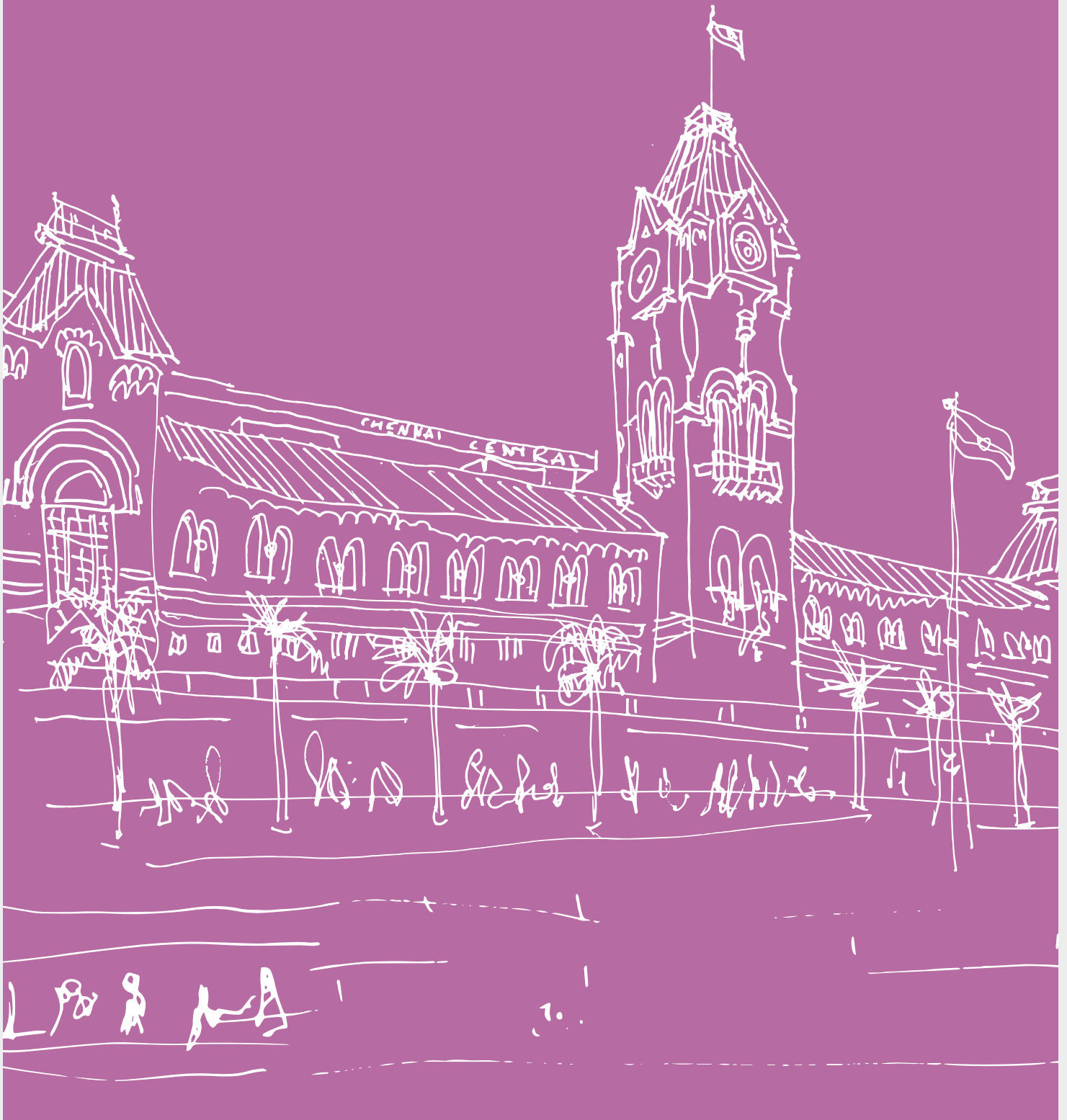


H1 2021

SPOTLIGHT  
Savills Research

# Chennai 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

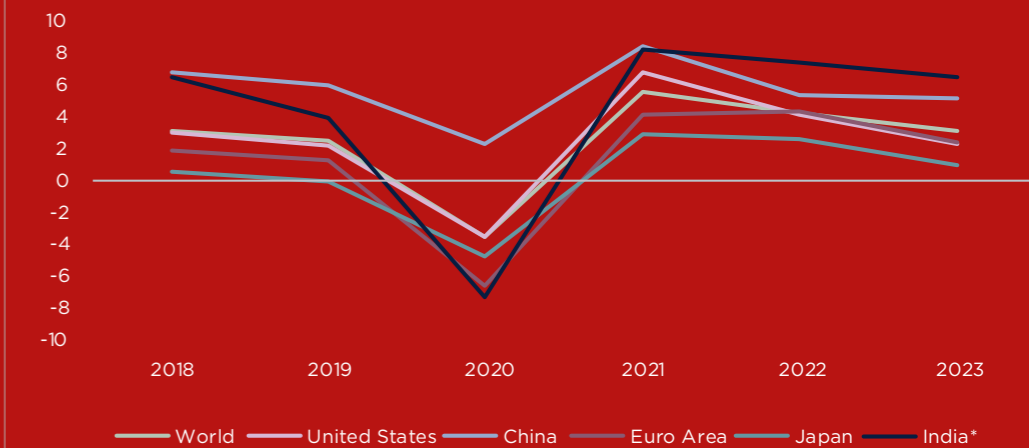
As measures for COVID specific support, the government announced 100% guarantee cover for loans of up to INR 2 crores for hospitals and nursing homes, for setting up oxygen generation plants. Also, COVID treatment items have been exempted from IGST till August 2021.

## 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.

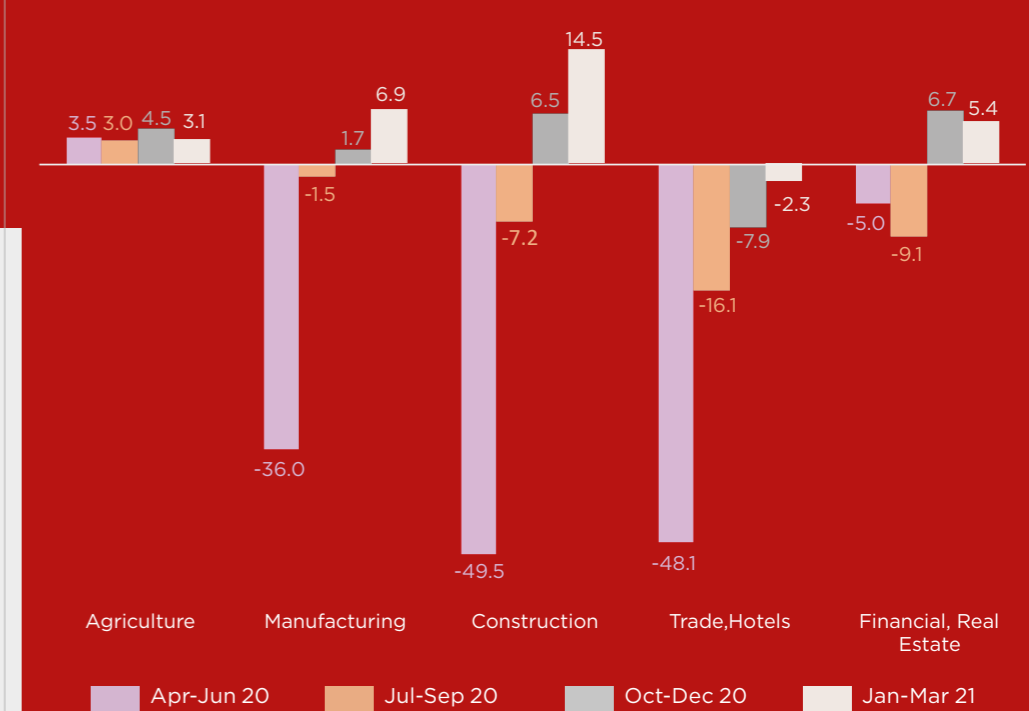
The second wave appears to be receding at the end of H1. Businesses are expected to recover on the strength of advancing vaccinations in the months ahead.

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



Scan to Download WhatsApp version

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.

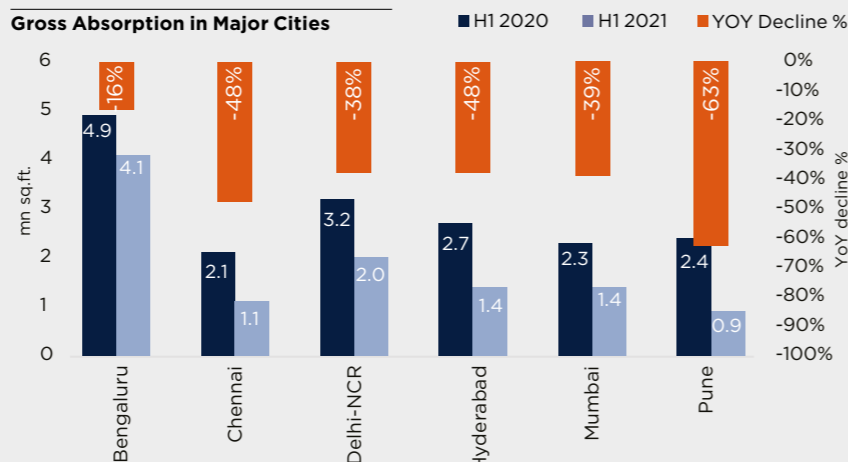
The top cities of Bengaluru, Delhi-NCR and Mumbai constituted around 69% of the total leasing activity in H1 2021. Pune recorded approximately 0.9 mn sq. ft. leasing, which was the lowest in volume as well as the largest decline among these six cities. Chennai just managed to breach 1.0 mn sq. ft., recording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



### Large deals continue despite the cautious approach

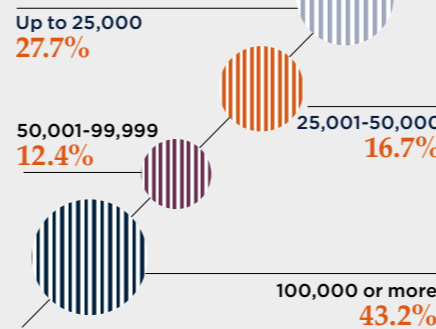
Sizeable consolidations and expansions have contributed to the share of large deals (deal size more than 100,000 sq. ft.) in H1 2021, accounting for about 43.2% of the overall pie. Bengaluru witnessed the highest share of large deals at 51%, followed by Delhi-NCR and Hyderabad.

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.

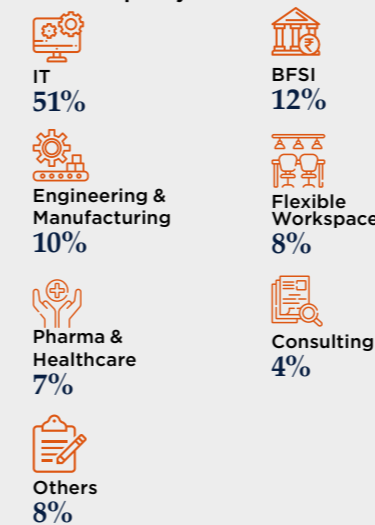
### Technology occupiers continue to drive demand and large leases

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.

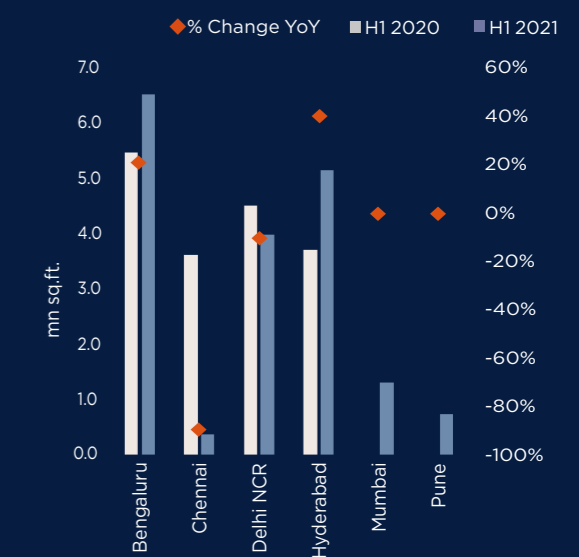
Select pockets kept overall rents under pressure, thereby creating conditions favourable to occupiers.

### 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

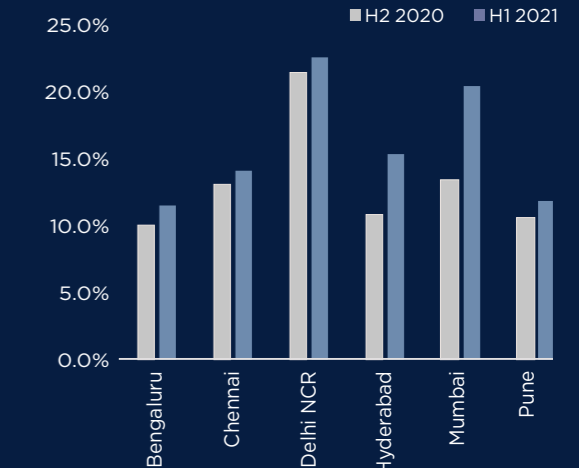
### Supply Addition: H1 2021 vs H1 2020



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

# CHENNAI OFFICE MARKET UPDATE



Scan to Download WhatsApp version



## CHENNAI'S KEY HIGHLIGHTS

**Demand driven by small deal sizes:** Unlike the preceding six months wherein large size deals of more than 100,000 sq. ft. dominated the leasing activity contributing to over 60% of the total office space demand, the first half of 2021 saw smaller deals upto 25,000 sq. ft. contributing 60%. Interestingly, transactions up to 25,000 sq. ft. were quite significant in the OMR locations (combined for Pre Toll and Post Toll) with a 32% share followed by the Central Business District (CBD) with a 31% share and Guindy at 20% of the total small deal transactions.

Deals ranging 25,000 - 99,999 sq. ft. contributed the remaining share of 40% in overall leasing activity. Majority of mid-sized deals were recorded in Guindy (39%) and MPR (25%).

Despite the ongoing pandemic, 566,000 sq. ft. was pre-committed by Technology and Engineering companies indicating strong business sentiments.

## KEY STATISTICS: H1 2021

New Supply **0.4** mn sq. ft.   
 YOY change **-90%**

Gross Absorption **1.1** mn sq. ft.   
 YOY change **-48%**

## LEASING AND COMPLETIONS

**Absorption:** Chennai witnessed leasing activity of about 1.1 mn sq. ft. in the first half of 2021 noting a 48% YOY decline. Majority of the leasing activity was concentrated in Secondary Business District (SBD) Guindy, which accounted for close to 28% of the absorption of the city, followed by CBD and OMR Pre Toll locations that equally contributed about 19% and MPR contributing around 16%.

**Sector Split:** Technology sector continued to contribute the majority share in the leasing activity at 45%. In addition, the BFSI occupiers were active too with a 20% share. Interestingly, the leasing activity by the healthcare occupiers (in absolute terms) continued to be consistent compared to the same period last year.

**Supply:** There is a huge decline in new completions as the city witnessed lockdown

in the second quarter of the year. About 380,000 sq. ft. of new supply was recorded, which implies a 90% YOY decline. All the new completions were noted in Guindy consisting of IT & commercial developments.

## VACANCY RATE

Overall vacancy of the city increased marginally and stood at 14% at the end of June. The increase in vacancy can be attributed to portfolio reassessment by several occupiers and slow pace of leasing. The first half of 2021 witnessed several relocations as the ongoing pandemic forced some of the occupiers to reconsider and re-evaluate their real estate requirements.

## RENTS

Overall city rents declined marginally by 1% compared to the previous six-months' average. Notable decline of about 3-5% YOY was recorded in Pre Toll, MPR and GST locations.

# CHENNAI MARKET OUTLOOK

## DEMAND

We expect leasing activity to be subdued in 2021 compared to the previous year. The expected absorption is therefore approximately 3.5 mn sq. ft. for the year 2021. Economic growth and advancing vaccinations are likely to aid leasing momentum, despite an overall cautious approach.

## SECTORS

The sectors such as Information Technology, Banking, Financial Services, Engineering and Design are expected to continue to constitute majority of office demand in the city. The flexible workspace segment is likely to see similar levels of leasing momentum but is not expected to gain notable share in overall leasing in 2021.

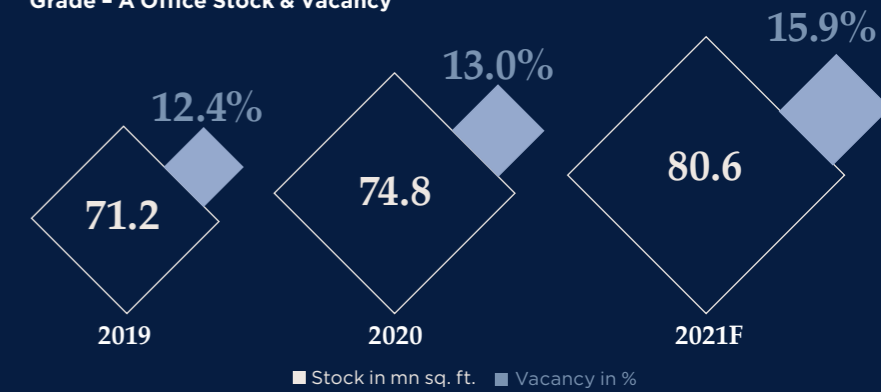
## RENT & VACANCY

Rents in 2021 are likely to be stable over the next six months. Along with stability in rentals, terminations and space surrenders are likely to be relatively less in 2021, resulting in slight improvement in occupancy levels in select markets. However, overall vacancy levels are likely to increase owing to infusion of new supply.

## SUPPLY

The second half of 2021 is expected to witness approximately 5.4 mn sq. ft. of new completions as construction activity resumes. This upcoming supply will be predominantly spread across MPR, GST & PTR locations.

## Grade - A Office Stock & Vacancy



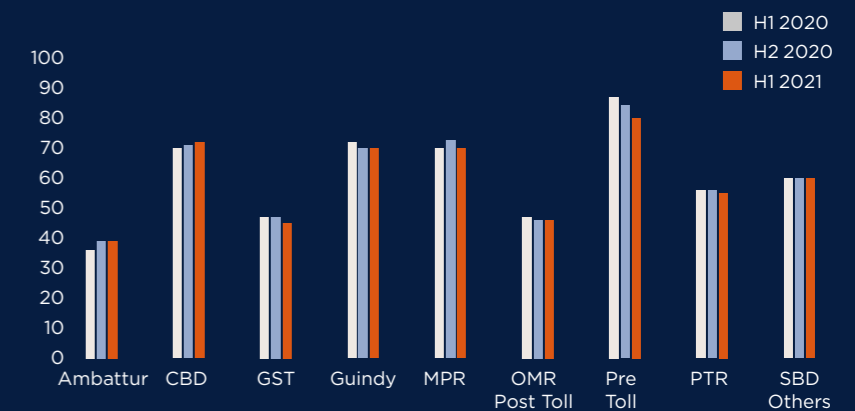
Source Savills India Research

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



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.)
CohnReznick	SBD Guindy	Olympia Tech Park	50,000
DISYS	SBD - OMR Pre Toll	TRIL	50,000
Technicolor	PDB - OMR Post Toll	ASV Suntech	40,200
SRM Technologies	SBD - OMR Pre Toll	RMZ Millenia	40,000
Zifo RnD Solutions	SBD - MPR	DLF Cybercity	39,700

## CHENNAI MICRO MARKETS

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

\*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>



## Savills

Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and 39,000 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 Bengaluru, Mumbai, Delhi-NCR, Chennai, Pune and Hyderabad, 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. Starting in India in 2016, the company employs over 350 professionals.

## 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



savills.in

Savills, the international real estate advisor established in the UK since 1855 with a network of over 600 offices and associates globally.

This document is prepared by Savills for information only. Whilst the information shared above has been shared in good faith and with due care with an endeavour to keep the information up to date and correct, no representations or warranties are made (express or implied) as to the accuracy, completeness, suitability or otherwise of the whole or any part of the deliverables. It does not constitute any offer or part of any contract for sale.

This publication may not be reproduced in any form or in any manner, in part or as a whole without written permission of the publisher, Savills.

© Savills India 2021.