



## **PUNE COMMERCIAL OFFICE INDUSTRY REPORT**

### **Ventive Hospitality Private Limited**

Final Report Date: December 2<sup>nd</sup>, 2024

SF Code: SF-0001887569



**CBRE**

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Note: The office market-related data points for this report comprise of Grade A- non-strata and institutional developments with leasable area greater than 0.1 msf of completed supply and above 0.3 msf of developments in the upcoming supply. This classification of data points has been undertaken to drive a market comparison to align with the nature of office annuity assets included in the offer.

## GLOSSARY

<b>Term</b>	<b>Definition</b>
Absorption/Take up	Represents the total office space known to have been let out to tenants or owner-occupiers during the survey period. A property is deemed to be taken-up only when contracts are signed or a binding agreement exists.
Development Completions / Supply	Represents the total area of new floor space that has reached practical completion and is occupied, ready for occupation or an occupancy permit, where required, has been issued during the survey period. The status of the building will have been changed from space 'Under Construction' to 'Completed' during the quarter. Development Completions are also known as 'New Supply' in some markets.
Grade A Office	Refers to a development type; Tenant profile should include prominent multinational corporations, while the building area should not be less than 50,000 sq. ft. It should include an open plan office with large size floor plates, adequate ceiling height, 24 X 7 power back-up, supply of telephone lines, infrastructure for the internet, central air-conditioning, spacious and well decorated lobbies, circulation areas, good lift services, sufficient parking facilities and should have centralized building management and security systems.
Grade A Retail	Is defined as an urban consumption centre where the disposition model observed is lease only (owned and operated by a single developer/operator) and the building Leasable Area (excluding city centric locations) is usually not less than 0.3 mn sq. ft. Further, the occupancy observed across Grade A urban consumption centres is typically above 70%.
Institutional Developments	Refers to large-scale, high-quality projects undertaken by institutional investors such as REITs and investment funds and are only available on a lease basis.
IT (Information Technology) Developments	Refers to a development type; includes buildings developed for occupiers involved in IT/ITeS operations (as defined in the National and State Level IT Policies), inclusive of STPI (Software Technology Parks of India).
Non-Strata	Refers to Grade A developments held by entities comprised of institutional fund/developer entities. Further, the assets are only available on lease basis.
Annuity Assets	Annuity Assets here refer to the Grade A commercial office assets that are considered under the public offering
Rental Values	Quoted rental values; measured in INR per sq. ft. per month representing the average asking (quoted) rental rate for all available space in existing buildings at the end of the quarter/year. This rate indicates an average of what landlords have achieved to lease space in that market, with operating costs covered by the tenant. Rental values provided in this database are exclusive of property taxes.
SEZ (Special Economic Zone)	Refers to a development type that includes all IT-focused Special Economic Zones approved by the SEZ India Authority. It has different economic laws than the rest of the developments.
Total Occupied Stock	Calculation: Total Stock minus Vacant Space.
Total Stock	Represents the total completed space (occupied and vacant) in the market at the end of the quarter/year.
Vacancy Rate (%)	Calculation: Vacant Space expressed as a percentage of Total Stock.
Vacant Space	Represents the total office space in completed properties, which is available for lease and is being actively marketed at the end of the quarter/year. Space that is not being marketed or is not available for occupation is excluded from vacancy. Space that is under construction is also excluded from Vacant Space.

## OVERVIEW OF PUNE

Pune is the second-largest city in Maharashtra after Mumbai and the eighth-most populous<sup>1</sup> city in India. The city has steadily transformed from an agrarian, defence, industrial and education-based economic centre to a prominent IT/ITeS<sup>2</sup> hub attracting domestic and multinational clientele from across India and global markets. Pune is ranked 2<sup>nd</sup> as per the Quality of Living Index report<sup>3</sup>, 2023.

In terms of GDP<sup>4</sup>, Pune is one of the faster-growing districts contributing significantly to Maharashtra's and India's GDP. Pune District's GDP as of year 2023 is the state's third largest economic contributor estimated to be US\$ 50.9 billion<sup>5</sup>. It is the seventh-largest economy and sixth highest by per capita income in India. The services sector has been one of Pune's major contributors to office demand, growing at 12.8% from FY2022 to FY2023, outperforming the overall GDDP<sup>6</sup> which grew at 9.3% over the same period<sup>7</sup>. The share of the services sector in Pune's GDP increased from 56.3% in FY2012 to 63.9% in FY2023. (Source: Directorate of Economics and Statistics, Maharashtra)

The key drivers of demand for the Commercial segment in Pune are as follows:

- **Physical infrastructure:** Pune is well connected with other parts of the state and country via road, rail and air, along with international flight connectivity options. Prominent existing infrastructure such as the Mumbai-Bengaluru Bypass, Mumbai-Pune Expressway, and Pune-Ahmednagar Road, facilitates connectivity between different parts of the country. Multiple infrastructure initiatives including new airport terminal, metro rail connectivity and ring roads are under various stages of development which are expected to enhance inter and intra-city connectivity resulting in real estate growth across the city over time.
- **Proximity to Financial Capital of India (Mumbai):** With the commissioning of the six-lane Mumbai-Pune Expressway in year 2002, the travel time from Pune to Mumbai has been reduced to below four hours. The 95-km Mumbai-Pune Expressway has been a major milestone in reducing the travel time between the two cities and the under-construction 13.3 km long 'Missing Link' on the Mumbai-Pune Expressway is set to further enhance connectivity between the two cities by reducing travel time by an additional 25-30 minutes. This project coupled with the recently operational Mumbai Trans Harbor Link (Atal Setu) connecting South Mumbai and Navi Mumbai and the upcoming Navi Mumbai International Airport, will significantly enhance accessibility and boost commercial activity in Pune. High rentals associated with commercial office spaces in Mumbai with an average rental of INR 141 psf<sup>8</sup> per month (Source: CBRE, Q3 2024) has led to large IT tenants exploring alternate locations for expansion and Pune (INR 83 psf per month) emerged as a strong alternative due to the connectivity as well as the availability of skilled workforce.
- **Skilled workforce:** Pune is a leading educational hub in India anchored by the Deccan Education Society since 1880. Pune is commonly referred to as the 'Oxford of the East' due to the presence of over 900 colleges which produce 1.5-1.65 lakh graduates annually<sup>9</sup>. It includes seven universities and renowned institutions like Fergusson College, College of Engineering Pune (COEP), Symbiosis, and the Armed Forces Medical College.
- **Automotive and Manufacturing Hub:** Pune is the largest automotive manufacturing hub in India with more than 4,000 manufacturing and ancillary units as of 2023<sup>10</sup>. The establishment of major auto manufacturers such as Tata Motors, Bajaj Auto, Volkswagen, Mahindra, and General Motors propelled the growth of Pune's auto ancillary industry. Pune also houses the Serum Institute of India renowned for manufacturing an extensive range of vaccines, including the COVID-19 vaccine Covishield. The region

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<sup>1</sup> According to Census, 2011 & World Population Review.com, 2024

<sup>2</sup> IT/ITeS - Information Technology/Information Technology Enabled Services

<sup>3</sup> Mercer's Quality of Living City Index

<sup>4</sup> Gross Domestic Product

<sup>5</sup> One US\$ is considered as INR 51 (as of 2012) for converting GDP (at constant rate FY 2011-12)

<sup>6</sup> Gross District Domestic Product

<sup>7</sup> Source: District Domestic Product of Maharashtra, 2022, Directorate of Economics and Statistics

<sup>8</sup> psf – per Square Feet

<sup>9</sup> Source: All India Survey of Higher Education (AISHE), Development Plan of Pune Metropolitan Region 2021-41

<sup>10</sup> Maharashtra, Industry, Trade and Investment Facilitation Cell, Govt. of Maharashtra

leads with 27% of all industrial units and 60% of all investments<sup>11</sup> among MIDCs (Maharashtra Industrial Development Corporation) in the state. The city serves as a base for various large and small units operating in sectors such as engineering, IT, pharmaceuticals, machine tools, chemicals, electrical and electronics, instrumentation and control, iron and steel, castings and forgings, and food processing. With the development of large industrial areas within a radius of 50 km of the city, the region has become prominent in India's industrial development. The engineering and manufacturing segment constituted approx. 18-19% share of Pune's office leasing in years 2022 and 2023 compared to 5-6% share in 2019. (Source: CBRE)

- **Pro-industry Government policies and initiatives:** Maharashtra State developed MIDC parks to cater to sectors such as Automobile, Information Technology, Engineering, Petrochemicals, Transportation, Biotechnology, Pharmaceuticals, Textiles, and Wine. MIDC has assisted in the planning and systematic development of industrial areas in the city such as Hinjewadi, Chakan, and Ranjangaon. The state's proactive IT/ITeS policies, including the establishment of Integrated IT Township (IITT) and incubation centers like Software Technology Parks of India's (STPI) CoEs (Centre of Entrepreneurship) and Next Generation Incubation Scheme (NGIS) have provided a conducive environment for IT establishments and startups.
- **IT Hubs:** During the past decade, the IT sector in Pune has witnessed strong growth, leading to the overall development of the city. The city also has the first software technology park in India housed in Rajiv Gandhi Infotech Park, Hinjewadi. Pune is among the top three cities in software exports in India. STPI-registered units in Pune contributed INR 969 billion in IT/ITeS/ESDM exports in fiscal year 2021. (Source: STPI, Pune, most recent report)
- **Entry of New Corporates and Expansion:** Pune's strategic location, talent pool, competitive operating costs, and supportive infrastructure have positioned the city as a preferred expansion site. In recent years, Barclays, Mastercard, BNY Mellon are among some of the corporates that have expanded their operations in the region and multinationals such as British Petroleum, Citibank, and UBS, are a few who are planning to expand their operations into Pune. Additionally, Hindalco Industries, Hyundai, Uno Minda and Johnson Controls are few industrial and manufacturing players who have announced expansion plans recently in industrial areas like Chakan and Talegaon in Pune. (Source: media reports<sup>12</sup>)

### Infrastructure Initiatives in Pune

Some of the key ongoing infrastructure initiatives in Pune are highlighted below:

- **New Airport Terminal:** The recently operational new airport terminal at Pune International Airport, Lohegaon will enhance the domestic and international air connectivity in the city. It can handle approx. nine million passengers per annum. (Source: media reports)
- **Metro Rail Routes:** Spread over a total length of approx. 78.10 km, out of which 31.26 km is operational, with an average daily ridership of approx. 1,50,000 passengers as of September 2024. The project consists of 3 Corridors, the corridor I is operational connecting PCMC<sup>13</sup> in the north to Swargate in the central region. An extension of Corridor I from Nigdi – PCMC (4.5 km) is in the tendering stage. The Corridor II is operational connecting Vanaz in the west to Ramwadi in the east. The Corridor III (under construction) connecting Hinjewadi in the west and Civil Court in the central region is expected to be operational by 2026.
- **MSRDC<sup>14</sup> Outer Ring Road:** A 136 km long, 110-meter-wide peripheral ring road currently under construction in Pune which is expected to be completed by 2030. It will divert vehicular traffic intended towards Nashik and Mumbai from entering the city thus reducing congestion on major arterial routes.

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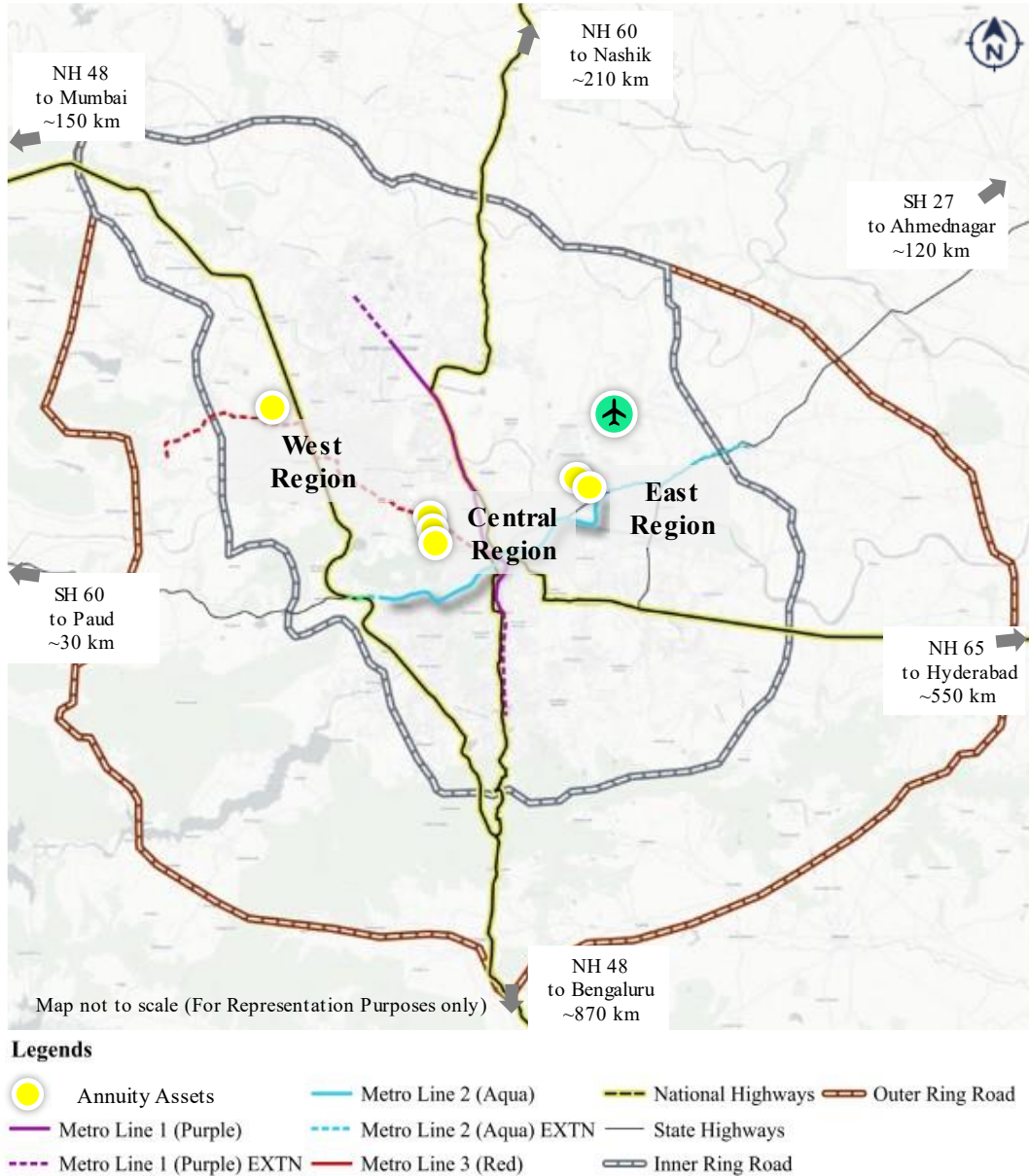
<sup>11</sup> Source: Maharashtra Industrial Development Corporation (2020-2023)

<sup>12</sup> Bharat Petroleum (Press release), Economic Times, Panchshil Realty (Media announcement), Anand Rathi (Research report), Business Standard, Johnson Controls (Official website)

<sup>13</sup> PCMC – Pimpri Chinchwad Municipal Corporation

<sup>14</sup> Maharashtra State Road Development Corporation

**Map 1: Key Infrastructure Initiatives - Pune**



- **PMRDA<sup>15</sup> Inner Ring Road:** The under-construction ring road project is to operate in conjunction with the outer ring road in the northern region of Pune. The 83 km long and 65-meter-wide road will provide connectivity to peripheral locations and new growth vectors for residential developments. It is expected to be operational by 2026.
- **‘Missing Link’ at Mumbai-Pune Expressway:** Mumbai Pune Expressway’s 13.3 km ‘Missing Link’ project by MSRDC is an 8-lane access-controlled highway with a route alignment connecting Khopoli to Kusgaon. The link with a string of viaducts, tunnels and bridges aims to bypass Khandala Ghat’s hairpin turns prone to landslides. It will reduce the distance by 6 km and estimated travel time by about 25-30 minutes. It is expected to be operational by 2025 and is designed to improve connectivity to Mumbai along with the recently operational Mumbai Trans Harbour Link (Atal Setu) from Navi Mumbai to South Mumbai.
- **Navi Mumbai International Airport:** Navi Mumbai International Airport (NMIA) is a greenfield airport under construction in Ulwe, Navi Mumbai. The airport is being developed in phases and is expected to be operational by year 2025. Once fully operational, it will significantly enhance air connectivity for Mumbai and Pune. The airport is located at approx. 100 km from Pune (Ravet).

<sup>15</sup> PMRDA – Pune Metropolitan Region Development Authority

## Pune Commercial Market

The Pune commercial market has emerged as a prominent GCC (Global Capability Centre) and IT/ITeS hub in Maharashtra. Currently, it ranks as the 6<sup>th</sup> largest office market in India in terms of completed stock. (Source: CBRE) One of the key factors contributing to the market's growth is the availability of land banks, which have facilitated the development of large-sized campuses and offered a wide range of high-quality assets at competitive rentals.

In 2023, absorption in the market reached 4.6 million sq. ft., marking a growth of approx. 21% compared to 2022 and in line with the absorption witnessed in 2019. This growth was supported by the influx of high-quality supply from prominent developers coupled with leasing rents around or below approx. one US Dollar psf. The demand for commercial office space was spread across Pune's core and peripheral micro-markets in 2023. Central locations such as Senapati Bapat Road, Koregaon Park, and Kalyani Nagar contributed approx. 22% to the city's absorption, while the east (Kharadi, Yerwada, Viman Nagar) and west (Hinjewadi, Aundh, Baner) regions accounted for approx. 43% and 35%, respectively. (Source: CBRE)

Over the past few years, the office space market (in key markets like Pune) has undergone a significant transformation, shifting from a call center and BPO<sup>16</sup> dominated landscape to one centered around GCCs. These GCCs prioritize quality, amenities, and facility management over cost. Pune has emerged as a prominent GCC hub, contributing approximately 8% of India's total GCC leasing activity in 2022 and 2023, with a total space absorption of 3.2 msf<sup>17</sup>. GCCs constitute approximately 39% of Pune's total absorption in 2022 and 2023. (Source: CBRE) The region has been an established hub for BFSI<sup>18</sup> GCCs and is now emerging as an R&D<sup>19</sup> hub in software and engineering. Nvidia has expanded the size of their GCC in Pune, which makes Pune the largest development campus outside Silicon Valley (Source: media reports<sup>20</sup>), BNY Mellon recently acquired its largest space in Pune in India. Other prominent GCC occupants include British Petroleum, Amazon, Roche, Deloitte, Panasonic, and UST Global.

Post the COVID-19 pandemic, the adoption of flexible workspaces increased rapidly, and this trend is expected to continue. Startups, small and medium enterprises, and large corporations are increasingly opting for flexible spaces to manage costs, enhance agility, and attract talent. Pune's active startup ecosystem further bolsters demand for coworking and flexible office solutions. The co-working operators generally engage in longer lease terms. While co-working spaces are gaining traction, Grade A office spaces continue to be relevant for BFSI, the Technology sector and the Engineering and Industrial sector due to the continuous expansion opportunities. The return-to-office policies are now gaining prominence as companies focus on aspects such as employee attrition and company culture. This is expected to drive the overall demand in the market.

The table below highlights the key statistics<sup>21</sup> of the Pune commercial market as of September 30, 2024:

Particulars	Details
<b>Total Completed Stock (Q3 2024)</b>	57.0 msf
<b>Current Occupied Stock (Q3 2024)</b>	48.2 msf
<b>Current Vacancy (Q3 2024)</b>	15.4%
<b>Current Vacancy – Non-SEZ<sup>22</sup> (Q3 2024)</b>	11.4%
<b>Average Annual Gross Absorption (2016–Q3 2024)</b>	4.1 msf
<b>Future Supply (Q4 2024–Q4 2026) *</b>	12.4 msf
<b>General Lease Terms</b>	9 years (3+3+3), 10 years (5+5)

Source: CBRE; as of Q3 2024

\*Future Supply is based on the current under-construction supply expected to be completed between Q4 2024-Q4 2026

<sup>16</sup> Business Process Outsourcing

<sup>17</sup> msf - million square feet

<sup>18</sup> BFSI – Banking, Financial Services and Insurance

<sup>19</sup> Research & Development

<sup>20</sup> Pratititech Report - Empowering GCCs in Pune

<sup>21</sup> Note: The office market-related data points for this report comprise of Grade A- non-strata and institutional developments with leasable area greater than 0.1 msf of completed supply and above 0.3 msf of developments in the upcoming supply. This classification of data points has been undertaken to drive a market comparison to align with the nature of office annuity assets included in the offer.

<sup>22</sup> SEZ – Special Economic Zone

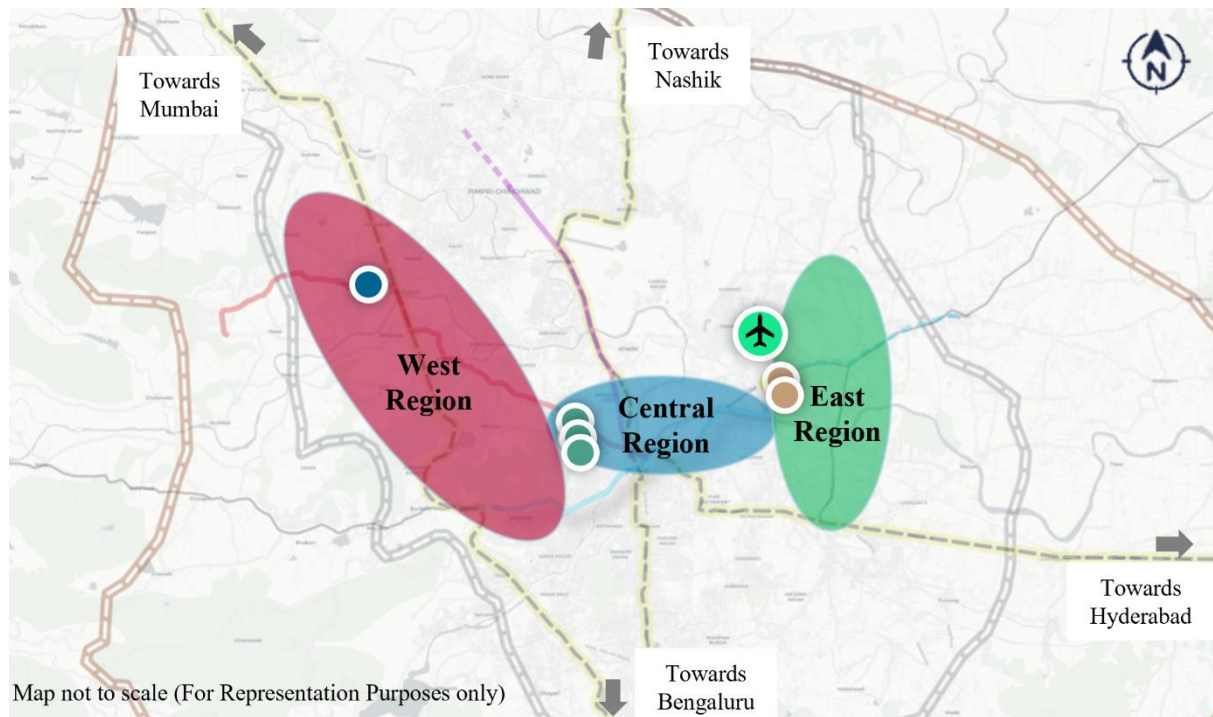
### Pune: Key Office Sub-Markets

The office market consists of three sub-markets: Central Region (where three annuity assets are located), East Region (two annuity assets) and West Region (one annuity asset).

Sub-market	Central	East	West
<b>Locations</b>	Bund Garden, Boat Club Road, Koregaon Park, Shivaji Nagar, Wakdevadi, Kalyani Nagar, Senapati Bapat Road	Hadapsar, Mundhwa, Viman Nagar, Shastri Nagar, Yerwada, Kharadi	Aundh, Baner, Bavdhan, Pashan, Karve Road, Hinjewadi
<b>Total completed office stock (msf)</b>	5.2	31.9	20.0
<b>Occupied stock (msf)</b>	4.7	27.4	16.1
<b>Vacancy (%)</b>	9.6%	13.8%	19.3%
<b>Vacancy – non-SEZ (%)</b>	9.6%	9.9%	15.7%
<b>Annuity Assets (all non SEZ)</b>	The Pavilion, ICC Tech Park, ICC Trade Park	Business Bay (Tower A & B)	Panchshil Tech Park
<b>Annuity Asset Size (msf)</b>	1.0	1.8	0.2

Source: CBRE; as of Q3 2024

**Map 2: Commercial Micro markets - Pune**



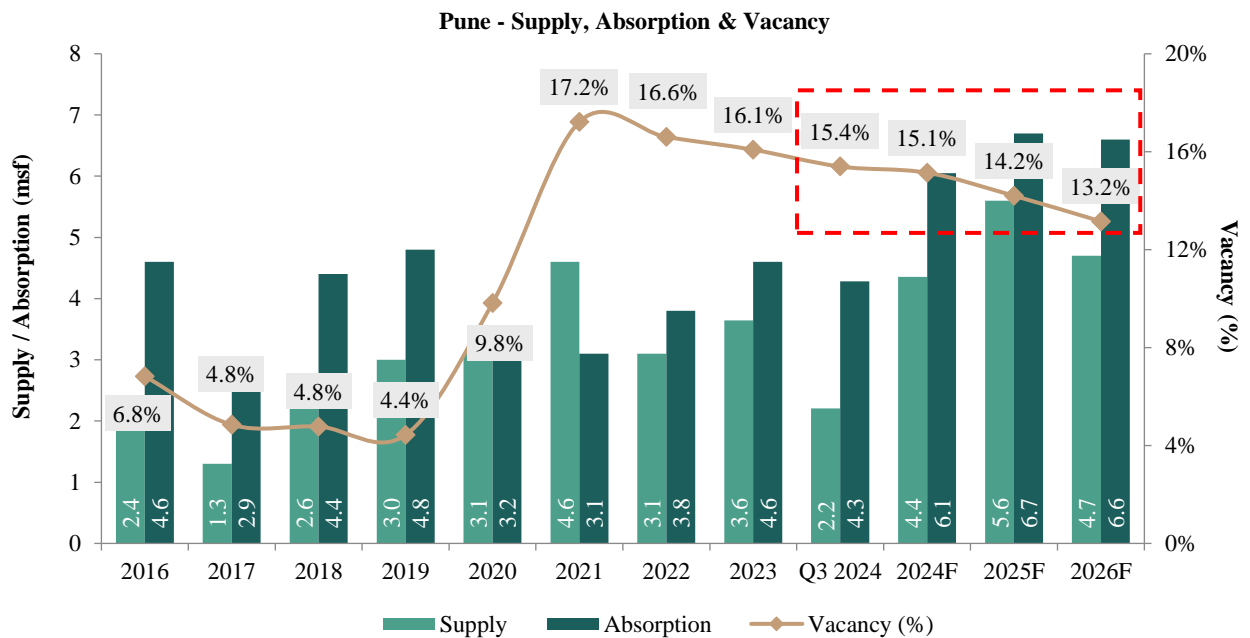
Map not to scale (For Representation Purposes only)

#### Legends

- Central Region
- East Region
- West Region
- The Pavillion, ICC Tech Park, ICC Trade Tower
- Business Bay (Tower A & B)
- Panchshil Tech Park



## Pune: Supply, Absorption and Vacancy



Source: CBRE; as of Q3 2024\*

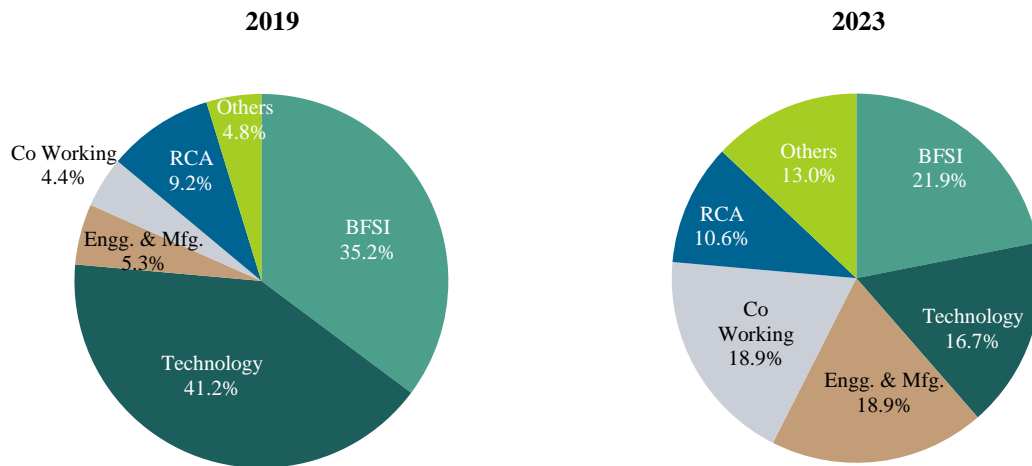
\*Forecasts for years 2024, 2025 and 2026 have been estimated based on the current market situation and information available regarding future supply and current absorption. Forecasts have been estimated under the assumption that absorption continues to grow at a similar pace compared to the last two years. It assumes that market conditions remain stable over the forecast period.

Strong occupier interest and availability of quality office space at competitive rents have led to high absorption levels in Pune. As a result, the city recorded low vacancy levels in the range of approx. 4-7% between 2016–2019. However, additional supply coupled with the slowdown in absorption due to the pandemic resulted in high vacancies in 2021. Also, the phase-out of SEZ tax benefits in 2020 triggered exits of companies from SEZ spaces, contributing to higher vacancy rates within these zones.

The overall market witnessed a recovery in demand, with absorption exceeding supply since 2022 resulting in vacancy declining to 15.4% as of Q3 2024 (11.4% for non-SEZ space). (Source: CBRE) Based on the current demand trend over the last two years, gross absorption is estimated to cross pre-COVID levels, reaching to 6.1 msf by the end of 2024. Based on future supply from current under-construction projects, 2025 is expected to register a peak in supply and absorption of 5.6 msf and 6.7 msf respectively, with some moderation in supply in 2026. The growth in flexible workspaces and GCCs coupled with the availability of skilled workforce and demand from the diversified tenant sector is likely to result in vacancy levels improving to 13.2% by the end of 2026.

### Pune: Absorption by Tenant Sector

The technology and BFSI sectors have traditionally anchored Pune's commercial real estate market. However, a notable shift towards diversification in the tenant base occurred in 2023, with flexible workspace operators and engineering & manufacturing sectors emerging as equally significant contributors to the absorption with a share of approx. 18-19% each. These flexible workspace operators have capitalized on the uncertainties brought by the pandemic, offering businesses flexibility and agility. While the BFSI sector continued to remain strong, the technology sector faced challenges due to hybrid working and global economic conditions, leading to a moderate absorption. This shift has resulted in a growing preference for flexible workspaces, particularly among companies exploring new markets. (Source: CBRE)

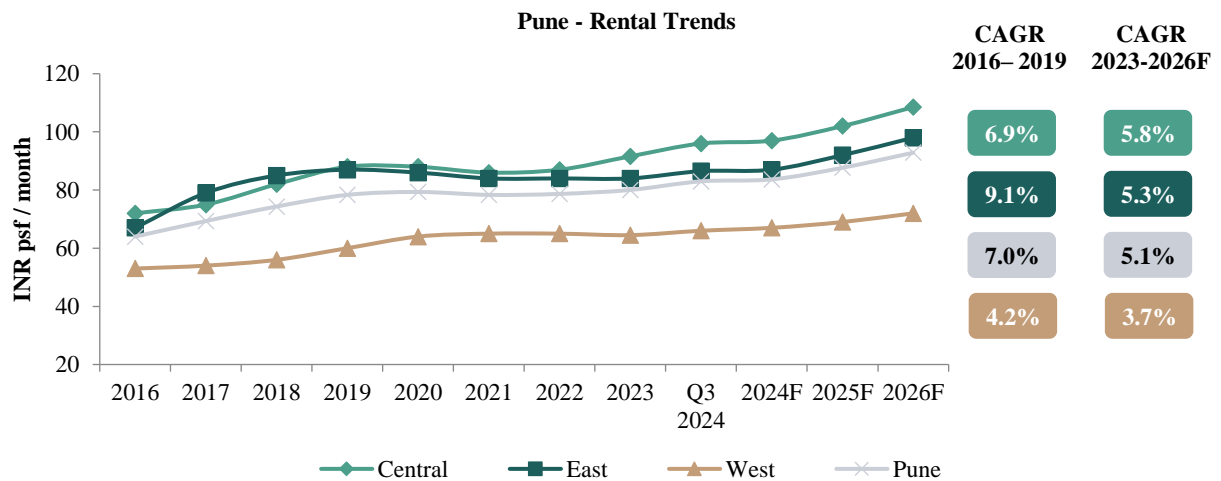


Source: CBRE

RCA – Research, Consulting and Analytics, BFSI – Banking, Financial Services and Insurance

### Pune: Rental Growth

Pune's office rental market experienced a robust growth trajectory in the pre-COVID era (2016-2019), driven by strong demand and low vacancy rates. This period witnessed a healthy CAGR<sup>23</sup> of 7%. However, the onset of the pandemic disrupted this upward trend. Increased vacancy rates and subdued absorption led to stagnant rentals. 2023 saw a revival in absorption with the vacancy levels estimated to decline over the next three years. The rental growth is expected to be steady with a projected CAGR of 5.1% between the years 2023 to 2026. (Source: CBRE)



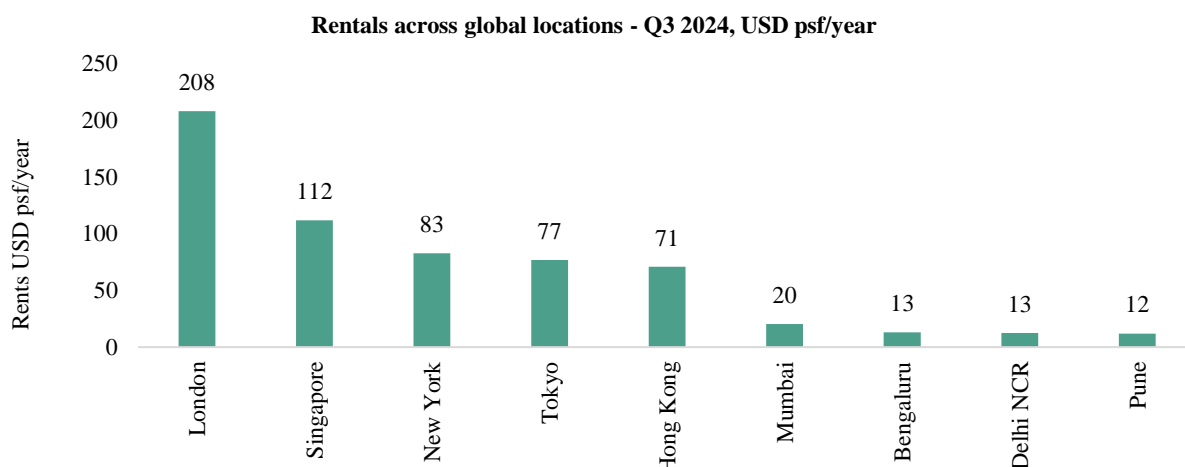
Source: CBRE; as of Q3 2024\*

\* Forecasts for years 2024, 2025 and 2026 have been estimated based on the current market situation and information available regarding future supply and current absorption. Forecasts have been estimated under the assumption that absorption continues to grow at a similar pace compared to the last two years. It assumes that market conditions remain stable over the forecast period.

<sup>23</sup> CAGR - Compound Annual Growth Rate

## Rentals across Global Locations

Comparatively, Bengaluru and Pune commercial markets in India offer significantly lower rentals compared to global commercial hubs.



Source: CBRE; as of Q3 2024

Note: London and New York represent prime rent in Europe and Class A rents in US Markets respectively; New York represents Manhattan's rental values, London represents Central London's rental values, Hong Kong, Tokyo, Singapore represent Grade A rents on Net Floor Area; Mumbai, Bengaluru, Delhi NCR (National Capital Region) and Pune represent Grade A rents on Gross Area. (calculated on the average exchange rate in 2024, 1 USD = INR 83)

## Annuity Assets vs the Micro-markets

Below is a portfolio of Grade A assets ("Annuity Assets") owned by Panchshil Group. Panchshil Group is one of the largest commercial office space developers in Pune. Panchshil Group currently contributes approx. 28% of the completed Grade A stock and approx. 16% of the upcoming supply in Pune. (Source: CBRE)

The Annuity Assets comprise of five assets with a total stock of 3 msf and a vacancy of 3.9 %. The east region constitutes the largest share at 1.8 msf followed by the central and the west region with 1.0 msf and 0.2 msf respectively. Additionally, the annuity assets also include a Grade A retail space (ICC Pavilion) of 0.4 msf, forming part of the ICC Convention Centre, in the central region.

The Annuity Assets have an average in-place rental of INR 110.7 psf/month while the average office rental for Pune market is INR 83 psf/month as of September 2024. The Annuity Assets are generally of a superior classification to the average in the market and thus command a premium compared to the average rentals in the respective micro-markets, with the exception of the West region.

Annuity Assets	Location	Micro-market	Stock (msf)	Vacancy %	Rental (INR/psf/month)
The Pavilion	Senapati Bapat Road	Central Region	0.3	0%	147
ICC Tech Park	Senapati Bapat Road	Central Region	0.4	7%	124
ICC Trade Tower	Senapati Bapat Road	Central Region	0.3	2%	117
Business Bay (Tower A)	Yerwada	East Region	0.9	0%	119
Business Bay (Tower B)	Yerwada	East Region	0.9	0%	93
Panchshil Tech Park	Hinjewadi	West Region	0.2	37%	62
<b>Total</b>			<b>3.0</b>	<b>3.9%</b>	<b>110.7</b>

Source: Client data, as of Q3 2024

## Potential Threats and Challenges associated with the Commercial Office Sector

The commercial office sector has experienced significant expansion in recent years. However, there are inherent risks that must be carefully considered when making any investment decision. These crucial risk factors can potentially impact the performance of the segment and the general market.

- **Economic Uncertainty:** There is a strong correlation between the demand for commercial office segment and macroeconomics, both in a global and an Indian context. Events like COVID-19 may force companies to impose work-from-home protocols and reduce their usage of office spaces which may impact the revenues and occupancies of the office spaces. Currently, there is heightened uncertainty in many global markets, particularly as they look to manage escalated inflation. This has been directly impacting their economies, including the commercial office sector. Global uncertainty increases the risk that economic challenges may transition to the Indian market.
- **Inflation:** Currently, there is a heightened inflation environment globally. Higher inflation results in higher construction costs, placing strain on the profitability of new and under-construction developments.
- **Over Supply Risk:** In anticipation of strong demand from the occupiers, developers tend to launch more projects leading to higher stock of office space in the short to medium term. If the market slows down, this over-supply can lead to higher vacancies and reduction in rental rates.
- **Leasing Risk due to Competition:** The Indian commercial office market is becoming increasingly competitive, with new entrants and established players expanding with high-grade office supplies. This can pose a threat to the company's market share and profitability.
- **Flight to Quality:** Prominent occupiers tend to prefer high-quality assets with all the latest amenities and facilities for their employees. This leads to the relocation of tenants to newer assets with better specifications resulting in higher vacancies for older assets.
- **Regulatory Policy Changes:** Government regulatory changes, such as alterations in tax laws, building codes, zoning regulations, and environmental standards, can significantly influence the profitability and value of commercial office properties. These changes can increase development costs, limit the types of businesses allowed, and raise operating expenses.
- **Political Instability:** Political instability can significantly impact the commercial office market. It can erode investor confidence, deterring investors and developers away from real estate projects. Additionally, political turmoil often leads to economic disruptions, such as currency fluctuations, inflation, and limited private investment. These economic downturns can reduce demand for office space and negatively impact the sector.
- **Technological Disruption:** Technological disruptions are reshaping the commercial office market. Remote work and co-working spaces have shifted the demand for traditional offices. Additionally, automation and AI are transforming the workplace, potentially changing the nature of work and reducing the office space requirement.
- **Interest Rate Fluctuations:** Rising interest rates increase the cost of financing for commercial real estate projects. This can make it more expensive for developers to acquire land, construct buildings, or refinance existing properties leading to lower profit margins. Conversely, falling interest rates can make financing more affordable.