World Economic Features

The world entered 2020 with expectations of steady GDP growth 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.

India’s Office Real Estate in HI-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.

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 begins towards the close of HI-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. 16% of the country’s GDP. It is reckoned to be among the largest financial supports globally.

Overall, the economic recovery is reverted strongly on a scientific solution to the current problem. The hopes of a breakthrough have consistently risen as the first half of 2020 ended.
PUNE COMMERCIAL OVERVIEW

Demand: After witnessing strong leasing activity for the past few years, commercial space demand was adversely impacted in H1 2020 and stood at 2 mn sq. ft., a decline of 24% YoY. SBD – East accounted for 68% of the leasing activity and followed by SBD – West with 24% share respectively. Not surprisingly, grade A building leasing activity was negligible as most occupiers looked to reduce operational overheads. The prominent location for office occupiers includes Kharadi in SBD – East and Baner in SBD – West.

Supply: Due to lockdown and consequential labour issues arising out of migration to rural areas, additional supply of office space declined by 40% in H1 2020 as compared to H1 2019. Only 0.6 mn sq. ft. of incremental stock creation happened in the first 6 months of the year, with the second quarter being a virtual washout. Major supply came from micro markets like SBD – East and PBD – West with 55% and 45% share respectively. Developers are expected to slowly resume construction activity, once they see a significant revival in demand. At the end of H1 2020, the total stock in the city stood at around 50 mn sq. ft.

Vacancy, Rentals and Segmental Demand: As demand outpaced the limited supply across major micro markets in H1 2020, vacancy levels decreased to 3.7% in the city. Although rental growth across the the micro markets was around 5% in H1 2020 as compared to last year, rental adjustments are expected to be almost certain in the near to medium term, as tenants and landlords evaluate the business scenario and arrive at mutually agreeable lease terms. As far as sectoral demand is concerned, technology sector continues to occupy the top position with a 51% share, followed by Financial Services with 33% share. Demand from co-working operators declined drastically in H1 2020; the sector contributed 1% towards the city’s leasing activity.

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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

Savills
Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and 39,000 associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world.

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