Indian Commercial Real Estate Sector – Office REIT

REIT-ready office provides an investment opportunity of Rs. 5.8–6.2 lakh crore across top seven cities

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Highlights

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REIT-ready office assets are estimated at 511 msf in top seven cities, indicating a significant potential for further REIT listings.

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.

Total Grade A office supply for the top seven cities in India stood at ~956 million square feet (msf) as on September 30, 2023. Bangalore leads the supply with a share of 25%, followed by Delhi NCR (20%), MMR (18%), Hyderabad (14%), Pune (11%), Chennai (8%) and Kolkata (4%). Around 53-55% of the upcoming supply in FY2024 and FY2025 is in the Hyderabad and Bangalore markets.

As of September 2023, there are three listed office REITs in India, namely Embassy REIT, Mindspace REIT and Brookfield India REIT (BIRET), which accounted for 9% of total Grade A office supply across the top seven cities. REIT office supply increased by 3.3 times in the last five years, wherein Bangalore led with the REIT office share of 28%, followed by MMR (20%) and Pune (13%). The IT and BFSI segments accounted for 55-60% of rentals across the REIT portfolio.

REIT-ready office space is estimated at 511 msf. Bangalore leads REIT-ready office space by a huge margin with ready supply at 158 msf, followed by MMR (83 msf) and Hyderabad (78 msf). With cap rates of 8-8.5%, ICRA estimates the value of REIT-ready office assets at around Rs. 5.8-6.2 lakh crore.

In an expected regulatory amendment, the Government of India amended SEZ rules to allow partial and floor-wise denotification of IT-SEZ properties, which is expected to revive the attractiveness of SEZ spaces and improve their occupancy.

Top seven cities include Bangalore, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai Metropolitan Region (MMR) and Pune
To arrive at REIT-ready office spaces, ICRA has included developers with at least 1 million sft of Grade A office space across top 7 cities with a minimum occupancy of 75% as on September 30, 2023.

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Agenda

1 Outlook on Commercial Office – Stable

2 Trends in Office REITs in India

3 Updates on Regulatory Amendments

4 REIT-Ready Office Spaces

5 Rating Actions in Commercial Real Estate

Analytical Contact Details

Name	Designation	Email	Contact Number
Rajeshwar Burla	Senior Vice President & Group Head	rajeshwar.burla@icraindia.com	040 – 6939 6443
Anupama Reddy	Vice President & Co Group Head	anupama.reddy@icraindia.com	040 – 6939 6427
Abhishek Lahoti	Assistant Vice President & Sector Head	abhishek.lahoti@icraindia.com	040 – 6939 6433
Rabbani Mohammed D	Analyst	d.rabbani@icraindia.com	040 – 6939 6422

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