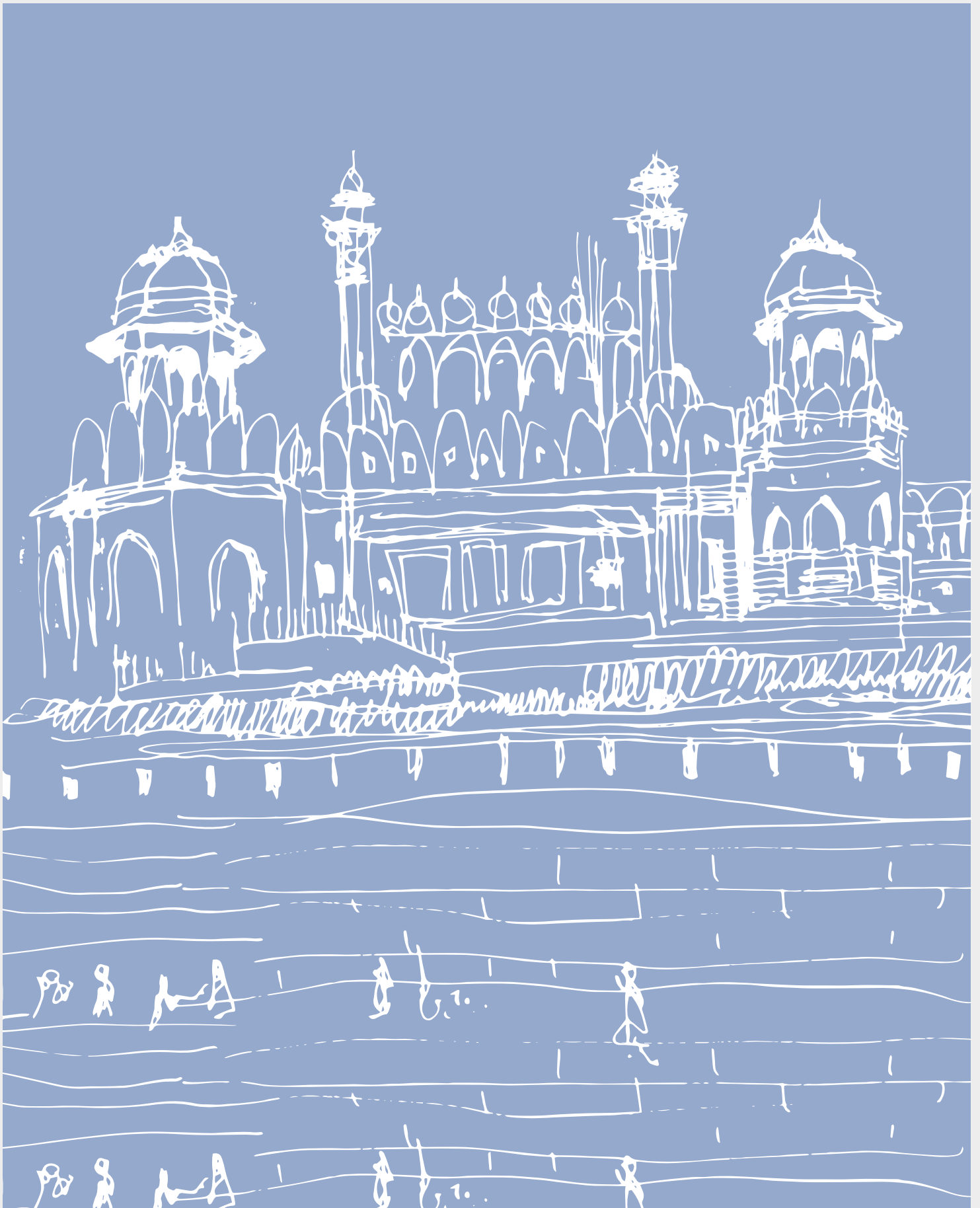


H1 2021

SPOTLIGHT
Savills Research

Delhi-NCR 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 17th 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 16th 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 28th 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

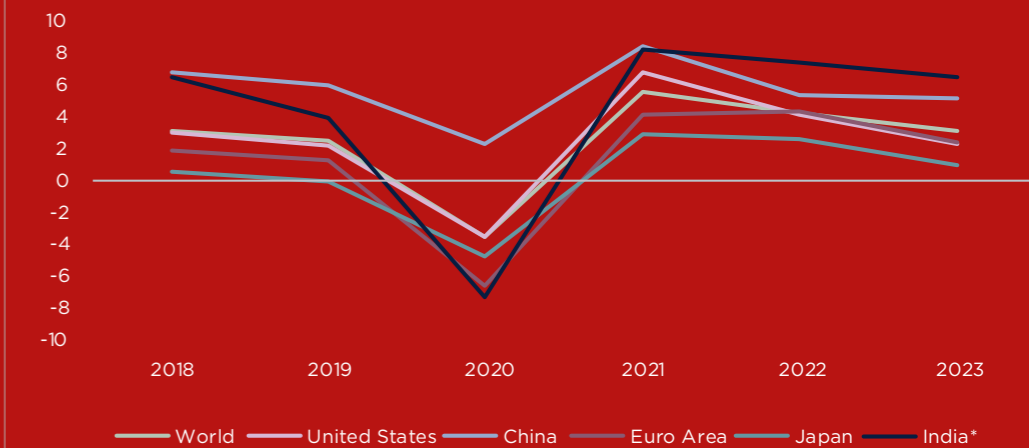
As measures for COVID specific support, the government announced 100% guarantee cover for loans of up to INR 2 crores for hospitals and nursing homes, for setting up oxygen generation plants. Also, COVID treatment items have been exempted from IGST till August 2021.

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.

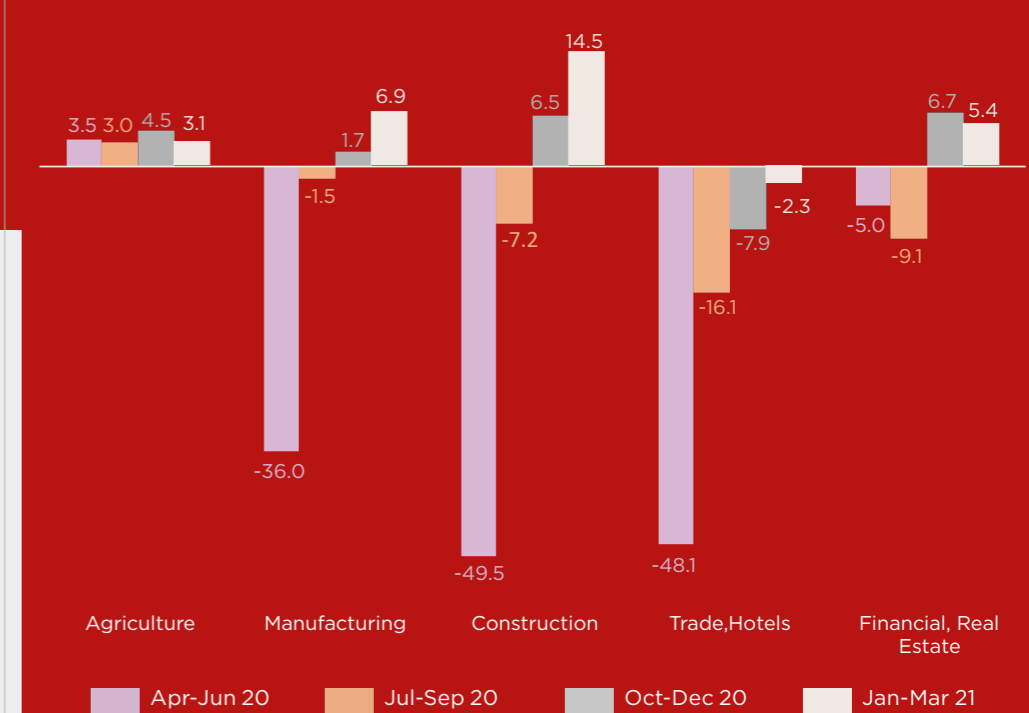
Chart 1: GDP Growth (annual % change)



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 cities¹ 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.

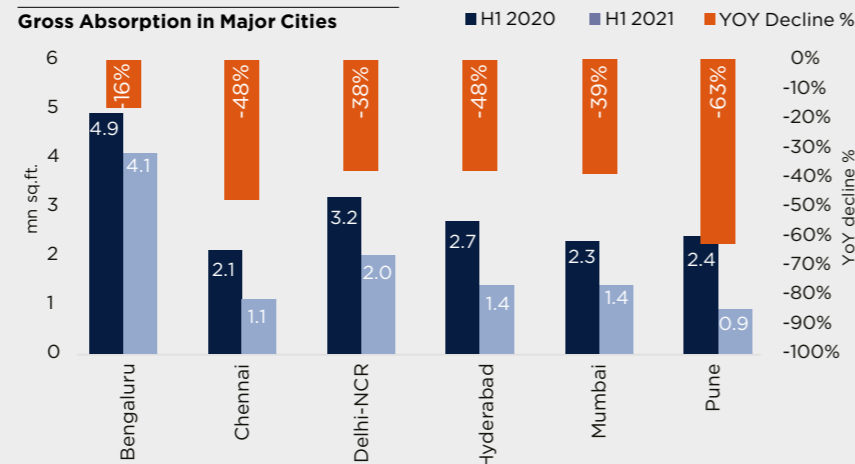
Following Bengaluru, Delhi-NCR witnessed leasing activity of 2.0 mn sq. ft. in H1 2021, recording a 38% YOY decline. While Mumbai and Hyderabad shared third place with approximately 1.4 mn sq. ft. absorption, the annual decline in leasing was sharper for Hyderabad at 48% compared to 39% for Mumbai.

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 3rd 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

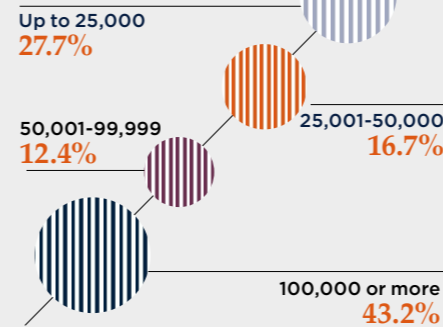
Sizeable consolidations and expansions have contributed to the share of large deals (deal size more than 100,000 sq. ft.) in H1 2021, accounting for about 43.2% of the overall pie. Bengaluru witnessed the highest share of large deals at 51%, followed by Delhi-NCR and Hyderabad.

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.

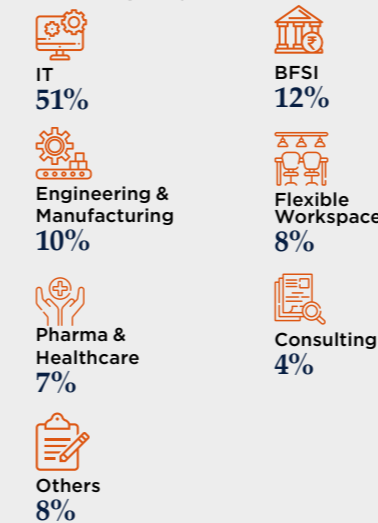
Technology occupiers continue to drive demand and large leases

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.

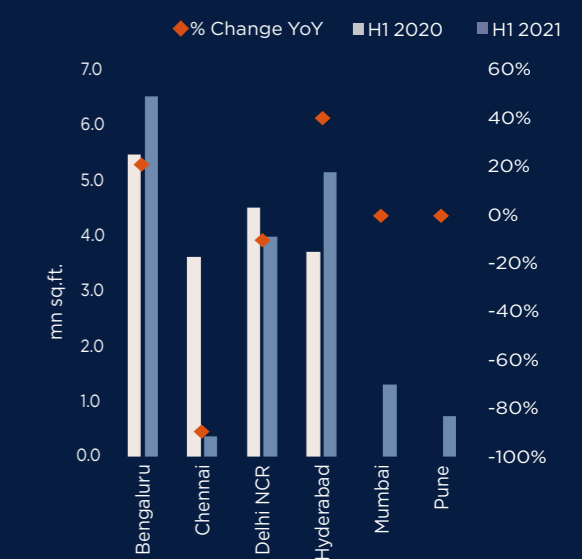
Select pockets kept overall rents under pressure, thereby creating conditions favourable to occupiers.

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

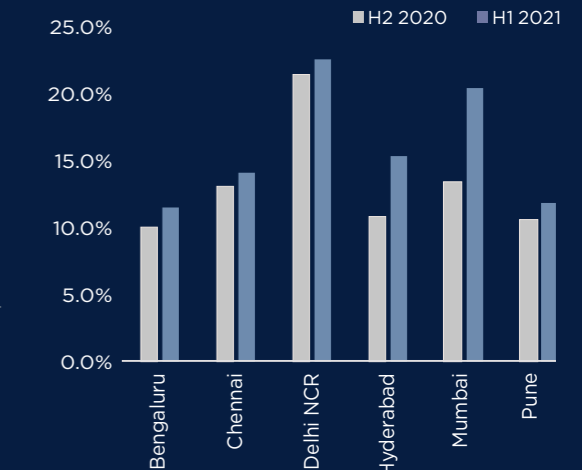
Supply Addition: H1 2021 vs H1 2020



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

DELHI-NCR OFFICE MARKET UPDATE



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DELHI-NCR'S KEY HIGHLIGHTS

NOIDA Expressway and Golf Course Extension Road maintain their stronghold.

NOIDA Expressway & Golf Course Extension Road in Gurugram have been most active micro markets in the Delhi-NCR region. Of the total leasing by technology occupiers, about 52% of take-up was concentrated in NOIDA Expressway and Golf Course Extension Road micro market.

With the advantage of good infrastructure development as well as connectivity and relatively lower rents as compared to other micro markets, NOIDA Expressway and Golf Course Extension Road collectively had demand and supply share of approximately 40% and 90% respectively in H1 2021.

Strong Demand Base

Delhi-NCR's demand in H1 2021 was mainly driven by occupiers in the Technology and Engineering & Manufacturing sectors, which constituted 47% and 15% share, respectively. Consulting & Research occupiers were prominent too, with about 14% share.

However, in H1 2021 BFSI demand share dropped drastically to 7% from 19% compared to H1 2020. Flexible workspace remained bearish and constituted only 4%.

KEY STATISTICS: H1 2021

New Supply **4.0** mn sq. ft. **YOY change -12%**

Gross Absorption **2.0** mn sq. ft. **YOY change -38%**

LEASING AND COMPLETIONS

Absorption: The office market witnessed gross absorption of 2.0 mn sq. ft. in H1 2021, a decline of 38% YOY. Though the second wave did not lead to a complete lockdown, several leasing decisions were paused at this time. In comparison, Q2 2020 had witnessed some activity which was carried forward from 2019.

During H1 2021, NOIDA and Gurugram contributed almost equally to the leasing activity. NOIDA contributed 49% to the gross absorption while Gurugram had a 47% share. The micro markets namely NOIDA Expressway and DLF Cybercity saw notable activity with a contribution of 33% and 13% in overall leasing activity respectively during H1 2021.

Overall absorption in Delhi, however, remained muted contributing only 4% to the gross absorption in H1 2021.

Supply: During H1 2021, 4.0 mn sq. ft. of additional supply was recorded in Delhi-NCR indicating a decline of 12% compared to H1 2020.

NOIDA Expressway and Golf Course Extension Road in Gurugram noted significant completion contributing 90% of the total new supply in H1 2021. Interestingly, Golf Course Extension Road witnessed notable completions with 1.35 mn sq. ft. compared to 280,000 sq. ft. in H1 2020. Delhi also saw rise in new supply by 33% YOY at 350,000 sq. ft.

VACANCY RATE

The vacancy rate increased to 22.5% at the end of H1 2021 as the leasing momentum could not keep pace with new completions and several occupiers reviewed their real estate footprint.

RENTS

Average rental values in Delhi-NCR declined by approximately 3% YOY. Most landlords continued to be accommodative to the requests of occupiers and displayed flexibility in lease terms such as higher rent-free periods, reduced rental escalations and furnished deals to retain and acquire new clients.

DELHI-NCR MARKET OUTLOOK

DEMAND

Office leasing is likely to be at similar level as 2020, and therefore expected at approximately 4.5 mn sq. ft. for the year 2021. The demand in the second half will be driven by relocations to the tune of approximately 2.0 mn sq. ft. as occupiers will continue to adopt a cautious approach and focus on reassessing their real estate portfolio.

SECTORS

Technology, BFSI, Consulting and Manufacturing occupiers are likely to lead the demand in 2021. Several occupiers will continue with Hybrid workplace strategies in the coming months that will result in asset light portfolios, mostly for mid-sized companies.

RENT & VACANCY

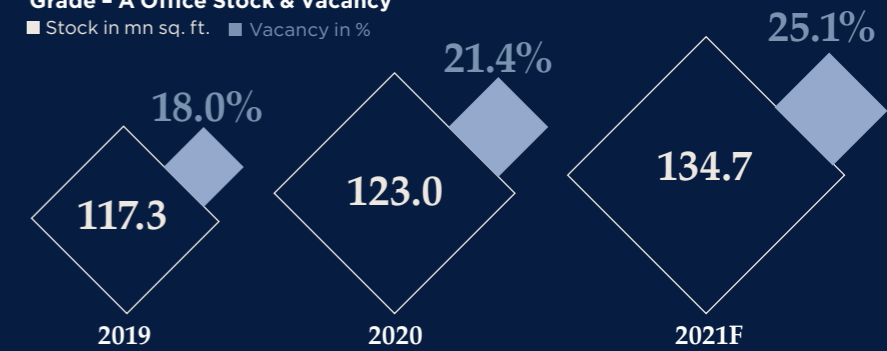
We expect rental values to remain stable for most micro markets within Gurugram, NOIDA & Delhi. However, rising vacancy levels are likely to exert downward pressure on rents in the second half of 2021.

SUPPLY

Delhi-NCR has a strong pipeline of around 7.7 mn sq. ft. in H2 2021, of which over 50% is likely to be completed in NOIDA, and the remaining in Gurugram. However, we expect delays due to slower construction pace and actual supply maybe lower than this.

Grade - A Office Stock & Vacancy

■ Stock in mn sq. ft. ■ Vacancy in %



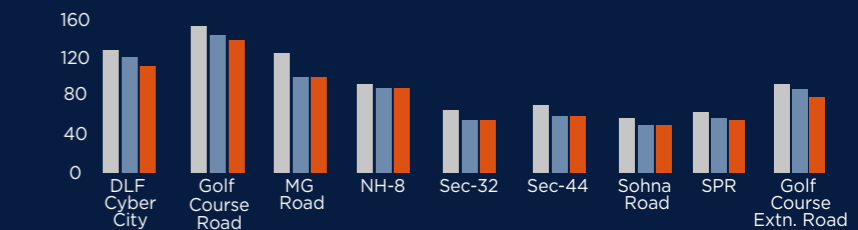
Office Absorption (mn sq. ft.) in DELHI-NCR



Average Rents (INR/sq. ft./month) in New Delhi



Average Rents (INR/sq. ft./month) in Gurugram



Average Rents (INR/sq. ft./month) in NOIDA



Source Savills India Research

MAJOR TRANSACTIONS H1 2021

Tenant	Micro market	Building	Transacted Area* (sq. ft.)
Netmagic	NOIDA	Artha SEZ	400,000
Ernst & Young	NOIDA	Advant IT Park	150,000
Webhelp	Gurugram	DLF Centre Court	110,000
TaskUs	Gurugram	TRIL	100,000
Cyril Amarchand Mangaldas	NOIDA	Max Tower	80,000

DELHI-NCR MICRO MARKETS

Delhi - Jasola, Aerocity, Connaught Place, Saket, Nehru Place.

Gurugram - DLF Cyber City, Golf Course Road, MG Road, NH-8, Sector-32, Sector-44, Sohna Road, SPR, Golf Course Extn. Road, Udyog Vihar.

Noida - Sector 62, Noida Expressway, Sector 16, 16A/B and 18.

*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
Stock/Inventory	<ul style="list-style-type: none"> Includes all constructed / completed buildings listings This includes existing buildings plus new completions
Supply	<ul style="list-style-type: none"> New office buildings that have received their certificates of occupancy within the period Buildings that have their structure ready and have occupier/s operating out of it or fit-outs are being carried out
Gross absorption/Gross Leasing/ Leasing activity	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> A fair estimation of asking rent and deal closure rent
Vacancy	<ul style="list-style-type: none"> Total vacant space as a percentage of Inventory/Stock

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



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