

India - H1 2020

SPOTLIGHT  
Savills Research

# Chennai 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.

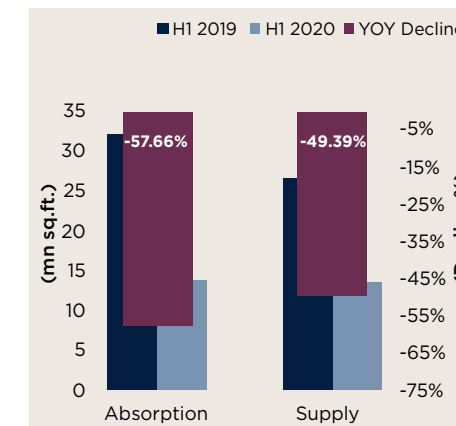
### India’s Office Real Estate in H1-2020

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

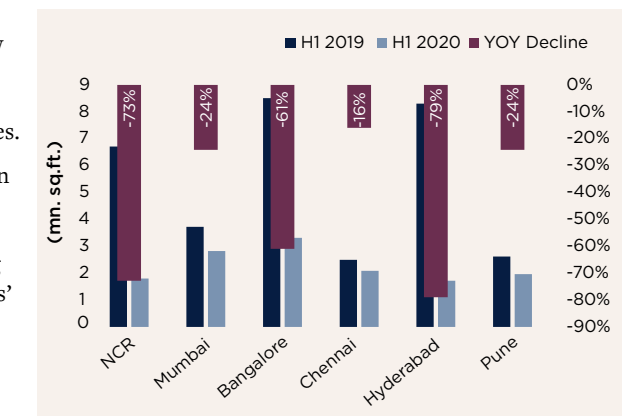
It is important to take a quick view of the mid-year demand patterns and present a brief year-on-year comparison for each of the six cities.

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.

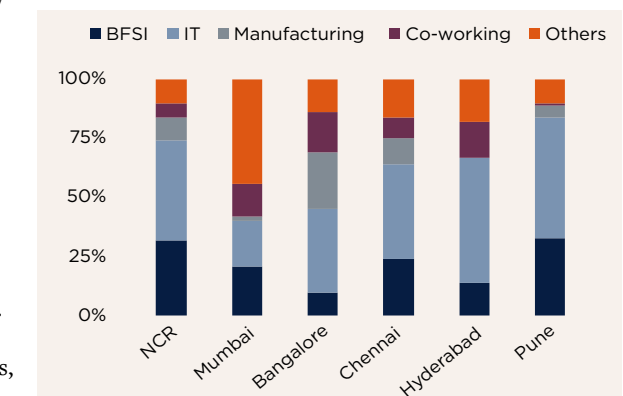
This section has presented a top-level summary of office markets’ performance on the national scale. Further details on absorption, stock and supply, rentals, vacancies, sectoral splits, etc. are provided in each city section.

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



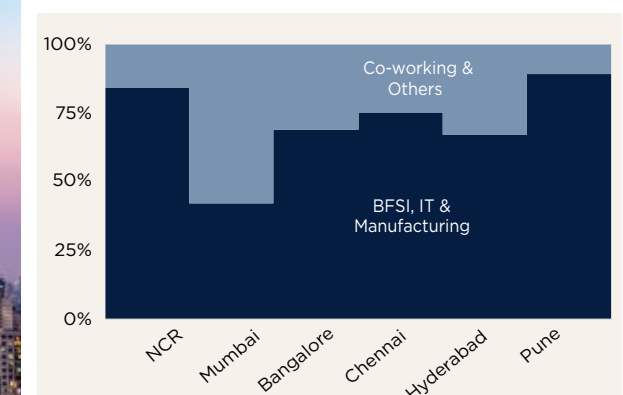
Source Savills India Research

**Demand Sectors in H1 2020**



Source Savills India Research

**Core Demand Sectors in H1 2020**



Source Savills India Research

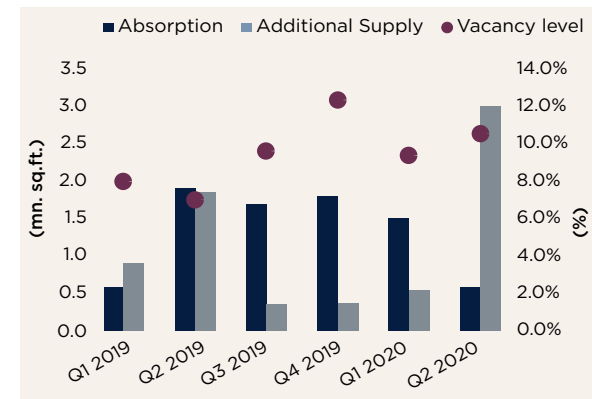






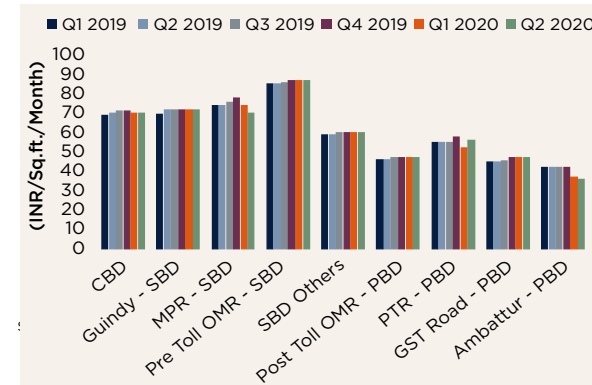
# Chennai

**Chennai 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

## CHENNAI COMMERCIAL OVERVIEW

### Demand:

Chennai has trailed only Bangalore & Mumbai in terms of total transactions in H1-2020. The city witnessed 2.1 mn. sq. ft. of leasing activity, which translates to approximately one-fifth of the all India activity. The number of office space deals have decreased in H1-2020 as compared to H1-2019; in terms of area, there has been a 16% reduction- the least in the top 6 cities of the country. Interestingly, the average deal size in H1-2020 has increased by around 50% as compared to H1-2019, indicating a larger space take-up at an individual deal level. Guindy, Mount Poonamalle Road (MPR) and Pre-Toll Old Mahabalipuram Road (OMR) saw healthy leasing activity.

### Supply:

On the supply front, lockdown and labour issues resulted in temporary halt in construction activities for a significant portion of the first half of the year. H1-2020, however, witnessed an increase in additional office stock as compared to the first half of 2019- 3.5 mn sq. ft. vis a vis 2.8 mn sq. ft. This can be attributed to the pre-ordained plans for phased launch of quality office spaces by developers in the city to meet the expected demand from multinational

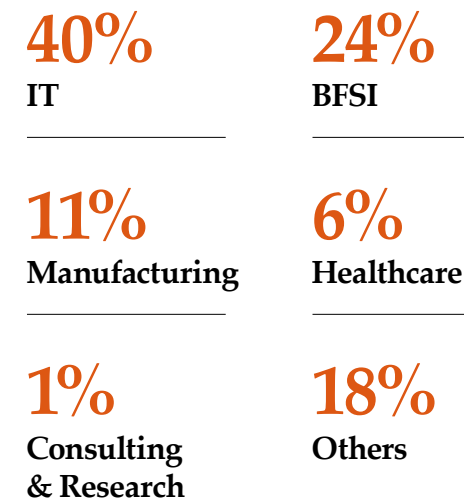
companies. Most of the stock catering to the anticipated demand, had come into the market before the pandemic struck construction related activities with full force. Completion certificate receipt has however spilled from Q1-2020 to the end of Q2-2020 in quite a few buildings. At the end of H1-2020, the total stock in the city stood at around 75 mn. sq. ft.

### Vacancy, Rentals and Segmental Demand:

As supply outpaced the demand across major micromarkets in Q2-2020, vacancy levels have increased to around 10.5% in Chennai city. Certain micromarkets have witnessed a slight drop in average rentals which can be attributed to a combination of over-supply in these micromarkets and simultaneous sluggish demand in Q2-2020.

As far as sectoral demand is concerned, space take up in Chennai was led by firms related to information technology and allied services. Companies from the financial services domain have followed. The overall quantum of leasing by co-working operators, however, has reduced by 50% in H1-2020 as compared to H1-2019.

H1-2020: Absorption demand split sector wise



Source Savills India Research

## IMPACT OF COVID-19 AND OVERALL OUTLOOK

As a pandemic shaped world looks forward to social distancing at workplaces and increased prevalence of work from home option amongst IT employees, community driven and social interaction based shared spaces have arguably faced tougher times as compared to other sectors. The co-working sector has taken a fair amount of hit in Q2-2020 on account of multiple lockdowns in the city. However, the city has started witnessing a slow and steady resurgence of demand by occupiers for flexi spaces. One of the key impacts of COVID-19 pandemic, has been the request for rental realignment from occupiers. This has become a focal point of discussion between landlords, co-working operators and end tenants.



The state government has created a task force which is pro-actively reaching out to Indian and foreign investors. MoUs for industrial investments of approximately INR 250 billion were recently signed, which in turn is expected to generate over 50,000 jobs in the medium term as and when the economy bounces back from the pandemic driven fallout.

The state government in its budget had allocated INR 1 billion for the Chennai peripheral ring road project. Phase II of the city metro has also received significant fund allocation. The infrastructure boost could be key to increased space take up by offices in the longer term, when things bounce back to normalcy.

## Key Office Transactions, H1-2020

Building	Tenant	Micro-market	Sq ft*
DLF Cybercity	Cognizant	SBD -MPR	400,000
Embassy Splendid Tech Zone	BNY Mellon	PBD- PTR	300,000
Chennai One	Fiat Chrysler Automobiles	PBD -PTR	100,000
Baashyaam Willow Square	WorxEZ Coworking	SBD- Guindy	60,000
Gateway Office Parks	Hinduja Tech Limited	PBD - GST	40,000

Source Savills India Research

### CHENNAI MICROMARKETS:

CBD - Anna Salai, Nungambakkam, R K Salai, Egmore, T Nagar and Gream Road  
 SBD - Guindy & MPR - Guindy Estate, Little Mount, Ekathangal, Mount Poonamalle Road and Manapakkam  
 SBD - Pre Toll OMR - Tharamani, Perungudi and MGR Salai  
 SBD Others - Velachery, Arcot Road, Arumbakkam and Anna Nagar  
 PBD - Post Toll OMR - Thoraipakkam, Shollinganallur, Navalur and Siruseri  
 PTR - PBD - Pallavaram Link Road  
 GST Road - PBD - Perungalathur and Maraimalai Nagar

\*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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