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Indian Commercial Real Estate Sector

Global macroeconomic headwinds loom over office leasing

DECEMBER 2023

Highlights

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Vacancy levels for the top six cities are expected to increase to 16.0–16.2% during FY2024–FY2025 from 15.3% in FY2023 due to slowdown in leasing given the global macroeconomic headwinds.

Favourable demographics, a highly skilled and cost-effective talent pool, availability of high-quality office spaces at competitive rentals, would continue to drive demand for the Indian office portfolio in the medium to long-term.

For the office segment, despite increase in physical occupancy, many tenants chose to adopt a cautious approach given the global macroeconomic headwinds, resulting in slowdown in leasing activity in technology-based sectors. This can also be seen from a decline in net absorption by 30% YoY in H1 FY2024 for the top six cities. Net absorption is likely to decline by 20% to ~46 msf in FY2024 and witness moderate growth of 4-5% to 48-50 msf in FY2025.

With influx of huge supply of 60-62 msf each in FY2024 and FY2025, the vacancy levels are expected to increase to 16.0-16.2% during FY2024-FY2025 from 15.3% in FY2023. Some of the IT majors have not only surrendered spaces for which leases are about to expire by consolidating their offices, but also decided to sell their excess space – moving away from an asset ownership model. However, demand from global capability centres (GCCs), non-IT MNCs and domestic corporates remain healthy.

The total Grade A office supply for the top six markets stood at ~900 msf as on September 30, 2023. Bengaluru has the highest supply share of 27% followed by Delhi NCR (20%), MMR (19%), Hyderabad (15%), Pune (11%) and Chennai (9%). Around 53-55% of the upcoming supply in FY2024 and FY2025 is in the Hyderabad and Bengaluru markets.

The credit profile of ICRA's sample of office players (with leasable area of ~100 msf) is expected to remain stable, driven by healthy growth in NOI backed by improvement in occupancy and higher rentals. Consequently, the leverage metrics, as measured by debt/NOI, are expected to improve to 4.5-4.6 times as of March 2025 from estimated 5.2-5.3 times as of March 2024. Even after factoring in the increase in interest rates, the DSCR is expected to improve and remain healthy at 1.35x in FY2025, over 1.25x in FY2024. Excluding the REIT-ready assets from the sample, the Debt/NOI is expected to be around 7.6–7.7 times as of March 2024 and 6.2–6.3 times as of March 2025 with a moderate DSCR at around 1.05x and 1.1x in FY2024 and FY2025, respectively.

Agenda

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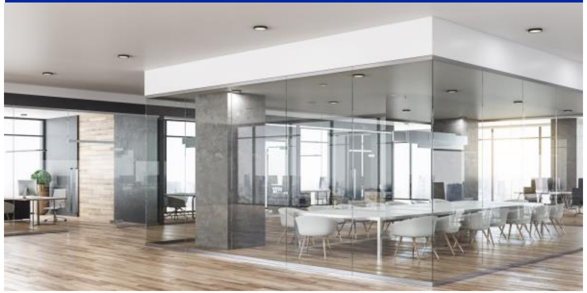
1 Outlook on commercial office and retail mall operators - Stable



2 Trend in net absorption, supply and vacancy – Office leasing

3 Trends across major markets – Office leasing

4 Key metrics across listed companies – Office segment

5 Trends and performance of retail mall operators

6 Rating actions

Analytical Contact Details

Name	Designation	Email	Contact Number
Rajeshwar Burla	Group Head	rajeshwar.burla@icraindia.com	040 – 4547 4829
Anupama Reddy	Co Group Head	anupama.reddy@icraindia.com	040 – 4547 4829
Abhishek Lahoti	Sector Head	abhishek.lahoti@icraindia.com	040 – 4547 4829
Vishal R	Senior Analyst	vishal.r@icraindia.com	080 – 4332 6419
Rabbani Mohammed D	Analyst	d.rabbani@icraindia.com	040 – 4547 4829

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector – West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860

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Thank You!