

INDIA OFFICE OUTLOOK

20
24

*Charting Growth and Embracing
a Promising Future*

EXECUTIVE SUMMARY:

India's Triumph: Navigating Global Challenges, Sustaining Economic Momentum, and Paving the Path for a **Prosperous 2024**

India has had a very good year. The economy continued its strong pace showing resilience against the backdrop of a challenging global environment.

India remained in the global spotlight once again as growth in other major economies was squeezed by uncertainty and fragile business conditions. A slowdown in the tech sector was inevitable, but the Indian IT industry has defied the trend of layoffs so far and proved its ability to cushion high-magnitude economic meltdowns effectively once again. The commercial office market ended on a strong note, laying the groundwork for a new upswing that will redefine the property market landscape over the next 2-3 years.

As we enter 2024, the headwinds in global economy will continue but prospects in India will remain the brightest globally. Recessionary fears are expected to subside gradually in the US and EMEA which augurs well

for the IT industry and external trade. Office market conditions will continue to improve with GCCs and Indian firms continuing to anchor growth. Physical occupancy levels at the workplace have improved significantly last year and we expect the conversations around RTO are likely to fade away gradually as work from office becomes a norm again in 2024. Solid fundamentals and sustained momentum in demand-driving sectors should support healthy leasing activity across markets. We also expect tier-2 cities gaining traction as occupiers explore hub-spoke models for flexibility and talent. Despite the turbulence, we believe that this could well be India's decade.

The next 12-18 months will set the course for the economy and of course, the office market as well.



ANSHUL JAIN

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TOP 7

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01 ECONOMIC RESILIENCE MEETS TECHNOLOGICAL PROWESS

Indian economy is expanding at a faster pace than other major economies and will continue to strengthen further in 2024.

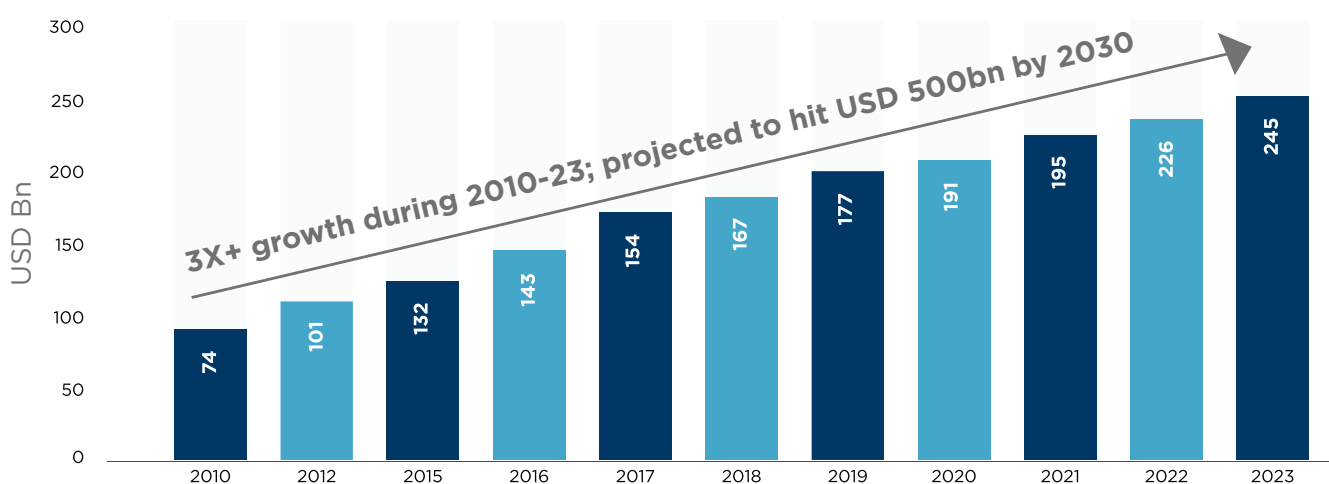
Growth in India will pick up on the back of robust domestic demand, strong public infrastructure investment and a strengthening financial sector. The economy is expected to grow at 6.5-7% levels during 2024-25 with a lesser impact from global uncertainties. Inflation pressures are expected to moderate



and interest rates are unlikely to rise materially during this period. Headwinds in the tech industry will gradually taper off over the next 1-2 years and if the past is any indication, the Indian IT industry is well positioned to tackle the downtrend. IT firms have already started the slow-down playbooks looking to optimize costs and workforce, while leveraging the capacity added since the pandemic. The slowdown in global tech spending will be temporary as most companies are in a wait-and-watch mode and are shifting the emphasis of IT projects towards cost control, efficiencies, and automation.

As such, the cyclical recovery is expected to kick off in 2024⁽¹⁾ and accelerate in 2025⁽²⁾ bringing back the period of high growth for the Indian tech sector. The Indian tech

industry has grown at more than 8% to \$245bn, an incremental revenue of \$19bn while adding 290,000 jobs in FY 2023. Growth is likely to moderate to a 3-5% as hiring is expected to drop by around 50% during FY 2024. We believe that the current downtrend is transient and expect normalcy to restore in the short term. Growth in FY 2025 will likely pick up as investments in digital innovation across the world kickstart the virtuous circle of new projects, job creation and productivity, thereby immensely benefiting the IT/ITeS industry in India. The volatility in tech job market will continue in the short term but the impact on property markets across top 8 cities will be marginal as employment gains (of approx. 800,000 in the last 3 years) haven't fully translated into office demand yet.



INDIA'S TECHNOLOGY INDUSTRY REVENUE GROWTH OVER THE YEARS

1. Tech spending by US businesses will decline in the second half of 2023 before a modest 3% recovery in 2024 accelerates to 5.6% gain in 2025, Oxford Economics
2. Gartner Forecasts Worldwide IT Spending to Grow 8% in 2024

RETURN-TO-OFFICE DISCUSSIONS EXPECTED TO FADE AWAY SOON

Return to office has been a point of concern among CREs, employees and business leaders in the last two years with many raising questions around collaboration, innovation, employee wellness, efficiency, moonlighting, learning and growth etc. It was an uphill battle to bring employees back to office in 2022 but 2023 has witnessed a clear mandate from organizations with a firm focus on productivity. While some have mandated a complete return to office, others are still flexible offering hybrid work strategies with 2-3 days/week or 10 days/ month in office policies. Office attendance also varies by city and industry sector. Across India, the average office occupancy at the end of Nov 2023 is at 70% compared to a 40-50% at the end of 2022. Average space utilization has increased anywhere between 100-300bps depending on the sector, size of the organization and the type of work. Hybrid has emerged as the best work-around for organizations to bring employees back to office in 2023 and it is also a win-win for employers and employees. As we enter 2024, we

expect the discussions around return to office will fade away gradually and 3/5 days of on-site presence will become a norm just like pre-pandemic. As such, robust demand for flexible workspaces will sustain with organizations trying to strike a balance between business needs, space utilization and flexibility. That said, Hybrid would continue in 2024 as an important aspect of the employer's value proposition amidst the war for talent. Hybrid strategies have made the location irrelevant and opened opportunities in newer locations.

As such, tier-2 cities are witnessing a steady rise in space enquiries as many organizations are looking to grab this opportunity for flexibility and talent attraction / retention.





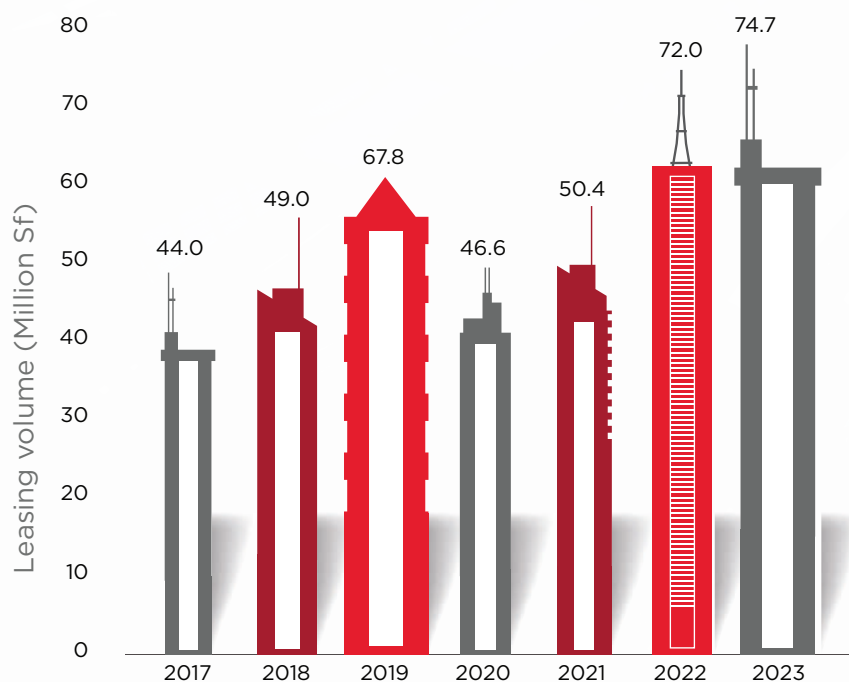
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DEMAND - SET FOR CONTINUED STRENGTH

Leasing upcycle has sustained across all markets in 2023 on the back of positive occupier sentiments, flight to quality for better employee experience and continued relocation / consolidation strategies.

Improving RTO has also brought back some of the pent-up demand (that was deferred in the last 2-3 years) as several large occupiers matched space requirements with business needs.



OFFICE DEMAND HOLDING STEADY



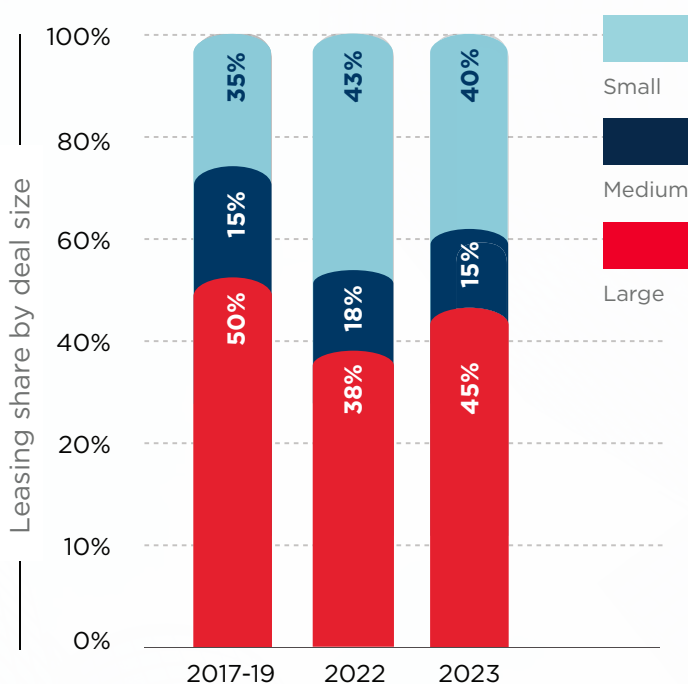
As such, overall office demand has reached a historical high of 74.7 msf surpassing the previous record set in 2022. 73% of the demand was for immediate occupation suggesting that occupiers are actively planning for an imminent growth in space utilization. In addition, more than 40% of the leasing activity has come from smaller deals ($\leq 50,000$ Sf) indicating occupiers are evaluating space needs with immediate requirements in focus. What's more interesting is that Indian firms have anchored the growth once again with more than 40% share in office leasing, underpinned by buoyant business confidence in recent years.

As we projected earlier, 2023 was a tale of two halves. H1 was largely dominated by small and mid-sized deals while several large deals made their way back in H2 as headwinds moderated and green shoots of tech sector revival emerged. Demand was more broad-based with IT-BPM leading the way followed by BFSI, Engineering & Manufacturing (including captive centers) together accounting for more than 60% of the overall space take-up.



SIGNIFICANT RISE IN SMALLER DEALS

Large (>100,000 Sf),
Medium (50,000 - 100,000 Sf),
Small (<50,000 Sf)

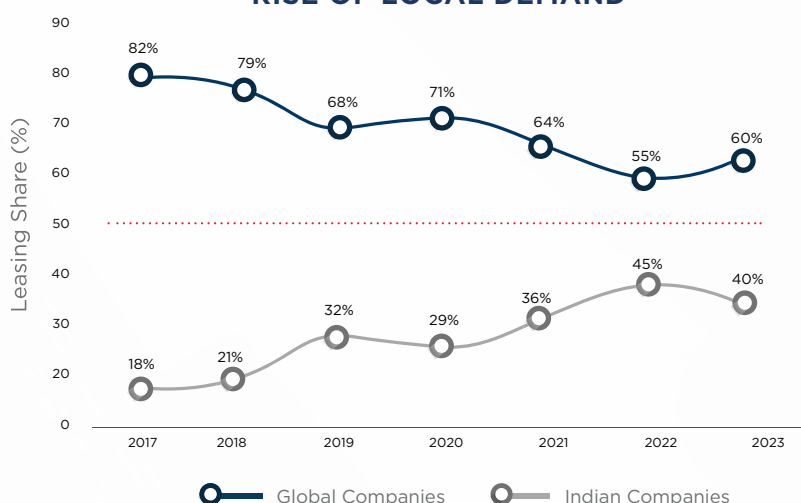


Flex continued the momentum with a leasing share of 11%. Meanwhile, GCCs have continued to scale up and more than 80 GCCs were either newly established or expanded during the year.

Bengaluru topped the numbers once again with 16.0 msf of leasing activity followed by Delhi-NCR and Mumbai. Top 3 cities have accounted for nearly 60% of the office space leased during the year. Pune has witnessed a 45% jump in activity followed by Hyderabad at 35%. Meanwhile, Chennai has recorded the highest ever annual demand which has surpassed 9.0 msf

for the first time, highlighting a significant improvement of market fundamentals in recent years. We understand these diverse dynamics of leasing activity across key cities underscore the evolving landscape of the office space sector. Robust momentum will continue in the next 12-18 months with a projected 3-5% YOY growth in annual office demand. We believe the best is yet to come, as broad-based employment gains of about 850,000 (hirings since 2020) in the tech sector are yet to translate fully into office occupancy. Several large deals (>100,000 sf) are on the anvil, and we expect many of them to conclude in 2024.

RISE OF LOCAL DEMAND



ROBUST SUPPLY PIPELINE PAVING THE WAY FOR GROWTH IN 2024

Supply surge has continued in 2023 following a record high witnessed in 2022. A total of 47.8 msf has entered the market with strong tenant demand continuously fueling the building boom across all cities.

New completions were heavily skewed towards the hotbeds of construction - Bengaluru and Hyderabad, which together accounted for nearly 55% of the Pan India supply while recording the highest ever project completions. Meanwhile, Pune has sustained the construction boom from last year and supply in Chennai has peaked. On the contrary, both Mumbai and Delhi-NCR have witnessed supply falling by nearly 40% as several projects were deferred to 2024. We expect nearly 55-60 msf of new supply to enter the market in 2024 in line with growing demand for quality space. With supply marginally outstripping net space take-up, Pan India vacancy rate has reached 18.42% by the end of 2023. Our analysis indicates the vacancy rate could fluctuate at similar levels in 2024.

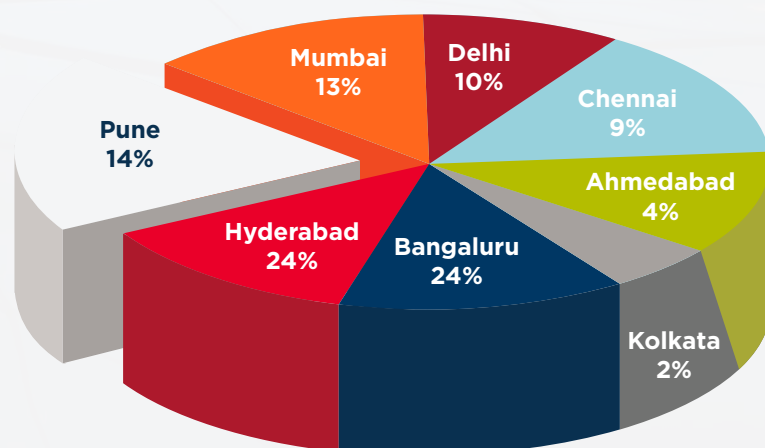
Continued large scale new supply is good to sustain tenant favorable sentiments at the city level but the conditions in some of the core markets are quite different with tight vacancies and limited upcoming supply. Case in point is BKC (Mumbai) where an upcoming supply of 200,000 Sf over the next 2 years is a far cry from the demand witnessed during 2022-23. Many core markets in the country such as Guindy (Chennai), Cybercity and



NH-8 Prime (Gurugram), Malad-Goregaon (Mumbai), ORR (Bengaluru), Madhapur (Hyderabad) and Viman Nagar (Pune) have limited upcoming supply over the next 2 years to keep up with the increasingly varied demand. Moreover, the vacancy is largely concentrated in older buildings which don't meet the quality parameters in the current scenario. As such, occupiers are willing to pay a premium for good location, better quality space and are willing to pre-lease given the supply crunch in some core markets. We expect rental growth is imminent in several core markets. The injection of new supply has been reshaping several non-core markets across cities in recent years. They account for an average of

43% leasing share over the last 2 years. Given the limited upcoming supply in several core markets, we suggest this is quite an appropriate time for occupiers to explore such locations as they plan for next wave of growth. Besides providing a multitude of options with significant discount, they now offer improved social infrastructure, housing, and better connectivity. Meanwhile, occupiers with smaller space requirements can explore opportunities in second-generation properties that can offer a 10-15% discount compared to superior quality, newly completed projects. We have noticed growing interest from flex space operators in repurposing such spaces to maximize value.

PLANNED COMPLETIONS (2024-25)



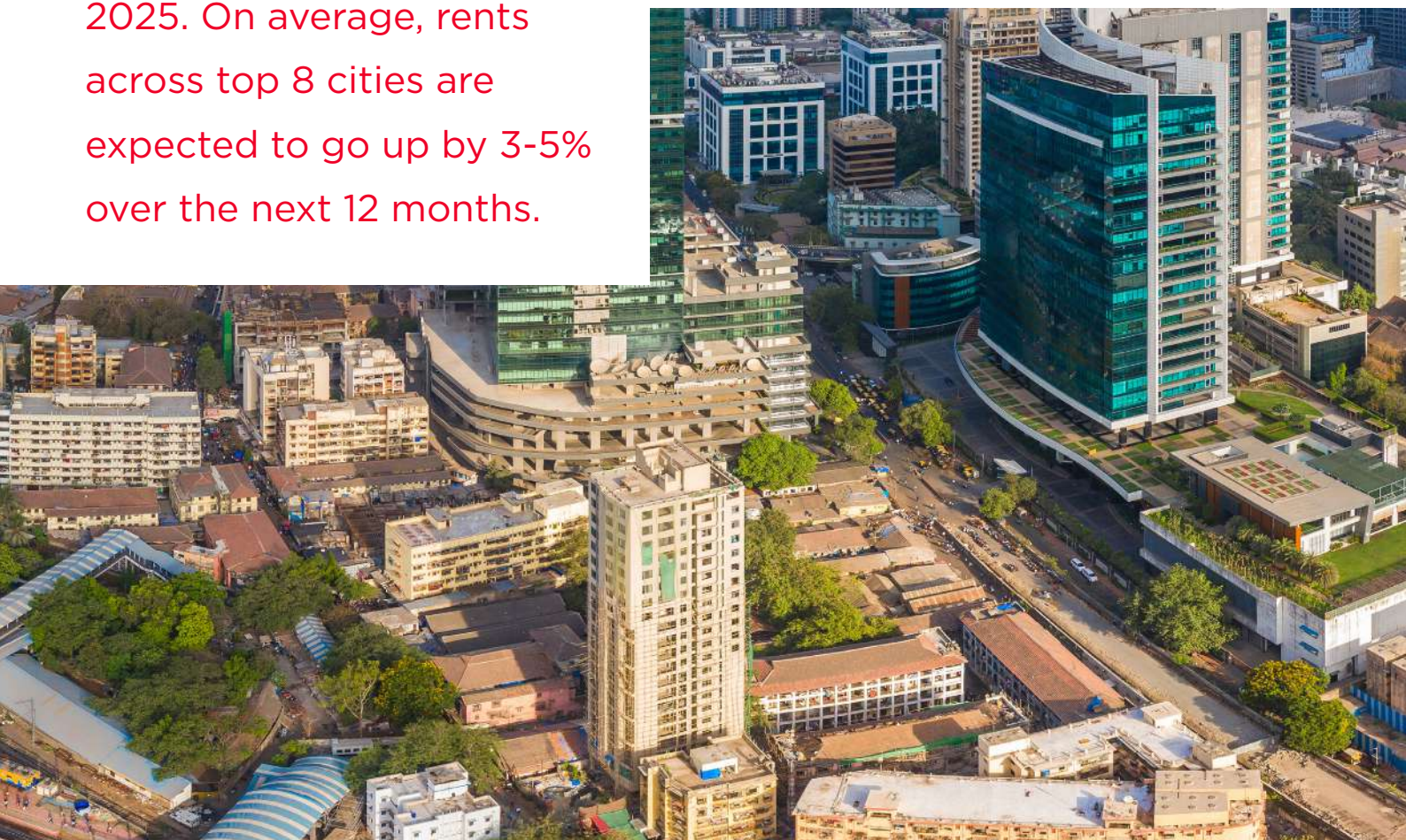
120+ msf
(2024-25)

RENTAL GROWTH IS COMING BACK

Across India, overall rents at the city level have largely remained stable during 2023. We don't predict it to continue going forward as strong occupancies and growing enquiries will generally support rental growth to come back through 2024 and well into 2025. On average, rents across top 8 cities are expected to go up by 3-5% over the next 12 months.

Core locations (mentioned earlier in this report) have already started witnessing a reduction in landlords' flexibility and incentives in 2023. Occupancy costs in some of these prime markets have risen by 4-5% over the year and we expect the upward momentum to extend into 2024. Large deals from GCCs will remain the growth engine. Many firms are looking for central locations to attract / retain talent

and we expect they will be less sensitive to a modest rental growth in the short-term. CAPEX is coming back as occupiers are looking to invest in newer spaces for long-term growth. Meanwhile, landlords are more open to commence early rental renewal / restructure discussions with anchor tenants ahead of their lease expiries.



With an abundance of project completions projected (~ 120+ msf) through 2024 -25, occupiers will continue to have adequate space options and we anticipate conditions to remain tenant favorable in 2024 in general.

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FLEX MOMENTUM AND ESG COMPLIANCE: A DUAL SURGE

The ever-rising demand for coworking spaces is not surprising. Flexible work environments and curated amenities were influencing real estate decisions in terms of CAPEX and lease terms even before the pandemic and the trend has steadily gained steam over the last 3 years. Flex as a swing space has become a strategic necessity for occupiers to implement hub-spoke strategies and deal with business requirements amidst the lingering uncertainty in recent times. Enterprises have leased nearly 385,000 seats (translates to ~27 msf) since pandemic and 1/3rd of these seats were leased in 2023 alone marking it the highest ever.

Flex as a business sector has accounted for nearly 11-12% of grade A office leasing activity both

in 2022 & 2023. We expect this bullishness in flex space market to continue in 2024 driven by a sustained focus on CAPEX savings while managing business needs, hybrid work policies, employee experience among various other factors.

The current landscape suggests that flex space operators are exceptionally optimistic, with plans to expand their portfolios twofold in the next 18-24 months.

They are also buying relevant properties to increase margins and manage uncertainty. The



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top 10 operators are particularly assertive in their growth strategies, focusing on aggressive expansion in tier-1 cities, where they command nearly two-thirds of the overall leased seats. Moreover, some operators are extending their footprint to select tier 2 cities in response to the increasing enterprise demand.

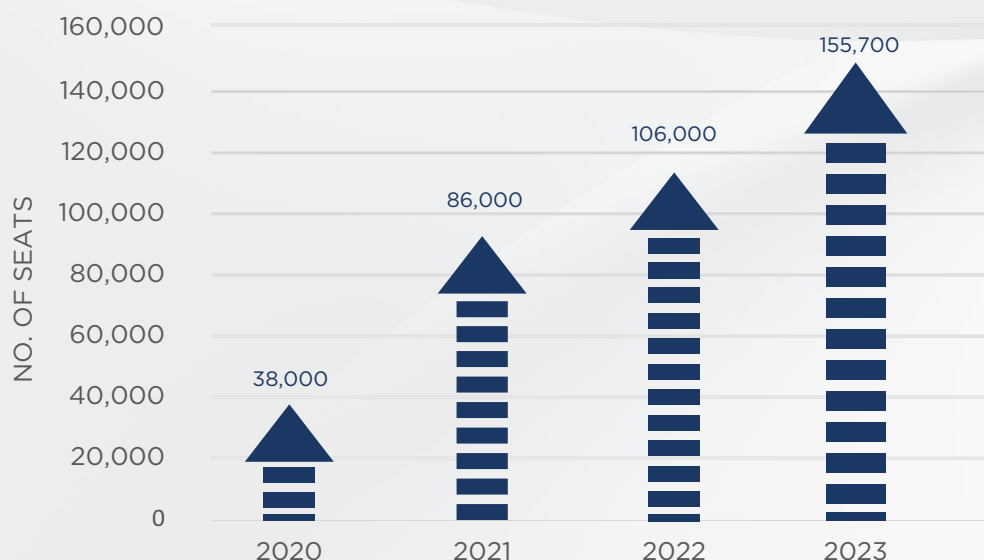
ESG (Environmental, Social, and Governance) has surged to the forefront of priorities for both occupiers and developers, gaining unprecedented attention since the onset of the pandemic and particularly in 2022-23. ESG has started to play a pivotal role in real estate planning and portfolio strategy, driven by occupiers who now prioritize responsible real estate as an integral component of their net-zero targets. Occupiers are now prioritizing the leasing of green-certified buildings and are demonstrating responsibility in material sourcing and placing a

heightened focus on the well-being of employees, emphasizing factors such as WELL-being standards etc. As green certification increasingly becomes a prerequisite among occupiers, developers are investing additional CAPEX and actively incorporating ESG-specific clauses into contracts. Portfolio-wide initiatives, including obtaining WELL Health-Safety ratings, adopting captive/renewable power sourcing, implementing smart grid and smart building technologies, and employing high-efficiency equipment, are already underway.

Looking ahead to 2024-25, the post-pandemic new normal will prompt CRE leaders to redefine strategies related to ESG, return-to-work, flexible work arrangements, and the evolving employee-company connection. Adapting to these longer-term shifts is deemed essential for organizations navigating the changing landscape.

FLEX - ENTERPRISE DEMAND

**~385,000 Seats (~27 msf)
leased since pandemic**



2023 ENDED BETTER THAN THE WAY IT BEGAN.

India, resilient and adaptable, has weathered the challenges of the global headwinds, showcasing remarkable strength and adaptability.

VEERA BABU

Managing Director
Tenant Representation, India

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PERSPECTIVE 2024: ACCELERATED GROWTH AND RENEWED OPTIMISM

Although the tech sector faced an inevitable slowdown, the Indian IT industry showcased its remarkable ability to weather high-magnitude disruptions. The commercial office market witnessed a robust performance with pent-up demand coming back and domestic firms stepping in to fill the void left by global organizations. The record-breaking numbers achieved stand as a testament to the dynamic evolution of business needs and the increasing attractiveness of India's office market. This sustained growth potentially indicates a trajectory aligned with the country's long-term economic development.

Going forward, the Indian IT

industry, a cornerstone of India's economic prowess, is expected to benefit as recessionary fears gradually subside in the US and EMEA. As we look ahead, the office market conditions are poised for continued improvement, with GCCs and Indian firms anchoring growth. We anticipate a continued trend of strength and a healthy pipeline for India's office sector throughout 2024.

Across top 8 cities, physical occupancy levels in workplaces have significantly improved over the last 12 months, signaling a return to normalcy in 2024 as conversations around RTO gradually fade away. Additionally, demand in

tier-2 cities is likely to gain traction as occupiers explore hub-and-spoke models for enhanced flexibility and talent acquisition. Supply is expected to surge once again in 2024, but tight conditions in core markets could lead to a resurgence in rental growth. The unstoppable growth of managed workspaces is anticipated to persist as flexibility gains increasing significance.

Indeed, 2024 is poised to mark a turning point for the Indian office market, reflecting a transition towards an accelerated growth, and renewed optimism in the evolving landscape of work and real estate.

BUSINESS ENQUIRES

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ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in approximately 400 offices and 60 countries. In 2022, the firm reported revenue of \$10.1 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), Environmental, Social and Governance (ESG) and more. For additional information, visit www.cushmanwakefield.com.