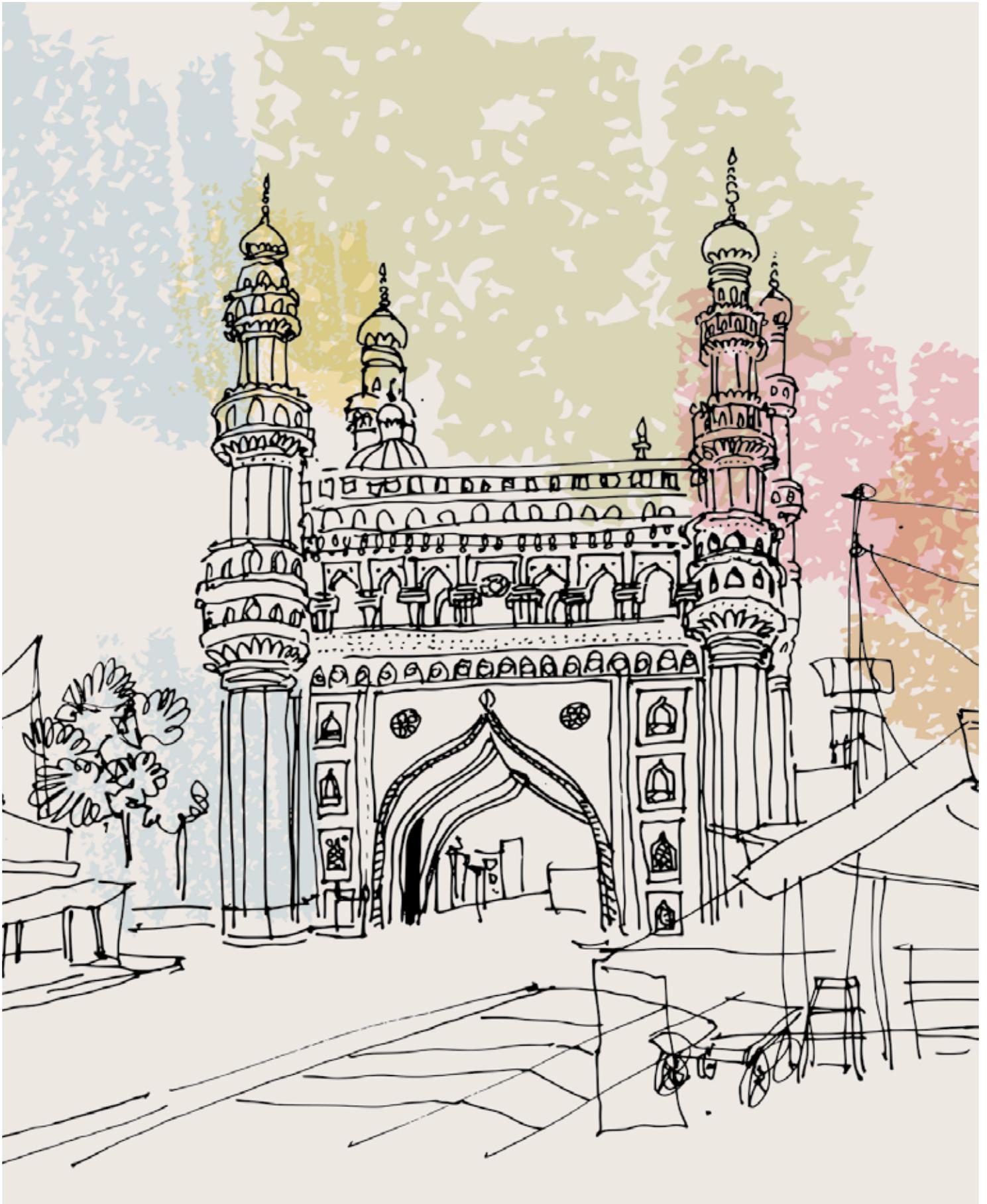


India - H1 2020

SPOTLIGHT
Savills Research

Hyderabad Market Watch Office

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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.

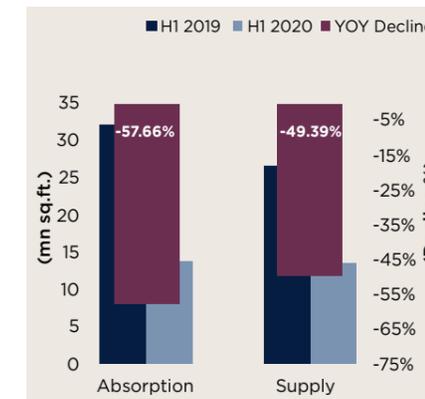
India's Office Real Estate in H1-2020

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

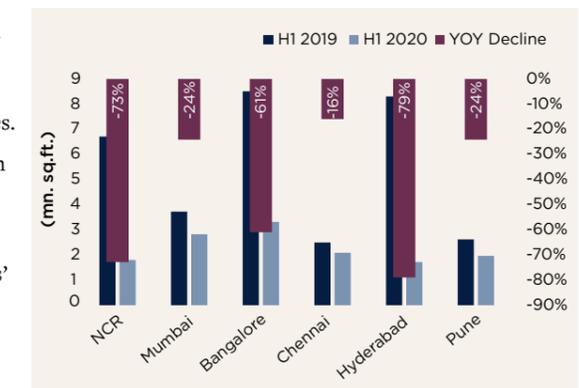
It is important to take a quick view of the mid-year demand patterns and present a brief year-on-year comparison for each of the six cities.

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.

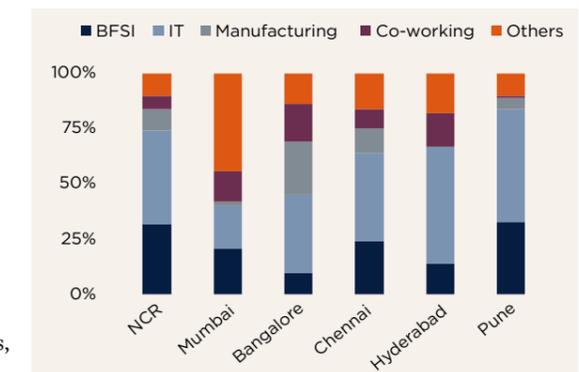
This section has presented a top-level summary of office markets' performance on the national scale. Further details on absorption, stock and supply, rentals, vacancies, sectoral splits, etc. are provided in each city section.

Demand Comparisons: H1 2019 vs H1 2020



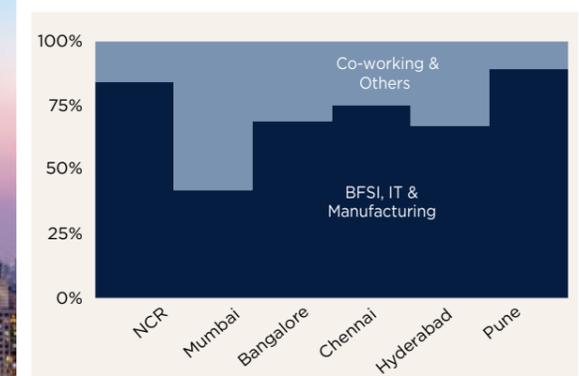
Source Savills India Research

Demand Sectors in H1 2020



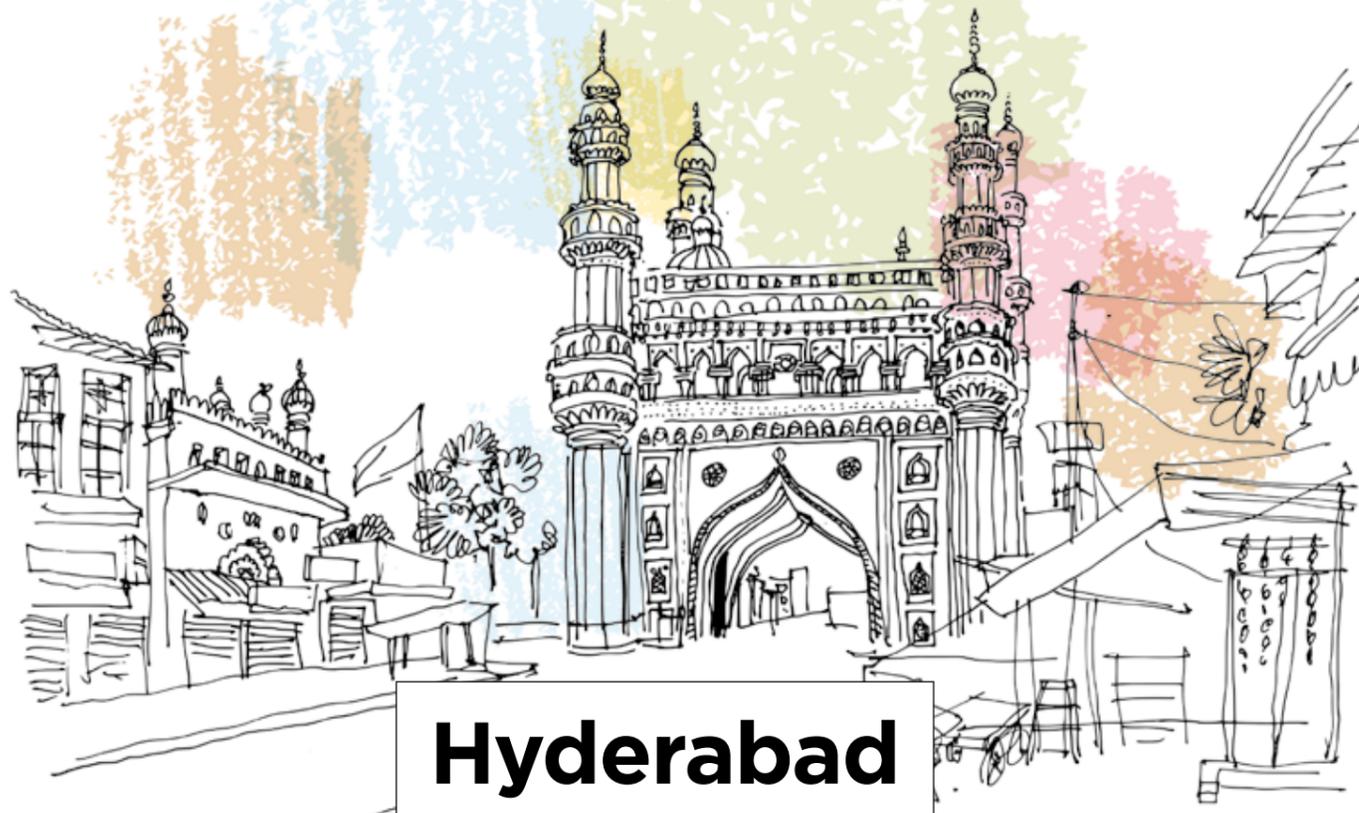
Source Savills India Research

Core Demand Sectors in H1 2020

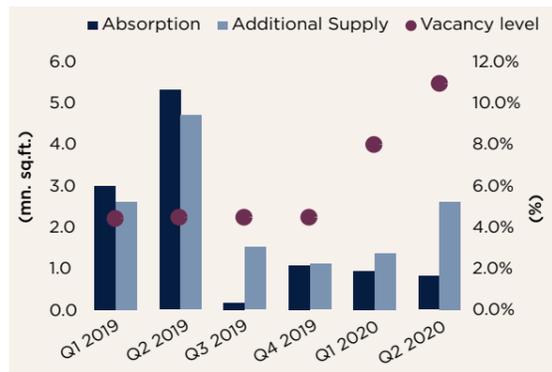


Source Savills India Research



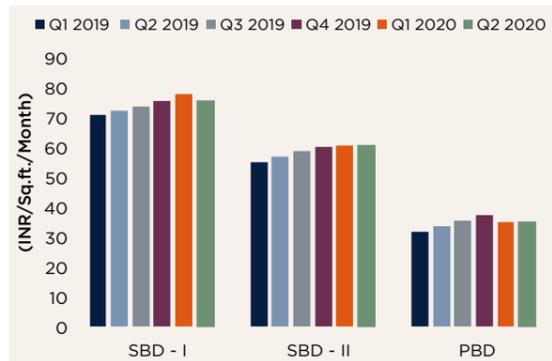


Hyderabad Absorption, Additional Stock and Vacancy, Q1/2019 to Q2/2020



Source Savills India Research

Rental Trends - Micro market Wise, Q1/2019 to Q2/2020



Source Savills India Research

HYDERABAD COMMERCIAL OVERVIEW

Demand:

Hyderabad, in 2019 had recorded historic leasing activity, registering close to 10 mn. sq. ft. of area in terms of office space transactions. As witnessed in major Indian cities, the first half of 2020 could not replicate the success story of 2019. Hyderabad witnessed slow office leasing and accounted for close to 12% share. H1-2020 witnessed leasing activity to the tune of 1.7 mn. sq. ft., significantly less transactions compared to similar timeframe, a year back. In terms of location, the activity was evenly distributed across HiTech City, Madhapur and Gachibowli.

Supply:

New completions have also taken a hit. Additional stock creation in the city office market has reduced by over 45% to 4 mn. sq. ft. in H1-2020 as compared to H1-2019. At the end of first half of 2020, the total stock in the city stood at around 61 mn. sq. ft.

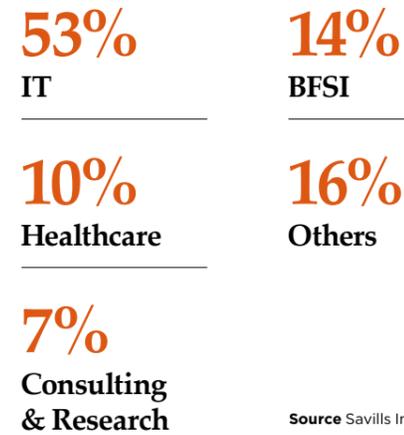
Vacancy, Rentals and Segmental Demand:

Hyderabad market has been subject to an oversupply of premium grade office buildings for the last few quarters. Demand, though high, has not been able

to match the supply. Consequentially vacancy levels across the city have seen a rising trend. Exits and terminations of leases by few players, a result of COVID-19 related financial stress, have also contributed to the high vacancy levels in the city. The current vacancy levels are beyond 10%, a significant increase from sub 5% levels a year ago.

Weighted average rentals across micromarkets, riding on the demand momentum of 2019, are currently at a 5-10% premium as compared to H1-2019. As far as sectoral demand is concerned, leasing activity in Hyderabad is traditionally dominated by IT industry. The service sector continues to drive the office space take-up in 2020 as well with more than 50% sectoral share in H1-2020. Financial services, healthcare and flexispace operators were the other significant demand generators.

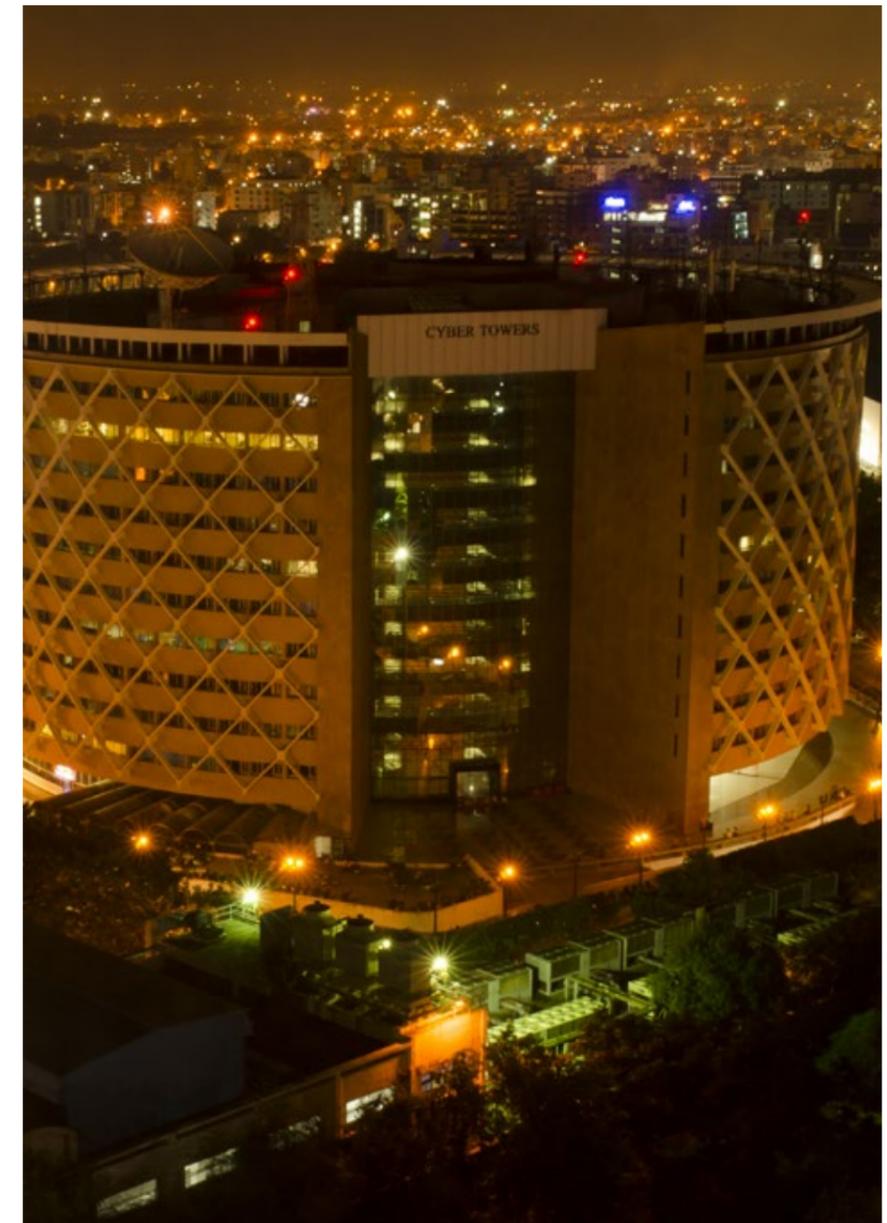
H1-2020: Absorption demand split sector wise



Source Savills India Research

IMPACT OF COVID-19 AND OVERALL OUTLOOK

Hyderabad's momentum, in terms of demand of quality grade-A office space, has definitely slowed down. The demand recovery will strongly correlate with the response of the IT and BPO world, the major demand generator of office space in the city. Intermittent lockdowns, even during the unlock phase have resulted in lack of clarity for businesses operating in the city. This has disrupted the bounce back of normal economic activity and office space demand to a large extent. Developers are also walking a tight rope and have put buildings with precommitments on priority, in terms of revised completion timelines. In terms of rentals, the market is slowly but steadily shifting towards a tenant driven market, from a landlord driven market few years back, when quality supply was limited. Landlords are expected to be increasingly flexible, specially with large occupiers in the post pandemic world.



Key Office Transactions, H1-2020

Building	Tenant	Micro-market	Sq ft*
Knowledge City (Parcel-2)	Microsoft India Research and Development Private Limited	SBD - I	300,000
Mindspace - Building 12A	Cognizant Technology Solutions India Private Limited	SBD - I	300,000
Mindspace - Building 12A	Cognizant Technology Solutions India Private Limited	SBD - I	200,000
Sohini Techpark	Microsoft India Private Limited	SBD - II	100,000
BSR IT	American Medical Devices Co.	SBD - I	100,000

Source Savills India Research

HYDERABAD MICROMARKETS:

Secondary Business District I (SBD-I) - Madhapur- Madhapur, Kondapur and Raidurg
 Secondary Business District II (SBD II) - Gachibowli- Gachibowli, Nanakramguda and Manikonda
 Peripheral East - Pocharam and Uppal

*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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Savills is India's premier professional international property consulting firm. Savills began its India operations in early 2016 and has since seen significant growth. With offices in Bengaluru, Mumbai, Delhi NCR, Chennai, Pune and Hyderabad; and also having serviced clients in Kolkata, Chandigarh, Guwahati, Bhubaneswar, Vadodara and Indore, Savills India has a strong pan-India platform to deliver to our clients.

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Research

Arvind Nandan

Managing Director
Research & Consulting
arvind.nandan@savills.in

Dipali Gandhi

Director
Research & Consulting
dipali.gandhi@savills.in

Suryaneel Das

Senior Manager
Research & Consulting
suryaneel.das@savills.in

Abhinav Pal

Assistant Manager
Research & Consulting
abhinav.pal@savills.in

Media Queries

Nitin Bahl

Director
Marketing, Sales and Strategy
nitin.bahl@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

Regional Management

Bhavin Thakker

Managing Director - Mumbai
Head - Cross Border Tenant Advisory
bthakker@savills.in

Sarita Hunt

Managing Director
Bangalore
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

Gurgaon

3-A, Second Floor, Building 9B
DLF Cyber City, Phase 3
Sector 24, Gurgaon 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

Bangalore

15th Floor, SKAV SEETHALAKSHMI
Corporation No.21, Kasturba Road
Bangalore 560001
Karnataka, India

Hyderabad

Office No. 02A114, WeWork
Krishe Emerald, Hitech City
Hyderabad 500081
Telangana, India



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