

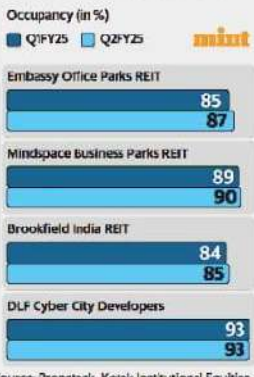
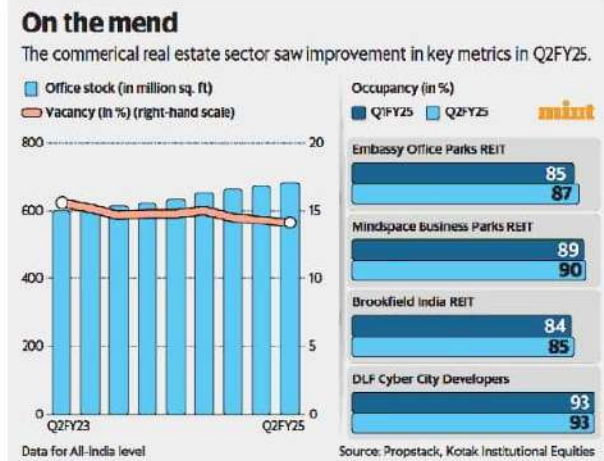
# Office leasing is set to take off

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Things are gradually falling in place for the Indian commercial real estate sector, translating into higher demand for Grade-A offices. Unlike the residential segment, which had a subdued September quarter (Q2FY25), office leasing trends are more optimistic.

Net absorption of commercial real estate across the top seven cities stood at a robust 10.2 million sq. ft (msf) in Q2, marking a 23% on-year jump and a 9% sequential rise, according to Propstack data compiled by Kotak Institutional Equities. New office space supply also rose to 11 msf during the quarter, an 8% increase year-on-year and 18% sequentially. Despite this influx, vacancy dipped a modest 13 basis points sequentially to 14.1%, as per Kotak's 2 December report. A basis point is one-hundredth of a percentage point.

While global and domestic occupiers have contributed, global capability centres (GCCs) are pushing occupancies higher across key geo-



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graphies. GCCs are foreign companies that establish back-office operations and R&D activities in India.

Indian companies' return-to-office policies are also contributing. According to a recent survey by global property consultant JLL, about 90% of firms have adopted a three-day office presence per week,

outpacing the global average of 85%. The survey, released on 28 November, indicates that two-thirds of Indian firms anticipate longer lease tenures over the next five years, and an increase in total office footprint.

The slowdown in information technology (IT) sector—once a major driver of office leasing—had an

impact on commercial real estate. However, after several quarters of headcount reductions, tier-I IT companies reported adding employees in Q2, signalling a positive shift.

Additionally, flexible workspaces are seen as a consistent demand contributor. Their market share in overall leasing has been steady at 12-15% over the past five years and the trend is likely to sustain in 2024, said CBRE.

What has also driven occupancies higher is the floor-wise special economic zone (SEZ) denotification. This allowed realty firms to repurpose vacant SEZ areas, making up the bulk of vacancy for large office owners, into non-SEZ areas.

Listed Indian (real estate investment trust (REIT) managers are brimming with confidence. The management of Embassy Office Parks REIT has raised FY25 leasing guidance to 6.5 msf from 5.6 msf, and expects occupancy to touch 88% by FY25. Brookfield India Real Estate

Trust has maintained its guidance of ending FY25 with 87-89% occupancy from 85%.

For Mindspace Business Parks REIT, overall occupancy stood at around 90% in Q2, and it targets to increase this to 93.5% by FY25 end. REITs are widely expected to bounce back to pre-pandemic occupancy levels of over 90% by FY26.

All said, despite a reduction in vacancies across top cities, average rentals at a pan-India level have stayed range-bound in recent quarters.

Recently, preference for green-certified office spaces has grown among potential occupiers. Such buildings are designed to minimize pollution and

conserve energy. Green-certified office spaces are expected to command a 10-12% premium in rentals compared to non-certified assets. However, with new supply entering the market and gradual improvements in absorption, a spurt in office rentals remains unlikely.

## HIGHER INFLUX

GLOBAL capability centres are pushing occupancies higher across key geographies

RETURN-to-office policies are also contributing to the higher demand in the sector