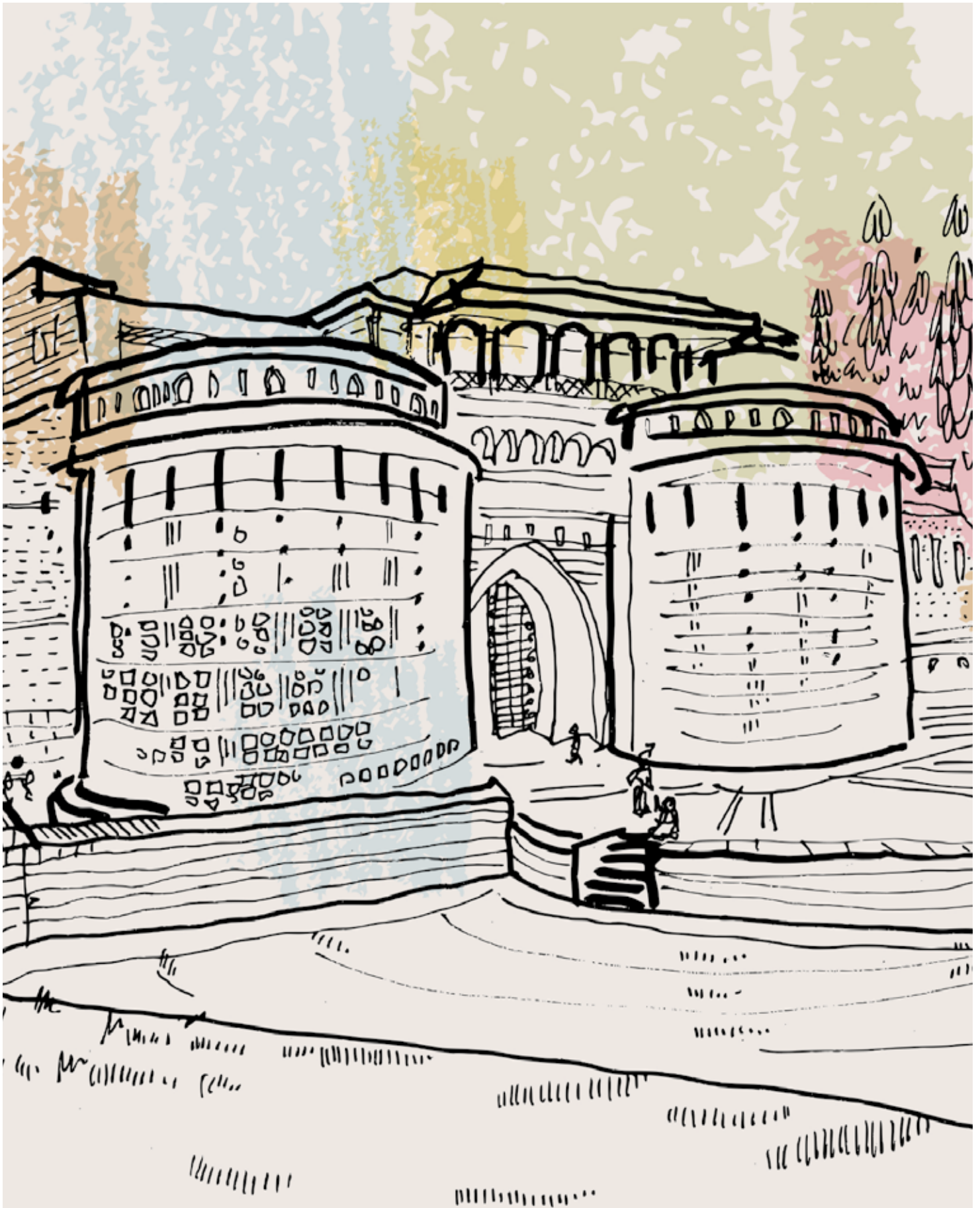


India - H1 2020

SPOTLIGHT  
Savills Research

# Pune Market Watch Office





## World Economic Features

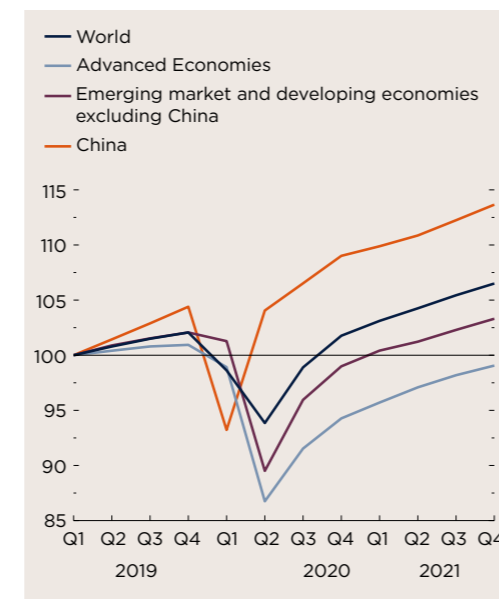
The world entered 2020 with expectations of steady GDP growths across geographical pockets, with significant improvements in emerging economies.

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.

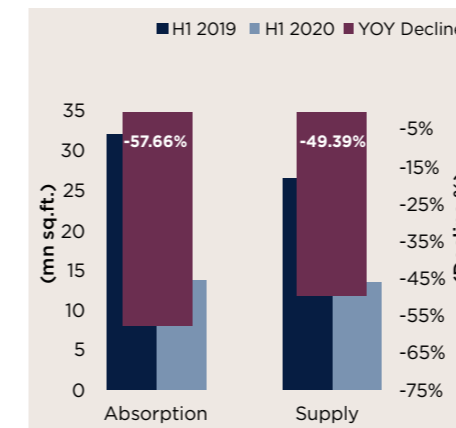
### India’s Office Real Estate in H1-2020

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

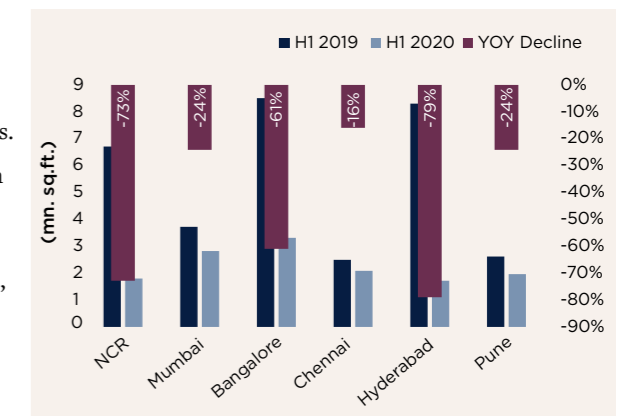
It is important to take a quick view of the mid-year demand patterns and present a brief year-on-year comparison for each of the six cities.

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.

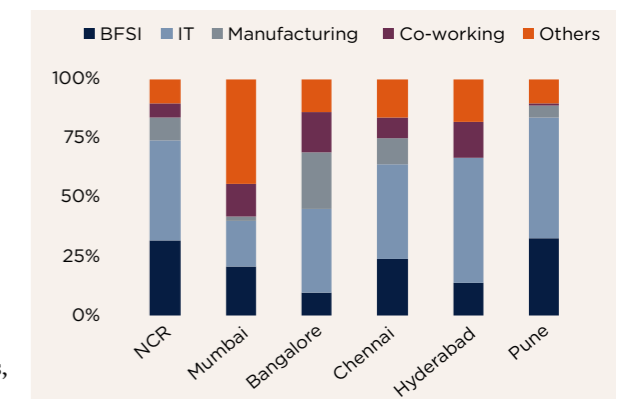
This section has presented a top-level summary of office markets’ performance on the national scale. Further details on absorption, stock and supply, rentals, vacancies, sectoral splits, etc. are provided in each city section.

**Demand Comparisons: H1 2019 vs H1 2020**



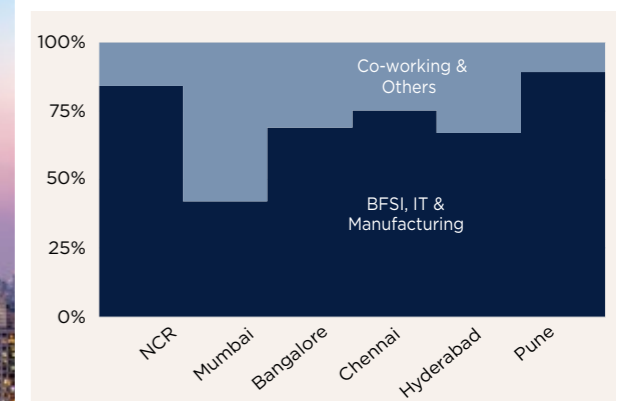
Source Savills India Research

**Demand Sectors in H1 2020**



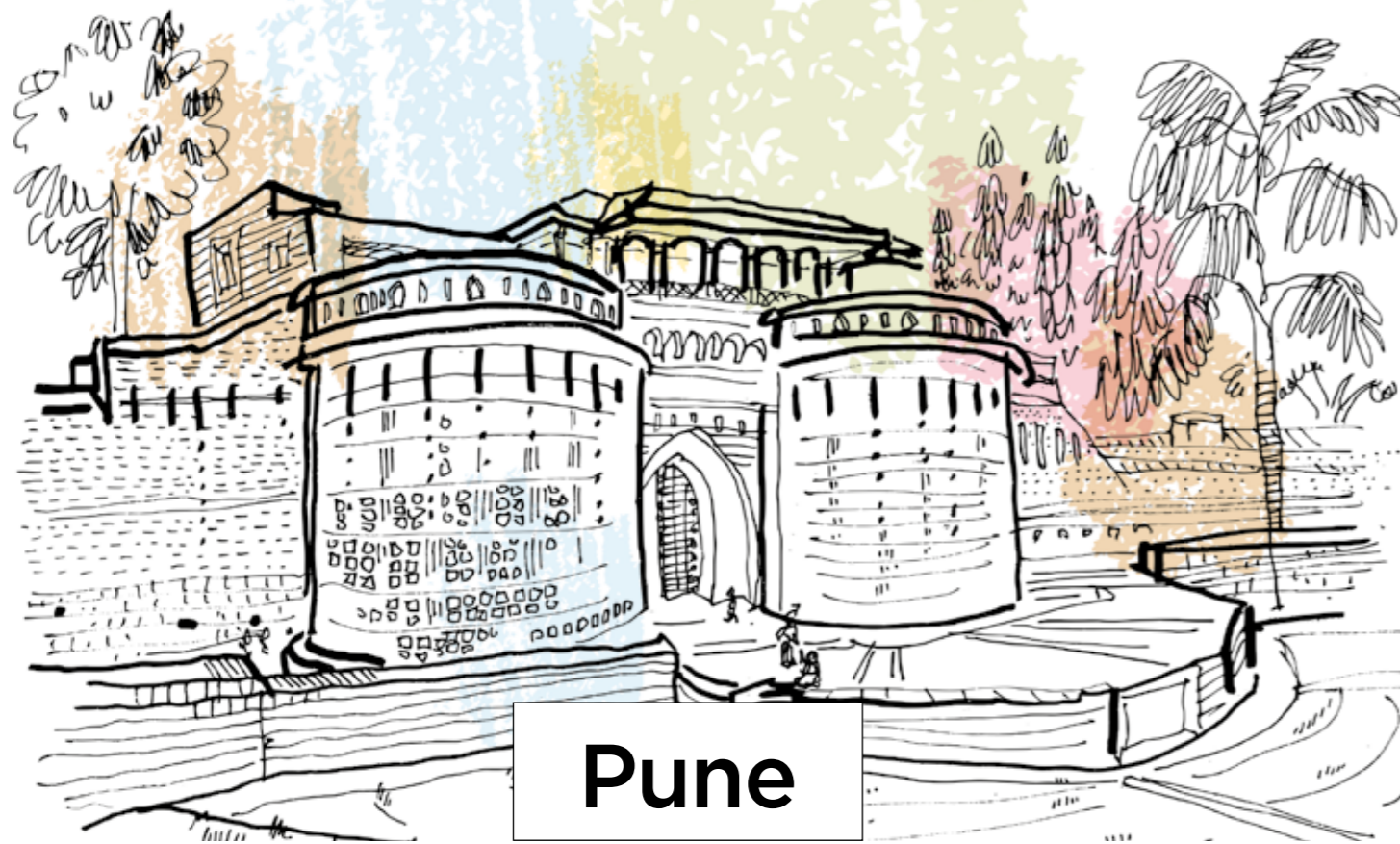
Source Savills India Research

**Core Demand Sectors in H1 2020**

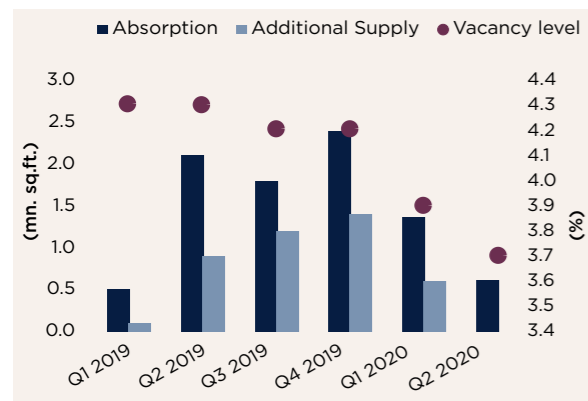


Source Savills India Research



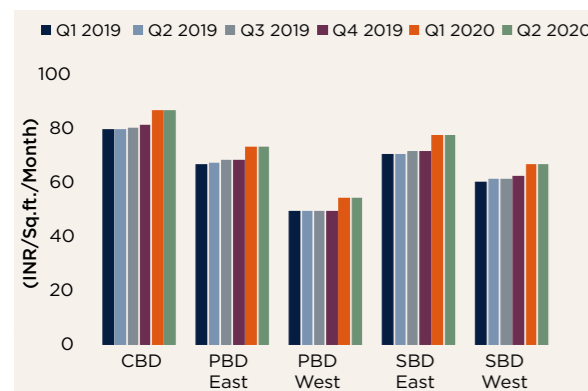


**Pune Absorption, Additional Stock and Vacancy, Q1/2019 to Q2/2020**



Source Savills India Research

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



Source Savills India Research

## 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:

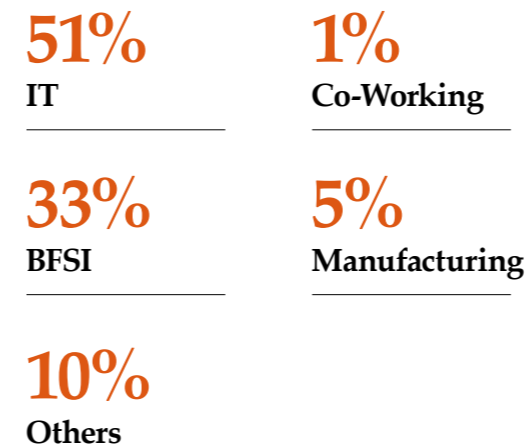
Due to lockdown and consequential labour issues arising out of migration to rural areas, additional supply of office space declined by 40% in H1 2020 as compared to H1 2019. Only 0.6 mn sq. ft. of incremental stock creation happened in the first 6 months of the year, with the second quarter being a virtual washout. Major supply came from micro markets like SBD - East and PBD - West with around 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 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.

H1-2020: Absorption demand split sector wise

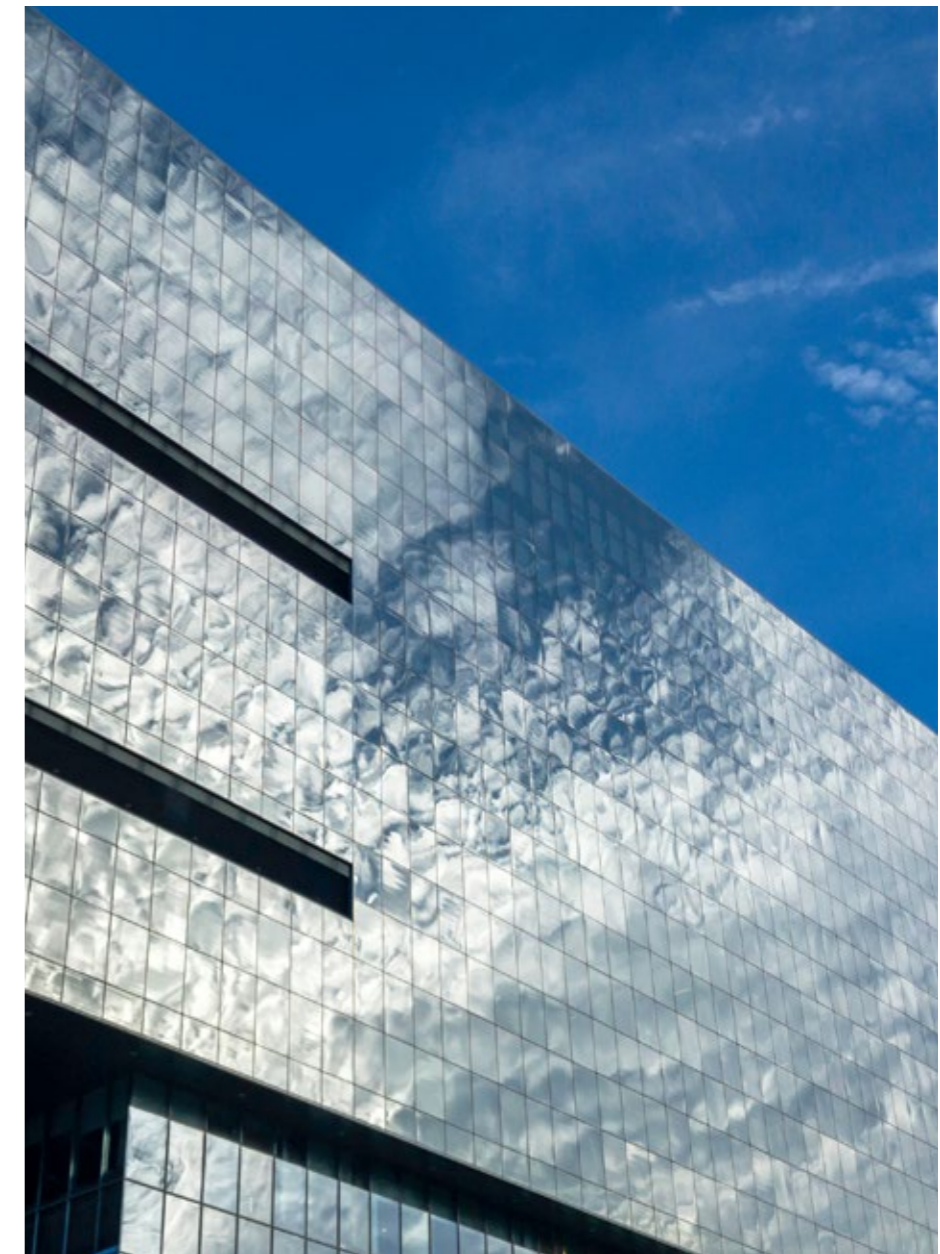


Source Savills India Research

## IMPACT OF COVID-19 AND OVERALL OUTLOOK

Covid-19 pandemic has created an adverse impact on office demand and supply dynamics with the lockdown and construction sector facing challenges in the form of labour and raw material shortage.

Both demand and supply in the next few quarters will have to be watched closely, as many occupiers are likely to postpone discretionary expansion plans and developers remain wary of the uncertain demand prospects. Rentals across the city might witness a marginal reduction, if demand for office leasing remains muted over the next few quarters. Similarly, developers are likely to remain cautious with respect to new launches.



## Key Office Transactions, H1-2020

Building	Tenant	Micro-market	Sq ft*
Gera Commerzone G1	Barclays Global Service Centre	SBD East	417,927
Panchshil Business Park Phase 2 - Tower 2	Qualys	SBD West	280,000
Gera Commerzone G2	Barclays Global Service Centre	SBD East	226,600
Gera Commerzone R4	British Petroleum	SBD East	210,000
Gera Commerzone R4	MindCrest	SBD East	112,000

Source Savills India Research

### PUNE MICROMARKETS:

CBD - Laxmi Road Camp, Bund Garden, Boat Club, Koregaon Park, Dhoel Patil Road, Pune station, Shivaji Nagar, FC Road, JM Road, Wakdedwadi, SB Road, Model Colony and Ganeshkhind Road  
 SBD West - Aundh, Baner, Pashan, Kothrud, Karve Nagar, Khadki and Paud Road  
 PBD East - Phursungi, Wagholi, Charoli, Solapur Road and Saswad Road  
 PBD West - Hinjewadi, Wakad, Pimpri, Bhosari, Chinchwad, Bavdhan Mulshi, Talewade, Tathewade, Nanded City, Pimple Saudagar and Katraj  
 SBD East - Kalyani Nagar, Kharadi, Mundhwa, Yerwada, Nagar Road, Viman Nagar, Hadapsar and Kondhwa

\*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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