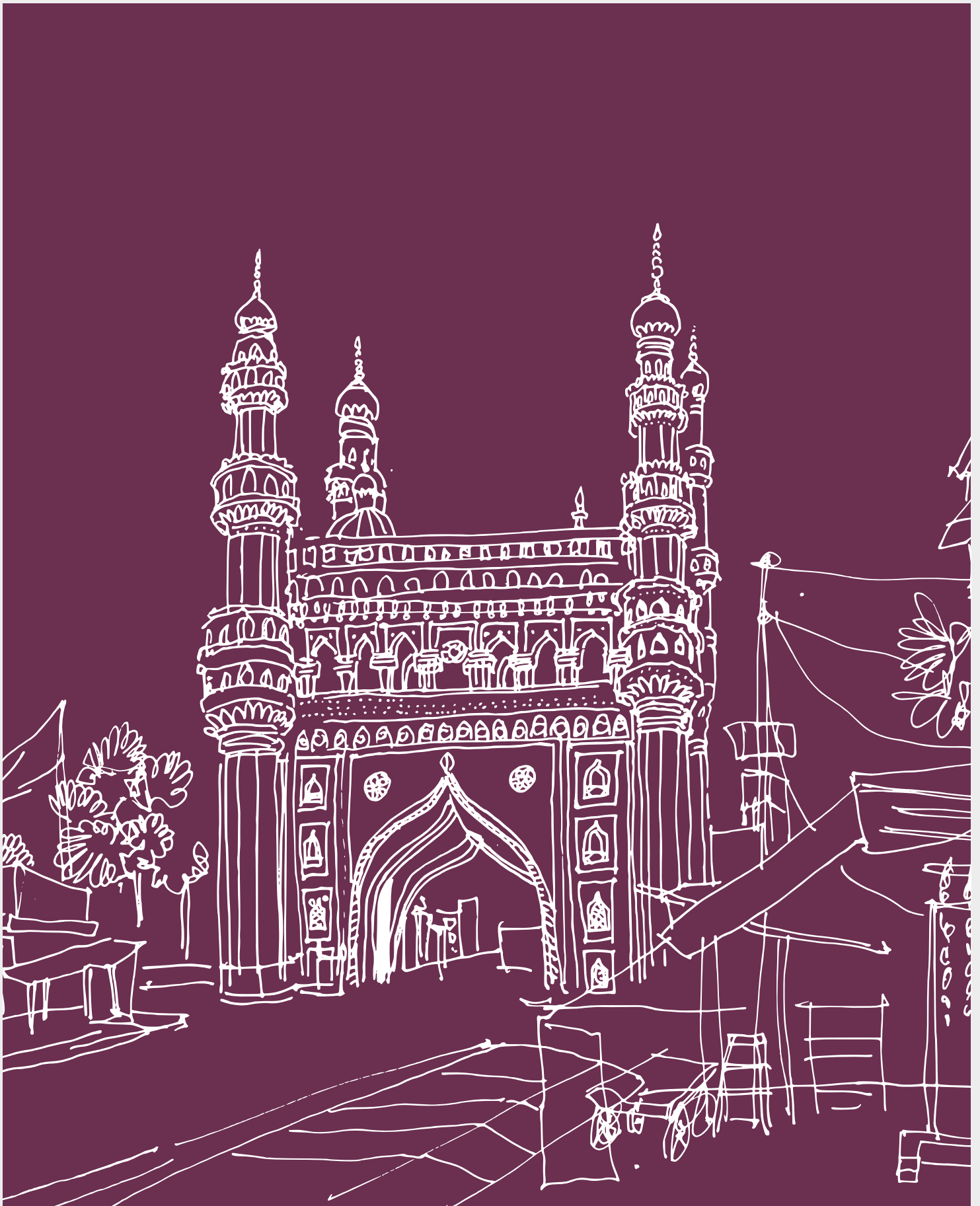


H1 2021

SPOTLIGHT
Savills Research

Hyderabad 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

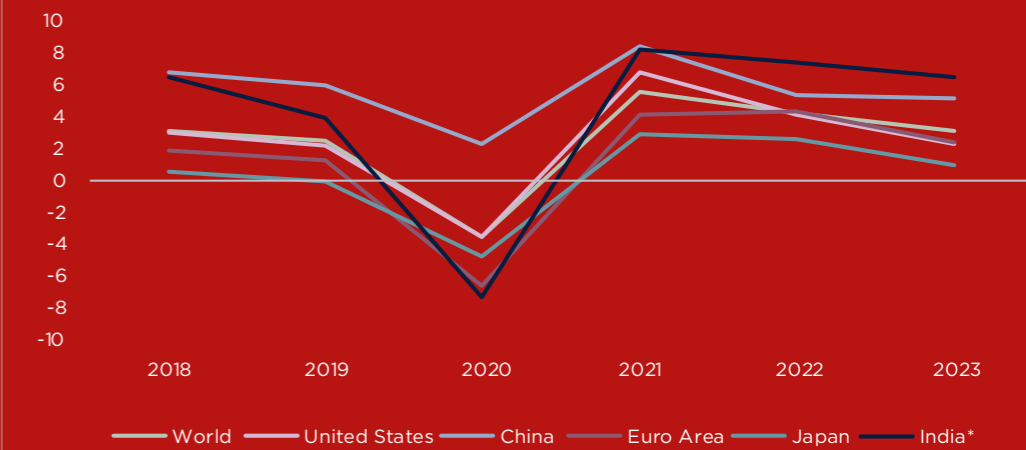
As measures for COVID specific support, the government announced 100% guarantee cover for loans of up to INR 2 crores for hospitals and nursing homes, for setting up oxygen generation plants. Also, COVID treatment items have been exempted from IGST till August 2021.

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.

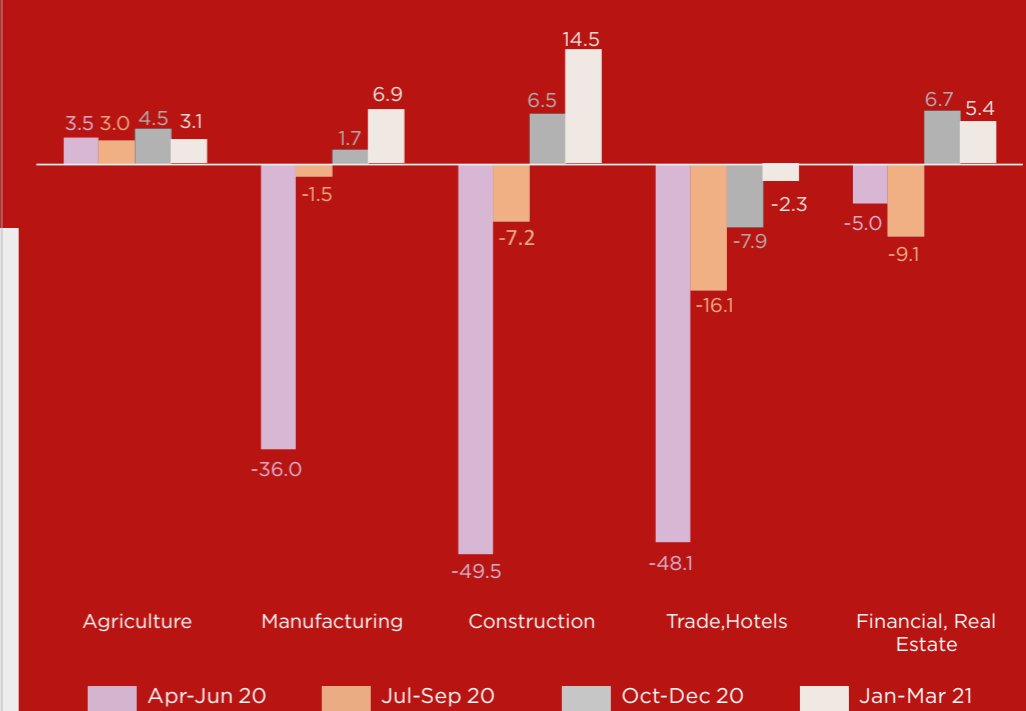
The second wave appears to be receding at the end of H1. Businesses are expected to recover on the strength of advancing vaccinations in the months ahead.

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.

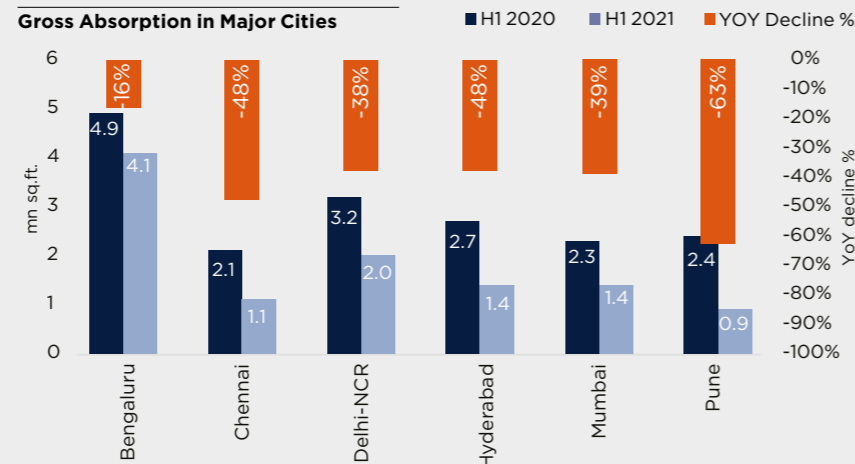
The top cities of Bengaluru, Delhi-NCR and Mumbai constituted around 69% of the total leasing activity in H1 2021. Pune recorded approximately 0.9 mn sq. ft. leasing, which was the lowest in volume as well as the largest decline among these six cities. Chennai just managed to breach 1.0 mn sq. ft., recording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

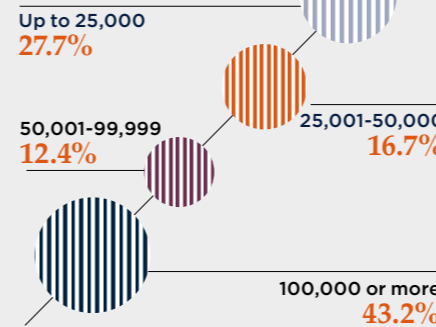
Sizeable consolidations and expansions have contributed to the share of large deals (deal size more than 100,000 sq. ft.) in H1 2021, accounting for about 43.2% of the overall pie. Bengaluru witnessed the highest share of large deals at 51%, followed by Delhi-NCR and Hyderabad.

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.

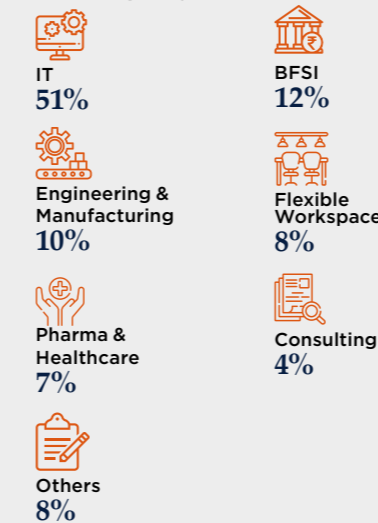
Technology occupiers continue to drive demand and large leases

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.

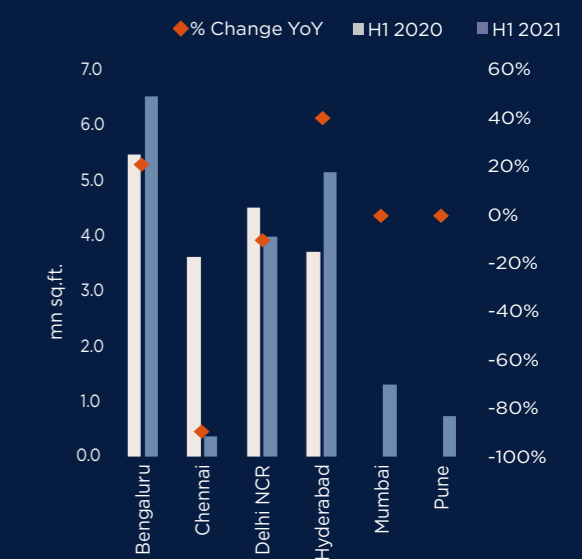
Select pockets kept overall rents under pressure, thereby creating conditions favourable to occupiers.

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

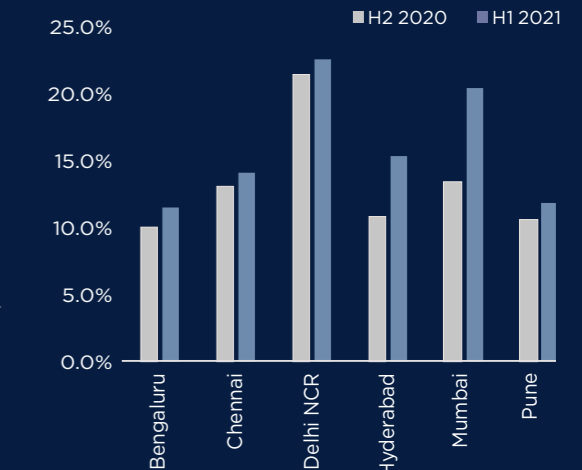
Supply Addition: H1 2021 vs H1 2020



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

HYDERABAD OFFICE MARKET UPDATE



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HYDERABAD'S KEY HIGHLIGHTS

Steady interest in shared spaces: Interestingly and contrary to popular belief, the performance of flexible workspace segment remained steady in H1 2021. The sector recorded almost 0.4 mn sq. ft. of transactions in the first half of the year and is poised to improve compared to the full year transaction activity registered in 2020. A couple of marquee deals, innovative product as well as price offerings by operators kept the occupier interest in flexible spaces buoyant. The flexible workspace operators rented out more than 4,000 seats across the city with prices ranging from INR 4,000 to 20,000 per seat on a monthly basis.

Rising vacancy may put pressure on rents: Vacancy levels in select micro markets have witnessed an upward movement for quite sometime now. As pandemic related exits and slow space take-up continued during H1 2021, the vacancy levels increased from 4.5% in 2019 to current levels of 15.3%. Planned developments are further expected to push the vacancy levels upwards, which will lead to pressure on rents. We expect the vacancy levels across the city to touch 20% by the end of 2021.

KEY STATISTICS: H1 2021

New Supply **5.2** mn sq. ft. **YOY change 39%**

Gross Absorption **1.4** mn sq. ft. **YOY change -48%**

LEASING AND COMPLETIONS

Absorption: The sombre leasing activity of 2020 has continued in the first half of the ongoing year as well. Around 1.4 mn sq. ft. of transactions took place in H1 2021, with almost the entirety taking place in first quarter and negligible deals in the second quarter of the year. Interestingly the top 5 deals accounted for more than 60% of the leasing volume indicating that large sized deals (100,000 sq. ft. or more) drove the city market in the ongoing recovery phase.

Overall demand in H1 2021 witnessed a decline of 48% as compared to the first half of 2020. An overwhelming 90% of leasing activity was concentrated in Secondary Business District I (SBD-I), which primarily consists of HITEC City, Madhapur, Kondapur and Raidurg.

Sector Split: IT and allied sectors continued to remain the mainstay of leasing activity in the city. It had a share of 63% in the demand pie of the city in H1 2021. Interestingly, flexible workspace segment remained steady in terms of absolute leasing volumes and contributed around 26% of the office space demand in the city. Financial Services came third with a share of 5%.

Supply: The city witnessed completions of about 5.2 mn sq. ft. in H1 2021, a growth of 39% as compared to the first half of the previous year. In terms of micro market wise addition, incremental supply was concentrated in the Secondary Business Districts of the city, with SBD-II and SBD-I having a share of approximately 67% and 33% respectively.

VACANCY RATE

Hyderabad has remained a market with excess supply for the past few quarters. H1 2021 was no different. Incremental supply was more than 3.5 times the leasing activity in the city, resulting in significant increase of vacancy levels, i.e., 15.3% in H1 2021 as compared to 10.8% in 2020 year-end.

RENTS

Pandemic related financial pressure on occupiers coupled with over supply in the market led to a noticeable softening in average rentals across micro markets. The markets of SBD-I and SBD-II have witnessed a drop in average rentals of about 3-7% in H1 2021 as compared to the average rents in the first half of 2020.

HYDERABAD MARKET OUTLOOK

DEMAND

Although H1 2021 witnessed low leasing activity, Hyderabad still managed to take the joint third place in terms of overall absorption in the country. Also, the office leasing atmosphere seems to be on the rise as the economy gradually opens up post the second wave of infections. 2021 is likely to record approximately 5.0 mn sq. ft. of transactions across segments. Pre-commitments to the tune of 1.0 mn sq. ft. will be critical in achieving similar leasing levels as compared to 2020.

SECTORS

IT and Healthcare sectors are expected to drive the leasing activity of the city in 2021. Flexible spaces are likely to garner significant occupier affinity as well. The sector is expected to contribute around 20% of the leasing activity in 2021.

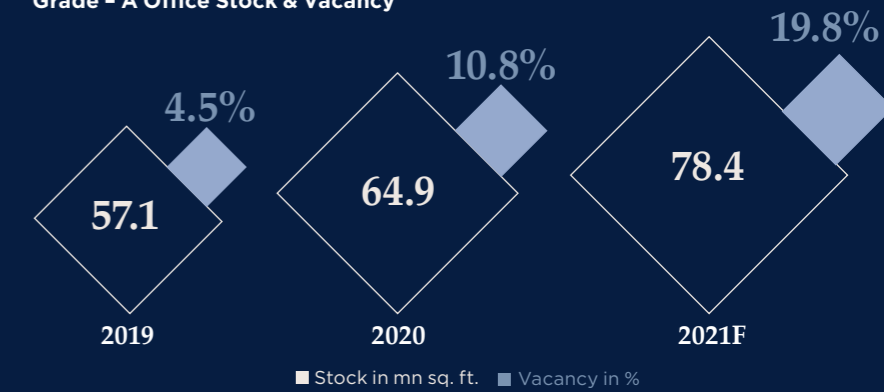
RENT & VACANCY

Rentals are likely to remain under pressure for the second half of the year as well. Price correction is likely to persist across major micro markets as demand-supply mismatch continues. Rent free periods and discounts will remain key negotiation points between occupiers and developers.

SUPPLY

Hyderabad has a substantial pipeline of under-construction projects. We estimate a supply addition of 8.4 mn sq. ft. in the second half of 2021 itself, resulting in increase in vacancy levels in 2021 as well. A major portion of incremental supply is expected to be in SBD-II which primarily consists of Gachibowli, Nanakramguda, Financial District and Manikonda. The overall stock of commercial office space in the city is expected to reach close to 80 mn sq. ft. by the end of 2021.

Grade - A Office Stock & Vacancy



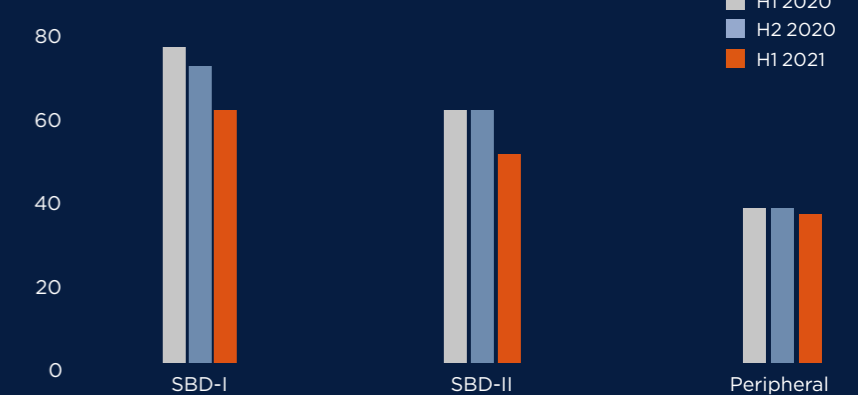
Source Savills India Research

Office Absorption (mn sq. ft.) in Hyderabad



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.)
Legato Health Technologies	SBD I	Avance Business Hub 09	298,000
Skootr	SBD II	My Home Twitza	173,000
Zenoti	SBD I	RMZ Futura - B	138,000
People Tech	SBD I	RMZ Futura - A	130,000
Skootr	SBD I	RMZ Futura - C	120,000

HYDERABAD MICRO MARKETS

Secondary Business District I (SBD-I) - HITEC City, Madhapur, Kondapur, Raidurg
 Secondary Business District II (SBD II) - Gachibowli, Nanakramguda, Kokapet
 Peripheral East - Pocharam, Uppal

*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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