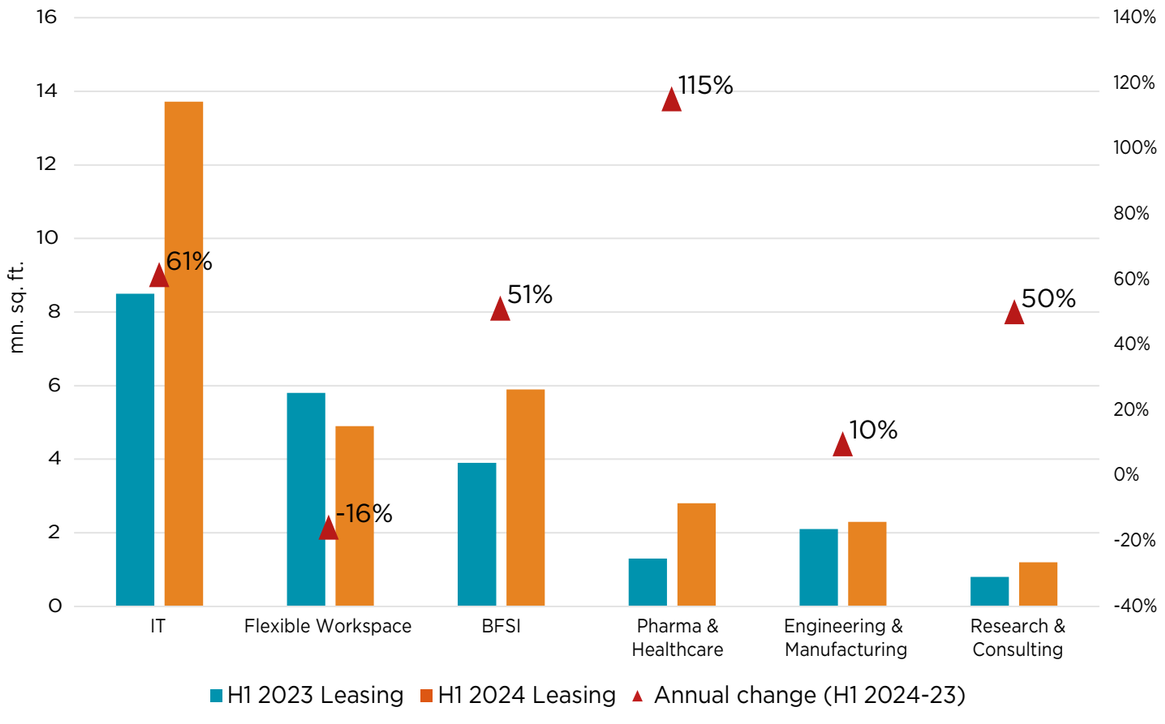
Bengaluru, Mumbai and Pune accounted for 67% of new supply. However, we expect a strong supply infusion in H2 2024 with Hyderabad leading the pack.

Overall vacancy rate at the end of June declined to 15.9% from 18.0% last year, owing to limited supply and notable increased transaction activity.

RENTS

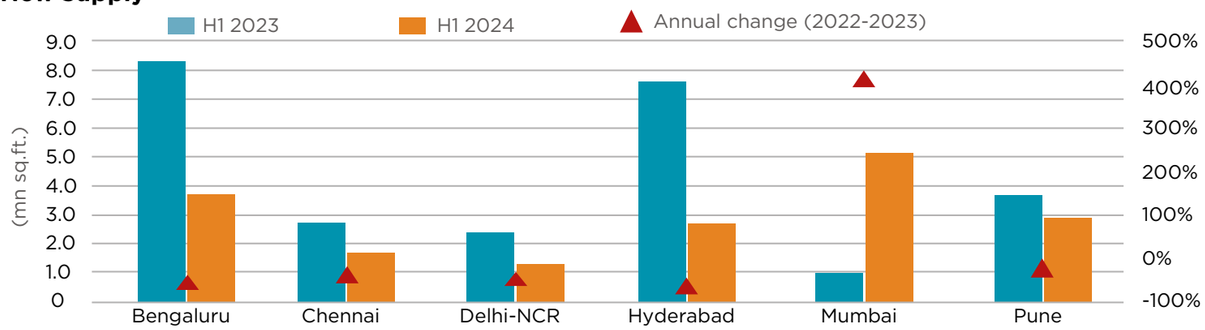
Except Delhi and NOIDA, all cities saw rental increases up to 13% YOY. The highest rental growth was noted in Mumbai followed by Chennai with 13% and 10% increase respectively as new quality supply was infused at a higher rate than market average.

Key Demand Drivers & Trends



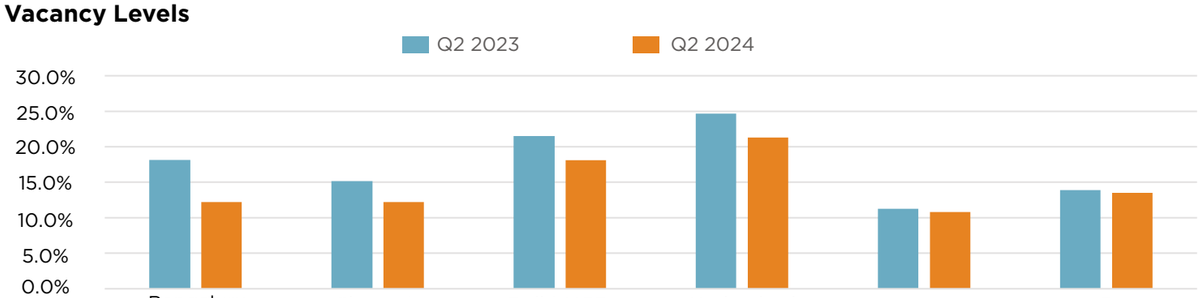
Source: Savills India Research

New Supply



Source: Savills India Research

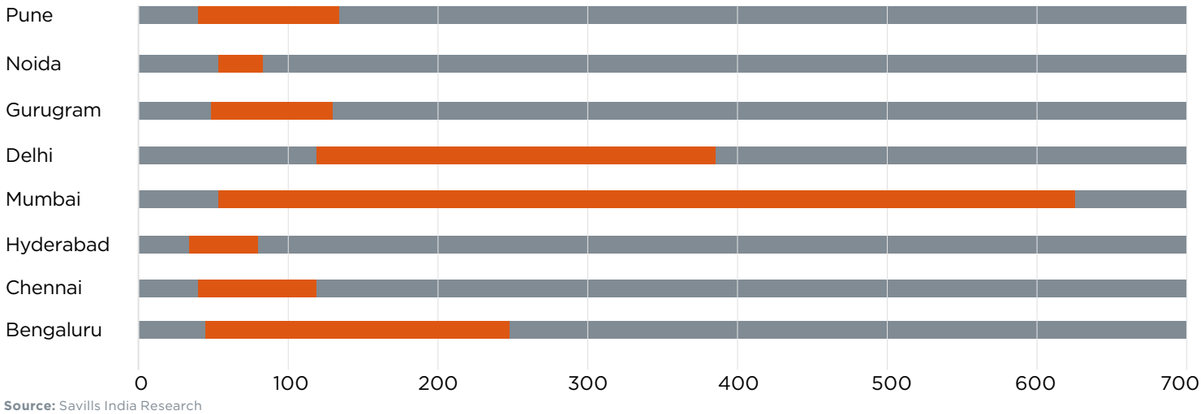
Vacancy Levels



Source: Savills India Research

The year is expected to see a new peak in absorption levels at about 65 mn sq. ft. on the back of strong fundamentals driving business confidence. New completions are also forecasted to accelerate keeping rentals in-check.

Average Rental Range
(INR/sq. ft./month)



Source: Savills India Research

*Rental ranges are indicative of year-end average values in the given market and may vary from the indicated band at other times

CHENNAI

OFFICE MARKET UPDATE

Key Statistics: H1 2024

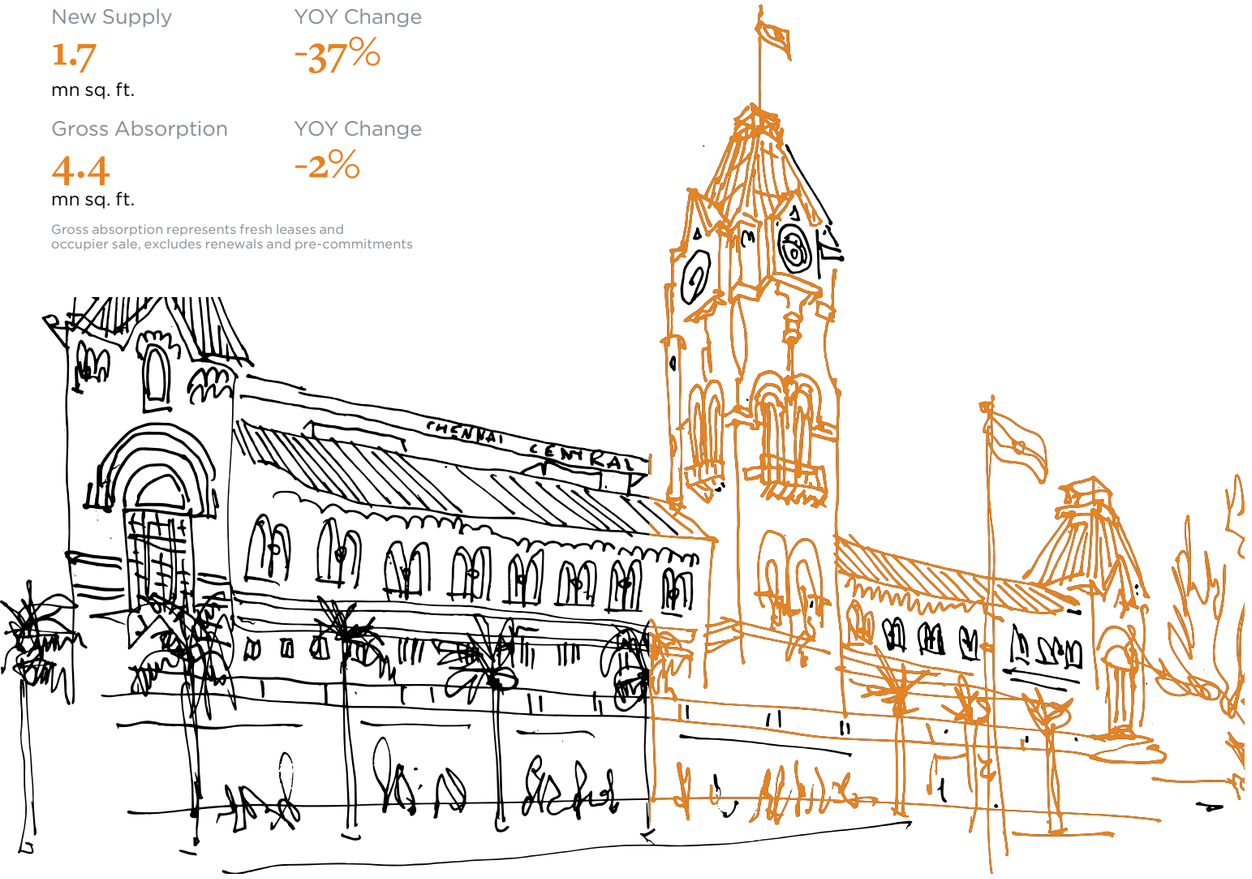
New Supply
1.7
mn sq. ft.

YOY Change
-37%

Gross Absorption
4.4
mn sq. ft.

YOY Change
-2%

Gross absorption represents fresh leases and occupier sale, excludes renewals and pre-commitments



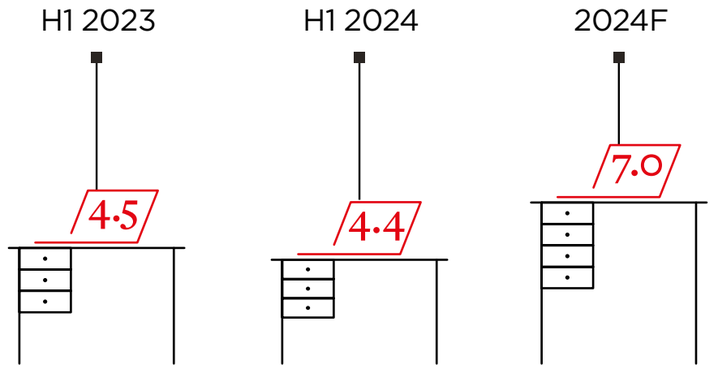
CHENNAI'S KEY HIGHLIGHTS

Mid & small deals dominate the market: Chennai's office market witnessed a shift in deal dynamics, with mid-sized deals in the first half of 2024 contributing to 46% of the overall leasing activity, a significant increase from 18% in H1 2023. The city also witnessed a notable increase in the small deal segment, rising from 11% in the previous year to 26% in H1 2024.

Major traction in office leasing was seen in the OMR Zone 1 micromarket accounting for 35% of the total market share, followed by MPR, Guindy, and CBD micromarkets. The IT segment predominantly constituted most of the large deals, while the mid-segment deals were led by BSFI and healthcare sectors.

Surge in sector specific deals: IT-BPM continued to spearhead Chennai's office demand, maintaining a resilient stance with a 50% share of total leasing. A heightened momentum from BFSI and engineering segments was observed as compared to last year, accounting for 15% and 10% of the total market share. Moreover, the city has also experienced a leap in the healthcare-pharma segment with 305,623 sq. ft. of office space in the first half of 2024.

OFFICE ABSORPTION
(mn sq. ft.) in Chennai



LEASING AND COMPLETIONS

Absorption: The city saw a gross absorption of about 4.4 mn sq. ft., mainly driven by mid- and small-segment deals, which collectively accounted for 3.2 mn sq. ft. of office leasing, contributing 72% share in the first half of 2024. Large deals (100,000 sq. ft. or more) contributed 28% of the leasing activity.

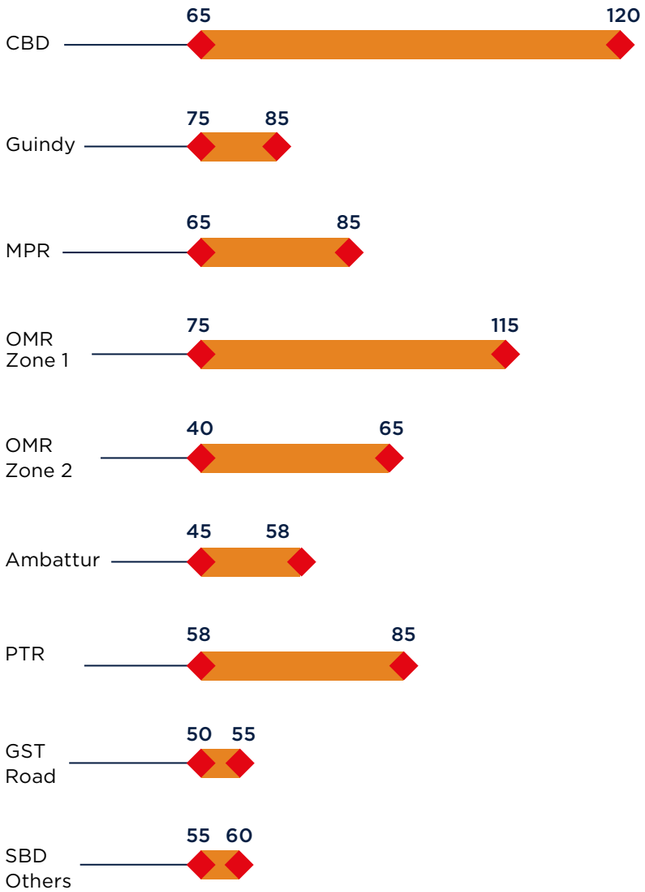
Most of the leasing activity was focused in OMR Zone 1, which held a market share of 36% in the first half of the year. Meanwhile, the MPR micromarket saw a significant share of the large-sized deals. Guindy and CBD micromarkets also experienced notable increases in leasing activities compared to last year. Collectively, these three markets witnessed 49% of the total leasing activity.

Sector Split: The BFSI segment has gained traction, increasing its share from 12% in H1 2023 to 15% in the first half of the year.

Significant momentum was witnessed in the healthcare-pharma and engineering-manufacturing segment collectively, with about 757,290 sq. ft. of leasing activity. The IT-BPM sector continues to drive the leasing activity accounting for almost 2.2 mn sq. ft. of the market leasing.

Supply: The first half of the year recorded a new supply of 1.7 mn sq. ft. a significant drop of 37%, compared to last year. Further, the city witnessed nearly 90% of the new supply of non-SEZ properties.

Rental Range H1 2024
(INR/sq. ft./month)



Source: Savills India Research

VACANCY RATE

The overall vacancy rate at the end of the first half of the year decreased from 15% to 12%, which is a significant improvement compared to last year.

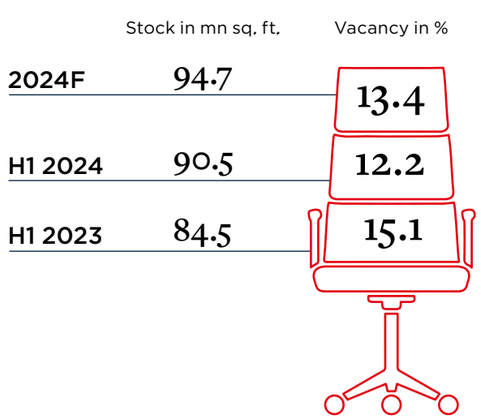
A significant QOQ decline in vacancy levels has been observed in the selected micromarket of PTR and MPR, owing to strong leasing activity.

RENTS

The city has witnessed a 10% increase in overall average rentals from last year. CBD, OMR Zone 1 and PTR micromarket rentals have also shown an uptick of 5%-6%. This is owing to the increasing demand for office space with the limited available supply.

Chennai Market Watch | Office H1 2024

GRADE-A OFFICE STOCK & VACANCY



Source: Savills India Research

MAJOR TRANSACTIONS H1 2024

LTI MINDTREE
MPR
L&T Campus
620,000

GUIDEHOUSE
MPR
RMZ One Paramount
128,000

THRYVE DIGITAL
OMR Zone 1
Ramanujan Intellion Park
74,000

HEXAWARE
PTR
The Address
65,000

TELEPERFORMANCE
GST
Gateway Office Park
58,000

TENANT | Micromarket | *Building* | **Transacted Area* (sq. ft.)**

*Approximate and indicative areas only
Source: Savills India Research

MARKET OUTLOOK

DEMAND

The city is expected to witness leasing activity of about 6 to 7 mn sq. ft. by the end of 2024. The proposed metro connectivity leading to ease in accessibility would most likely build a positive market prospect for the peripheral areas, leading to a probable surge in the property prices in localities like OMR, Porur and Madhavaram.

RENT & VACANCY

Anticipated new supply of 4.3 mn sq. ft. and the state of pre-commitments might lead to a decline in vacancy levels by the end of the year. Nevertheless, average city-wide rentals are expected to be resilient and unlikely to witness any significant change, except for a slight uptick in select micromarkets.

SECTORS

Chennai's office demand is primarily driven by leasing activity in the IT-BPM sector. Due to its diversified industrial portfolio, the city is expected to see significant growth in the engineering-manufacturing and BFSI sectors.

SUPPLY

New completions are expected to be around 4.3 mn sq. ft. by the end of 2024. Together the MPR and OMR Zone 1 micromarkets will witness more than 60% of the new supply, followed by PTR and CBD.

CHENNAI MICROMARKETS

CBD - Anna Salai, Nungambakkam, R K Salai, Egmore, T Nagar, Gream Road

SBD - Guindy & MPR- Guindy Estate, Little Mount, Ekatuthangal, Mount Poonamalle Road, Manapakkam

SBD - OMR Zone 1- Tharamani, Perungudi, MGR Salai

SBD Others - Velachery, Arcot Road, Arumbakkam, Anna Nagar

PBD-OMR Zone 2 - Thoraipakkam, Shollinganallur, Navalur, Siruseri

PTR-PBD - Pallavaram Link Road

GST Road-PBD - Perungalathur, Maraimalai Nagar

Ambattur-PBD - Ambattur

*Approximate and indicative areas only

Scan to download

Chennai Market Watch | Office H1 2024

ANNEXURE

INTERIM BUDGET 2024-25: ANNOUNCEMENTS AND SUB-SECTOR IMPLICATIONS ON REAL ESTATE

Affordable Housing

Launch of a scheme to help the middle class buy or build their own houses

Facilitate freeing up slums for redevelopment

PM Awas Yojana - 2 crore houses will be taken up in the next five years

Promote affordable housing supply for the middle-class and economically weaker sections (EWS)

Infrastructure

Enhancing multi-modal connectivity through economic railway corridor programmes

Boost to the development of industrial infrastructure and reduction in overall logistics costs

Expansion and strengthening of the electric vehicle ecosystem via manufacturing and charging infrastructure and greater adoption of e-buses

Development of charging stations, manufacturing units, industrial and warehousing nodes

Tourism Sector

Domestic tourism promotion via long-term interest-free loans to states for comprehensive development of iconic tourist centres and related amenities

1. Expected to create a spur in the hospitality sector
2. Improvement in overall infrastructure of tourist centres

Marine and Coastal Sector

Blue Economy 2.0 scheme for restoration and adaptation measures, and coastal aquaculture and mariculture

1. Development of life sciences real estate and aquaparks
2. Promotes manufacturing of modern equipment (to harness renewable energy), maritime transport and marine biotechnology

Research & Development

Stress on research and innovation in sunrise sectors via strengthening deep-tech technologies for defence purposes; corpus of 1 lakh crore with 50-year interest-free loan

1. Rise in innovation hubs or tech incubators
2. Ripple effect on development of tech-related real estate

Investments

Extension of certain tax benefits to start-ups and investments made by sovereign wealth or pension funds; tax exemption on certain income of some IFSC units until 31st March 2025

1. Sustained investments by sovereign wealth and pension funds in India
2. Bodes well for the commercial office real estate segment

APPENDIX

Abbreviations & Acronyms

Bn - Billion
GDP - Gross Domestic Product
GST - Goods & Service Tax
INR - Indian Rupee
IT-BPM - Information Technology & Business Process Management
IMF - International Monetary Fund
IPO - Initial Public Offering
Mn - Million
PE - Private Equity
PMI - Purchasing Manager's Index
RBI - Reserve Bank of India
REIT - Real Estate Investment Trust
Sq. ft. - Square Feet
SEBI - Securities and Exchange Board of India
YOY - Year over Year

Key Definitions

Term	Definitions – Office Sector
Stock/Inventory	• This includes area of existing buildings plus new completions (supply) in each quarter/half year/full year
Supply	• New office buildings that have received their certificates of completion/occupancy within the quarter/half year/full year, or • Buildings that have their structure ready and have occupier/s operating out of it or fit-outs being carried out
Gross Absorption/Gross Leasing/ Leasing Activity	• Sum of all leases including expansion, relocation and consolidations • Does not include full-term renewals which are after the nine-year lease expiry • Includes leasing of entire tower by an occupier within an IT park/development
Average Rental Values/ Rents	• A fair estimation of asking rent and deal closure rent
Vacancy	• Total vacant space as a percentage of inventory/stock

Term	Definitions – General
Crore	• Ten Million (10,000,000)
Lakh	• One Hundred Thousand (100,000)

Chennai Market Watch | Office H1 2024

Savills

Savills PLC is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 700 offices and 40,000 associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world.

Savills India

Savills India is a group company of Savills PLC and is a premier professional international property consulting firm. With full-service offices in Ahmedabad, Bengaluru, Chennai, Hyderabad, Delhi-NCR, Mumbai and Pune, the firm serves occupiers, investors and developers of real estate.

Savills India provides services across office leasing, project management, capital markets, valuations, research, consulting, industrial and logistics, and residential services. Started in India in 2016, the company employs over 600 professionals.

Research & Consulting

Megha Maan
Director
megha.maan@savills.in

Diksha Gulati
General Manager
diksha.gulati@savills.in

Shashwat Srivastava
Manager
shashwat.srivastava@savills.in

Arpita Podder Paka
Assistant Manager
arpita.p@savills.in

Saylee Taru
Senior Executive
saylee.taru@savills.in

Arvind Nandan
Managing Director
arvind.nandan@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

Chinmoyee Kalita
Corporate Communications Lead
chinmoyee.kalita@savills.in

Regional Management

Sarita Hunt
Managing Director
Bengaluru & Hyderabad
sarita.hunt@savills.in

Rajat Johar
Managing Director
Delhi-NCR
rajat.johar@savills.in

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

Naveen Raina
Executive Director
Project Management Services
Pune
naveen.raina@savills.in

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

Gurugram

3-A, Second Floor, Building 9B
DLF Cyber City, Phase 3
Sector 24, Gurugram 122 002
Haryana, India

Mumbai

One Lodha Place, 26th Floor
Unit No. 2604, Senapati Bapat Marg
Lower Parel, Mumbai 400013
Maharashtra, India

Bengaluru

15th Floor, SKAV SEETHALAKSHMI
Corporation No.21, Kasturba Road
Bengaluru 560 001
Karnataka, India

Bengaluru

Vaishnavi Tech Park, WM9C+995
Sarjapur Main Rd, Bellandur
Bengaluru 560 103
Karnataka, India

Chennai

Savills, 5th Floor, North Wing
Harmony Square, New No. 48 & 50
Praksam Street, T. Nagar
Chennai 600 017
Tamil Nadu, India

Pune

Unit #4, 13th floor
Phoenix Fountainhead Tower 2
Phoenix Market City
Viman Nagar, Pune 411 014
Maharashtra, India

Hyderabad

5th Floor, DivyaSree Solitaire, Plot No. 14 & 15
Software Units Layout, Sy No 64, Madhapur,
Serilingampally Mandal, Hyderabad 500 081
Telangana, India

Ahmedabad

INC-02, The First Commercial Complex
B/S Keshavbaug Party Plot, Vastrapur
Ahmedabad 380 015
Gujarat, India

Kolkata

Apeejay Business Centre
15 Park Street, Apeejay House
Block-A, 8th Floor, Kolkata 700 016
West Bengal, India

savills

savills.in

Savills, the international real estate advisor established in the UK since 1855 with a network of over 700 offices and associates globally.