PRESS RELEASE
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Net absorption to exceed 60 msf, highest ever, for top six Indian office markets in FY2026: ICRA

- ***Office vacancies for top six markets to hit multi-year lows of 14-14.5% by March 2026***
- ***Indian consumption story will drive growth for retail mall operators***

ICRA estimates that the net absorption[1] of **commercial office leasing** across the top six cities (Bengaluru, Chennai, Delhi-NCR, Hyderabad, Mumbai Metropolitan Region (MMR) and Pune) in India is likely to increase by 10-11% to 59-60 million square feet (msf) in FY2025 and witness a further growth of 3-4% in FY2026 on a high base. Despite an influx of a huge supply of 125-130 msf in FY2025 and FY2026, the vacancy levels are expected to remain range-bound at 14.5-14.7% by March 2025 and improve to 14.0-14.5% by March 2026, supported by resilient absorption trends.

Giving more insights, **Anupama Reddy, Vice President and Co-Group Head - Corporate Ratings, ICRA,** said: "*Leasing activity remained firm with net absorption of ~54 msf in FY2024 and ~44 msf in 9M FY2025 for the top six office markets in India, supported by strong demand from global capability centres (GCCs) and domestic corporates, increase in physical occupancy in office spaces and revival of IT-SEZs with regulations around floor-wise denotification. This has resulted in 70 bps decline in vacancy levels to 14.7% as of December 2024 from March 2024. On an overall basis across top six office markets, the healthy absorption trends are expected to continue in the medium term and occupancies are expected to reach decadal high by March 2026 to 85.5-86.0%."*

"In a period of global sluggishness, the India office market remained resilient, given its underlying fundamentals such as a highly skilled and cost-effective talent pool, a growing India economy, and availability of high-quality office spaces at competitive rentals. The same factors have now come together to create a period of sustained growth, with India at the forefront of global firms' real estate decisions and strategies."

The credit profile of ICRA's sample set of office players is expected to remain stable, driven by healthy growth in net operating income (NOI) backed by a rise in occupancy and higher rentals. The leverage metrics of the players, as measured by debt/NOI, is expected to improve to 3.9-4x as of March 2026 from 4.3-4.4x estimated as of March 2025. Consequently, the debt service coverage ratio (DSCR) is expected to improve and remain healthy at 1.45-1.5x in FY2026, compared to 1.35x in FY2025, on the back of an improved NOI.

ICRA expects the rental income for **retail mall operators** to increase by 7-8% YoY growth in FY2025 and 8-9% in FY2026, driven by healthy occupancy levels, growth in trading values and rental escalations. Across the top six cities in India, new supply of 9-9.5 msf is expected in FY2025 and FY2026, respectively. The vacancy levels rose to 21% as of December 2024 due to higher new supply, which has become operational recently and is yet to ramp up fully. ICRA expects the occupancy levels to sustain at 79-80% as of March 2025 and remain at similar levels by March 2026.

"*The consumption growth for ICRA's sample set of retail mall operators is expected to moderate to 6-7% in FY2025 compared to 9% in FY2024 on account of the slowdown witnessed in H1 FY2025 due to the General Elections, heat waves and the extended monsoons. Consumption is expected to ramp up in H2 FY2025, driven by the festive and wedding season. In addition, segments like hypermarket, food, apparel, accessory and jewellery are expected to drive consumption with recovery in family entertainment centres (FEC). Trading values are expected to witness 8-9% YoY growth in FY2026. However, the increase in digital penetration and continued threat from e-commerce and q-commerce players, particularly*

[1] *Net absorption is defined as the sum of square feet that became physically occupied, minus the sum of square feet that became physically vacant during a specific period*

in the retail (fashion) segment, which is extending to some of the premium brands, is a major challenge for the retail mall developers," **Reddy** added.

The credit profile of the mall operators is expected to remain stable. The leverage ratio for the malls, measured by debt-to-NOI, is estimated to sustain at previous year's levels of 4.6-4.8x as of March 2025 and improve to 4.2-4.5x as of March 2026, supported by an increase in the NOI. Consequently, the debt service coverage ratio is expected to remain comfortable at 1.45-1.50 times in FY2025-FY2026 compared to 1.4 times in FY2024.

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