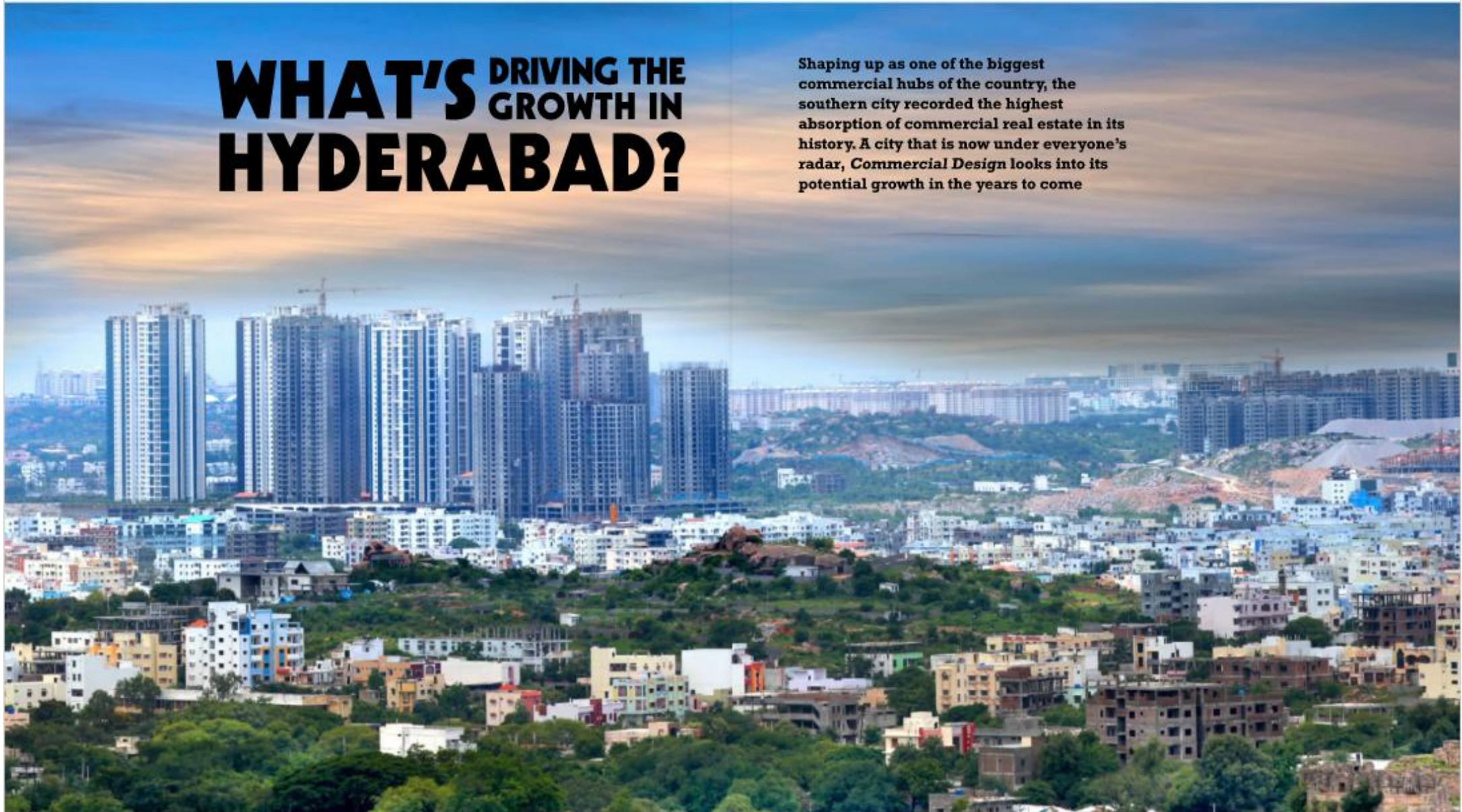


WHAT'S DRIVING THE GROWTH IN HYDERABAD?

Shaping up as one of the biggest commercial hubs of the country, the southern city recorded the highest absorption of commercial real estate in its history. A city that is now under everyone's radar, *Commercial Design* looks into its potential growth in the years to come



The year 2019 wasn't exactly a favourable year for the Indian real estate industry.

With headwinds of an economic slowdown, the market reported a deck of unsold inventory, marginal growth and declining demand. But the one that stayed resilient and, in fact, showed a robust growth was its commercial segment.

Office real estate boomed in 2019 and is likely to further bloom in 2020. Its supply has been steadily increasing as has absorption rates.

According to a Knight Frank India report, it rose 27% year-on-year to an all-time high of 60.6 million square feet in 2019. "The Indian office space market has been largely insulated from macro concerns that plague the economy and has only gained traction in 2019 due to the large infusion of supply that came online during the year. The segment that was starved of supply saw a record 5.7 million square metres (61.3 million square feet) attain completion during the year, which was evenly matched by an

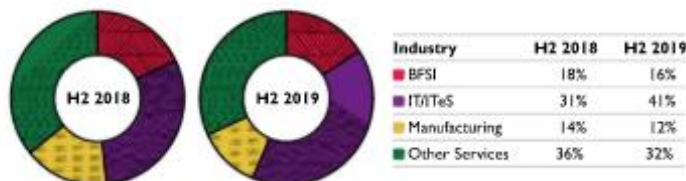
unprecedented 5.6 million square metres (60.6 million square feet) of transactions," states Shishir Bajaj, chairman and MD, Knight Frank India.

OVERALL REVIEW

The annual transaction volumes in the Indian office space market has been growing from strength to strength for the better part of this

decade. However, constrained by the lack of good quality available supply, the Indian office market saw vacancy levels fall consistently from 21.4% in 2012 to 11.6% in 2017. Knight Frank's report states that it is only since the beginning of 2018 that office space started getting delivered in increasing volumes to meet growing demand. Vacancy level currently stands at 13.1%.

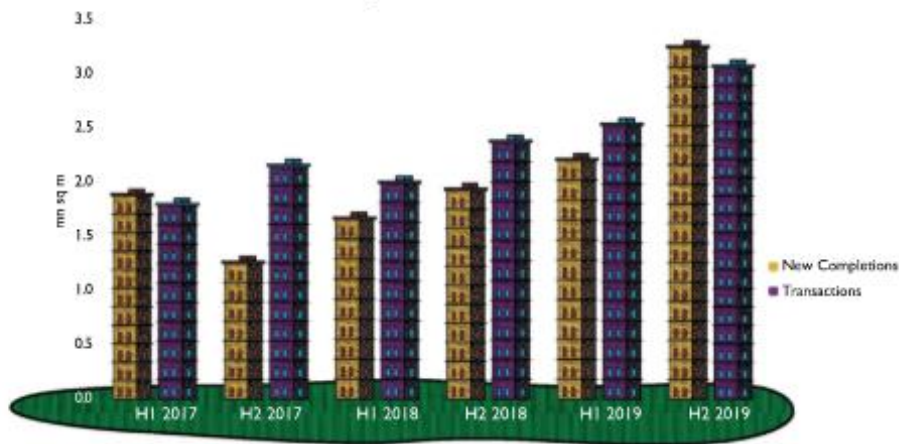
Sector-wise Split of Transactions



Note: BFSI includes BFSI support services; Other Services includes co-working, media, telecom etc.

Source: Knight Frank Research

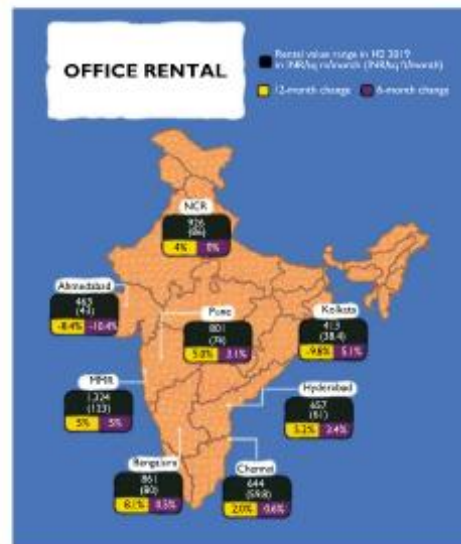
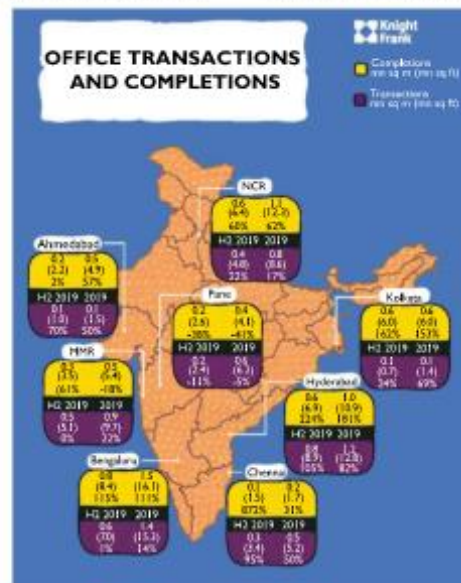
India Office Market Activity



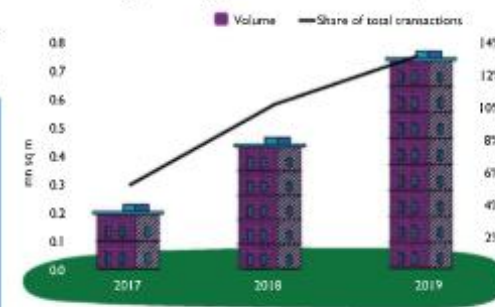
Source: Knight Frank Research

"The rising demand for higher end roles in AI and Data Security domains led to a substantial increase in demand from the IT/ITeS sector in 2019. BFSI is the

only sector that saw a negative YoY growth in transactions and is undergoing a period of strife in the wake of the NBFC crisis and the serious NPA issues," reveals Bajaj.



Co-working Leasing Transaction Activity



Source: Knight Frank Research

RISING TO THE TOP

Among the top eight cities in India, Bengaluru saw the highest volume of office spaces leased in 2019 at 15.3 million square feet; followed by Hyderabad, a city that has been in the news for its unprecedented growth, with 12.8 million square feet, nearly twice its previous annual high. With many companies shifting base to Hyderabad, the city is growing as an affordable alternative for state-of-the-art office spaces. Bajaj adds, "The second half of 2019 was a landmark period for Hyderabad as the city's office market overtook Bengaluru to post the highest transacted volumes among the eight markets under coverage."

Factors behind the driving office demand in Hyderabad

Policies
The 2016 ICT and innovation policies incentivized IT sector expansion.

- The Information Technology Investment Region (ITIR) in western Hyderabad gave impetus to office demand.
- Land allocation for Banking, Financial Services and Insurance (BFSI) occupiers in the financial district drove demand for office space.
- Infrastructure → The Outer Ring Road (ORR) and Metro Modal Transport System (MMTS) has increased accessibility.
- Metro rail Phase 2 and the Strategic Road Development Plan (SRDP) should enhance infrastructure.

Talent
Hyderabad has a large talent pool for machine learning and artificial intelligence due to the education infrastructure and focused curriculum.

- Presence of top tier engineering colleges such as the Indian Institute of Information Technology and Indian Institute of Technology.

Quality of Life
Hyderabad named India's best city to live for the fifth time in a row.

- The Ministry of Housing and Urban Affairs (MoHUA) ranks Hyderabad 27th among 111 cities in India in the ease of living.

Source: Colliers International | The Hans India, Hyderabad ranks best city to live in India for fifth time in a row, 14 March 2019.

INDUSTRY INSIGHTS



Anuj Puri, Chairman, Anarock Property Consultants

The commercial segment has done fairly well in Hyderabad in 2019 when compared to others such as retail and residential. Increased office leasing activity in recent times has positioned Hyderabad as one of the most active commercial markets in south India. As per ANAROCK research, the overall office absorption in Hyderabad in 2019 crossed 0.5 million square feet area, whereas the supply was more than 12 million square feet.

To its advantage, the city offers the lowest office rentals in comparison to markets such as Chennai and Bengaluru. Monthly rentals in the city's key micro markets range anywhere between Rs. 42-70 per square feet, whereas rentals in key office areas in Bengaluru hover between BSR 90 to 110 per square feet. Hyderabad may have been a late bloomer but it is already challenging other markets. Factors such as proactive governance, robust infrastructure ease of doing business and quick approvals have placed the spotlight on Hyderabad's office market.

Gachibowli,HITEC City and Madhapur are considered established IT hubs housing the best international brands. With the likes of Amazon and Apple leasing big spaces in Hyderabad, the city is surely giving Bengaluru stiff competition. And the rate at which Hyderabad's commercial market is developing, it may soon catch up with its more prolific neighbour.

Moreover, even amid the current slowdown, Hyderabad's real estate has stayed afloat due to its stable political environment, ease of doing business, infrastructure development, constant inflow of working professional. The government has worked towards strengthening infrastructure through several initiatives such as Hyderabad Metro Rail, developing arterial roads and elevated corridors in and around IT hubs of Gachibowli, HITEC City and Telhapur. The creation of new districts in the vicinity of Hyderabad has also created fresh avenues for real estate development and growth.



Remil Dubey, Senior Director, Advisory & Transaction, India, CBRE South Asia

Hyderabad remains one of the country's leading leasing cities due to the availability of space in investment-grade developments. More than 62 million square feet of new office supply was added across the country in 2019; led by Hyderabad, followed by NCR, Bengaluru and Pune. Revival of investments coupled with some proactive policies by the government, improved infrastructure and availability of a large talent pool are some factors that have led to growth in the last few months. The year 2019 witnessed the office market to be buoyant, driven by a growing demand from domestic firms and multinationals with a healthy supply from cities such as Hyderabad and Bengaluru. By the end of 2019, the market witnessed an addition of more than 52 million square feet office supply that was primarily led by

Hyderabad and followed by markets such as NCR, Bengaluru and Pune.

A large quantum of investment-grade supply is lined up for release in Hyderabad. This is drawing interest from several flexible space operators and tech firms who dominated space take-up in Hyderabad. Moreover, the upcoming infrastructure boost is bound to further lift occupier sentiment. The commercial office demand should continue seeing a strong momentum with a huge quantum of investment-grade supply lined up for Hyderabad. This is attracting interest not just from flexible space operators and tech firms but is also leading to a boost in occupier sentiment in the market.



Jameson Arthur, Branch Director, Hyderabad, Knight Frank India

Defining aspects: 2019 was a standout year for commercial realty of Hyderabad in 2019. It leaped to second position, in India, amongst highest space absorbed by Office sector.

Apart from office leasing, biotech activity was noted in land transactions in the form of joint-development deal. The result of these deals is expected to produce enormous new supply, majority of which would be office development once again. End-user uptake was majority on lease rentals and highlight was the growing presence of co-working space.

Macro view:

In statistical summary, Hyderabad office market transactions clocked an all-time high of 1.3 mn sq.ft (12.8 mn sqft) in 2019 at a weighted average rental of 61 per sqft per month. Hyderabad's office stock overall stood at an approx. 7 mn sqm (76.3 million sqft). Co-working transactions stood at 0.13 (1.36mn sqft) for the H2, 2019 which is a significant 15% of the total transactions in the year. The average deal size was 7403 sqm (79,865 sqft).

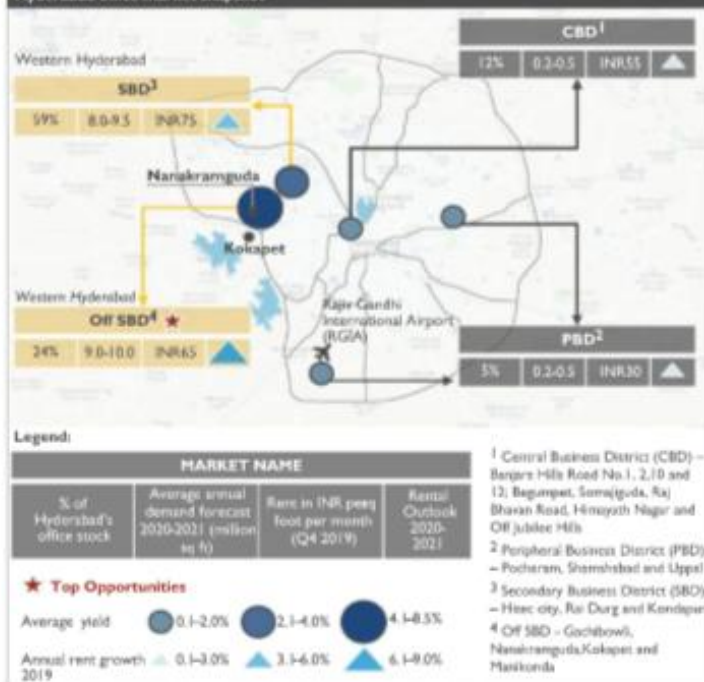
In summary:

A new wave of renewed interest in real estate was witnessed. This was primarily driven by robust growth of Technology and IT enabled services. Co-working operators grew in large proportions and disrupted the market with their flexible offerings to end-users. With limited supply and a growing demand, the stage is being set for a greater story to unfold in the years ahead. Apart from that there are several factors for continued growth of Hyderabad. The favourable city-living index, availability of talent pool, availability of large land plus grade A buildings are key aspects for IT companies in their choice of a city. Moreover, an eco-system that has thrived over the years along with a stable political environment gives Hyderabad city and edge over its peers. However, there is cautious optimism due to global uncertainties and even in such times Hyderabad is expected to respond to the changing needs of the sector.

An extensive report published by Colliers International, titled 'Resurgence of Hyderabad' reveals that the city is witnessing high demand due to a host of attractive attributes, including the newfound political stability after the formation of the new state, introduction of growth conducive policies, adequate infrastructure, availability of a vast talent pool and high quality of life. It further states that the western part of the city is poised to witness massive growth in the next five years due to rising occupier interest and infusion of planned supply.

"Hyderabad's western corridor is expected to witness a robust growth in leasing activities projected to reach 3.8 million square feet of pre-commitment, to be occupied in 2020. Occupiers from CBD, who are looking for office space, will consider HITEC City and Raj Durg submarkets for expansion or relocation in the wake of the huge upcoming supply of eight million square feet planned by the end of 2020," says Sanjay Prasad, CMD, Colliers International India.

Hyderabad office market snapshot



Source: Colliers International, Google Maps, USD1 = INR71.2, as of 24 December 2019.

MOVING UP THE RANKS, HYDERABAD IS AMONG THE TOP FOUR OFFICE MARKETS IN INDIA

Among fastest growing cities

- According to the World Economic Forum, Hyderabad is amongst the top 10 fastest growing cities in the world and the second fastest growing city in India after Bengaluru.
- Hyderabad is the powerhouse of Telangana state, helping push Telangana's gross state domestic product (GSDP) up 15% for the 2018-2019 fiscal year.
- The information technology sector drives Hyderabad's office demand. Its exports grew at a CAGR of 10.5% during 2013-2019.

Office stock to double by 2024

- In 2019, Hyderabad saw the largest new office supply in India, peaking at 11.5 million sq feet (1.0 million sq meters). This was 51% higher when compared to 2018.
- Hyderabad is scheduled to witness 80 million sq feet (8.2 million sq meters) of new supply in 2020-2024. This accounts for 28% of the total new supply in India's top seven cities.
- By the end of 2024, we expect the city's office stock to double.

Fastest growing office market

- Compared to 2012-2015, Hyderabad's average office demand grew 81% in 2016-2019.
- Average annual office space demand was 6.8 million sq feet (637,825 sq meters) in 2016-2019, accounting for 14% of nationwide leasing, compared to an average of 10% in 2012-2014.

HYDERABAD, LEADING ECONOMIC AND OFFICE MARKET INDICATORS

	2012-2015	2016-2019
Gross State Domestic Product CAGR ¹	12.1%	14.5%
Unemployment rate ²	7.4% (as of Jan. 2016)	2.3% (as of Dec. 2019)
Average annual office sector gross leasing	3.8 million sq feet	6.8 million sq feet
Average annual new office supply	3.9 million sq feet	6.5 million sq feet
Average vacancy rate	12.8%	7.2%

Source: Colliers International, India Brand Equity Foundation, 'Center for Monitoring Indian Economy (CMIE)', 'Among the top seven cities in India namely Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai and Pune. USD1 = INR71.2 as of 24 December 2019.

DEVELOPER'S SPEAK:



Ashish R Puravankara, MD, Puravankara

Both in terms of commercial and residential real estate, Hyderabad has performed well. The city has witnessed great developments to its physical infrastructure and boasts of excellent roads and well-connected micro markets. The ease of doing business rankings led to several MNCs and corporate giants to set up base in Hyderabad, which resulted in new jobs and created a demand for housing projects and a surge in the demand for rental properties.

The city has attracted a huge influx of white-collar migration due to IT/ITes. While there has been a perception that Hyderabad's economy is primarily dependent on IT, the vast MSME market, pharma development and other sectors have contributed significantly to the city's employment growth. This is one of the key factors that led to the resurgence of Hyderabad's realty market. Its rapidly evolving infrastructure and the impetus given to the growth of commercial corridors by the government makes the city favorable for investments and will further bolster its growth and improve buyer sentiments. In the next five years, Hyderabad will be one of the fastest-growing real estate hubs (both in commercial and residential space) in India, owing to its social and physical infrastructure and overall connectivity within the city."



Mahesh Khaitan, director, Salarpuria Sattva Group

Hyderabad is showing a strong growth momentum in the commercial space and I believe, that its robust fundamentals are aiding the city to stay ahead, in comparison to other real estate hubs in the country. The market is witnessing healthy demand and supply with adequate price dynamics in place and this consistency of growth in the real estate industry, indicates a resilient trend, which is set to continue.

In the present scenario, the commercial market potential is huge for Hyderabad and there has been a growing interest in the city as an IT destination. The demand in the business spaces for IT and financial sectors for built-to-suit and ready to build basis, has also seen constant growth. This boom can be considered as one of the core drivers behind this robust development, which is backed by an evolving industry trend towards technological disruptions. The state's focus on infrastructure, has expedited the process, while favourable policy reforms and political stability, have positively aided the growth curve. In the last few years, the city has witnessed overwhelming occupation of office spaces by multinational companies and as the city continues to foster more office leasing activity, it has become the most active commercial market in the South.

The Hyderabad real estate market has seen a marked difference in the overall real estate industry of India and the city has been successful in creating its own space, as an



affordable alternative for state-of-the-art commercial projects. While the rest of the country experienced a slowdown in the real estate market, South India has managed to keep a steady pace with Hyderabad leading the way. Keeping in view all the points, we believe that with the consistent pro-activeness of the state government and continuing appropriate infrastructure development, Hyderabad's commercial growth will continue to break new path.



Rakesh Reddy, Director, Aparna Constructions and Estates

Over the past year, Hyderabad has been gaining momentum among investors, multinational companies and builders to challenge Bengaluru as the top commercial real estate destination in India. Office space in the city has increased two-fold in the past decade, thanks to the presence of global IT companies. Hyderabad clocked a 129% spike in office space development in the first half of 2019. The commercial real estate market in Hyderabad has grown amidst policy reforms, institutional investments, foreign partnerships and growth in the services sector. The sector has been bolstered by government initiatives such as Make in India and wider reforms in the realty sector including RERA and the emergence of REITs. Driven by the IT/ITes surge in India, companies including IBM, Google, Amazon, Microsoft and Apple have set up offices in Hyderabad. Low rent, proactive governance, and the presence of a massive talent pool make Hyderabad one of the most attractive destinations for the IT/ITes sector in India. Hyderabad's development strategy of creating commercial growth corridors has also had a direct impact on the city's immense real estate growth. In addition to IT/ITes, other sectors including manufacturing, defence and aerospace, financial services, engineering, pharma and hospitality are all flourishing in the city. Hyderabad is expected to add 33 million sq. ft of commercial office space by 2021. To keep up with increased migration to Hyderabad, the Telangana government has invested heavily in the Hyderabad's infrastructure facilities and connectivity, which improve the overall real estate climate and ease of doing business in the city. The government's initiative in developing the city's commercial infrastructure has played a major role in Hyderabad's growing prominence as a global hub.

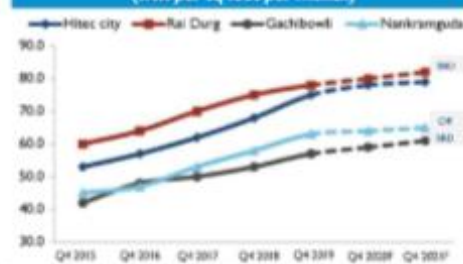
During 2019, flexible workspace operators leased four times as much office space compared to 2018. "Hyderabad's total stock was close to 65 million square feet at the end of 2019, with 90% of the supply concentrated in the western corridor and about 84 million square feet of new supply is projected here by the end of 2024," says Arpit Meivrots, MD, Office Services, South India at Colliers International India.

By the end of 2020, almost four million square feet of pre-commitments is expected in Hyderabad. The tenant experience is taking centre stage and developers are looking to differentiate projects to command premium rentals from elite occupiers. With the huge influx of upcoming supply, developers would need to differentiate projects to seize the upswing in demand. They are expected to adopt flex and core model, combining long-term lease for core operations and flexible workspace to accommodate variable headcount associated with shifting operational demands.

According to Colliers Research, the demand for Grade A office space in Hyderabad will increase at about 4% annually over 2020-2024



Western Hyderabad, rental comparison, 2015-2021 (INR per sq foot per month)



Source: Colliers International

Western Hyderabad, supply outlook (2020-2024)



Source: Colliers International, Area: HITEC City includes Kalyan Nagar and Madhapur. Others include Madhapur and Punjagutta

crossing 11 million square feet by the end of 2024. Grade A office stock in Hyderabad's western corridor is about 59 million square feet, making this area the largest micro market in Hyderabad. The report estimates the upcoming supply to increase stock by 141% by 2024.

Further around 46 million square feet of new supply is planned in 2020-2021, surpassing Colliers' projected demand by two times and pushing forecasted vacancy levels from less than 5% to over 10%. Rental growth in western Hyderabad will soften as a result, from a CAGR of 8% during 2017-2019 to 2.5% for 2020-2021, considering the huge influx of supply.

"Hyderabad is expected to be among the top four office markets in India by 2024, led by expansion of technology companies and global in-house centres. This will be led by the city's GDP which is likely to be the third-fastest among key Asian cities and regions over the next five years. This robust growth in office space is driven by the rising technology occupiers' expansion in western Hyderabad, and business-friendly policies from the state government, which is providing an impetus to investors and occupiers alike," says Megha Man, Senior Associate Director, Research, Colliers International India. ■