

Office absorption shows resilience in June quarter across top 7 cities, up 32% on year

Synopsis

Second wave induced lockdowns push net absorption down 16% sequentially, but better than 61% drop witnessed a year ago.



Office space demand across **India** has exhibited resilience with rise in absorption levels in the **quarter** ended June led by the information technology and IT-enabled services sector has largely remained unaffected by the impact of the Covid19 pandemic.

The country's top seven markets witnessed net **office absorption** of 4.39 million sq ft in the second quarter, representing 32% year-on-year growth, showed data from **JLL India**.

Given the strict nationwide lockdowns across the country during the quarter, net absorption dipped by 16% versus the previous quarter. However, the quarter-on-quarter drop was lower than the 61% during the same period last year when the first wave of the pandemic hit, showing the market's improved resilience.

"It is important to note that pre-leasing commitments have been largely intact and there has been limited downsizing activities by larger corporates. Corporate occupiers are holding on to office spaces with the belief that as vaccination drives accelerate, occupancy at offices will start to improve," said **Rahul Arora**, Head of **Office Leasing Advisory**, JLL India.

According to him, 75% on-year increase in office completions at 25.11 million sq ft indicates that developers are confident of a strong revival in office leasing activity once business as usual is reinstated.

Developers are optimistic about a sustained demand recovery following the accelerated progress in vaccination drives.

"Business and revenues of top information technologies companies has been on the rise and their talent acquisition and hiring has intensified. The companies are also encouraging vaccination of their employees aggressively for safer work environments. So once the situation normalises, we will see a sharp increase in demand for grade A office spaces," said Vinod Rohira, CEO, Mindspace Business Parks REIT.

New completions during the quarter were recorded at 11.67 million sq ft, more than double from a year ago period. With the addition of nearly 12 million sq ft

of space, the Grade A office stock in the top seven cities under consideration crossed 650 million sq ft. During the first wave of **COVID-19**, new completions took a hit due to the unavailability of labour. The robust new completion level in the quarter is indicative of the fact that construction activity was not impacted significantly during the second wave.

“Compared to the big dip that we had seen in the Q2 of 2020 due to the first wave, the market showed more resilience in Q2 2021 when hit by the second wave. The strength displayed by the office market in India since the pandemic owes much to the fact that the IT/ITeS sector has been largely unaffected by the economic downturn,” said Samantak Das, Chief Economist and Head Research & REIS, JLL.

IT/ITeS occupiers continued to account for a majority of the office leasing activity in 2020 at around 50%. In 2021, Das expects the IT/ITeS sector to remain the key occupier group while demand from emerging sectors such as e-commerce, manufacturing and healthcare is likely to increase further.

Due to a steady pipeline of assets coming online, the demand-supply gap has momentarily widened. Vacancy levels across the top seven markets rose to nearly 16% at the end of the second quarter breaching the comfort zone of 13-14% for the first time since 2017. Nevertheless, with demand expected to pick up in the coming quarters, vacancy is likely to return to sub 15% levels, believes JLL.

Office rentals remained stable across the major office markets in India during the quarter. However, landlords continue to be accommodative to the demands of occupiers and support deal closures. With vacancy levels already hovering at around 16%, the next few quarters will be critical in terms of pick-up in demand while maintaining the market buoyancy as planned supply enters the market.

Taking cues from 2020, the second half of the year is expected to witness increased momentum in the office space. In 2021, net office absorption across seven major cities is likely to remain flat at around the levels of 25.6 million sq ft achieved in 2020, in case there are no further lockdowns.

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