

## COMMERCIAL REAL ESTATE – OFFICE LEASING

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Vacancy levels to inch up marginally; to remain range-bound at 16.0-17.0% in FY2023 despite sizeable supply addition

SEPTEMBER 2022



*Net absorption likely to grow by 16% in FY2023 with resumption of back-to-office for majority of the occupiers.*

*Vacancy levels are expected to remain rangebound at 16.0-17.0% despite sizeable new supply.*



The net absorption in Q1 FY2023 is the highest in the last ten quarters and is expected to increase by 16% in FY2023 backed by the resumption of back-to-office plans and steady rise in the physical occupancy in offices. Long-term growth prospects of office leasing are supported by robust hiring in the tech sector with expected growth from global capability centres (GCCs).



The supply is expected to increase by 10-15% to over 50 msf in FY2023, which is one of the highest in the last seven years. The majority of the upcoming supply in FY2023 is estimated to be in Hyderabad (36%), followed by Bengaluru (23%) and Delhi NCR (17%). Notwithstanding this, the vacancy is likely to remain range bound at 16.0-17.0% in FY2023 (PY: 16.1%).



Revenue growth of around 5% (excluding impact of acquisitions and new capex) is expected to be driven by contracted rent escalations and mark-to-market growth on renewals. Operating profit margins will be maintained around 75-80% for stabilised portfolios.



Leverage, as measured by Debt / Net Operating Income (NOI) is expected to be maintained in the range of 6x-8x in FY2023 for majority of the rated universe, translating into LTVs of 45-65%. Backed by stable cash flows and long-term loan structures, DSCR is expected to be in the range of 1.15-1.25 times.



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