

GURUGRAM

MARKET VIEW REPORT

Q4 2023

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Resilient India and Unfolding US Real Estate Crisis: Navigating Global Economic Tides

In the current global economic landscape characterized by uncertainties and challenges, India stands out as a beacon of relative resilience and optimism. Despite facing the headwinds of a worldwide slowdown, projections from the International Monetary Fund (IMF) indicate that India's economy is poised to grow at a robust rate of 6.5% in 2024. This projection not only surpasses estimates for major economies but also solidifies India's position as one of the fastest-growing large economies worldwide.

Several recent developments further bolster this positive outlook for India. The surge in the Sensex, India's key stock market index, surpassing the 63,000 mark in February 2024, reflects a growing investor confidence in the Indian economy. Additionally, India's Information Technology (IT) exports have reached a record high of ₹19.7 lakh crore (USD 246.25 billion) in FY23,

underscoring the sustained global demand for Indian IT services and expertise.

Furthermore, India's demographic dividend, characterized by its youthful population with a median age of 28.4 years, presents a significant opportunity for economic growth. By 2030, India's working-age population is projected to reach 950 million, offering a vast pool of skilled labor that can potentially fuel further economic expansion and development.

Amidst the prevailing optimism, it's crucial to recognize and delve into the unfolding commercial real estate crisis in the United States, particularly considering its close ties to the trajectory of Indian commercial real estate growth, where overseas markets serve as a pivotal source of funding.

According to the NBER report, about 14% of all commercial real estate loans and 44% of loans on office buildings appear to be in a negative equity position, meaning the debt is greater than the property value. That increases the risk that borrowers won't repay and will default on their loans. Also, office prices have tumbled -35% as demand for office space weakened following the adoption of remote work.

Key Indicators of Turbulence

- **Vacancy Rates:** Office vacancy rates in major US cities have soared in recent years. According to CBRE data, the national office vacancy rate reached 17.4% in Q4 2023, a historic high. Retail vacancy rates have also increased, reflecting the ongoing shift towards e-commerce.
- **Declining Property Values:** The Green Street Commercial Property Price Index indicates a decline of over 20% in commercial property values since the Federal Reserve began raising interest rates in 2022. This decline represents a significant erosion of wealth for CRE investors.
- **Loan Delinquencies:** Rising interest rates have increased debt servicing costs for CRE borrowers. Delinquencies on commercial real estate loans are rising, particularly for properties like office buildings and retail centers, signaling increasing financial distress.

- **Bank Exposure:** US banks hold approximately \$2.7 trillion in commercial real estate loans. Increased delinquencies and declining collateral values could expose banks to significant losses, potentially exacerbating the crisis. According to a report from Trepp, banks are facing roughly \$560 billion in commercial real estate maturities by the end of 2025. According to JPMorgan Chase, commercial real estate loans account for 28.7% of assets at small banks, compared with just 6.5% at bigger banks.

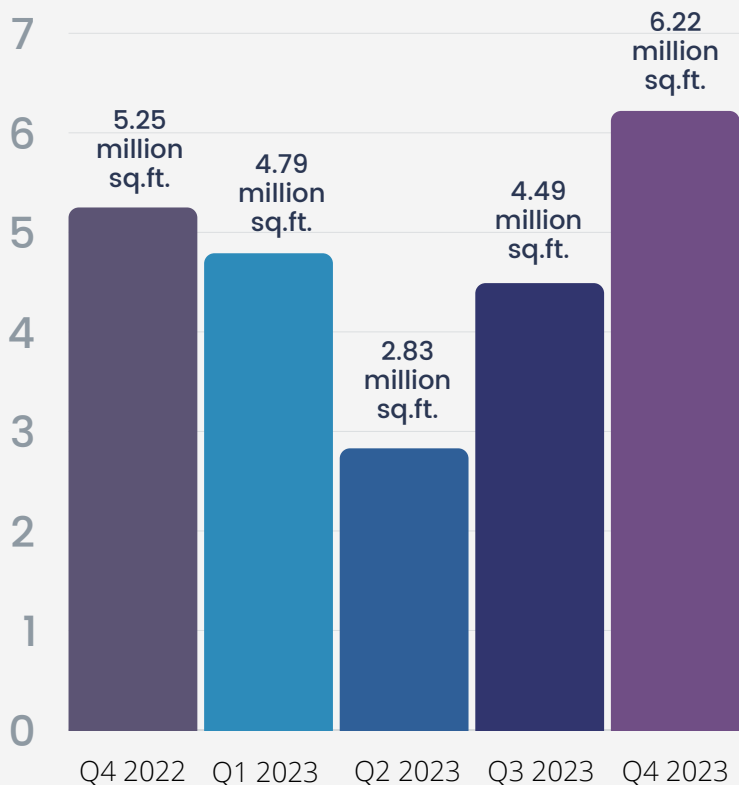
Looking ahead, the future of the US commercial real estate market remains uncertain. Innovations such as office-to-residential conversions and the repurposing of vacant retail spaces may be essential for long-term viability and resilience in navigating the evolving landscape of commercial real estate amidst the current crisis.

Q4 2023

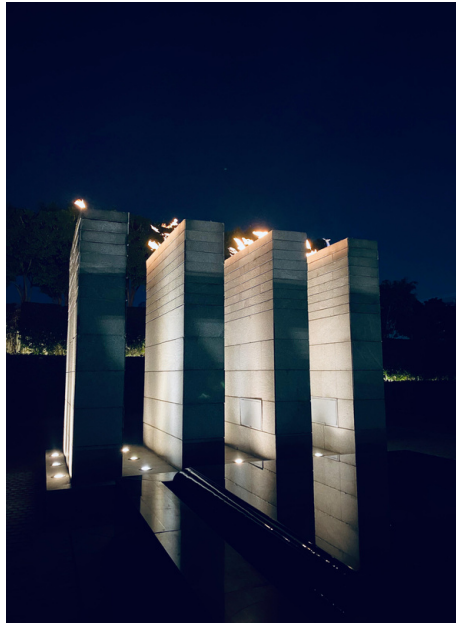
DECODING GROSS LEASING ACTIVITY

The Gross leasing volume figures (across office, retail & industrial stock) stands at 6.22 million sq.ft. for Gurugram

This translates to an overall growth of 38% over Q3 2023 for Gurugram



While the growth rate for Q4-2023 dipped compared to the previous quarter, it marked the highest level of gross migration activity among the past five quarters.

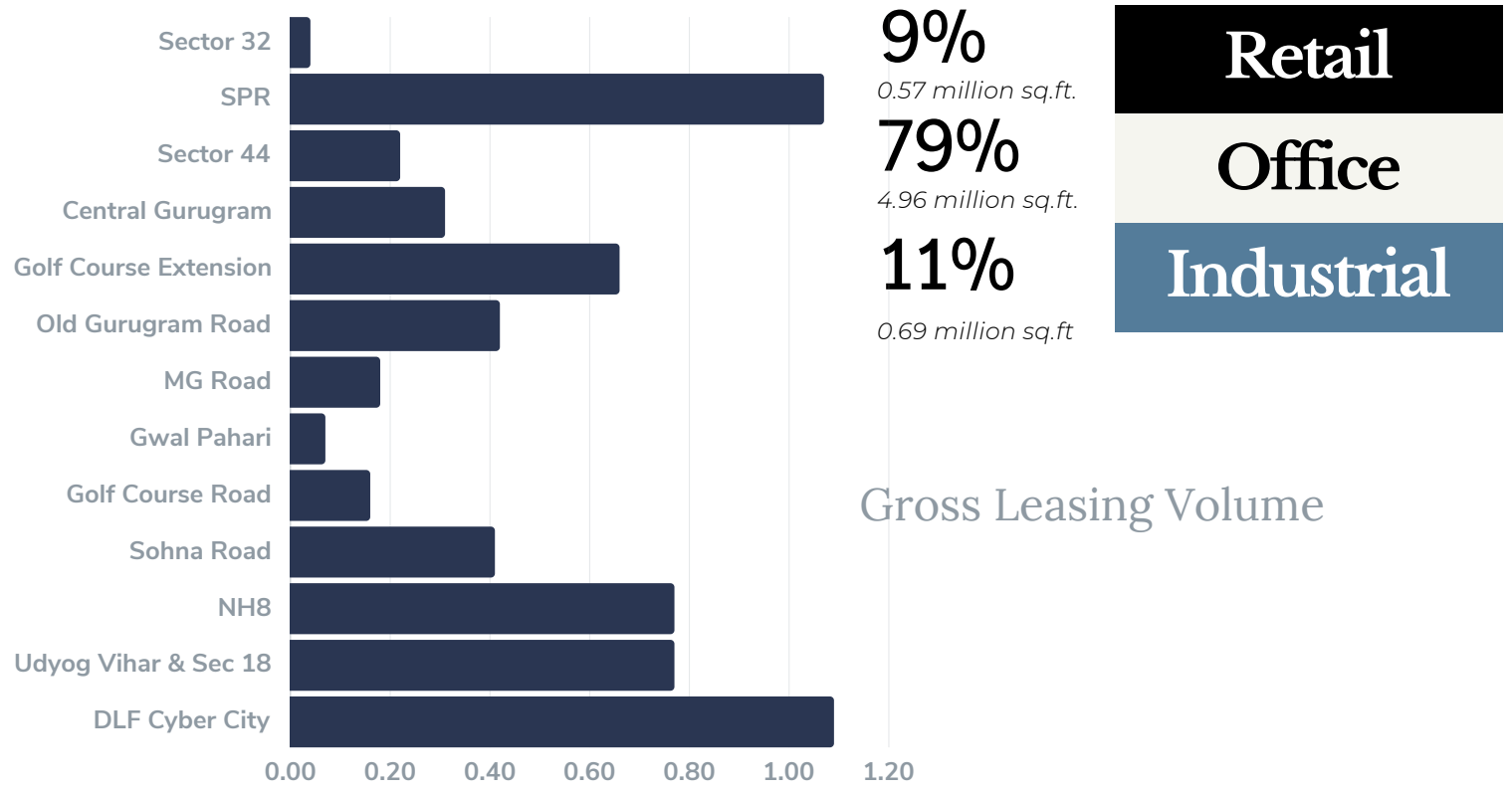


DISTRIBUTION OF TRANSACTION SIZE

78% Share of Pie by Volume - Transactions done within Q4 2023 with area size 10,000+ sq.ft. or more

01 Gurugram Q4 2023 figures

Drilldown - Total Leasing Volume - 6.22 million sq.ft.



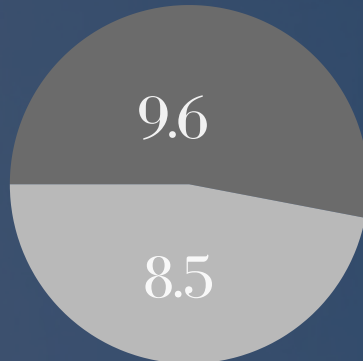
Gross Leasing Volume

OFFICE

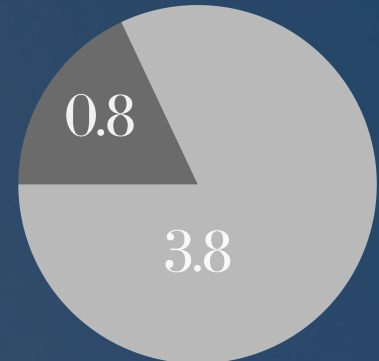
Occupancy & Vacancy Trends



Sohna Road



Golf Course Extension

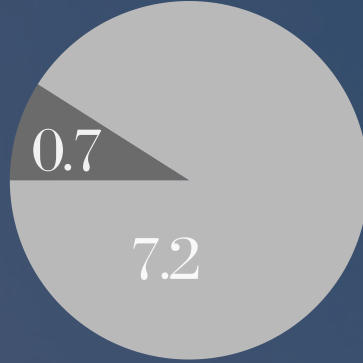


Central Gurugram

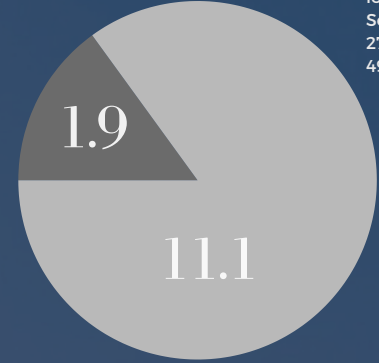
Buildings located in Sectors 27,39,41,43,45,47,49,50,51,52 & 57



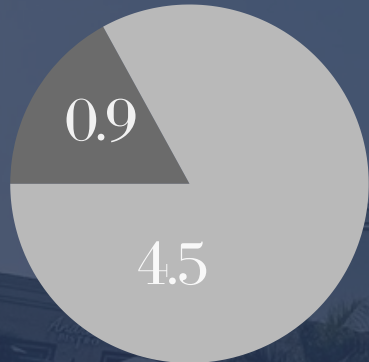
DLF Cyber City



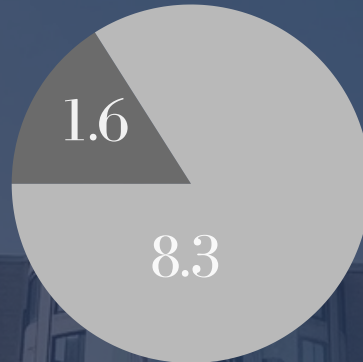
Golf Course Road



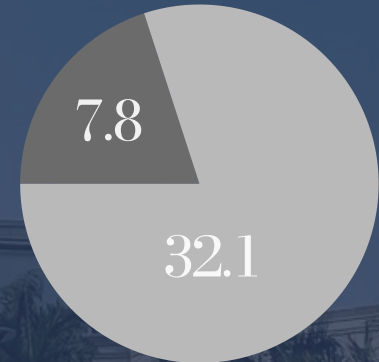
National Highway 8



MG Road



Sector 44 & 32



Udyog Vihar & Sector 18

- Vacant
- Occupied

Q4-2023 has proven to be a notable period for the Gurugram Commercial Real Estate sector, evident in the surge of gross leasing figures surpassing those of the preceding four quarters. **However, this notable shift is primarily attributed to a singular transaction of the Air-India simulator.** Upon adjustment for this outlier, the gross leasing figures closely align with those observed in Q4-2022. It's worth noting that the leasing momentum has intensified, with only two new transactions exceeding the 100,000 square feet mark in this quarter, indicating that a majority of the activity stemmed from mid-size transactions.

LONG AWAITED

SEZ AMENDMENT BECOMES REALITY

14%

share of SEZ stock in overall commercial real estate stock in Gurugram

The recent amendments to the regulations governing Special Economic Zones (SEZs) in India, permitting denotification on a floor-wise basis, mark a watershed moment for the country's commercial real estate (CRE) sector. This move has the potential to revitalize underutilized SEZ spaces, boost occupancy rates, and transform the overall CRE landscape.

38%

translating to 7.1 million sq.ft. vacant space

stock within Gurugram SEZs is vacant

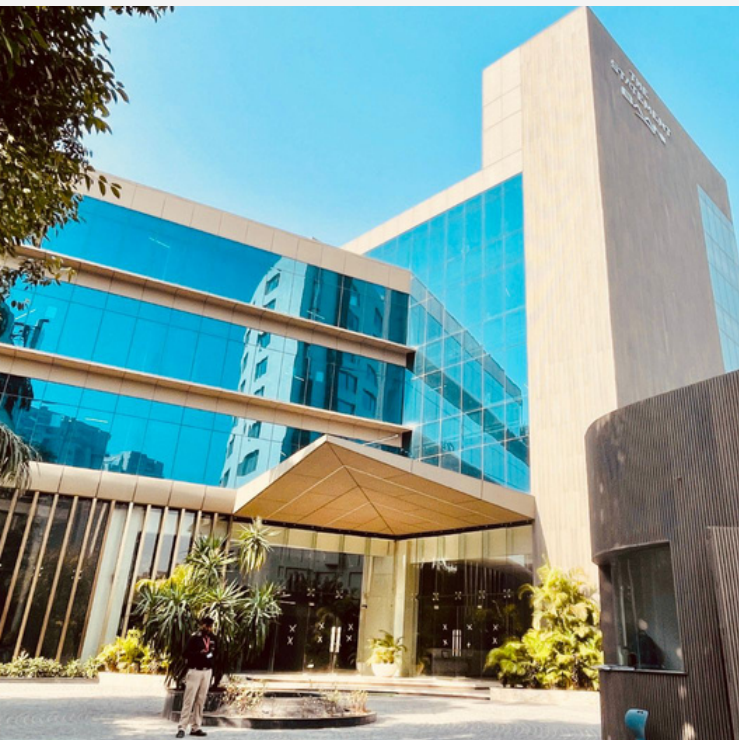
SEZs are witnessing keen interest from large occupiers - with consolidation, movement away from strata assets and cost saving being the key drivers

In Focus

SEZ Amendment | 6th Dec 2023

02 Key Transactions

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Technip Energies

Imperia Mindscape (26,000 sq.ft.)

Air India

e-Novation Centre (628,087 sq.ft.)

Lummus Technology

AIPL Business Club (22,333 sq.ft.)

Salescode.ai

M3M Urbana Business Park (22,195 sq.ft.)

Smartworks

RK Square (100,000 sq.ft.)

Johnson Controls

Intellion IT Park (24,000 sq.ft.)

HDFC Bank

Unitech Cyber Park (59,447 sq.ft.)

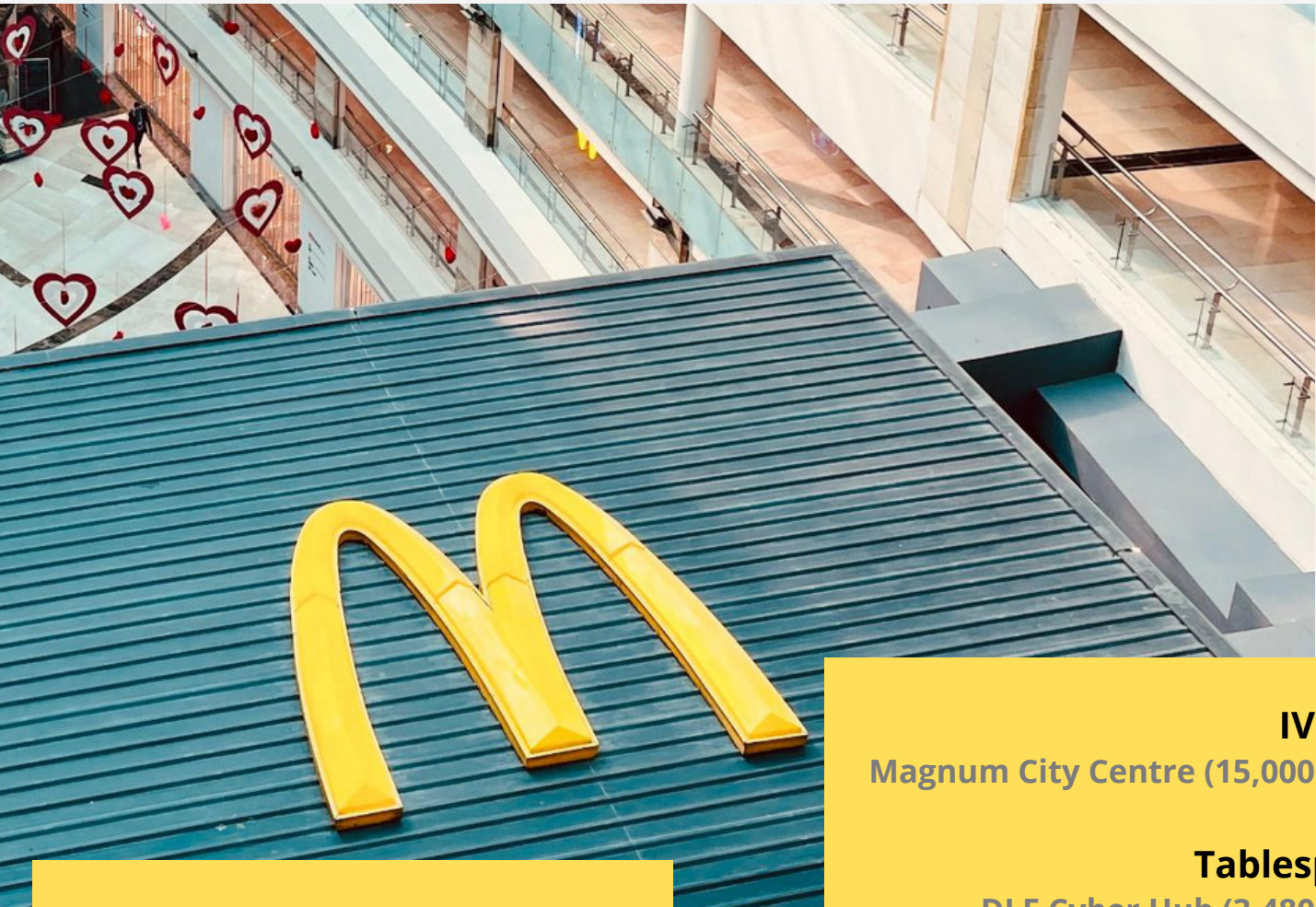
Sembcorp

Building No 7A (45,609 sq.ft.)

Key Office Takeups

Key Transactions

Gurugram | Q4 2023



Molecule

M3M IFC (7,436 sq.ft.)

Mittyesque

M3M 65th Avenue (9,636 sq.ft.)

PVR Inox

AIPL Joy Central (40,000 sq.ft.)

Tanishq

Worldmark (6,268 sq.ft.)

IVORYY

Magnum City Centre (15,000 sq.ft.)

Tablespoon

DLF Cyber Hub (3,480 sq.ft.)

Pret A Manger

DLF Cyber Hub (3,207 sq.ft.)

Dominos

Elan Town Centre (3,114 sq.ft.)

Key Retail Takeups

ABOUT FIRSTLEASE

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