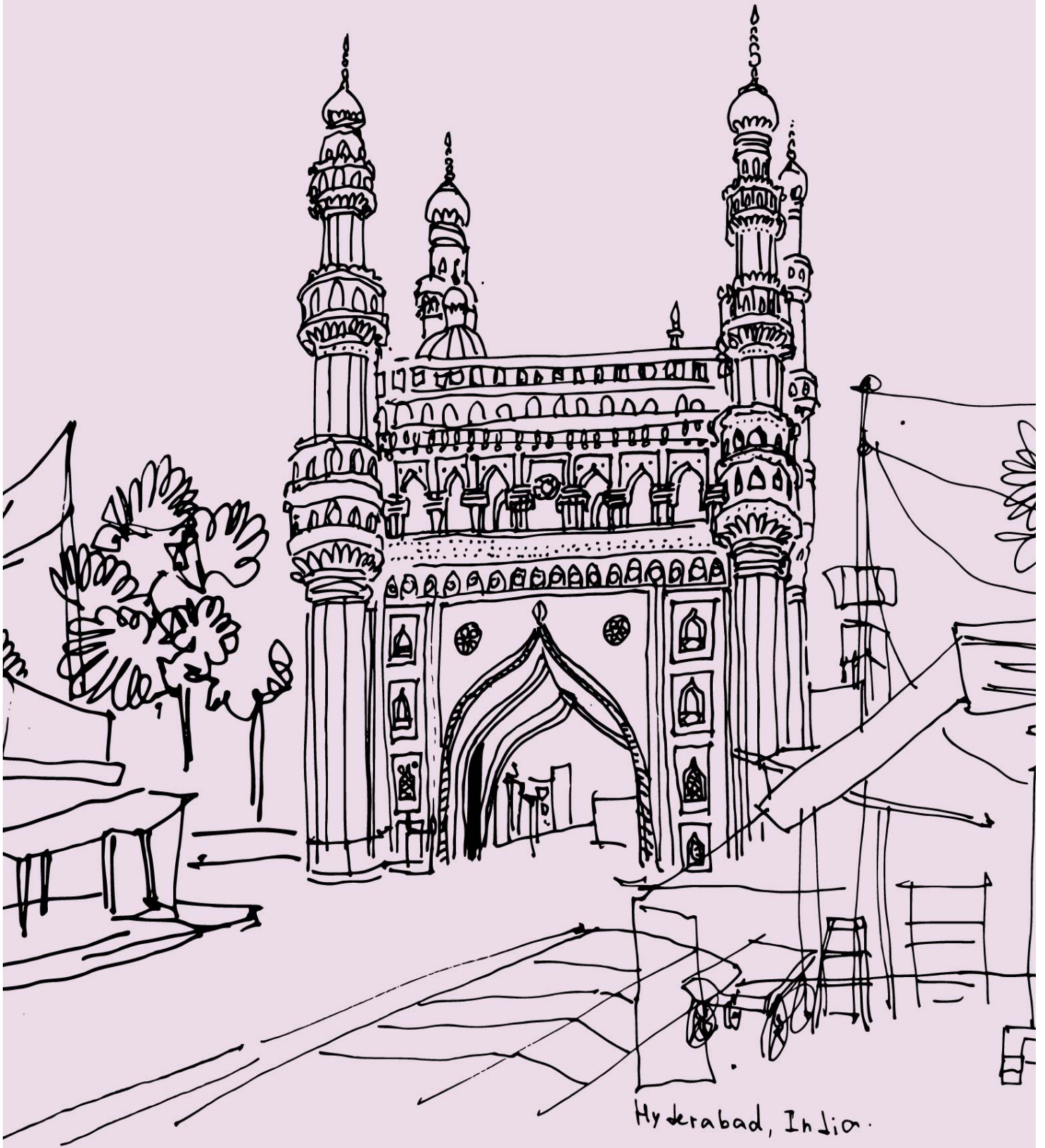


H1 2023

SPOTLIGHT
Savills Research

Hyderabad Market Watch Office



INDIA ECONOMY

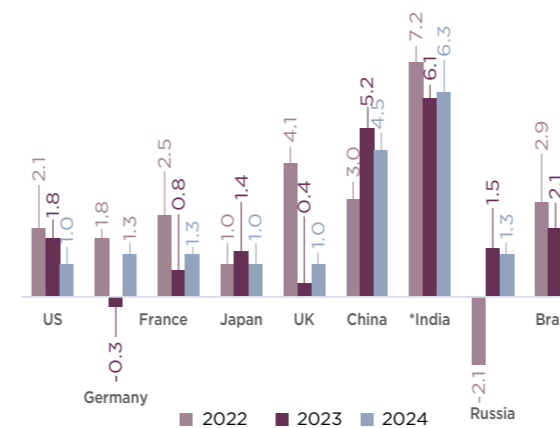
H1 2023

As the first half of 2023 closes, policymakers around the world are navigating through an uncertain if not a previously uncharted terrain. The last few years have seen overlapping crises – COVID-19, the Russia-Ukraine War, rising inflation and interest rates, and liquidity troubles after a series of bank crises. In March 2023, World Bank warned of the making of a ‘Lost Decade’ for the global economy.¹

While the fear of recession is seemingly ubiquitous, some parts look more vulnerable than others. Nevertheless, select bright spots like India stand out, with negligible chances of a technical recession. India, in fact, continues to be the fastest growing major economy (Chart-1).

INDIAN ECONOMY REMAINS LEAST VULNERABLE

Chart-1: GDP Growth Projections across the World



Source: IMF WEO Jul 2023
* Fiscal year basis

REMARKABLE RESILIENCE

Although the global atmosphere necessitated a slight revision in India’s GDP growth forecast, it still appears to be an island of low vulnerability, primarily on account of strong macro-economic indicators, demographic advantage and robust consumption. Despite this revision, World Economic Outlook (IMF’s flagship report) in its July 2023 edition projected a 6.1% growth rate for India in FY24, an evidence of remarkable resilience, in the face of global headwinds.

The ‘growth vs inflation conundrum’ seems well managed at this point. Barring the first two months of the year, inflation is within the RBI’s tolerance zone since November 2022 (Chart-2). In fact, at 4.25%, retail inflation hit a 26-month low in May 2023.

The general economic performance can be viewed through the lens of certain key macro-economic indicators. GST collections were the highest recorded ever, at INR 1.87 lakh crores in April 2023 (up 12% YoY). Interestingly, the revenue collections have been consistently above INR 1.5 lakh crores since March 2023. Both manufacturing and services Purchasing Managers Index (PMI) have been steadily expanding for almost 2 years. Strong sentiments in the IT sector are reflected in the 13-year high services PMI of 62 in April 2023. A 31-month high in the manufacturing sector is reflected in the manufacturing PMI of 58.7 for May 2023. Brent crude oil prices have remained

comfortably below USD100 per barrel throughout 2023, enabling relative stability of the Indian Rupee reportedly at INR 80-82 to a USD, for the most part this year. Foreign exchange reserves, consequently, have increased from around USD 560 bn at the start of the year to USD 596 bn in mid June 2023.

Equity Markets: The Bellwether of Growth Phase

Equity markets often act as powerful barometers for macroeconomic sentiments. Towards the end of June 2023, both BSE SENSEX and NIFTY were trading at all-time highs of 64,000 and 19,000 respectively. More assuring are the key sectoral indices. SENSEX and key sectoral indices have recorded significant gains compared to the pre-pandemic times of early 2020. (Chart-3). As of 28th June 2023, the S&P BSE IT and Realty indices had registered gains of 87% and 82%, vis-a-vis 1st of January 2020.

Click here to read #SavillsRoundUp: A fortnightly reporting of economic and real estate news

[Click here to read](#)

Note: FY refers Fiscal Year (Apr-Mar)
This section contains figures in Indian system of lakhs and crores (refer Appendix for international conversions)
1 USD = Approx. 82.05 INR on Jun 29, 2023

¹ Economic Times

POLICY ACTION

Despite demand concerns across the globe and phases of untamed inflation domestically, India's growth has remained steady. A key factor powering the upward trajectory post peak-pandemic is strong policy support from various agencies and institutions, including the RBI. While the Atma-Nirbhar Bharat Package was a decisive factor in limiting the impact of devastation during the pandemic, the RBI's role in maintaining domestic demand and liquidity has been commendable. A close look at retail inflation and repo rate movement since 2020 (Chart-2) reveals that well spaced-out and gradual hikes in benchmark lending rates were mostly successful in handling spiralling inflation, with a manageable impact on demand and growth prospects.

Budgetary Announcements

The Union Budget 2023-24 centered around creating a blueprint for the economy in 'Amrit Kaal' – a run from 75 years of independence (in 2022) till the 100th in 2047. The Finance Minister identified 7 priority areas for this long-term growth plan, viz., inclusive development, percolation of benefits to the last mile, infrastructure and investment, potential realisation, sustainable green growth, youth empowerment and reforms in the financial sector.

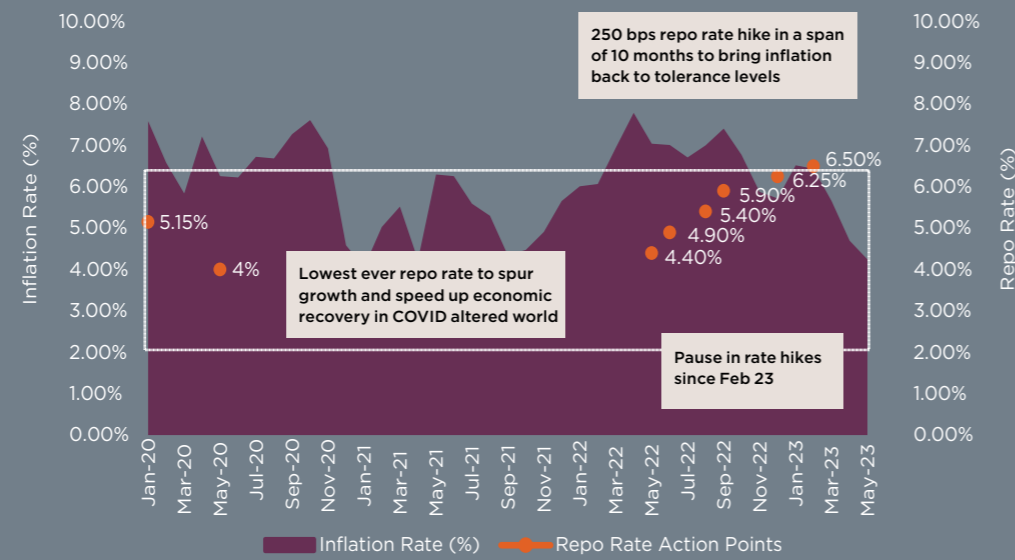
Real Estate Specific Announcements

Although direct real estate announcements were limited, the steep rise in the Capex to 3.3% of GDP continued to be the guiding force of the budget, providing a strong impetus to infrastructure and allied industries including real estate. Specifically, the INR 10,000 crore per annum allocation to the Urban Infrastructure Development Fund will enhance the proposition of tier II and III cities with developers and funds creating more commercial, residential and retail developments.

(Refer Appendix for detailed real estate specific announcements and the impact on various real estate verticals).

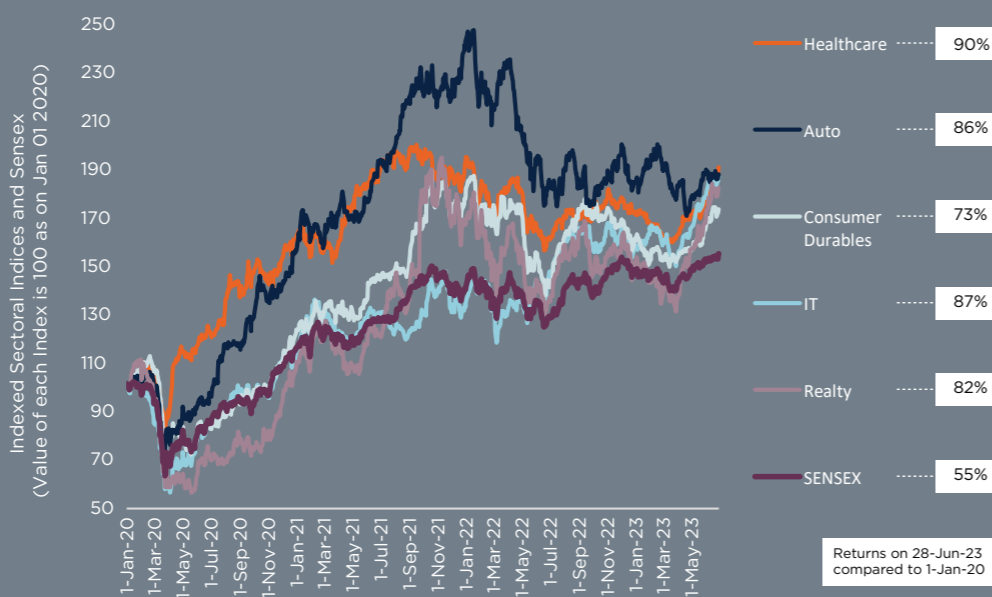
In other notable announcements of H1 2023, SEBI's proposal to regulate all online platforms that offer fractional ownership of real estate assets is expected to institutionalise the segment and help attract more capital from both domestic and offshore investors. REITs have also been at the centre of investor and retail participant attention in the first half of the year, as India's REIT offerings expanded from the office sector to retail with the listing of Nexus Select Trust REIT in May 2023. The NSE also launched India's first REIT and InvIT index to help the retail investor track the cumulative performance of such offerings listed on the NSE.

Chart-2: RBI Response to Macroeconomic Scenario



Source: FxEmpire, Savills India Research

Chart-3: Equity Markets: Sectoral Performance



Source: BSE, Savills India Research

NEAR-TERM CAUTION

Although India remains the least vulnerable major economy, it will be wise to consider that no economy is fully insulated from concerns elsewhere in today's highly globalised world. To quote the RBI governor, "Headwinds from weak external demand, volatility in

global financial markets, protracted geopolitical tensions and intensity of El Nino impact, however, pose risks to the outlook and needs to be carefully monitored."

India will have to navigate the near-term challenges emanating from global events, but its future is quite promising, as its engines are very well geared up.



RBI's Financial Stability Report: Indian banks' gross bad loans fall to a 10-year low of 3.9% in Mar 2023

India's Current Account Deficit (CAD) narrowed sharply in the Jan-Mar quarter, helped by a smaller trade gap and increased services exports. The CAD stood at USD 1.3 Bn (0.2% of GDP) in the 4th quarter of FY 23, compared with the previous quarter's revised deficit of USD 16.8 Bn (2% of GDP).



INDIA OFFICE MARKET UPDATE



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The Indian commercial real estate sector has not been completely insulated from headwinds of slowing global economic growth with select organisations reducing headcount and a few countries undergoing a technical recession. There was a visible slowdown in demand in the first quarter with a 14% decline compared to last year that continued in the second quarter too with demand contracting by 9% YOY. Overall, the leasing activity in the first half of 2023 is recorded at 27 mn sq. ft. The strategising of office portfolios, slow decision-making, and availability of plug-and-play/coworking office spaces amidst a widely accepted hybrid work environment have led to this sluggish demand. However, India continues to be a preferred destination for corporates driven by a strong GDP growth rate, large talent pool, favourable policies, and ever growing of infrastructure. Hence, we foresee this temporary reduction in leasing activity is likely to gain momentum in the second half of the year.

In the next few sections, we present a detailed account of office market performance in H1 2023.

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

ALL-INDIA DEMAND DIPS; NEW PEAK IN 3 CITIES

The six¹ key office markets of India recorded a gross absorption of 27.0 mn sq.ft. in H1 2023, declining by 12% compared to the same period last year. Interestingly, the office demand seems to find a quarterly minimum resistance level of 13.7 mn. sq. ft. over the last 6 quarters, and we expect this to be maintained in the near term for a stable run and eventual growth.

The IT sector continues to be the primary demand driver, but the demand seems to now be broad-based with flexible workspaces rebounding to become a strong driver of office demand with the second highest contribution. Meanwhile the BFSI

sector maintained its position in the top 3 demand drivers.

Bengaluru, Chennai and Delhi-NCR have retained the top-3 spots in H1 2023 similar to last year. Together, these accounted for 63% of gross leasing activity.

Apart from the top-3 performing cities, this first half has also recorded a new leasing high in cities namely Chennai, Delhi-NCR, and Hyderabad over the decade as visible in the Gross Absorption chart.

Bengaluru, still being numero uno, saw a notable decline of 39% at 6.5 mn sq. ft. owing to slow decision-making by technology companies amidst fear of recession in major economies. Mumbai and Pune too saw a decline in leasing activity of 9% and 11% respectively over the last year.

KEY STATISTICS: H1 2023

RECORD ABSORPTIONS
mn sq. ft.

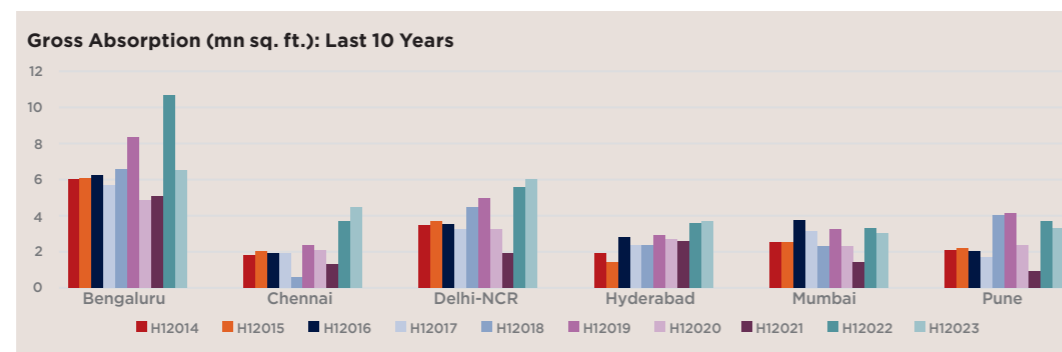
Bengaluru: 6.5
Delhi-NCR: 6.0
Chennai: 4.5



New Supply
25.6
mn sq. ft. YOY change **-16%**

Gross Absorption
27.0
mn sq. ft. YOY change **-12%**

Gross absorption represents fresh leases and occupier sale, excludes renewals and pre-commitments

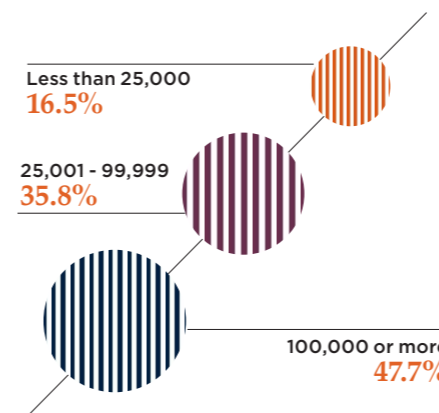


LARGE DEALS DOMINATE

Deals of large and medium sizes (over 100,000 sq. ft. and 25,001-99,999 sq.ft. respectively) accounted for 83.5% of the market. Compared to same period last year, the share of large deals increased from 41% to about 48%.

Large deals comprised the majority share in deal-size in all cities except Mumbai which was dominated by small size deals (below 25,000 sq. ft. apiece).

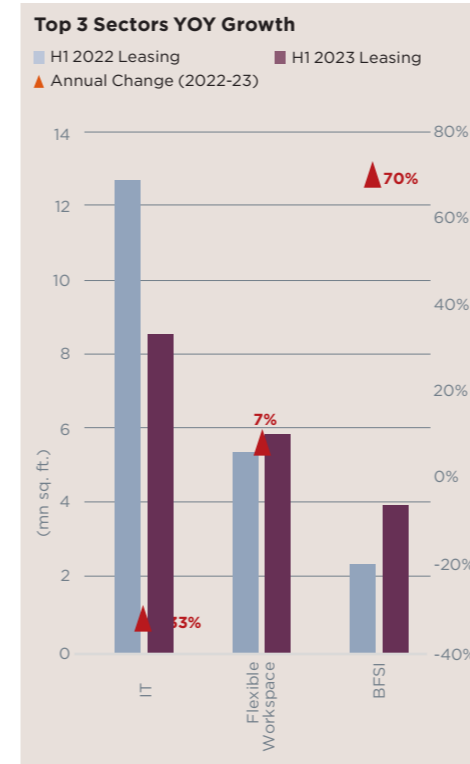
Deal Size Distribution (size categories in sq. ft.)



High Growth by BFSI Sector, Flexible Workspace Sector Rebounds

The IT sector continued to be the primary demand driver despite a decline in take-up in absolute terms over same period last year followed Coworking (Flexible workspaces) that grew by 7%.

The BFSI sector witnessed robust growth of 70% YOY, contributing 14.4% to the leasing activity.



SUPPLY & VACANCY

New completions were noted at 25.6 mn sq. ft in H1 2023, which is 16% lower compared to same time last year. All cities except Delhi-NCR and Hyderabad saw a YOY decline in new supply.

Bengaluru remained at the forefront of new completions, recording 8.2 mn sq.ft. of additions. It was followed by Hyderabad with 7.6 mn sq.ft., setting a new high with a consistent rise in new completions in the first half periods over the decade. Overall, the south cities namely Bengaluru, Chennai and Hyderabad contributed 72% of new supply in H1 2023.

On a pan-India scale, the average vacancy levels have declined marginally by 20 bps to 18% at the end of Q2 2023.

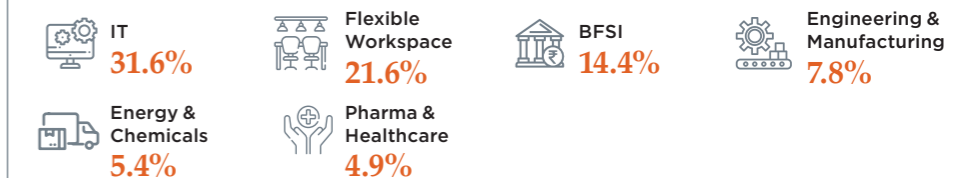
RENTALS

All markets except Southern cities witnessed a change in average rental values in H12023.

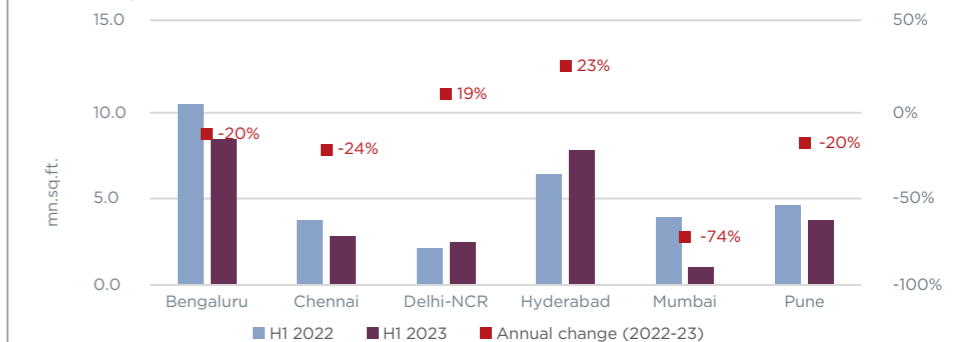
The highest rental growth of approximately 16% YOY is recorded in Mumbai owing to limited availability of space followed by Delhi-NCR and Pune that noted a marginal rise of 3% and 2% YOY, respectively.

Bengaluru and Hyderabad saw rise in vacancy levels due to consistent infusion of space outpacing the leasing momentum

Share of Sectors

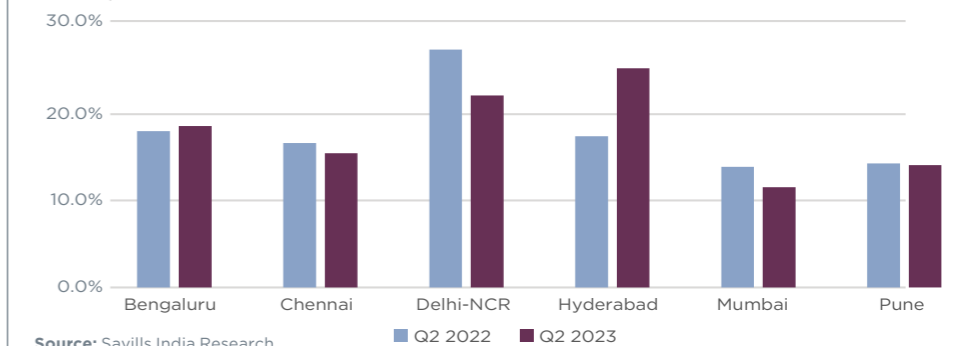


New Completions



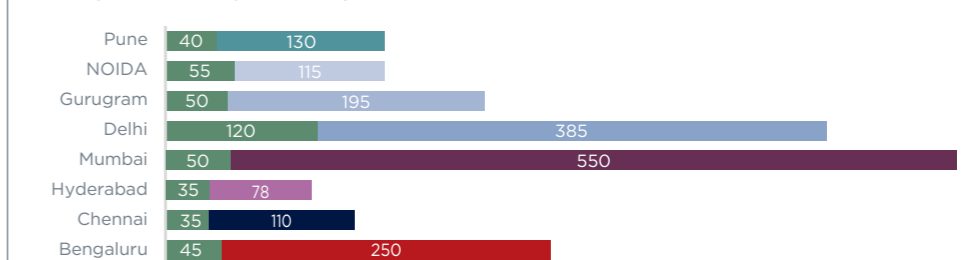
Source: Savills India Research

Vacancy Levels



Source: Savills India Research

Average Rental Range (INR / sq.ft./ month)



*Rental ranges are indicative values in the given market and may vary from the indicated band at other times
Source: Savills India Research



HYDERABAD OFFICE MARKET UPDATE

HYDERABAD'S KEY HIGHLIGHTS

Demand diversifying beyond IT

Hyderabad's demand for office space has diversified to include other sectors such as BFSI and media/advertising, which now account for 16% and 12% of the demand, respectively. This is a significant change from H1 2022 when media and advertising had hardly any share and BFSI had a 10% market share. However, the IT sector continues to garner a majority share comprising one-third of leasing activity in H1 2023. The heterogeneity of demand in the Hyderabad office market is a positive sign for the city's real estate market. It shows that the city is becoming an attractive destination for businesses from a variety of sectors shifting from an IT-intensive hub. The state

government has also been playing a pivotal role in promoting the same which has helped to diversify the demand for office space.

Supply rich city

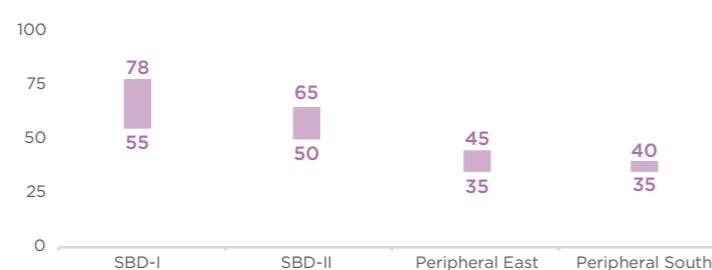
Hyderabad clocked the highest supply of office space in H1 2023 at 7.6 mn sq. ft, the highest supply in the first half of any year since 2015. The unlimited FSI has allowed developers to build more, which has been a primary driver of the increase in office space supply. Hyderabad's high office supply has provided occupiers with quality options to consolidate and re-strategise their portfolios. This is particularly appealing in the current global economic climate when many companies are optimising their operations.

KEY STATISTICS: H1 2023

New Supply	7.6 mn sq. ft.	YOY Change	23%
Gross Absorption	3.7 mn sq. ft.	YOY Change	3%

Gross absorption represents fresh leases and occupier sale, excludes renewals and pre-commitments

Rental Range H1 2023 (INR/sq. ft./month)



Source: Savills India Research

VACANCY RATE

At the end of the second quarter in 2023 Hyderabad's office market vacancy rose to 24.7%, up from 17.1% in the same period last year. This is majorly due to the huge supply that was added into the market in recent years in anticipation of high levels of absorption similar to 2019 levels.

RENTS

Rents in Hyderabad's office sector have been range bound in H1 2023. Due to the high supply of office space, rents have been contained within a narrow band. This has helped to attract tenants and keep the office market competitive.

MARKET OUTLOOK

DEMAND

Hyderabad's office market is expected to remain resilient in 2023. We estimate leasing activity of 6.0 mn sq. ft. in the city in 2023. The Airport Metro is likely to have a positive impact on the southern micromarket making the commute easier and increasing the attractiveness of office spaces in the surrounding areas.

SECTORS

The sectoral split for office space in Hyderabad is expected to remain favourable for the IT sector in the coming years. Flex workspace is also expected to be a major occupier as companies look for adaptable options in the wake of global economic headwinds. In addition, the Life Sciences sector is expected to grow driven by the city's strong pharma ecosystem and its status as a major pharma hub in India. Medtronic² and Bristol-Myers Squibb's³ recent investments in Hyderabad are a vote of confidence in the city's ecosystem and are likely to attract peer companies in the healthcare/pharma sector. The gaming industry is another area that is expected to contribute to the office demand given the government's push to promote the sector.

RENT & VACANCY

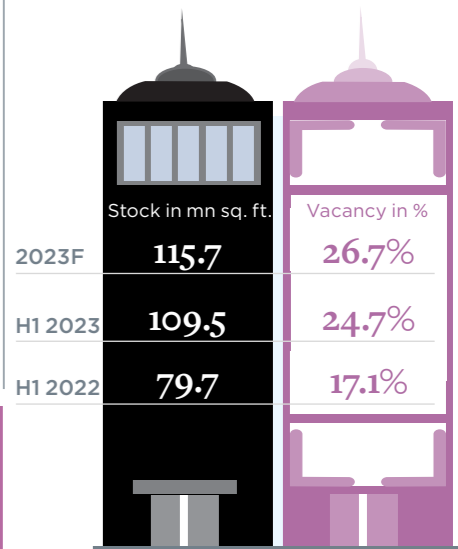
The rents are expected to remain range bound despite the large supply due to the willingness of developers to keep rents in check and attract businesses. The vacancy rate is expected to rise 26-27% by year-end as the supply is expected to outpace demand by almost 2 times.

SUPPLY

Supply: Hyderabad's office market saw consistently high supply in H1 2023, with new completions rising 23% YOY. Hyderabad is the second-largest city in terms of new office space completions among the top 6 cities¹, with 30% of the market share.

The supply was almost evenly split between SBD-I and SBD-II, with each micromarket accounting for 48% and 52% of the total supply, respectively. The majority (70%) of the new supply was non-SEZ development.

GRADE-A OFFICE STOCK & VACANCY



Source: Savills India Research

Major Transactions H1 2023

TENANT | Micromarket | Building Transacted Area* (sq. ft.)

HIGHRADIUS

SBD I
KRC Building No 12C
3,40,000

HETERO

SBD I
RMZ Nexity
1,64,000

London Stock Exchange Group (LSEG)

SBD I
Capitaland
1,50,000

STELLANTIS

SBD II
BSR Tech Park
1,47,000

WARNER BROTHERS

SBD I
Capitaland
1,20,000

*Approximate and indicative areas only

HYDERABAD MICROMARKETS²

Secondary Business District I (SBD I) -HITEC City, Madhapur, Kondapur, Raidurg

Secondary Business District II (SBD II) - Gachibowli, Nanakramguda, Kokapet

Peripheral East (PBD East) - Pocharam, Uppal

Peripheral South (PBD South) - Shamshabad, Adibatla

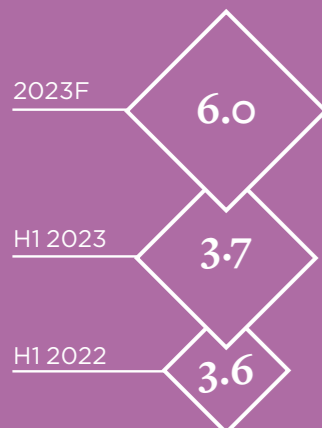
Source: Savills India Research

¹Savills India analyses the office market for the top six cities (Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai, and Pune)
²<https://rb.gy/1gvt2>
³<https://rb.gy/1zxrq>



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Office Absorption (mn sq. ft.)



Source: Savills India Research

ANNEXURE:

REAL ESTATE UNION BUDGET 2023-24: ANNOUNCEMENTS AND SUB-SECTOR IMPLICATIONS

Sub-Sector Lifesciences & Pharma



Announcements

New programme to promote research in pharmaceuticals.

Implications

1. Collaborative research and innovation in the pharmaceutical segment to create demand for R&D assets in certain locations.
2. Ripple effect in real estate demand is likely to bode well for commercial real estate.

Sub-Sector Affordable Housing



Announcements

PM Awas Yojana - 66% increased allocation to INR 79,000 cr.

Implications

Promote affordable housing supply for the middle-class and economically weaker sections (EWS)

Sub-Sector Urban Planning



Announcements

- A) Increased allocation of INR 16,000 cr for Smart Cities mission.
- B) Urban Infrastructure Development Fund- INR 10,000 cr per annum allocation.

Implications

- A1) Seamless infrastructure and mobility.
- A2) Development of sustainable cities with increased real estate potential.
- B1) Improvement in connectivity and enhanced economic activity.
- B2) Push to Tier II & Tier III cities to emerge as new growth centres.

Sub-Sector Agricultural Sector



Announcements

INR 2,200 cr fund allocation to support agricultural start-ups.

Implications

Near-to-medium-term impact on the creation of logistics set-ups on vital rural-to-urban routes.

Sub-Sector Transport Sector



Announcements

50 additional airports, helipads; Outlay of over INR 3,100 cr for Civil Aviation Ministry.

Implications

Land prices may witness strong appreciation around the proposed airport sites

Sub-Sector New & Renewable Energy



Announcements

Allocation of INR 19,700 cr to the National Hydrogen Mission.

Implications

Push to the automotive segment causing increased demand for industrial and manufacturing real estate along with logistics space expansion.



APPENDIX

Abbreviations & Acronyms

Bn - Billion
 GDP - Gross Domestic Product
 GST - Goods & Service Tax
 InvITs - Infrastructure Investment Trusts
 INR - Indian Rupee
 IT - Information Technology
 IMF - International Monetary Fund
 IPO - Initial Public Offering
 Mn - Million

MoSPI - Ministry of Statistics & Programme Implementation
 PE - Private Equity
 PLI - Production Linked Incentive
 PMI - Purchasing Manager's Index
 RBI - Reserve Bank of India
 REIT - Real Estate Investment Trust
 Sq. ft. - Square Feet
 SEBI - Securities and Exchange Board of India
 YOY - Year over Year

Key Definitions

Term	Definitions – Office Sector
Stock/Inventory	<ul style="list-style-type: none"> This includes area of existing buildings plus new completions (supply) in each quarter/half year/full year
Supply	<ul style="list-style-type: none"> New office buildings that have received their certificates of completion/occupancy within the quarter/half year/full year or Buildings that have their structure ready and have occupier/s operating out of it or fit-outs 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	Definitions – General
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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 DLF Cyber City, Phase 3
 Sector 24, Gurugram 122 002
 Haryana, India

Bengaluru

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 Sarjapur Main Rd, Bellandur
 Bengaluru 560 103
 Karnataka, India

Hyderabad

5th Floor, DivyaSree Solitaire, Plot No. 14 & 15
 Software Units Layout, Sy No 64, Madhapur,
 Serilingampally Mandal, Hyderabad 500 081
 Telangana, India

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 Chennai 600 017
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 Gujarat, India

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