India | October 2023

SPOTLIGHT

Savills Research

Sub-Dollar Rental Office Markets In Hyderabad

savills





Foreword

After the COVID-19 induced economic slowdown in 2020, the bounce-back was brisk in 2021 and continued momentum in 2022, showing resurgence for office markets. With a 48.5% annual jump in demand and 45.1% in supply, 2022 clearly broke the shackles of the demand drought of the preceding two years. The demand got close to the historic peak of 2019, the pre-pandemic year, with the deficit being barely a mn sq. ft. on a pan-India[1] scale.

However, in 2023, there is yet another realignment in corporate thinking, on account of a general economic slowdown and global recessionary pressures. It has caused a visible slowdown in H1 2023, when the top-6 Indian markets collectively registered a 12% annual decline in office demand. Overall, the leasing activity in the first half of 2023 was recorded at 27.0 mn sq. ft. across the six major Indian cities. For an extensive coverage on commercial real estate activity in each of the six cities, we refer to our report 'India Market Watch Office H1 2023'. Interestingly, these cities have expanded to newer suburbs and are actively catering to the demands of cost-conscious occupiers.

Each city has its own unique offerings as an office destination, with robust infrastructure developments, a variety of housing options and well-rounded social ecosystems attracting inhabitants. This report is a sequel to our June 2022 report, 'Dollar-Edge Rental Office Markets in India' which outlined similar unique micromarkets in Mumbai, Bengaluru and Delhi-NCR. In this edition, we have endeavoured to provide a view of some vital locations in Pune, Hyderabad and Chennai which have remained strongly cost-effective, while maintaining their relevance for high-end offices.



Gachibowli, Nanakramguda and Kokapet, Hyderabad

[1]. Top 6 city markets comprise Bengaluru, National Capital Region, Mumbai, Hyderabad, Pune and Chennai

Gachibowli, Nanakramguda and Kokapet:

The Emerging Triumvirate in Hyderabad

The Triumvirate: Gachibowli, Nanakramguda and Kokapet

Hyderabad, a city known for its history, culture, customs, traditions and cuisine, started to transform into the modern metropolis we know today with the advent of IT enterprises in the early 1990s and the subsequent rise of the pharma sector followed by the growth of aerospace, defence, and other ancillary sectors.

With the ITeS sector gaining prominence, the focal point of real estate development in the city started to spill over from the erstwhile city markets of Begumpet, Ameerpet, and SR Nagar to the western parts of the city, i.e., HITEC City, Gachibowli, and Financial District. Please refer to our report 'Hyderabad: The Sprint' released in April 2023, which highlights the city's rapid rise as an economic centre underlining the factors propelling growth.

Over the past decade, the Triumvirate of Gachibowli, Nanakramguda and Kokapet in Hyderabad have undergone a remarkable transformation, evolving into thriving commercial and residential hubs. This growth story is a testament to the strategic planning and development initiatives of the Telangana government, driven by the growing IT-ITeS sector and GCCs in the region.

The Triumvirate share elements that contribute to their collective rise as a formidable real estate force. These locations came into prominence when the neighbouring HITEC City is reaching maturity with respect to commercial developments. A distinguishing factor shared by these locations is the 'walk to work' concept. Here, residential dwellings are strategically positioned near workplaces, enhancing the convenience and allure of these areas for professionals. The peripheral areas surrounding the Triumvirate, including Kondapur, Botanical Garden, Khajaguda, Gandipet, Tellapur, Narsingi, Puppalaguda, and Manikonda, have all witnessed a significant surge in the residential real estate market. These locations also cater primarily to the mid-segment price bracket, making it a convenient choice for working professionals from nearby employment hubs.

The Telangana government's commitment to the infrastructure projects has significantly enhanced connectivity to the Triumvirate. These areas enjoy seamless access to various parts of the city, including the outskirts and city centres, allowing them to live away from the busy HITEC city hustle and bustle while maintaining proximity to emerging commercial locations.

The Triumvirate: Real Estate Market Overview

The Triumvirate locations have emerged as dynamic real estate hotspots, characterised by their relatively affordable price points, strategic location, and robust demand drivers. The price advantage and availability have been instrumental in shaping the growth story of these locations.

The Triumvirate has emerged as a significant office hub absorbing about 2.7 mn sq. ft. of the total city-wide office space absorption from 2020 to 2022. With a current office stock that continues to grow, the Triumvirate constitutes 42.8 mn sq. ft. out of the 109.5 mn sq. ft. overall office space inventory of the city as of June 2023. The new office space supply which captured a market share of 46% from 2020 to 2022 is projected to surge to an impressive 69% over the next two years in the Triumvirate, showcasing a significant increase in market share in the overall city's new supply infusion.

This leasing activity too is expected to continue through 2023-25 witnessing heightened activity capturing an impressive 18-20% share in the city's overall leasing activity, cementing its status as a potential destination for businesses and corporations. With the growth in office space supply outpacing the leasing activity, the vacancy levels in these areas are projected to be relatively higher, than the city average. Though this may keep rentals in check, it also provides ample options to occupiers to expand and relocate to these relatively cost-effective locations.

The Triumvirate has also witnessed tremendous growth in the residential segment with average capital values appreciating in the range of 15-25% during 2020-2022. The demand from professionals returning to the city and preferring the convenience of rental properties in these locations has driven the price rise. In addition, co-living spaces have also made their mark in these locations with competitive pricing when compared to other parts of the city, making them attractive choices for young workforce/IT professionals and students.

HYDERABAD MICROMARKETS

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

The Triumvirate: Key Statistics at a Glance

Operational Grade-A Office Stock[12]
(as of Q2 2023)
42.8 mn sq. ft.

Office Rents
(as of Q2 2023)[13]
INR **50-65** per sq. ft. per month

Office Vacancy
(as of Q2 2023)
32.7%

Office Gross Absorption Cumulative
(2020-2022)
2.7 mn sq. ft.

Office Gross Absorption Forecast Cumulative
(Next 3 Years, up to 2025)
4.4 mn sq. ft.

Office New Supply Infusion Cumulative
(2020-2022)
15.2 mn sq. ft.

Office New Supply Infusion Forecast Cumulative
(Next 3 Years, up to 2025)
30.9 mn sq. ft.

Office Rents Forecast
(Next 3 Years, up to 2025)
INR **52-65** per sq. ft. per month

Residential Prices
(as of Q2 2023)

Avg. 2-BHK monthly rentals:	Property Rates:
INR **21,000-27,000** per month	INR **6,650-7,750** per sq. ft.

Distance from Airport

Gachibowli:	**32.5** km
Nanakramguda:	**30.6** km
Kokapet:	**26.9** km

Distance from HITEC City

Gachibowli:	**7.3** km
Nanakramguda:	**8.8** km
Kokapet:	**11.8** km

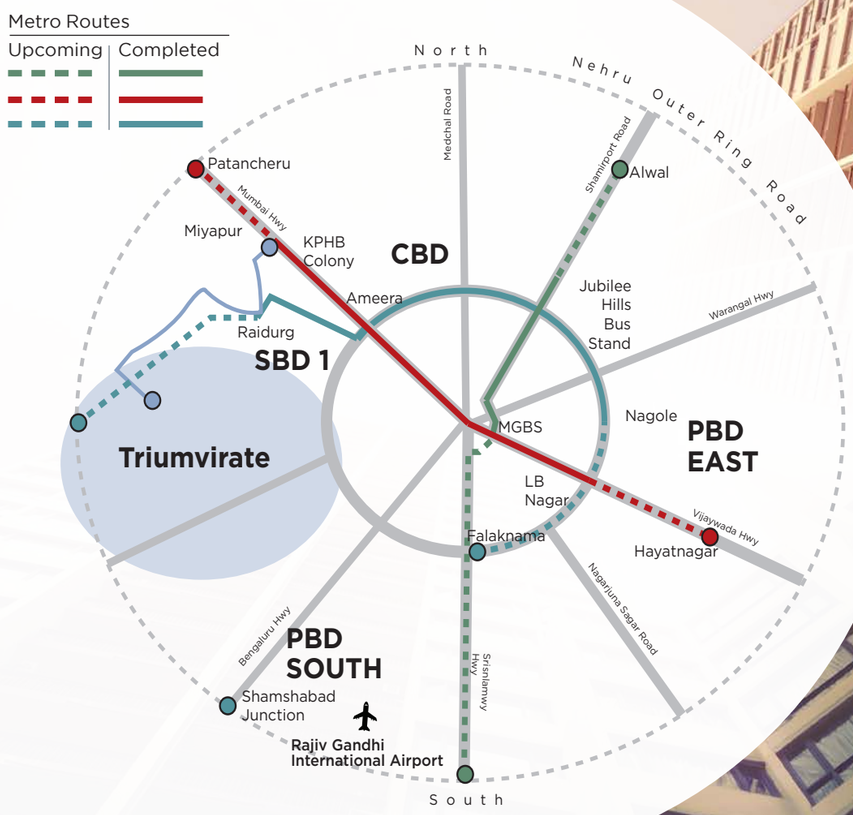
Source: Savills India Research, Secondary sources, and market research

The Triumvirate offers Grade-A office spaces, campus-style developments, a wide range of residential options, and the promise of future infrastructure upgrades.

However, these areas also face some challenges like limited last-mile public transit connectivity and modest social infrastructure. In the next section, we delve into the strengths, challenges, opportunities, and threats (SCOT) that define the real estate dynamics of these locations, shedding light on their current status and potential for growth.

[12] Includes only leasable office stock and excludes built-to-suit developments
[13] 1 USD = 82.1 as on 30th June 2023

Hyderabad Map



Source: : Savills India Research

SCOT Analysis of the Triumvirate

Strengths

- Sub-dollar office rentals
- Proximity to primary IT Hub (HITEC City)
- Strong presence of campuses

Challenges

- Limited retail development/ social infrastructure
- High vacancy rates
- Lack of public transport/ metro availability

Opportunities

- High availabililty of commercial office space
- Upcoming IT corridor
- Infrastructure developments
- Retail expansion
- Growth of the co-working and co-living sectors

Threats

- Competition from other emerging IT hubs
- Oversupply of office developments resulting in high vacancies
- Rising land costs

S C O T

Source: : Savills India Research



Sub-Dollar Rental Office Markets in Hyderabad

The subsections below outline the key elements contributing to the Triumvirate's unique positioning in Hyderabad's real estate market. We believe these aspects will propel the locality's real estate trajectory higher in the coming years.

Factors Driving Growth of the Triumvirate

01

Sub-Dollar Office Rentals

02

Residential Catchment

03

Supply of Grade-A Commercial Developments

04

Campuses

05

Infrastructure Development



Sub-Dollar Office Rentals

The Triumvirate Areas' Economic Advantage

In today's rapidly evolving work landscape, where companies are increasingly adopting hybrid work models and exploring cost-effective real estate solutions, the Triumvirate is a compelling choice for cost-conscious occupiers. Compared to the major IT corridor of HITEC City, the Triumvirate provides occupiers with a significant rental arbitrage of 25-30% compared to the primary IT hub of HITEC City.

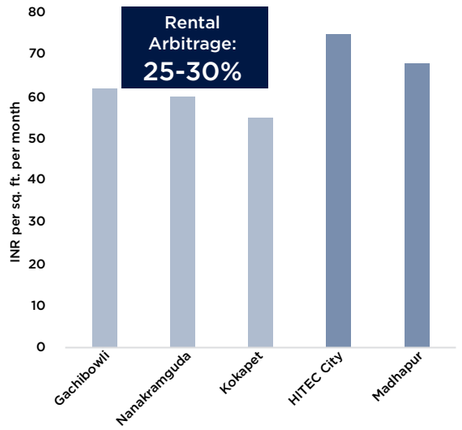
The Triumvirate further enhances their allure by offering office spaces at rates that dip below the dollar mark which is a compelling factor for global MNCs and organisations looking to establish a presence in this thriving business hub. The cost-effectiveness of these areas can be a pivotal decision-making point for businesses along with talent availability.

Affordable Co-Working Space in a Hybrid World

In today's ever-evolving corporate landscape, where flexibility is paramount, co-working spaces in the Triumvirate are taking center stage as the preferred solution for businesses of all sizes, including large MNCs.

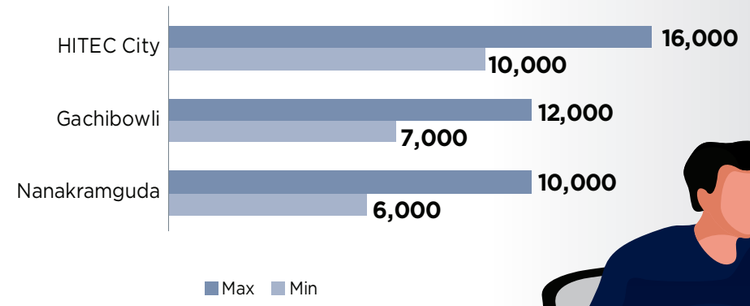
The average monthly cost of co-working spaces in Gachibowli and Nanakramguda is approximately 40-50% lower than in HITEC City. This quantifiable difference translates to substantial savings in operational expenses for companies opting for co-working spaces. In addition, Gachibowli's proximity to HITEC City ensures that businesses can access the bustling IT hub with ease. The excellent connectivity further enhances the appeal, as it allows companies to tap into the HITEC City ecosystem while enjoying the cost advantages of the affordable co-working spaces.

Average Asking Office Rentals across major micromarkets
(Q2 2023)



Source: : Savills India Research

Average Co-working Space Rentals (as of Q2 2023)
INR per desk per month



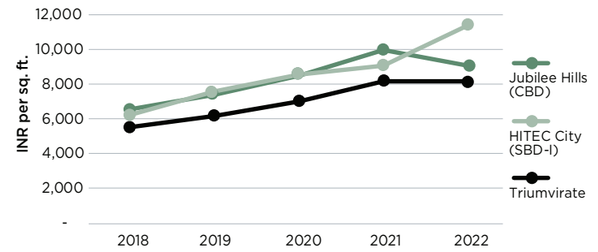
Source: : Savills India Research

Residential Catchment

Alluring Residential Investment Opportunity

The Triumvirate's development of modern gated communities loaded with amenities and a cosmopolitan crowd has played a pivotal role in propelling the area into a top-notch residential destination. Their proximity to other office hubs ensures accessibility, making these locations highly desirable for current and prospective residents as well as investors. The Triumvirate offers a wide range of residential options, from mid-range to premium complexes catering to various budget segments. The buyers/investors in the Triumvirate enjoy a dual benefit: a tranquil environment and the promise of higher capital appreciation over time upon liquidation. Notably, there has been an impressive capital appreciation of approximately 40-45% over the past five years, further enhancing its allure as an enticing residential investment opportunity.

Average Residential Capital Values in Select Hyderabad Localities (2018-2022)



Source: Secondary sources, and market research

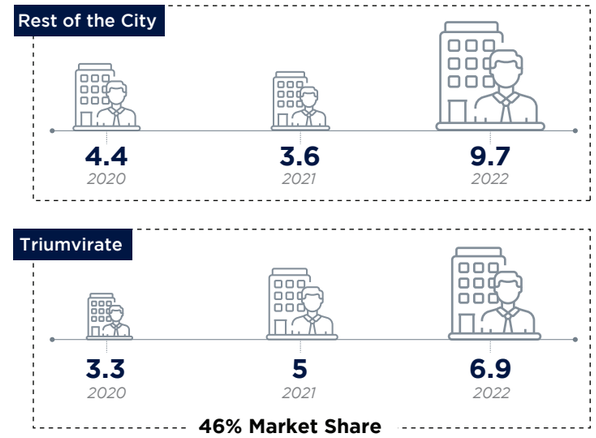
Supply of Grade-A Commercial Developments

Epicenter of Office Space Abundance

As of June 2023, the Triumvirate's market presence remains strong, with 42.8 mn sq. ft. of office stock representing 39% of the city-wide office stock. Between 2020 and 2022, the Triumvirate experienced impressive growth, adding 15.2 mn sq. ft. of office space which was almost 46% of the city's new office supply. Between 2023 and 2025, the Triumvirate will gain a 69% market share in overall new office supply, adding 30.9 mn sq. ft., solidifying its office space dominance and appeal. The upcoming supply surge reflects the developers' and landlords' confidence in these locations. From occupiers' perspectives, the development of high-quality Grade-A office construction with efficient utilities provides them with a wide array of choices, allowing them to select spaces that align perfectly with their needs, budgets, and growth plans. This abundance fosters healthy competition among landlords, keeping rents in check and enhancing lease flexibility to a certain extent.

As HITEC City approaches its saturation point, the Triumvirate stands ready with a surplus of office spaces and residential options offering businesses a seamless transition to neighbouring areas.

Office New Supply (2020-2022)
(mn sq. ft.)

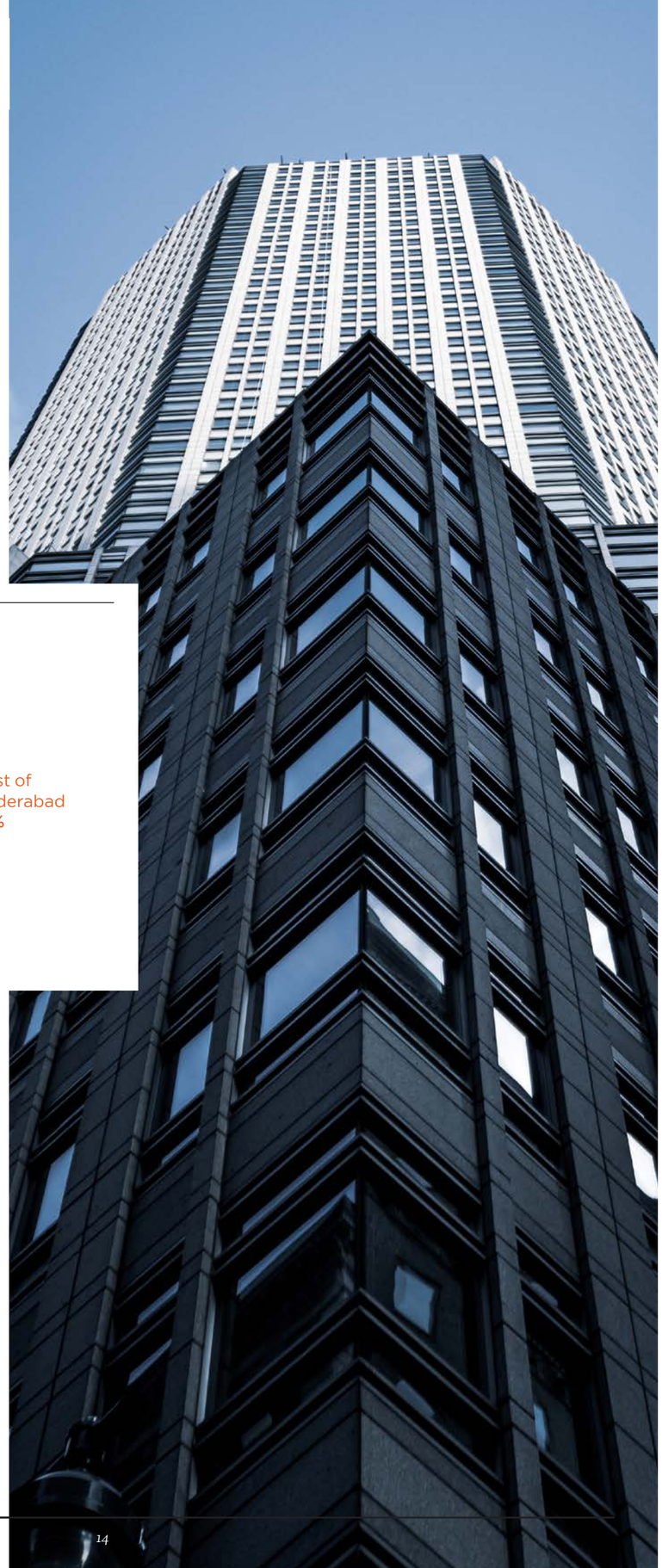


Source: Savills India Research

Campuses

Dominance in Campus Development

Prominent multinational companies, including Google, Amazon, Wipro, Microsoft, TCS, Capgemini, Franklin Templeton, and Cognizant have chosen the Triumvirate as home for their custom-built campuses. As of H1 2023, the locality has 11.5 mn sq. ft. of campus-style developments, making up 49% of total campus developments in Hyderabad. The recent inauguration of Asia's largest US Consulate in March underscores the area's international significance and attractiveness[14].



Campus Development Share in Hyderabad
(as of Q2 2023)

Source: Savills India Research

[14] https://indianexpress.com/article/cities/hyderabad/us-consulate-in-hyderabad-to-move-to-nanakramguda-8485248/#:~:text=For%20a%20decade%20and%20a,out%20of%20the%20Paigah%20Palace.&text=The%20US%20Consulate%20General%20Hyderabad,the%20financial%20district%20of%20Hyderabad.

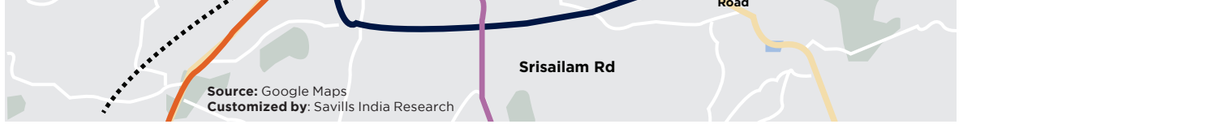
Future Infrastructure Fostering Connectivity and Growth

Infrastructure Development

The Triumvirate is set for a significant transformation in its transportation landscape, aiming to redefine the region's development and accessibility, building upon the existing ease of travel via the Outer Ring Road (ORR).

The proposed Hyderabad Metro extension traversing Gachibowli and Himayat Sagar, encompassing Nanakramguda and extending towards Narsingi and beyond will bridge geographical divides, linking vital locations and paving the way for notable economic growth. Adding to its potential, the metro line will seamlessly connect to the Rajiv Gandhi International Airport[15] in Shamshabad, streamlining airport access and reshaping the city's commuting landscape. The extended metro rail is expected to fortify connections between the thriving IT hub in the west and the international airport in the south, bolstering economic activities and elevating the appeal of the Triumvirate for businesses, professionals, and visitors. Additionally, as per a recent announcement, the State Government will extend the Metro Rail to cover the entire Hyderabad city, spanning approx. 278 km with a double elevated corridor at select places. This ambitious expansion is estimated to cost INR 69,000 cr and is anticipated to be completed within about four years[16].

Existing & Proposed Infrastructure in Hyderabad



Source: Google Maps
Customized by: Savills India Research

[15] https://themetrorailguy.com/hyderabad-metro-phase-2-information-map/
[16] https://www.thehindubusinessline.com/news/telangana-govt-to-expand-hyderabad-metro-rail-with-69000-crore/article67145650.ece

From Anonymity to an Emerging Hotspot

The Triumvirate of Gachibowli, Nanakramguda and Kokapet stand as a testament to Hyderabad's urban evolution. This growing region embodies the perfect synergy of affordability, Grade-A office supply, and robust infrastructure development. With competitive office rental rates, these areas have lured businesses seeking cost-effective office spaces, driving impressive occupant diversity. The fast-paced infrastructure developments have also been a key enabler, ensuring seamless connectivity, mobility, and access to amenities. As planned infrastructure projects near completion, the Triumvirate is poised to witness even more significant growth.

Collectively, these factors have transformed the Triumvirate into a thriving economic centre. They embody the essence of modern urban living, offering a promising future for both businesses and residents. As Hyderabad continues its forward-looking journey, the Triumvirate, along with emerging hotspots like Narsingi, Tellapur and Neopolis stand as beacons of opportunity and prosperity. This transformation from anonymity to prominence heralds a future for businesses, investors, and residents alike, underscoring the city's dynamic and forward-looking nature.

Sub-Dollar Rental Office Markets In India

During 2020-2022, the office stock in the mentioned sub-dollar markets in Pune, Hyderabad and Chennai have together strengthened by 46% and is expected to expand by about 58% over the next 3 years. The rents albeit continued to carry the sub-dollar tag throughout the growth phase.

Afterword

Sub-dollar office rent markets offer growth opportunities for all real estate stakeholders alike – occupiers, developers, and investors. Office occupiers are benefitting from attractive sub-dollar rents resulting in relatively lower real estate costs; developers are benefitting from lower land prices; and investors are benefitting from attractive returns in office, retail, and logistics assets in these markets.

Along with the growth of commercial real estate activity, these markets are showcasing inclusive development in the form of robust infrastructure, residential development, logistics expansion, and life sciences opportunities, among others.

Savills India urges real estate stakeholders to keep these sub-dollar rental office markets in the reckoning and capitalise on the benefits they offer. We expect these sub-dollar office markets to continue to hold a powerful growth potential.

KEY STATS AT A GLANCE

	Hinjewadi (Pune)	Gachibowli, Nanakramguda and Kokapet (Hyderabad)	Mount Poonamallee Road & Pallavaram-Thoraipakkam Road (Chennai)
Stock as of December 2022 *(mn sq. ft.)*	14.0	37.4	17.0
Stock Expected as of December 2025 *(mn sq. ft.)*	15.4	68.3	24.4
Average Asking Rents *(INR/sq. ft./month)*	45-60	50-65	65-80

Source: Savills India Research

Sub-Dollar Rental Office Markets In Hyderabad

Abbreviations & Acronyms

PBD .....Peripheral Business District

GIC.....Global In-house Centre

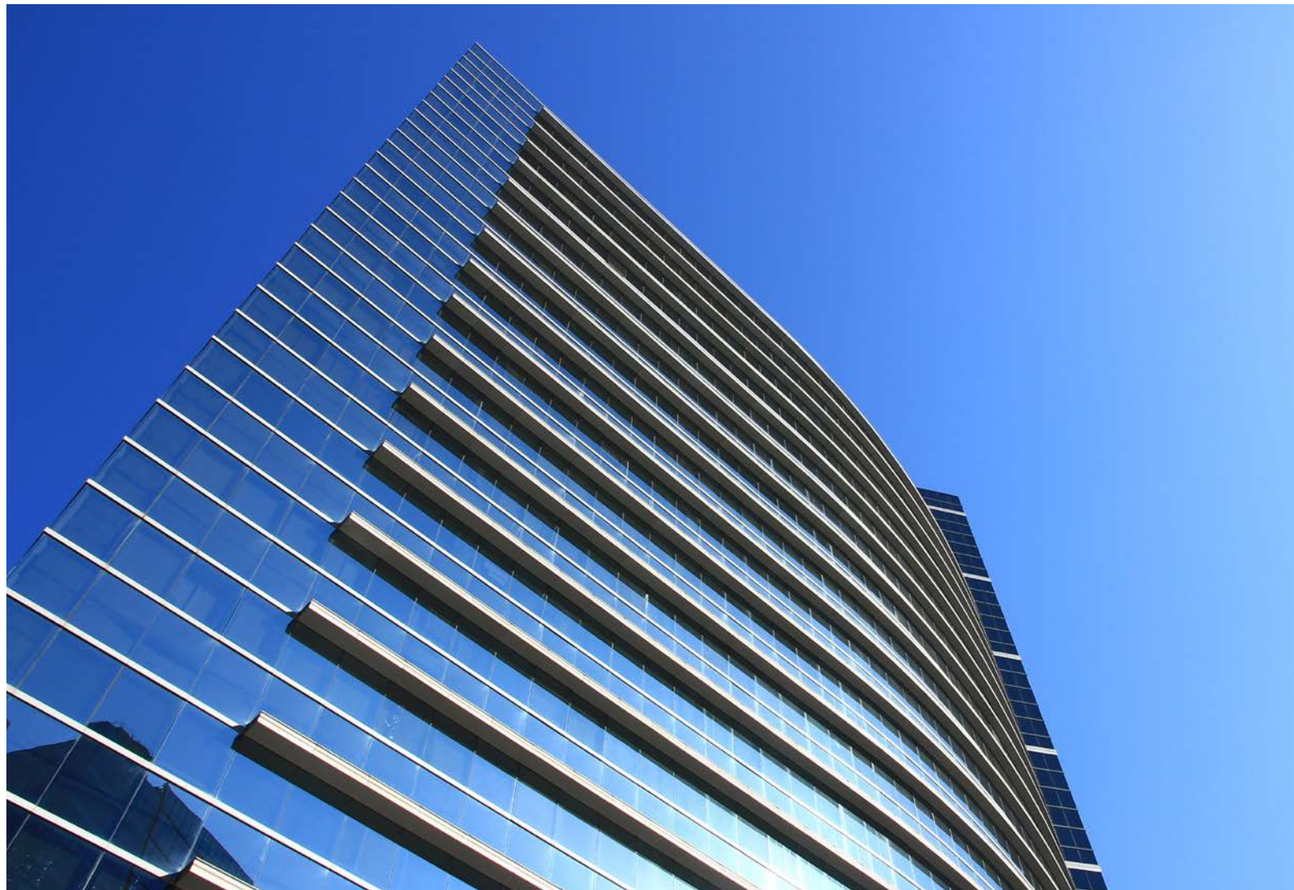
BTS .....Built-To-Suit

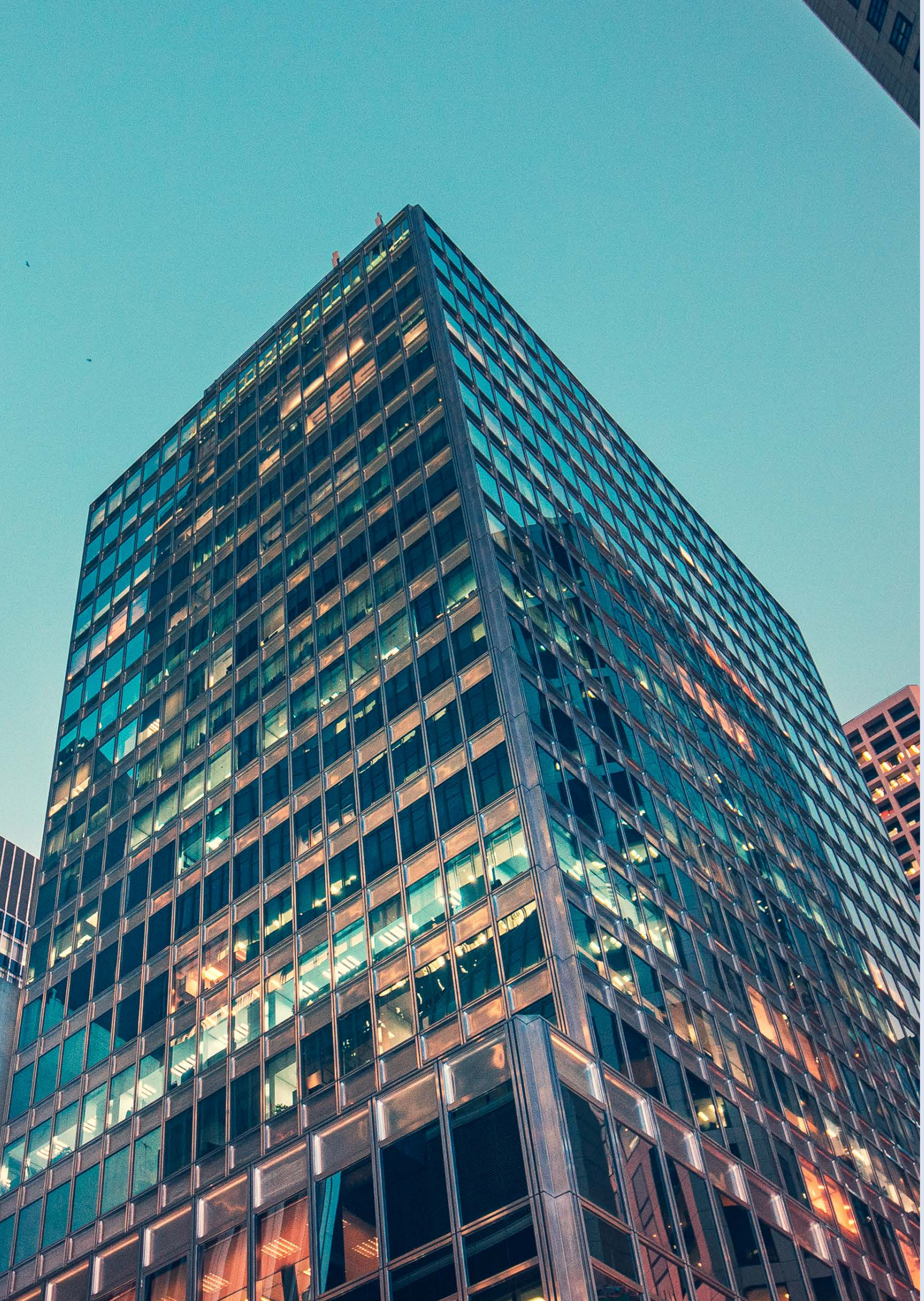
IT-BPM .....Information Technology - Business Process Management

H1.....First Half of the calendar year

IT-SEZ.....Information Technology – Special Economic Zone

REIT.....Real Estate Investment Trust





Savills

Savills PLC is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 700 offices and 40,000 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.

Savills India

Savills India is a group company of Savills PLC and is a premier professional international property consulting firm. With full-service offices in Ahmedabad, Bengaluru, Chennai, Hyderabad, Delhi-NCR, Mumbai, Pune and Kolkata, the firm serves occupiers, investors and developers of real estate.

Savills India provides services across office leasing, project management, capital markets, valuations, research, consulting, industrial and logistics, and residential services. Started in India in 2016, the company employs over 600 professionals.

Research

Aloka Majumder
Assistant Manager
Research & Consulting
aloka.majumder@savills.in

Diksha Gulati
General Manager
Research & Consulting
diksha.gulati@savills.in

Megha Maan
Director
Research & Consulting
megha.maan@savills.in

Shashwat Srivastava
Assistant Manager
Research & Consulting
shashwat.srivastava@savills.in

Radhika Deshmukh
Management Trainee
Research & Consulting
radhika.d@savills.in

Arvind Nandan
Managing Director
Research & Consulting
arvind.nandan@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

Media Queries

Chinmoyee Kalita
Corporate Communications Lead
chinmoyee.kalita@savills.in

Regional Management

Sarita Hunt
Managing Director
Bengaluru
sarita.hunt@savills.in

Rajat Johar
Managing Director
Delhi-NCR
rajat.johar@savills.in

Anup Vasanth
Managing Director
Chennai
anup.vasanth@savills.in

Sesha Sai
Managing Director
Hyderabad
sesha.sai@savills.in

Naveen Raina
Executive Director and
Interim Head Pune
naveen.raina@savills.in

Kaustuv Roy
Managing Director
Business Solutions
Mumbai
kaustuv.roy@savills.in

Gurugram

3-A, Second Floor, Building 9B
DLF Cyber City, Phase 3
Sector 24, Gurugram 122 002
Haryana, India

Mumbai

403, Tower B, Level 4, The Capital
Street 3, G Block, Bandra Kurla Complex
Bandra East, Mumbai 400 051
Maharashtra, India

Bengaluru

15th Floor, SKAV SEETHALAKSHMI
Corporation No.21, Kasturba Road
Bengaluru 560 001
Karnataka, India

Bengaluru

Vaishnavi Tech Park, WM9C+995
Sarjapur Main Rd, Bellandur
Bengaluru 560 103
Karnataka, India

Chennai

Savills, 5th Floor, North Wing
Harmony Square, New No. 48 & 50
Praksam Street, T. Nagar
Chennai 600 017
Tamil Nadu, India

Pune

Unit #4, 13th floor
Phoenix Fountainhead Tower 2
Phoenix Market City
Viman Nagar, Pune 411 014
Maharashtra, India

Hyderabad

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

Ahmedabad

INC-02, The First Commercial Complex
B/S Keshavbaug Party Plot, Vastrapur
Ahmedabad 380 015
Gujarat, India

Kolkata

Apeejay Business Centre
15 Park Street, Apeejay House
Block-A, 8th Floor, Kolkata 700 016
West Bengal, India

savills

Savills, the international real estate advisor established in the UK since 1855 with a network of over 700 offices and associates globally.

This document is prepared by Savills for information only. Whilst the information shared above has been shared in good faith and with due care with an endeavour to keep the information up to date and correct, no representations or warranties are made (express or implied) as to the accuracy, completeness, suitability or otherwise of the whole or any part of the deliverables. It does not constitute any offer or part of any contract for sale.

This publication may not be reproduced in any form or in any manner, in part or as a whole without written permission of the publisher, Savills.

© Savills India 2023.