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SPOTLIGHT
Savills Research

Dollar-Edge Rental Office Markets in Bengaluru

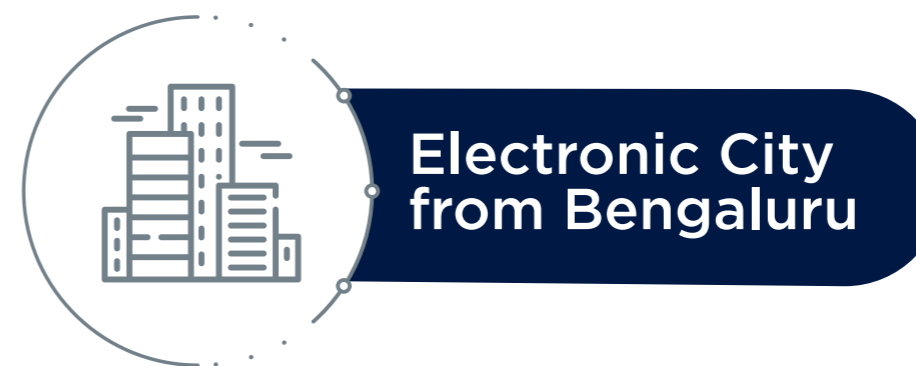


Foreword

After the COVID-19 induced economic slowdown in 2020, the bounce back was evidently brisk in 2021. Supported by accelerated vaccination coverage, business sentiments improved significantly, despite the second and third wave of infections. Occupiers are reassessing their real estate portfolio requirements and as employees return to offices in calibrated measures, office space take-up is expected to be on the rise in the coming months. Developers, too, are expected to infuse quality supply within stipulated timelines, fast-tracking the brisk revival of the sector.

2021 witnessed the six¹ major cities of the country registering a 15.5% YOY increase in gross office space absorption at 36.9 mn sq. ft. For an extensive coverage on commercial real estate activity in each of the six cities, we urge you to go through our year-end report '[India Office Market Watch 2021](#)'. Interestingly, these cities have expanded to newer suburbs and catered to the demand of cost-conscious occupiers over a period. This has gained more importance in the pandemic as select occupiers look to rationalise real estate costs. *Moreover, each city has its own unique and promising office micro market, which we have elaborated in this report 'Dollar-Edge Office Markets in India'. The report covers specific micro markets in each city where the unit rental outflow has remained within a dollar over a long timeframe, owing to exchange rate movements and other factors, and hence, a unique value proposition has been established for occupiers.* In addition to the office market trend in each location, the report covers aspects ranging from infrastructure to housing options and other real estate verticals.

This report profiles the following:



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

Electronic City: Ticking All the Real Estate Boxes



Electronic City: Ticking All the Real Estate Boxes

Electronic City, spread over 900 acres, is one of the most prominent technology hubs of Bengaluru. It consists of three zones, Phase I, Phase II and Phase III, and is home to numerous tech majors, industrial units, and residential complexes.

In the 1980s, a few companies, most of them electronics industries, set up shop in the locality. By the 1990s, as the Indian economy opened and liberalisation reforms started to fructify, Electronic City began to transform into an IT hub with companies like Infosys, Wipro,

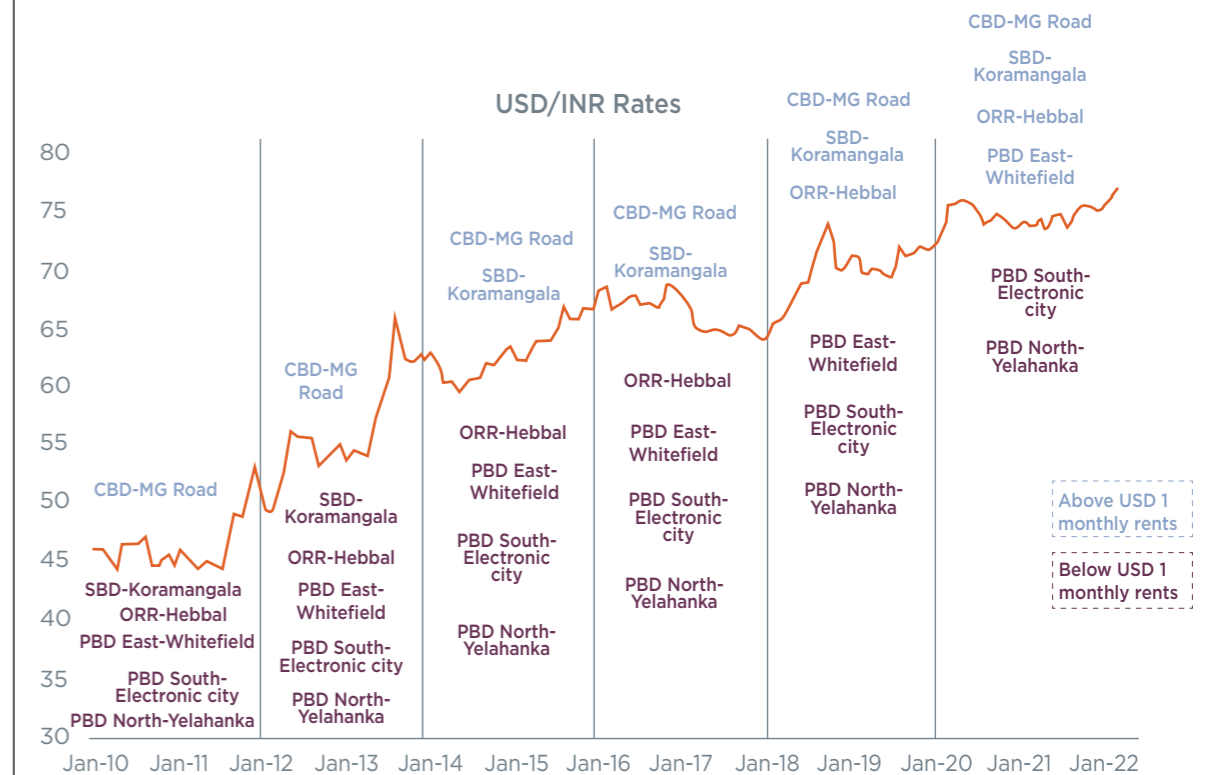
HP, Siemens, and later Intel and TCS setting up campuses in the area. Starting from electronics, it has eventually become a major hub for the IT-BPM industry and software services as well. Interestingly, the locality is also a preferred residential location, especially for young professionals who are drawn by the walk-to-work culture of the area.

Electronic City is one of the few micro markets of Bengaluru which ticks all the real estate boxes be it office, residential, manufacturing, data centres or life sciences. It is also a shining

example of growth that brought inclusive development in its wake. Not only in terms of cost of housing, but Electronic City is also one of the least expensive localities to live in Bengaluru. Proximity to good educational institutions, healthcare and hospitality facilities, scope for reasonable appreciation in investment avenues and a cosmopolitan culture are some of the inherent features which come bundled as a package with the locality.

Asking rent in premium office buildings is one key parameter which has a positive correlation with the overall affordability of a locality. Electronic City has remained an office market with average rentals less than one dollar throughout the last decade and continues to remain so, while other key localities such as Koramangala, Whitefield and Hebbal no longer offer the cost arbitrage advantage. This affordability of Electronic City has played a major part in its evolution as a preferred real estate destination within Bengaluru. In addition to affordability, infrastructure development has also enabled integration of Electronic City with central and suburban Bengaluru.

Evolution of Asking Rents in Premium Office Buildings in Key Localities



Source: Savills India Research, investing.com

Note: USD 1 = INR 76.3 on 10th March 2022

Electronic City: Real Estate Market Overview

The years before the pandemic were high flying years for the office market of Bengaluru and Electronic City was no exception. With gross absorption of 1.6 mn sq. ft. for 2019, the annual growth rate was strong at 36%. However, since the onset of the pandemic, the micro market has been subject to low leasing activity. The expansionary vision of major domestic IT giants has been put on hold as real estate requirements are being recalibrated, with Work From Home (WFH) policies being embedded in the work culture of many organisations. Leasing activity, however, had shown improvement in 2021 as compared to 2020 and is likely to gradually bounce back once market sentiments and business activity recover fully.

On the supply side, the total stock of high-grade office buildings currently stands at around 8.7 mn sq. ft. Unsurprisingly, developers have become cognizant of low leasing activity in recent years and consequentially there was negligible supply addition in 2021. As the demand-supply gap heightened in 2020,

vacancy levels in the micro market hovered around 34% and average rentals fell by around 6% in 2021 as compared to average rentals in 2019.

Leasing activity is expected to pick up from the momentum evident in the last quarter of 2021 and should rebound visibly in 2022 and 2023. Electronic City is likely to witness cumulative space take up to the tune of 2-4 mn sq. ft. in the next 5 years. This recovery trajectory will be driven by the unique propositions the micro market offers. However, such high vacancy levels may continue in an occupier-driven market, where demand is likely to be outpaced by an already planned supply of more than 3 mn sq. ft. in the next 2-3 years. Average rentals, meanwhile, are expected to remain rangebound in the near future.

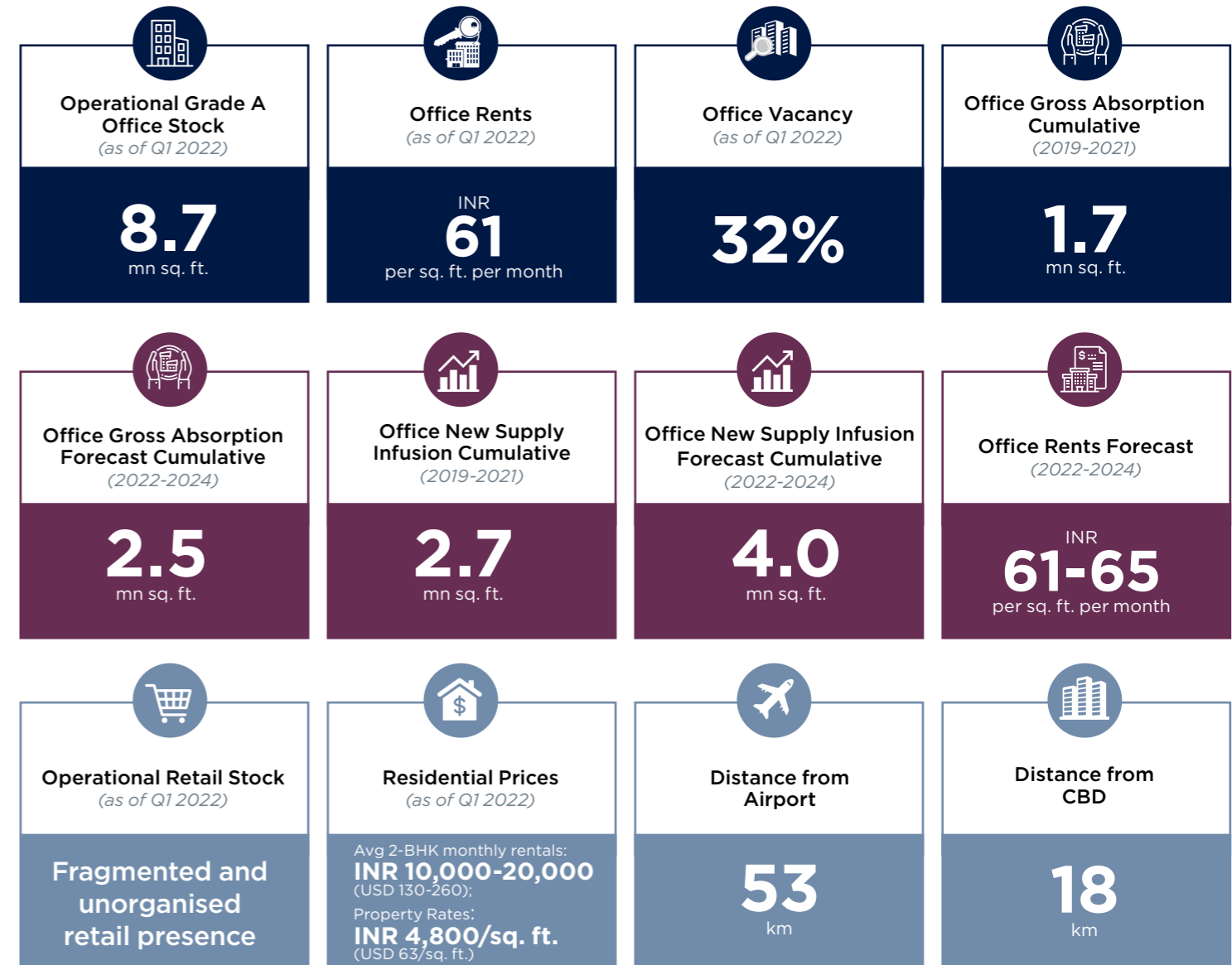
As far as residential real estate is concerned, sales and launches in Bengaluru including Electronic City have been resilient even during the ongoing pandemic. Average property prices

in Electronic City have witnessed a 3% YOY growth in 2021. Interestingly, as offices have started operating from their physical premises in a staggered and cautious manner, employees who had relocated to their hometowns in the initial days of the pandemic, are returning. Consequently, the rental housing market of Bengaluru including Electronic City witnessed heightened activity in 2021 as compared to 2020. In fact, in 2021, almost 60% of the rental housing demand in Electronic City was for 2-BHKs, which primarily cater to the student and working population of the locality.

Even the shared space arena including coworking and coliving has continued to benefit from the availability of a plethora of reasonable price points across product segments. The affordability of Electronic City, since its inception, has been one of the most critical driving factors of its real estate growth story, which in itself is a story to be highlighted.



Electronic City: Key Statistics at a Glance



Source: Savills India Research

¹⁰ Includes only leasable office stock, excludes Built-To-Suit developments

Cost-Effectiveness Driving the Appeal of Electronic City

Although Electronic City lies in the southern peripherals of the city, the micro market commands a significant interest from occupiers and developers in the commercial office segment, homebuyers, and companies from the manufacturing sector. The reasons for this appeal can be attributed to a variety of unique propositions such as lower cost of occupancy, skilled talent availability, campus-style office developments, relatively affordable housing market, quality of upcoming office stock, availability of land parcels for future development and prospective infrastructure upgrade.

Further, Electronic City's unique model of self-governance and collaboration has been a model to emulate for other industrial townships to create smart townships. In 2013, when the Karnataka Government declared it an Industrial Township Area, The Electronic City Industrial Township Authority (ELCITA) was formed under the Karnataka Municipal Act, and it now carries out all the functions of an urban administrative division. ELCITA is governed by a committee of members elected from member companies' senior management and the state government's nominees. Expert-led subcommittees guide and support activities and

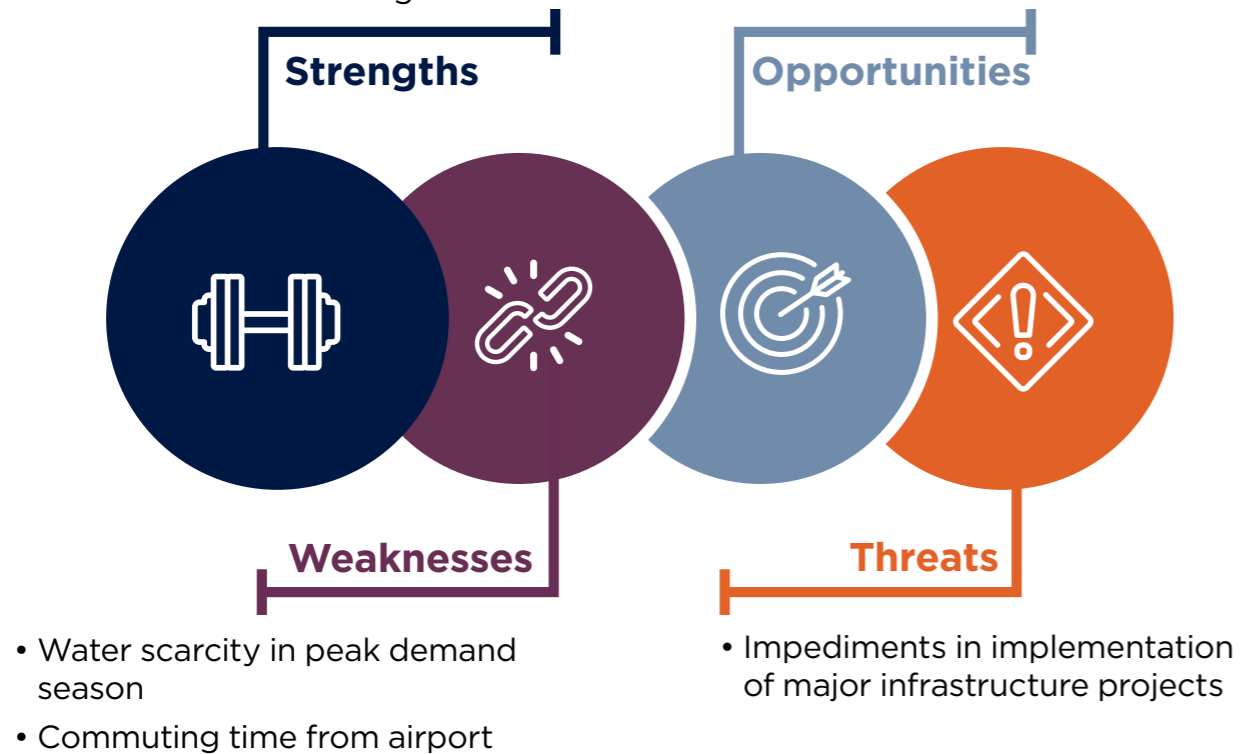
initiatives around estate management, sustainability, beautification, governance, smart city, town planning, culture, and communication.

However, the locality has certain drawbacks like scarcity of water in peak demand season. A quick snapshot of the strengths, weaknesses, opportunities, and threats of the area is depicted below. Also, it is important to note that the strengths and opportunities outweigh the weaknesses and threats, positioning Electronic City quite favourably in Bengaluru.

Electronic City SWOT Analysis

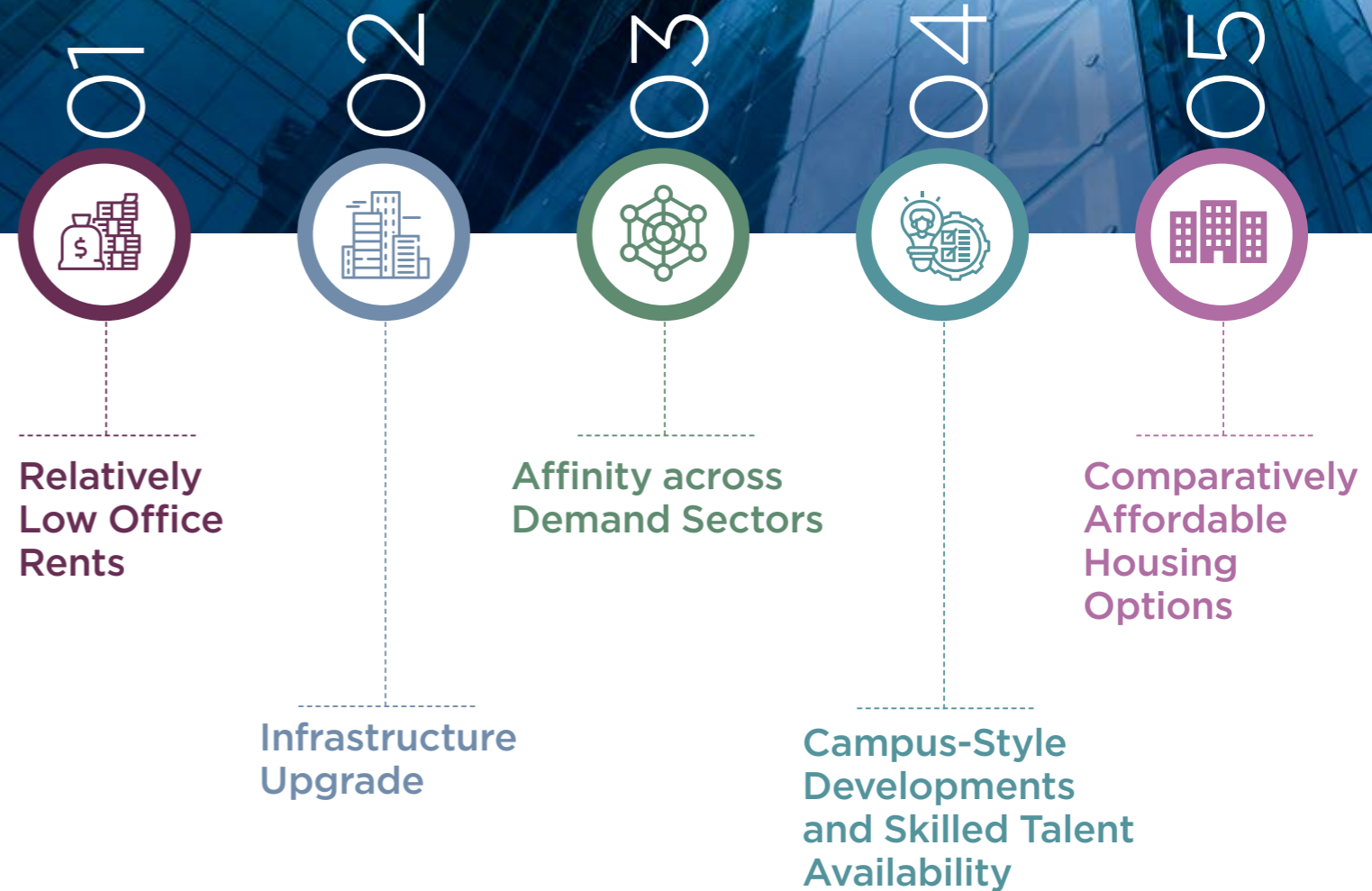
- Excellent connectivity
- Relatively low office rentals
- Comparitively affordable housing options
- Established location for companies from IT & manufacturing sectors

- Potential hub for life science companies & start-ups
- Availability of large land parcels



The subsections below present the most important factors (elaboration of the strengths and opportunities) which allow Electronic City to occupy a niche position in the real estate market of Bengaluru. In fact, these factors are expected to be the growth drivers of the overall real estate trajectory of Electronic City. Interestingly, most of these factors have a high level of inter-play with cost-effectiveness of real estate products be it office and warehouse lease rentals, or property and land prices. Affinity amongst cost conscious occupiers from the IT-BPM, manufacturing, start-up, and life sciences segments is all but an understated yet highly relevant factor in the real estate development of the locality.

Factors Driving Growth of Electronic City



Relatively Low Office Rents

Arbitrage in traditional and coworking office spaces: A large number of MNCs including domestic IT giants with their primary earnings in foreign revenue, prefer the locality for average office rentals being within a dollar. This price arbitrage is evident not only in the traditional office buildings, but also in the coworking segment. The per seat monthly rentals start as low as INR 4,000 in certain shared spaces compared to the average rental of more than INR 10,000 in Bengaluru. Lower price points coupled with availability of more than 1,000 seats have the potential to make the locality a hotbed of flexible leasing activity as well.

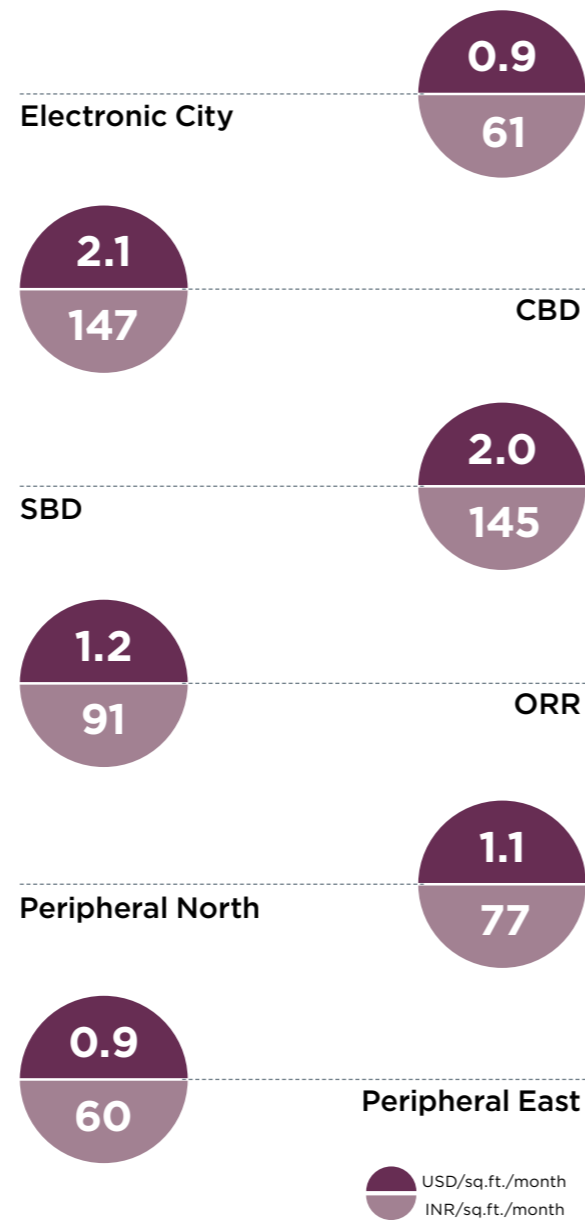
Supply is no more a limiting factor: Electronic City, in the late 2000s and early 2010s was in fact, touted to be the next big destination for commercial offices in Bengaluru. However, lower rentals at that point of time and availability of quality stock in Outer Ring Road (ORR) and Whitefield prevented

this micro market from getting into the thick of high leasing activity. Distance from the traditional Central Business District of the city was also a limiting factor for MNCs setting up their offices in Electronic City.

Now, average monthly rentals in grade A buildings in ORR, Whitefield, Brookefield and areas adjoining Hebbal in North Bengaluru have breached a dollar mark, whereas Electronic City still offers high quality spaces within a dollar monthly rent. This has driven Electronic City back into the radar of occupiers especially while relocating in these times of financial volatility. The erstwhile stumbling block of inadequate quality supply has now been navigated successfully on account of presence of high quality office space of around 8.7 mn sq. ft. across premium buildings such as Neotown TNR, Gold Hill Supreme IT Park, E-City Software Tech Park, Velankani Tech Park, Prestige Alecto etc.



Average Asking Rents as of December 2021



Note: This is the average asking rent for majority Grade-A buildings, however, there are developments with higher/lower asking rents.

Source: Savills India Research

BENGALURU MICRO MARKETS

Central Business District (CBD): MG Road, Millers Road, Vittal Mallya Road, Residency Road.

Outer Ring Road (ORR): Zone 1: Sarjapur to Marathahalli, Zone 2: Marathahalli to KR Puram, Zone 3: KR Puram to Hebbal

Secondary Business District (SBD): Indira Nagar, Old Airport Road, CV Raman Nagar, Koramangala, Jayanagar, Domlur, Bannerghatta Road, Rajaji Nagar, Malleshwaram

Peripheral East: Whitefield, Brookefield

Peripheral South: Electronic City, Hosur Road, Mysore Road

Peripheral North: Bellary Road, Thanissandra Road, Tumkur Road, Hebbal to Yelahanka

Infrastructure Upgrade on the Anvil

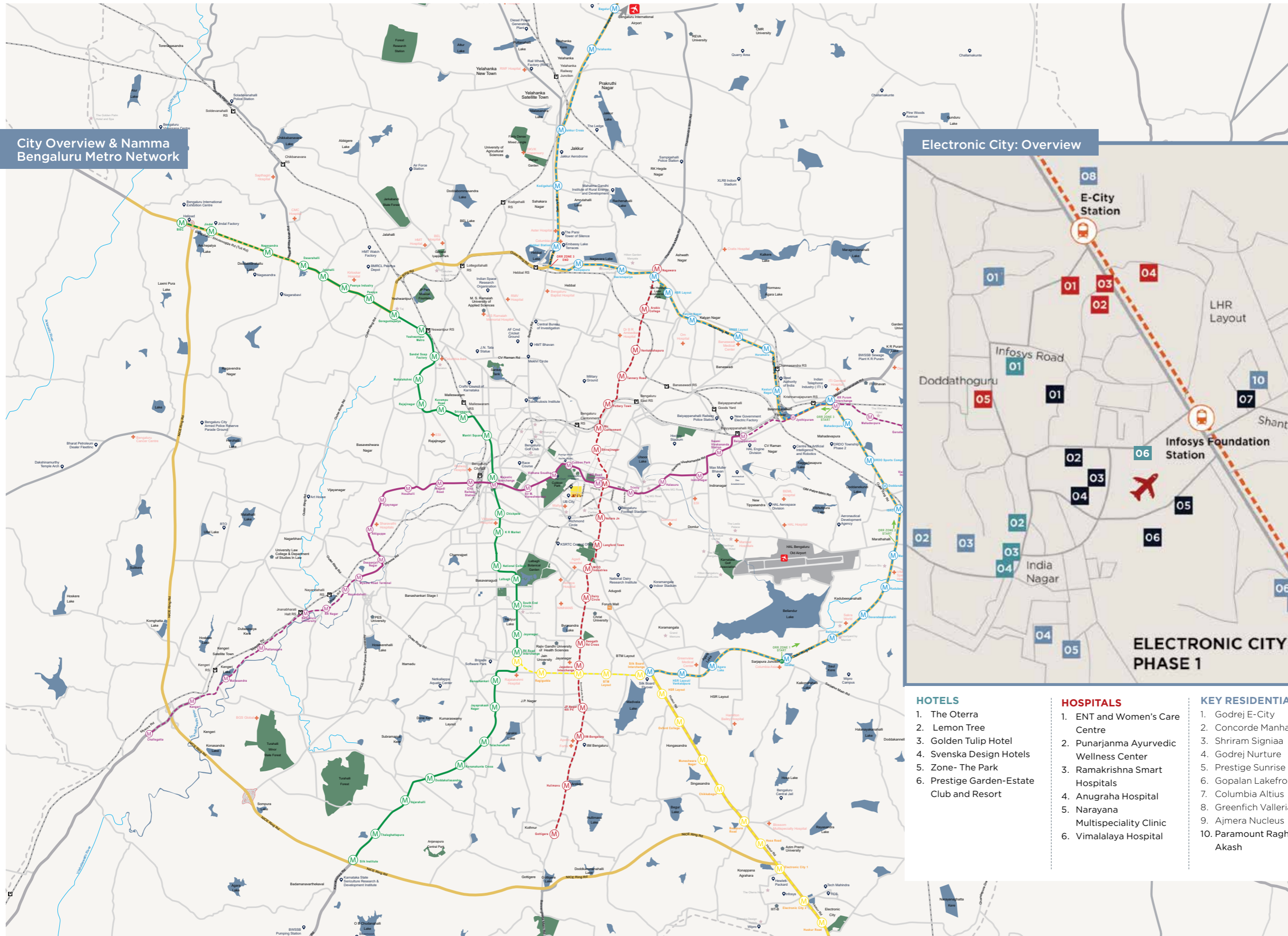
Metro connectivity to boost infrastructure: The locality boasts of excellent connectivity through Hosur Road, Electronic City flyover, NICE Ring Road and Heelalige Railway Station. Metro connectivity is expected to provide a significant infrastructure boost in the coming years. Electronic City is part of the under-construction Yellow Line (Line 3, Phase II) of the city-wide mass transit network. The 18-km line connecting RV Road and Bommasandra is fully elevated and will have interchanges with the Green Line at RV Road and Pink Line at Jayadeva Hospital. An additional interchange

facility will be provided with the Blue Line at Silk Board. Apart from Electronic City, terminal stations and interchanges, the Yellow Line will have key stops at BTM, Huskur Road, Roopena Agrahara, Kudlu Gate, Singasandra, Hosa Road and Ragigudda.

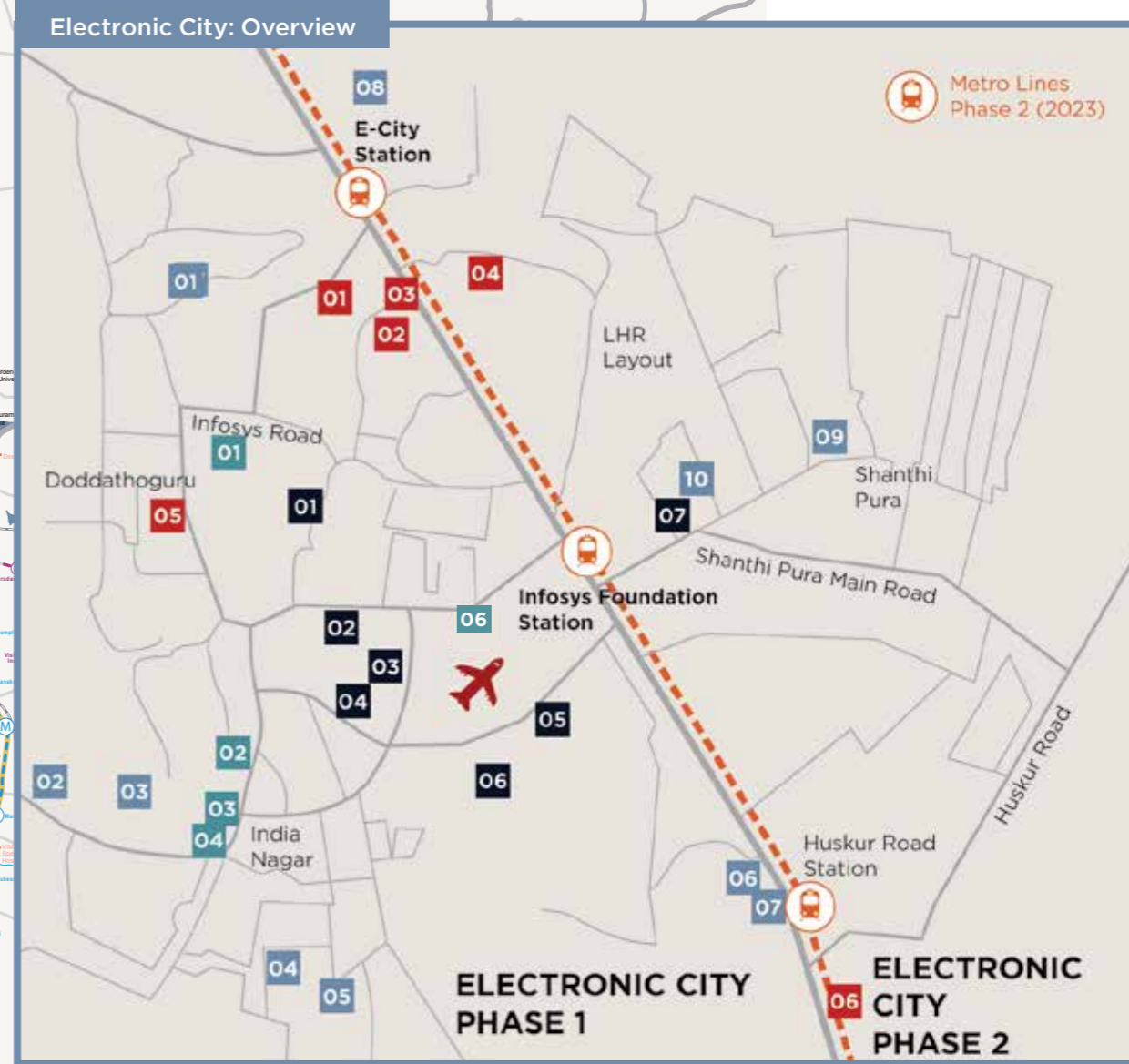
Integration of Electronic City with real estate hotspots in South Bengaluru: Both residents and office-goers are likely to get a huge upgrade in terms of mobility, once the elevated Yellow Line is fully operational by the end of 2022. Apart from travel time reduction

during peak hours and circumventing traffic bottlenecks in Madivala and Silk Board, access to educational institutions, malls and other retail destinations along the corridor including Electronic City will vastly improve once this metro line is operational. All in all, upgraded connectivity is expected to integrate the southern peripheral of the city with commercial and retail hotspots in South Bengaluru like Koramangala, HSR Layout, BTM, Silk Board, Bannerghatta Road, Jayanagar and JP Nagar.





City Overview & Namma Bengaluru Metro Network



Electronic City: Overview

HOTELS

1. The Oterra
2. Lemon Tree
3. Golden Tulip Hotel
4. Svenska Design Hotels
5. Zone- The Park
6. Prestige Garden-Estate Club and Resort

HOSPITALS

1. ENT and Women's Care Centre
2. Punarjanma Ayurvedic Wellness Center
3. Ramakrishna Smart Hospitals
4. Anugraha Hospital
5. Narayana Multispeciality Clinic
6. Vimalalaya Hospital

KEY RESIDENTIAL

1. Godrej E-City
2. Concorde Manhattan
3. Shriram Signiaa
4. Godrej Nurture
5. Prestige Sunrise Park
6. Gopalan Lakefront
7. Columbia Altius
8. Greenfich Vallerian
9. Ajmera Nucleus
10. Paramount Raghavendra Akash

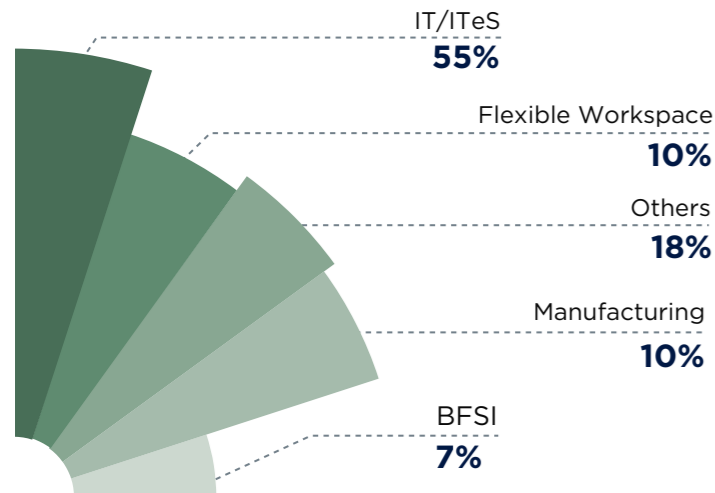
EDUCATIONAL INSTITUTES

1. IFIM Business School
2. International Institute of Information Technology
3. ISBR Business School
4. Welingkar Institute
5. ISBR Law College
6. Symbiosis Institute
7. Xavier Institute of Management & Entrepreneurship

Affinity Across Demand Sectors

Preference of occupiers across segments: Much like elsewhere in Bengaluru, leasing activity in the office market of the locality is driven by the IT and allied industries. Within Electronic City, the sector has contributed more than half of the space uptake since 2019. Manufacturing companies, with a share of 10%, are also a significant demand generator. In fact, manufacturing companies benefit greatly from the robust industrial infrastructure setup of Anekal Taluk in South Bengaluru including Electronic City, Jigani, Attibele, Bommasandra, Chandapura, and Sarjapura.

Commercial Office Leasing Break-Up of Electronic City: 2019 to 2021



Source: Savills India Research

Proximity of Electronic City to Industrial Clusters

Route	Distance
Electronic City - Bommasandra	6 kms
Electronic City - Jigani	9 kms
Electronic City - Chandapura	10 kms
Electronic City - Attibele	17 kms
Electronic City - Sarjapura	20 kms

Source: Savills India Research

To understand the enablers, current state, growth opportunities and real estate as well as private equity investment potential of the life sciences sector, we urge you to go through our recent report 'On a Booster Dose: Life Sciences Real Estate.'

Availability of large contiguous land parcels: As companies and employees gradually return to offices in increasing numbers, the demand for office space will increase manifold across all localities of Bengaluru including Electronic City. Availability of large contiguous land parcels is key to meet the anticipated demand in future. More than 70 acres of land has been identified for future development by leading developers. Interestingly, the commercial office market of the locality is expected to witness supply addition of more than 3 mn sq. ft. of grade A multi-tenanted buildings in the next 2-3 years. Select upcoming premium grade A buildings include Velankani Tech Park- Block 9, RGA, MGM Tower, Fortune Pai Tower-1 and Sattva South Gate-2.

Broadening demand from the life sciences sector: Phase-I of the upcoming Bengaluru Life Sciences Park

(BLSP), being built on a PPP mode is expected to be completed by 2022. The entire project is being planned on a 52-acre land parcel and has a potential development area of 10 mn sq. ft. The park will consist of multi-tenanted buildings including a dedicated laboratory building for life sciences research and development. Built-to-suit campuses, incubation centres for start-ups and shared facilities will also be housed within the park. The project is expected to cater specifically to life sciences MNCs such as Biocon, Astrazeneca and Strand Life sciences and over 2,000 start-ups in the city. BLSP is likely to provide the stimulus to the overall life sciences sector in the country, which has the potential to witness USD 70-150 bn cumulative investments by 2030.

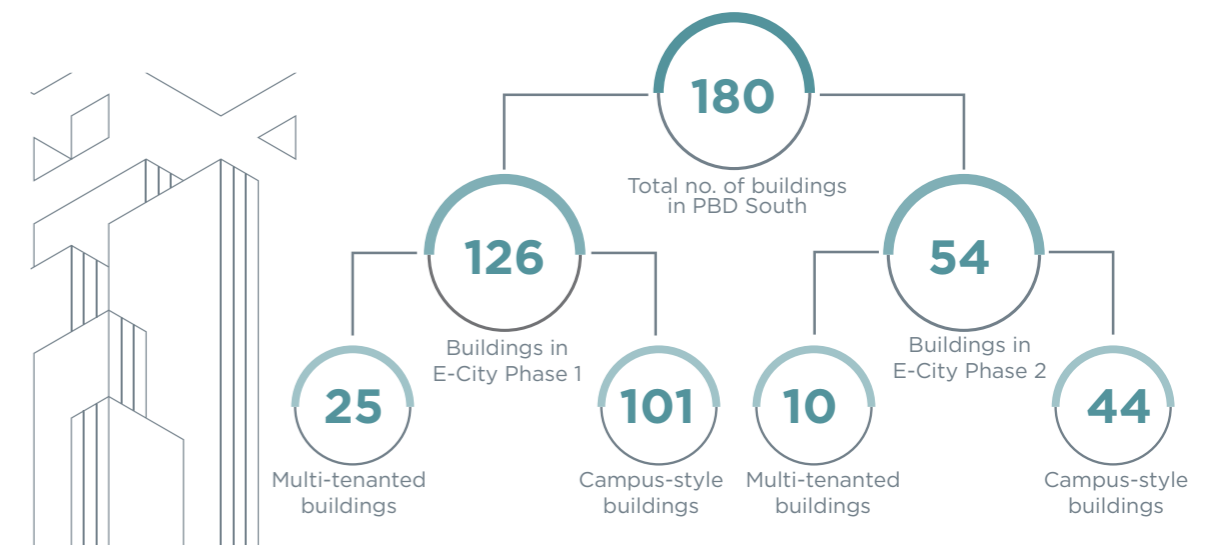
Campus-Style Developments and Skilled Talent Availability

Catering to occupiers with specific preferences: Electronic City is ideal for occupiers targeting large campus-style developments with state-of-the-art amenities including but not limited to in-house cafeterias, and training, relaxation, fitness, and entertainment zones. TCS, Infosys, Tech Mahindra, GE, Wipro, Schneider, Happiest Minds, HCL, Yokogawa and Biocon are amongst the few companies which already have their campuses in the locality.

Catchment area of skilled talent across sectors: Electronic City is one of the few localities in Bengaluru

where companies can find skilled talent across sectors residing in areas near their work locations. This availability of talent is not only limited to the IT-BPM sector, but also extends to the manufacturing sector, along with semi-skilled workers required for the e-commerce, warehousing, transportation, and logistics sectors. The relative affordability in real estate price points, especially housing, has enabled Electronic City to develop as a catchment area for skilled and semi-skilled workforce.

Dominance of Campus-Style Buildings in Electronic City



Source: Savills India Research

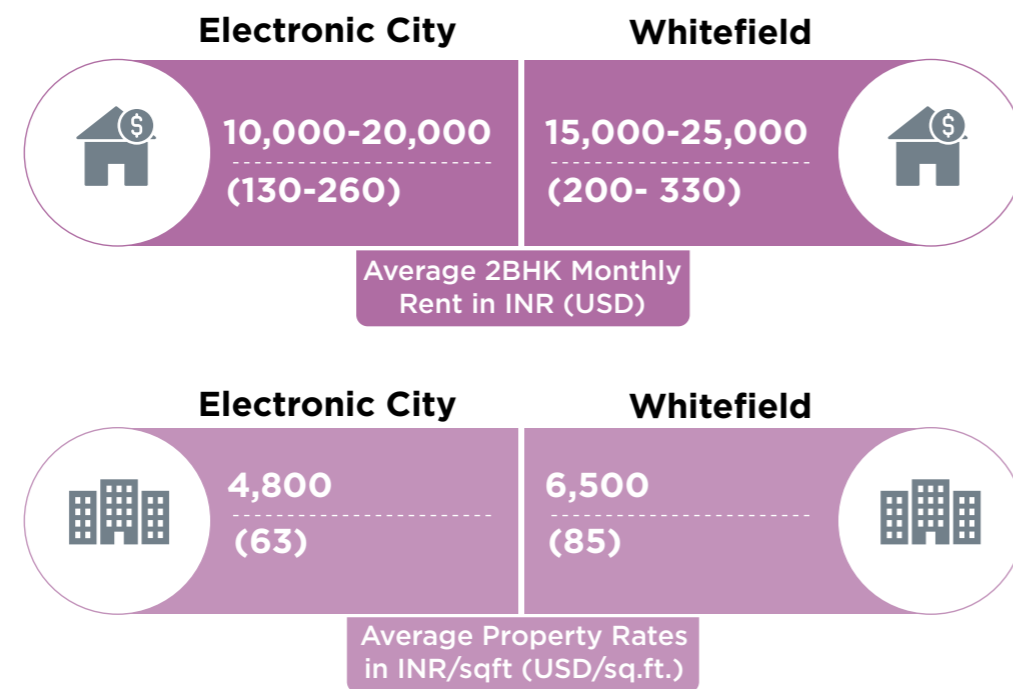
Comparatively Affordable Housing Options

Holistic social infrastructure: With many organisations opting for a hub-and-spoke office model, and spokes being increasingly located near residential catchment areas, Electronic City has a distinct advantage over other IT hubs in the city, especially Whitefield. Relatively affordable housing options, presence of many gated communities, good social infra in terms of educational institutes, hospitals, and neighbourhood retail stores act as a shot in the arm for the entire real estate spectrum of the locality including residential real estate.

An existing bus network and upcoming metro connectivity (Yellow Line of Phase-II) play a pivotal role in the intercity mobility of young students and working professionals taking advantage of cost arbitration in Electronic City.

Plethora of coliving options: Interestingly, Electronic City has numerous paying guest accommodations and branded coliving options like Guesture, Colive, CoFynd, HelloWorld, Beta House, RentMyStay etc. These particularly target students and young working professionals, who study or work within the locality or are willing to commute to the city centre, while taking advantage of relatively lower prices in Electronic City.

Residential Affordability Comparison



Source: Property Search Portals



Electronic City: Complementing Central and Suburban Bengaluru

Historically, Bengaluru's economic centre was concentrated in the Central Business District areas like MG Road, Millers Road, Vittal Mallya Road and Residency Road. As the city grew and infrastructure improved significantly in the then peripheral areas, areas like Koramangala, Indira Nagar, Outer Ring Road, HSR Layout, Hebbal, JP Nagar and Bannerghatta Road started supplementing the erstwhile driver of economic and real estate activity. Improved demand and availability of targeted real estate products coupled with infrastructure boost and significant affordability of real estate verticals in peripheral areas such as Electronic City have all been driving factors in the evolution of such localities. Electronic City in fact perfectly complements the heightened real estate activity

in ORR, Whitefield, Hebbal and beyond, Sarjapur, and suburban parts of today's Bengaluru.

Presence of quality social infrastructure including reputed schools, hotels and hospitals within the immediate vicinity adds to the overall real estate quotient of Electronic City. Interestingly, relatively affordable real estate price points, especially average rentals of less than a dollar, have played a pivotal part in the growth story of Electronic City.

Leading IT companies shifting from a complete work-from-home model in the initial days of the pandemic to a hybrid model augurs well for the commercial office market of Electronic City. On the supply side, availability of land parcels is

likely to bolster the developer appetite for creation of quality buildings be it office, residential or retail. We expect the residential segment including rental housing to reach pre-pandemic levels sooner rather than later. Similarly, we foresee the the warehousing segment taking benefit of the presence of nearby industrial clusters, and the rise of the e-commerce segment, which in turn will create significant traction in the near to medium term. Overall, with significant infrastructure upgrade on the anvil and a yet to be fully tapped real estate potential, Savills India Research envisages Electronic City to feature prominently in the growth story of Bengaluru in the coming years.

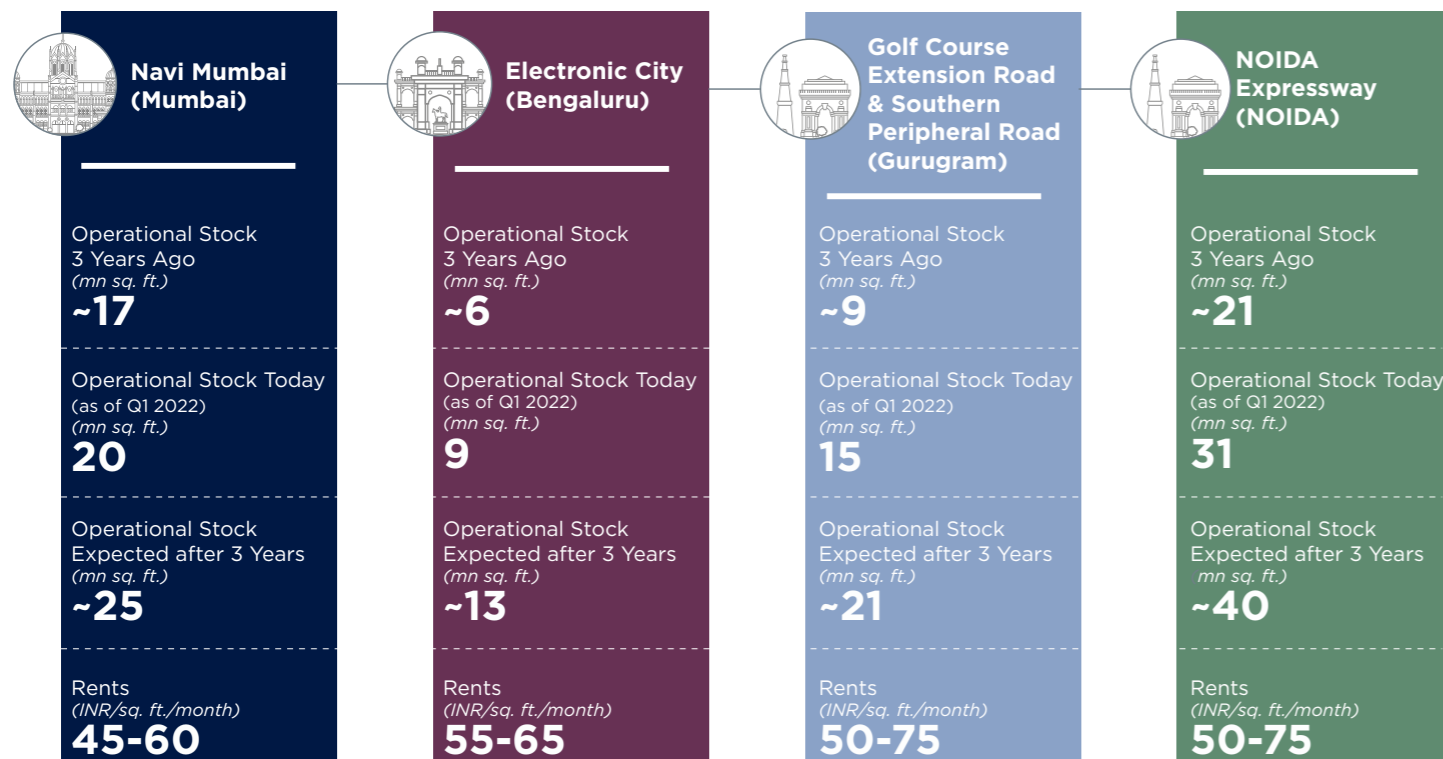
Over the last 3 years, the overall office stock in the dollar-edge micro markets of Mumbai, Bengaluru and the NCR has together grown by about 42%; and is expected to expand by about 32% over the next 3 years

Afterword

Sustained sub-dollar office markets have created immense growth opportunities for all real estate stakeholders including occupiers, developers, as well as investors. Office occupiers continue to benefit from attractive sub-dollar outflows, when global balance sheets are consolidated, whereas the developers are benefiting from lower land prices and thereby equipped to cater to the needs of large occupiers. The investors continue to find the yields attractive in office, retail, logistics and data centre assets in these markets.

Along with the growth of commercial real estate activity, these markets are showcasing inclusive development in the form of robust infrastructure, residential development, logistics expansion, and data centre opportunities, among others. We feel the stakeholders will continue to consider these sub-dollar office markets for reaping the benefits that these markets offer. We expect these 'dollar-edge' office markets to continue to register healthy growth in the near future.

Sub-Dollar Rent Office Markets' Potential to Grow



Source: Savills India Research



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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 450 professionals.

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