

Office demand sees green shoots

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The resurgence of global capability centres (GCCs) has revived the demand for Grade A office spaces. This has meant an improved leasing trajectory for office asset owners, who have been grappling with muted demand lately.

In a spillover effect of challenges facing the Indian IT sector, leasing took a beating, given that technology companies have been the top contributing tenants for Grade A offices till recently.

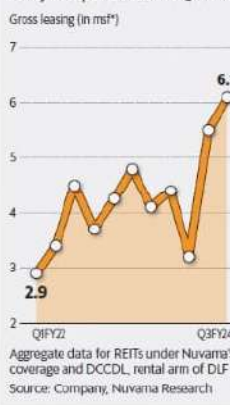
Nonetheless, the tide is gradually turning in favour of commercial realty. "Gross office leasing in CY23 rose by 15% year-on-year across top eight cities resulting in absorption of 59.6 million sq ft," said Viral Desai, senior executive director, occupier strategy and solutions, Knight Frank India.

On an average, rentals for the top eight cities improved by 5-7% in CY23. Desai anticipates rentals to rise within a similar range in CY24. This is likely to be driven by the rising share of GCCs in the overall leasing pie.

Higher traction in overall leasing has aided the performance of companies in

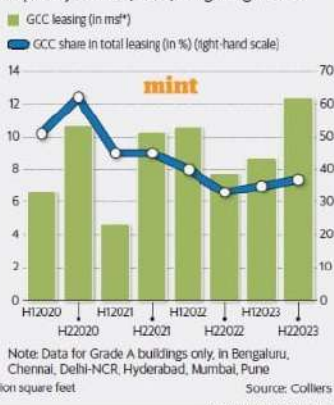
Bouncing back

Gross leasing trajectory for listed realty companies rose in Q3FY24



Improving foothold

Demand for office spaces in top cities from global capability centres (GCCs) is regaining traction



PRANAY BHARDWAJ/MINT

the listed space. Aggregate gross leasing of key listed firms rose to a multi-quarter high in Q3FY24.

For Embassy Office Parks REIT, 80% of the total leasing demand in Q3 was driven by GCCs. For Brookfield India Real Estate Trust, GCCs accounted for 54% of the new leasing.

"Over the past couple of years, higher exits, predominantly from IT-ITeS companies have resulted in net leasing being negative; while exits continued in Q3FY24, the pace seems to be reducing. Consequently, net leasing was positive for all the major developers," said a Nuvama Research report.

Gross leasing includes renewals, while net leasing refers to new additions.

Encouragingly, management commentaries of listed REITs (Real Estate Investment Trusts) in Q3FY24 indicate that occupancies have bottomed out. Companies expect this metric to head higher, albeit gradually. For instance, Brookfield management said by FY25-end, its portfolio occupancy will improve to around 88% from 80% in Q3FY24.

Notably, Grade A commercial office assets are cost-effective for GCCs, which are typically companies of foreign origin setting up back-office operations and R&D activities in India. Availability of skilled workforce and a favourable business environment are some additional advantages for GCCs in India. In fact, the second half of CY23 saw the highest GCC leasing activity since 2020, reaching 12.4 million sqft, showed latest data by property consultant Colliers India.

For CY23, rise in GCC leasing activity was 14%. By 2025, Colliers expects 45-50 millionsqft of GCC leasing activity, contributing to about 40% of the

total demand for office spaces in India, it said in a statement on 21 February.

The other factor expected to boost office space demand is the special economic zone (SEZ) floor-wise de-notification, which allows floor-wise leasing. This is aimed at boosting occupancies for office spaces in IT-ITES SEZ parks and will lead to lower vacancies eventually. While benefits on the sector's rentals will be visible gradually, it is sentimentally positive for now, especially for listed firms. But apart from the demand trajectory, listed REITs investors also need to monitor the debt profile and borrowing costs as these companies are expanding their portfolios.

Meanwhile, the trend of Indian IT firms' mandate to return to office is gathering pace, but unless the sector sees significant revenue growth recovery, its share in overall office space leasing is likely to remain low. This may cap steep upside growth in occupancies and rentals for the near-term. An economic downturn in the US or EU could also dampen GCC demand for office space in India

SHIFTING TIDES

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