

Commercial Real Estate – Office - Hyderabad

**Unlimited floor space index (FSI)
resulted in supply overhang;
vacancies on multi-year high for
Hyderabad office market**

JANUARY 2025





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Significant increase in Grade-A office supply at a CAGR of 14% during FY2018 – FY2024 for the Hyderabad market compared to a CAGR of 7% for top six cities.

Of the total expected office supply of ~29-30 msf in H2 FY2025 and FY2026 for the Hyderabad market, only ~15% has been pre-leased.

Leasing from IT-BPM continues to be a dominant segment for the Hyderabad market, flexi-space an emerging sector.



Hyderabad market witnessed office supply of ~19 million square feet (msf) in FY2024, highest in its history. It is also the largest yearly addition in India across locations. The unlimited floor space index (FSI) has allowed developers to build more, increasing office supply and vacancy levels. Consequently, the high upcoming supply of 17 msf in FY2025 and 20 msf in FY2026 is likely to push vacancy levels further up to 20.5-21% as of March 2025 and 24.0-24.5% as of March 2026 compared to 17.5% as of March 2024.



Hyderabad accounts for 16% (~155 msf) of the Grade-A office space among India's top six* cities (as on September 30, 2024). Northwest region dominates with 88-89% of total Grade-A office space. Hitech city/Madhapur (38%), Gachibowli (17%) and Financial District (15%) are the top three micro-markets in Hyderabad, which account for ~70% of the total Hyderabad office supply. ICRA expects vacancy levels to remain in check for Hitech City/Madhapur (9-10%) and increase significantly for Gachibowli (25-30%) and Financial District (25-30%) micro-markets by March 2026, as supply will significantly outpace net absorption trends.



The rental rates in the top three micro-markets (Hitech City, Gachibowli, Financial District) have been increasing steadily over the last five years. However, the current over-supply market conditions could turn out to be favourable for the new tenants. For new leasing, the landlords are expected to remain flexible by offering extended rent-free period and consequently, the effective rent rate would be at a discount to the prevailing market rates. Enforcing of rental escalations in a timely manner may be a challenge for major micro-markets with high vacancy levels Gachibowli, Financial District and Kokapet.



ICRA expects investment opportunity of Rs. 71,000–76,000 crore in REIT-ready office spaces for Hyderabad market. To arrive at REIT-ready office spaces, ICRA has included developers with at least 1 million sft of Grade-A office space with a minimum occupancy of 75% as on September 30, 2024. To arrive at the investment opportunity for REIT-ready office spaces, ICRA has used cap rate of 8–8.5%.

*Top six Indian office markets include Delhi NCR, MMR, Bengaluru, Hyderabad, Chennai and Pune

1 Trend in net absorption, supply and vacancy – Top 6 markets



2 Outlook on Indian office leasing segment



3 Trends across Hyderabad market



4 Rating actions





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