

A Study on the demand supply behavior of corporate offices in NCR

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1. Introduction

Real estate sector depicts the actual economic development of a particular nation. India, one of the fastest developing nations in this world since independence has successfully emerged as one of the lucrative destinations to reap assured benefits on real estate investment in almost all the states and cities of the nation. This substantial growth has been the result of increasing demands from off-shoring businesses. Off-shoring consulting houses and call centers have generated demand for real estate to a great extent. The Indian economy has transformed substantively over the last two decades, growing consistently at an average of 7 percent and is poised to take place among the leading economies in the years to come. The economic performance of India has provided strong impetus to the real estate sector, which has been witnessing heightened activity in the recent years. Substantial end users and investor interest, large scale investment in infrastructure and rapid urbanization have contributed to the growth trajectory of Indian real estate. The real estate growth story is clearly visible in urban centers such as Delhi, Mumbai and Bangalore which have acquired global character and recognition. Growing at a rate of 30 per cent, the real estate sector has emerged as one of the fastest growing investment areas for domestic as well as foreign investors. The sector will remain as a booming sector and more investment is expected in the coming years. This vital sector is linked to about several ancillary industries like cement, brick and steel. Thus, this sector has a strong backward and forward linkages and the growth will translate into an overall positive impact on these ancillary sectors too. What prompts an average person to try his fortune in the real estate sector? The reasons are numerous, the first and foremost being the myth that the real estate business is riskless. The second reason is the growing Indian middle class with a low propensity to consume and more botheration about future. Thirdly, the ever growing housing needs fueled by low interest rate. Last but not the least, herd behavior leading to the 'keeping up with the Joneses' notion i.e. investing in the sector where everywhere else does can also be cited as one of the important factors leading to heavy investment in this sector.

This study was undertaken with Knight Frank India pvt. Ltd. Gurgaon. As The National Capital Region (NCR) has been one of the prime office markets of the country. Traditionally, micro-markets like Connaught Place, Bhikaji Cama Place and Nehru Place have dominated the NCR market in terms of office space absorption. A growing demand for office space by the IT/ITeS sector and lack of fresh supply in traditional office locations, have led to the emergence of peripheral micro-markets like Gurgaon, Manesar, Noida, Greater Noida and new

office locations within Delhi such as Jasola and Saket in South Delhi. Steady lease rentals, high absorption levels and global investor interest continue brings life into India's commercial real estate sector. 2010 was a middling year for the sector, with absorption levels of over 5.6million sq.ft. In 2011, office sector maintained its momentum with an absorption of 7.3million sq.ft. Occupiers while expanding their footprint across the NCR kept a strong check on space utilization ratios and innovations in workplace strategies, while implementing their expansion plans.

Table 1: Business District Classification

Micro Markets	Locations
Central Business District (CBD), Delhi	Connaught place, Barakhamba Road, Kasturba Gandhi Marg
Suburban Business District (SBD), Delhi	Nehru place, Saket, Jasola, Bhikaji Cama place, Mohan Cooperative Area
Peripheral Business District (PBD), Gurgaon	DLF Cybercity, MG road, Golf Course Road, Sohna road, Dundaheera, Manesar, NH-8, Udyog Vihar
Peripheral Business District (PBD), Noida	Sector 16,18, 62,63 Greater Noida Expressway

NCR managed to garner absorption of 5.6 million sq. ft. in 2010. NCR has a resilient Central Business District (CBD), comprising micro markets such as Connaught place, Barakhamba Road, Kasturba Gandhi Marg, while the neighboring locations Nehru place, Saket, Jasola, Bhikaji Cama place, Mohan Cooperative Area make up the Suburban Business District (SBD) Delhi. DLF Cyber City, MG Road, Golf Course Road, Sohna road, Dundaheera, Manesar, NH-8, Udyog Vihar and Sector 16,18,62,63, Greater Noida Expressway further down becomes the part of Peripheral Business District (PBD) of Gurgaon and Noida respectively. For Delhi NCR office market, the year 2011 has proved to be the most successful period post the economic recession. Signs of economic recovery in the country soared the market sentiments and it witnessed a considerable absorption of 7.3 million sq.ft. Translating to an increase of 30% over the absorption in the preceding 2010.

With the study in more minute level, it provide more in-depth knowledge about the supply and demand patterns in NCR and gap analysis between the client requirement and the present supply. This also helps to create new

avenues in the IPC business, through this report, it tries to explore major stringent factors which are essential in providing the suitable options to client for office acquisition or relocation in the NCR region.

2. Objectives

- To understand the demand – supply behavior of corporate offices in NCR.

3. Data & Research Methodology

Study is based on primary research by personally visiting to several business hub locations in NCR for data collection purpose & for occupant data collection which later gave us fair idea about the different factors like attrition and geographical relocation reason for the companies. Also data is collected for the amenities and facilities, which are helpful for the comparison and option creation for the clients.

3.1 Random sampling involves the choice of subjects randomly who are most advantageously placed or in the best position to provide the information required. For example, in our study we only selected those companies which have offices in multiple locations.

3.2 Sample space: Visited approximately a total of 30 prominent business parks, commercial buildings & cyber parks in Delhi/NCR, for our data collection & interview purpose

3.3 For Location Assessment Technique -

Field work was for assessing the facilities assessment in the major commercial buildings in NCR. Split the step in it in below phases.

Phase -1

Initially divide the NCR into micro locations for survey based on the geographical existence this helps us to focus our study into one area at a time as per geographical existence we can divide the NCR into below Micro location.

Phase -2

This step includes the field work for collecting the occupant data in the various micro location specially the IT park and the business park for the office space availability and for this, visited various locations in NCR and collected the data for reference analysis and it helps us to provide further option selection process.

Phase -3

This step includes the comparative study of the major buildings and has the idea about their tenant's segmentations which are helpful in making suitable proposals for the clients and for the study of objectives i.e. to find the key relocation factors in office transition.

3.4 Transaction Analysis

Table 2: Transaction summary in NCR 2011-12

Micro Markets	Q1'11	Q2'11	Q3'11	Q4'11	Grand Total
Gurgaon	36	46	37	71	190
New Delhi	10	15	13	21	59
Noida	5	14	10	10	39
Grand Total	51	75	60	102	288

Source: Data compilation from Knight Frank Research

Table 3: Geographical Analysis (Micro market wise share of absorption)

Micro markets	Area leased (sq.ft.)				Grand Total
	Q1'11	Q2'11	Q3'11	Q4'11	
Gurgaon	9,24,646	10,95,515	9,97,423	16,13,376	46,30,960
New Delhi	1,34,315	2,64,571	1,34,789	2,29,017	7,62,692
Noida	1,52,500	5,90,194	5,93,983	5,30,000	18,66,677
Grand Total	12,11,461	19,50,280	17,26,195	23,72,393	72,60,329

Source: Data compilation from Knight Frank Research

Delhi NCR continued to show signs of strong demand patterns. Overall in FY 2011-12, 288 No. of transactions were recorded for office space. Gurgaon was clear preferred location with 66% percent of Market share in no.of transaction being followed by Noida & Delhi with 20 % and 14 % respectively. Average Transaction Size in Noida was highest in NCR with 47,683 Sq.ft. followed by Gurgaon with 24,373 Sq. ft. and Delhi with 12,927 Sq. ft. respectively. Delhi NCR office market has managed to beat the absorption level achieved during the post-recession recovery period of 2010 by 30% with a decent amount of transaction activity in 2011.

As it evident from that more than half of the transactions, 190 transactions out of a total 288 have taken place in Gurgaon. It is mainly attributed to the limited quality office space coming into the Central Business District like Connaught Place and higher rentals than those in the peripheral office locations. Clearly Gurgaon has become the preferred office destination for many occupiers looking to relocate from CBD and off-CBD markets. As a result, various developers are positioning their projects in Gurgaon as premium office developments in order to tap into this demand, offering better amenities. Dominated mostly by the BFSI, Engineering, Electronic and Aviation sectors, the CBD commands a premium in terms of rental values due to its location and connectivity advantage. For NCR office space market, the year 2011 had proved to be the most successful period post economic recession. Economic recovery signs winged the market sentiments and it vouched for a considerable absorption of 7.3 million sq.ft., spells out an increase in the 30% over the absorption in the preceding year 2010. Total leased area of 4.3 million sq.ft. in PBD are primarily responsible for the office space absorption in the PBD.

Table 4: Average transacted rental values in NCR (INR / sq. ft. /month)

Micro market	Q1'11	Q2'11'	Q3'11	Q4'11
CBD Delhi	175	147	209	198
SBD Delhi	106	97	167	177
PBD Gurgaon	76	77	79	76
PBD Noida	38	48	54	55

Source: Data compilation from Knight Frank Research

Table 5: Supply Analysis

Year	Million sq.ft.					
	New Construction	Total Stock	Vacancy	Vacancy(%)	Occupied Stock	Net Absorption
2010	5.9	61	21	34.9%	40	5.6
2011	8.0	69	23	33.4%	46	7.3

Source: Data compilation from Knight Frank Research

There has been no addition to the office stock in CBDs during the past couple of years and vacancy levels are very low due to which 47 number of transactions took place in these locations in throughout the quarters. The zest for quality space in core locations remain strong, tapering availability and soaring cost-sensitivity of tenants resulted in space take-up thus shifting to decentralized locations. Occupiers follow the trend of ‘flight to value’ while also using space utilization strategies such as workplace optimization and co-working spaces. On the rental front, CBD commands higher rentals of value around 150-250 INR/sq.ft./ month owing to lack of fresh supply and high demand. Rentals values in PBD micro- markets with 60-75 INR/sq.ft./month although marginal appreciation is envisaged in projects witnessing occupiers interest. Average rentals in PBDs have shown slight upward movement quarter on quarter basis.

With the economic rejuvenation, developers jacked up their supply trajectory with a new construction of 8 million sq. ft. with a plug in of 36% more than in 2010 and NCR endorsed a significant launch in 2011. There is an inventory of approximately 20-22 million sq. ft. consists of 33% of the total stock for ready office properties lying vacant in the region. Vacancy rate has remained alike with 33-34% in both the years.

Sectorial Analysis

Sectors	Area leased (sq.ft)	No. of transactions
IT/ITes/Telecom	36,48,470	98
BFSI	1,55,400	13
Consulting	4,70,823	19
FMCG	5,31,598	24
Infrastructure/ energy	4,72,908	27
Manufacturing	3,84,802	29
Retail Chain	72,000	02
Other Services	15,24,328	76
Grand Total	72,60,329	288

Source: Data compilation from Knight Frank Research

Table 7: Select transactions in NCR Market 2011-12

Location	Building	Company	Area leased (sq.ft)
Sec- 144, Noida	Oxygen SEZ, TowerC	Sapient	2,00,000
Sec-30, Gurgaon	DLF Silokhera (IT)	IBM India	1,66,000
Tikri, Gurgaon	Unitech Infospace, Tikri	Cognizant	1,00,000
Sec – 18, Gurgaon	90- D	Media Group	63,180
Udyog Vihar, Gurgaon	SP Infocity	Makemytrip.com	80,000
Sec-18, Gurgaon	GP-28	Nagaro Software	91,000
Sohna Road, Gurgaon	Spaze 1 –Tech Park	Shoppers Stop	50,000
Noida	IGL Corporate Tower	Schneider	58,000
KP- III Greater Noida	ERA IT Square	Bennett Coleman & Co, Ltd	47,000
KP- III Greater Noida	Wegmans Business Park	LG	39,000
Jasola , Delhi	Aurum	Ricoh	26,000
Mohan co-operative Delhi	A-23	Wipro	1,60,000

Source: Data compilation from Knight Frank Research

The traditional demand - drivers IT/ITes sector maintained its dominance in 2011-12 along with even demand from Banking, Financial Services and Insurance (BFSI) and engineering and manufacturing sectors. Out of the 288 transaction which took place in 2011-12, IT/ITes has dominated with 34% share in total transactions and other services like media, telecom, aviation, healthcare/pharma and e-commerce firms have also been gaining ground gradually.

Space take- up comprised of both expansion and new lettings; driven by domestic and US- based occupiers, largely for their back-office operations. BGR Energy, Make My trip, Shoppers Stop, LG, Bennet Coleman &Co. Ltd. and Bharti Wal-Mart together constituted major portion of the other service sector share.

There is a swelling demand from Small and Medium Enterprises (SME) sectors with the requirements of small office spaces, providing an opportunity to the developers to tap this demand. Sohna Road, Signature Tower in Gurgaon and areas peripheral to Noida expressway are poised to emerge as an alternative to CBD and off- CBD locations catering to the demand of the non IT/ITes sector with a smaller office space mandate. Meanwhile, considerable supply is in the pipeline approximately 7 million sq.ft. Which will be released in the market in intervals? While the demand for small- medium sized spaces continue to remain strong, demand for large sized

spaces increased from consolidation/ expansion/ relocation initiatives by the corporates in peripheral locations. Increasing per capita income, maturing consumption patterns and increasing urbanization with forthcoming retail developments to allow entry points for global retailers beyond the traditional focal points like Central Business Districts (CBD) Delhi.

Unlike in the past, demand was not largely limited to the BFSI and IT/ITES sectors. Many firms from varied sectors have taken space, which was a sign of a more sustainable demand. Share of other service sectors which includes consulting, education, logistics and other such companies constitutes around 130 transactions out of total 288 transactions in 2011-12. 7.3 Million Sq. ft. was absorbed which was 30% more than previous year. IT/ITes sector constitutes the largest segment of office space in NCR and contributed to more than half of the total space absorbed during 2011-12

4. Conclusion

The rebound in office space demand from IT/ITes sectors foretells well-being for the region's office market. While the past few years have seen developers from all lots joining the contest in developing office space to attract IT/ITes companies. While the IT/ITes sector continue to drive the demand, also the BFSI also put their mark in the office space absorption as there is growing awareness for the importance for insurance and people showing an upward trend to go for short term loans. DLF Cybercity (Gurgaon) followed by the Connaught Place have been the favorites among the IT/ITes companies because of the close proximity to IGI airport and the easy vehicle commutation from the other parts of the NCR as their operations run at 27*7 basis they need a smooth movement of vehicles office space of large floor plates.

Expansion and consolidation of multiple offices was cited as one of the prime reasons for the larger size space take-up. A large number of corporates have been shifting to newly constructed Grade-A office space in the Secondary Business Districts (SBD) from the old buildings in the erstwhile Central Business District (CBD). The need for operating from a large single office rather than having multiple smaller offices spread across various locations has fueled the demand for Grade-A buildings with large floor plate and enhanced common facilities. The major portion of companies gave preference to near their competitors in location wise. The design of interiors is very crucial and must be flexible as per client's requirements. Secondary peripheral districts (SBD) like Noida Expressway, Sohna road are the major location to focus in the coming years as they play important role in the previous year's transaction giving it huge potential for expansion and also are the major attractive place for the companies from outside the NCR as they become the first preference due to presence of the world class infrastructure in the business parks.

Outlook

The year 2018-19 is expected to be a year of flowering with the results of all policy initiatives taken in 2016 beginning to take place. Most of the steps, including **Real Estate Regulatory Act (RERA)**, **Goods and**

Services Tax (GST) and **Real Estate Investments Trusts (REITS)**, are aimed at improving transparency and amplifying overall investor sentiment. Post adoption of a uniform GST rate, will swell the GDP numbers whereas the warehousing sector in particular is expected to be positively impacted; companies are expected to consolidate and opt for larger warehouses. This is likely to attract PE investments, as deployment of capital expected to become easier. Implementation of RERA will lead to speedy settlements of disputes, due to the presence of a regulator. It will give an impetus to foreign and domestic investment due to improved transparency; also there is an expected increase in housing sales, due to enhanced buyer fortitude.

The Real Estate Investment Trust (REIT) is an investment vehicle that invests in rent-yielding completed real estate properties. Currently, developers incur huge capital expenditure especially in Commercial Real Estate (CRE), on land, construction, interior fit-outs, etc. which remains locked, even after the asset is complete, until the asset generates returns to break-even. Through REIT, the developers can exit from the completed asset, and focus alone on development activity, which has a different risk-return profile. This is possible as REIT helps attract investment from local and global investors, who prefer a recurring, safe and moderate-yield income. The REIT able assets may cover completed and rent-generating real estate assets. It is estimated that approximately USD 121 billion or 1.73 billion sq. ft. occupied CRE across office, retail and warehouse segments could potentially benefit from the REIT opportunity. REIT is expected to overarch the Indian Property market through enhanced transparency and governance standards.

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