Commercial Real Estate – Office – Chennai

Healthy pre-leasing at 43% of ~6.7 msf of upcoming supply in FY2025 to result in stable occupancy levels

MARCH 2024

Highlights

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Despite sizeable supply, the occupancy is estimated to sustain at 88.5-89% for Grade A office space in the Chennai market by March 2024 and March 2025, supported by expected healthy net absorption.

Office supply is to increase at a CAGR of ~5% during FY2017–FY2025 (projected) for the Chennai market, which is lower than the estimated CAGR growth of ~7% for India's top six cities.

The Chennai office market witnessed significant improvement in net absorptions in FY2023 and 9M FY2024, backed by healthy traction in new leases from the IT-BPM and BFSI segments and steady rise in the physical occupancy of offices. As a result, despite sizeable supply of ~6-7 million square feet (msf) each in FY2024 and FY2025 (pre-leasing of ~43%), the vacancy levels are expected to sustain at 11-11.5% during FY2024 and FY2025, similar to FY2023 levels, backed by healthy net absorption.

Chennai accounts for 9% (~81 msf) of the Grade A office space among India's top six* cities (as on December 31, 2023). The OMR (Old Mahabalipuram Road) and the South-west region in Chennai account for ~80% of the total Grade A office space of Chennai as of December 2023. Perungudi, Tharamani and Mt. Poonamallee Road are the top three micro-markets, which account for ~33% of the total Chennai office supply. In FY2025, vacancy levels are expected to remain low in Perungudi and Tharamani region due to healthy absorption and stand at elevated levels for Mt. Poonamallee Road due to muted demand in the micro market.

The top 10 developers in Chennai account for 49% of the Grade A office supply, with five developers enjoying occupancy of greater than 90%. Moreover, majority of the regional players have healthy occupancy levels.

For the existing leased spaces, the rentals are expected to increase steadily by ~4-5% due to contracted rental escalations. The top segments, which continue to drive demand in Chennai are IT-BPM and BFSI. The rental rates in the major micro-markets, like Perungudi and Tharamani, have risen steadily at a CAGR of ~5% during the last five years. However, Mt. Poonamallee Road saw moderate CAGR of ~2.5% due to muted demand.

ICRA has maintained a Stable outlook on India's commercial office sector. With healthy demand from global capability centres (GCCs), non-IT MNCs and domestic corporates, the net absorption across the top six cities is expected to reach a growth of 4-5% in FY2025, after a decline by 19-20% to 47-48 msf in FY2024. With the influx of a huge supply of around 60-62 msf in FY2025, the vacancy levels are expected to remain at around 16.0-16.2% (largely similar to the previous year).

Note: Top six Indian office markets include Delhi NCR, MMR, Bengaluru, Hyderabad, Chennai and Pune*

Agenda

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1 Outlook on Indian office leasing segment

2 Trend in net absorption, supply and vacancy – Top 6 markets

3 Trends across Chennai market

4 Rating actions in commercial real estate

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Thank You!