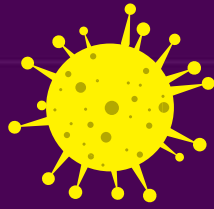


How COVID-19



Is Going to Impact Leasing Activities in the

IT/ITeS industry in Delhi NCR



A Roadmap Ahead
A White Paper by 360 Realtors

Foreword



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Commercial

The USD 4 trillion global IT industry is reeling under the pressure and impact of COVID 19. As the pandemic has devastated and immobilised some of the major industries like Aviation, Tourism, Hospitality, and Entertainment therefore impacting and temporarily suspending their IT spendings. But there are some other industries like core banking, insurance, healthcare & BPOs that are still spending on the IT services and are the major growth drivers in the current market scenario.

The Global impact has trickled down on the Indian IT industry as well, which is an important node in the global IT supply chain - contributing USD 180 billion in annual exports.



As the USA & Eurozone constitute two-third of the total IT export of the country, a possible slowdown is inevitable in the Indian IT industry.

Major Indian IT companies are expecting a contraction in Q1 FY 21, after showing a growth of 1.5-2% during Q4 FY 20. A possible slowdown will also adversely impact leasing activities in the sector.

However, the relationship will be anything but linear. Revenue corrections, business model evolutions, changes in operations alongside a host of mandated regulations are going to make wider changes in the IT leasing activities.

Already the ripple effect is visible, as there have been inquiries in neighbouring and TBD for Grade B & C of office premises. In the times to come, IT companies will try to minimize the cost to absorb revenue disruptions without compromising much on employee productivity & safety.

The current white paper has been written primarily to understand the trends in Delhi-NCR (Noida & Gurgaon) region, which alongside Bangalore, Pune, Hyderabad is emerging as a major IT destination.

Contraction is there in fresh demand and also some upcoming deals have been put up on hold, but on the positive note no cancellation has been witnessed so far. Resilience for rent are foreseen as a subject of discussion in Q3 of 2020 depending upon factors affecting the businesses.

In the current market scenario, some inevitable exits and some unavoidable rental renegotiations will happen. The vacant spaces will witness some rental corrections as well.

Grade-A landlords will try to retain clients by giving rent-free discounts on rentals & CAM charges depending upon the overall health of the building and as per agreements. Likewise, there will be major changes with regards to de-densification, layouts, property management, etc.

ReOpex to the premises while initiating the WFO and reducing cost by managing WFH and keeping the Servers and Data Centres working is currently where most of the large occupiers have been deliberating and which in the short run does not provide too much of clarity on the future demand.

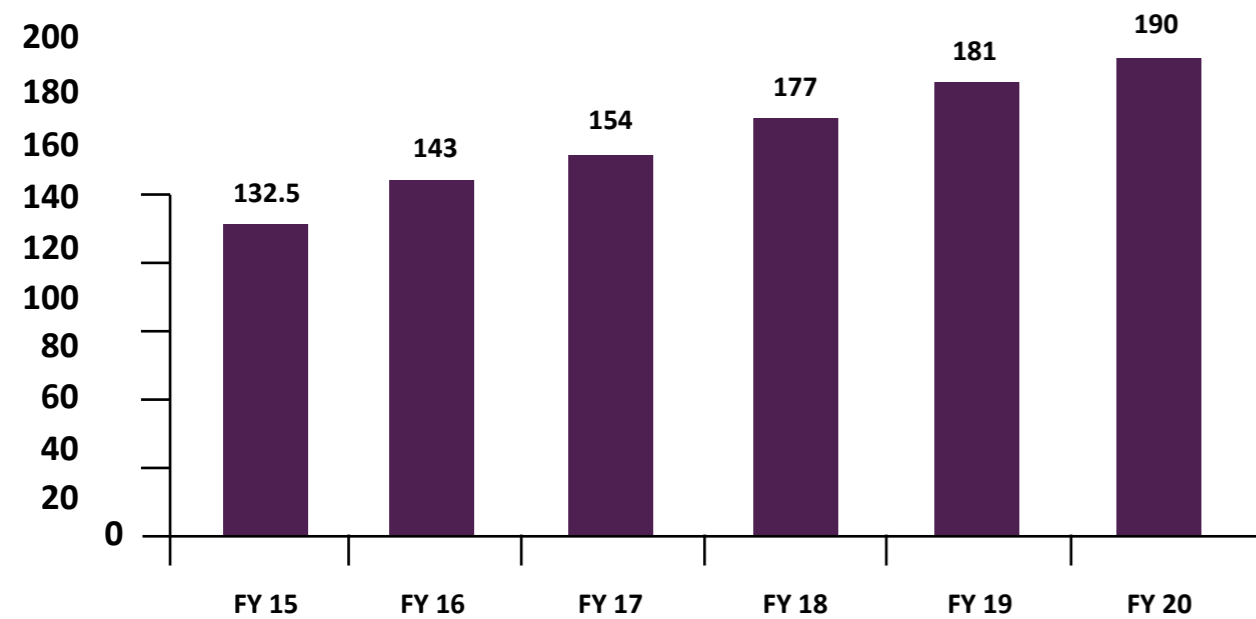
This white paper is an attempt to visualize the various possible scenarios for the industry & based on that make a calculated prognostication of the future of IT leasing in Gurgaon & Noida. Apart from developers, investors & occupiers, the report should render valuable insights to consultants, property management advisories & other sovereign entities.

Industry Analysis

India has emerged as one of the most formidable IT destinations around the globe, following the opening of the Indian economy in 1991. The growth in the Indian IT & ITeS industry has been synonymous with the economic transformation of the country. The market size of the Indian IT & ITeS industry is pegged at USD 190+ billion as of FY 2020. Since FY 15, the market has climbed by 44%.



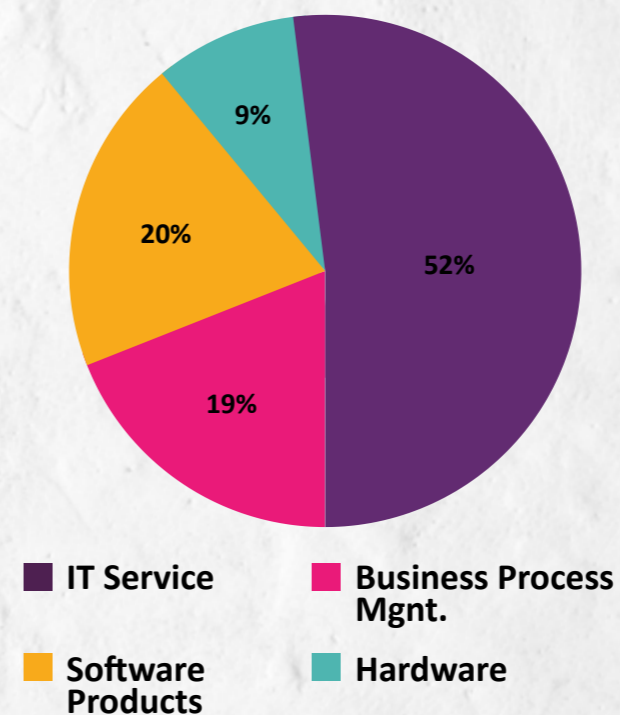
Growth of Indian IT Industry (Size in USD Billion)



Source: IBEF, Media Reports

Over half of the market comprises of IT services. Around one-fifth of the market comprises of (BPM) & software products each.

Sectorwise Break-up of Indian IT Market



Source: IBEF, Media Reports

India has also emerged as an essential node on the global IT/ ITeS supply chain. In FY 19, the total IT exports were pegged at USD 144 billion. 54% of the exports comprises of IT services. The rest were equally split between Business Process Management and Products & R&D.

In terms of the country-wise breakup of exports, the USA has a major share comprising 62% of the total exports. The UK accounts for around 17% of the export followed by the Eurozone that holds an 11% share.



US - 62%



UK - 17%



Eurozone - 11%

Source: IBEF, Media Reports



Demand Compression is inevitable

Possible recovery could either be U-shaped or V-shaped

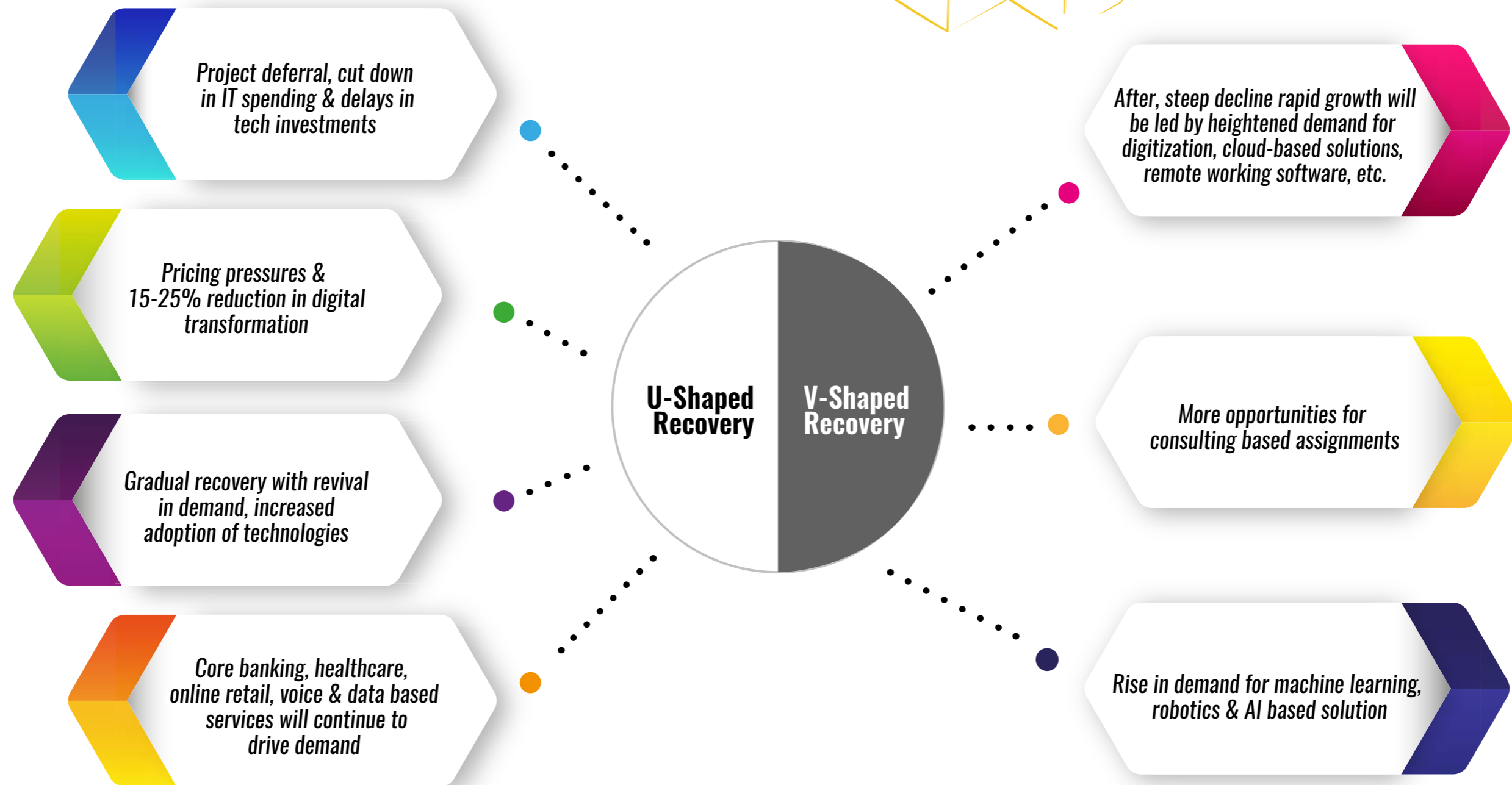
Despite being a vast industry, growth will be muted in the IT sector. Although the industry is showing resilience on the back of demand from the core banking, healthcare, BPOs, etc, as the risk of recession looms across major markets like The USA, UK & Eurozone, the downside risk will be inevitable in the Indian IT & ITes industry. Moreover, many major clients including aviation, transportation, tourism & hospitality organizations have halted their IT spending due to zero revenue inflow after the commencement of the crisis. The size of the risk will, however, depend on the longevity & magnitude of the crisis. The recovery can either be U-shaped, wherein there will be a gradual slowdown followed by a period of stagnation, which

will eventually be followed by incremental growth in business. On the other hand, there might be a possibility of a V-shaped recovery, wherein following a steep decline, there will be faster growth. The growth can emerge from new business opportunities. As most of the companies are working from home, there is a spike in demand for remote working software, cloud solutions, network solutions, man-hour mapping software, teleconferencing tools & much more. Likewise, major organizations around the globe are working towards increased digitization across the value chain thereby generating more demand for IT-based innovations. Machine Learning (ML), Artificial Intelligence (AI) and Robotics will also grow in immediate future.

Over the years, the GOI has been providing stimulus to the IT/ITes industry across major levers such as policy, fiscal, and infrastructure to further boost the domestic and export markets for the IT/ITes industry. IT/ITes industry is one of the 25 key Indian industries that will receive sustained & concentrated government support to grow and develop.

Likewise, the government is developing IT parks & SEZs all across the country to further position India as top-class off-shore & onshore IT destinations in the world, known for quality work, affordable price & timely delivery.



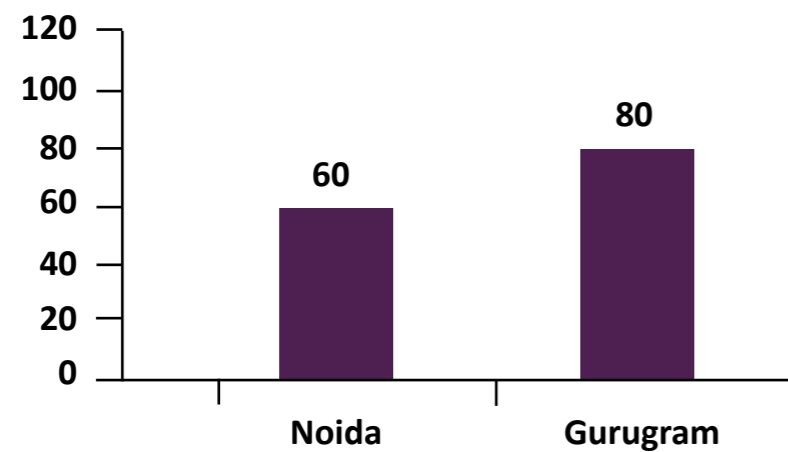


Delhi NCR (IT Market) – Gurgaon & Noida

Led by Gurgaon & Noida, Delhi-NCR has also upped its ante on IT/ ITeS landscape. In recent years, the gap between Delhi-NCR & other formidable IT destinations such as Bangalore & Pune has narrowed. Quality human capital resources, the concentration of Fortune 500 & other major MNCs, and cosmopolitan culture continues to draw the attention of major IT companies. Besides a healthy pipeline of office supplies, robust infrastructure is also a pull factor for Indian & international IT companies to set up their foothold in markets like Gurgaon & Noida.

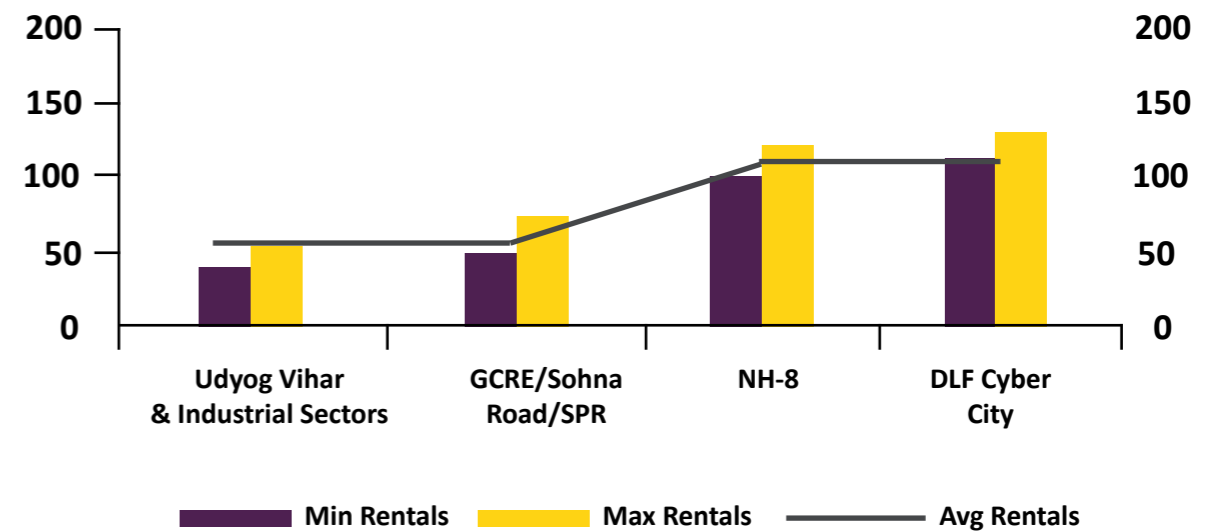
Gurgaon is home to major IT giants such as Microsoft, Accenture, TCS, Thoughtworks, IBM, HCL, Wipro, Cognizant, Genpact, and many others. Likewise, Noida has a host of major IT companies such as SAP, Google, Adobe, Microsoft, Infosys & TCS, etc.

Wt.Avg. Office Rentals INR/ Sq. Ft/ Month



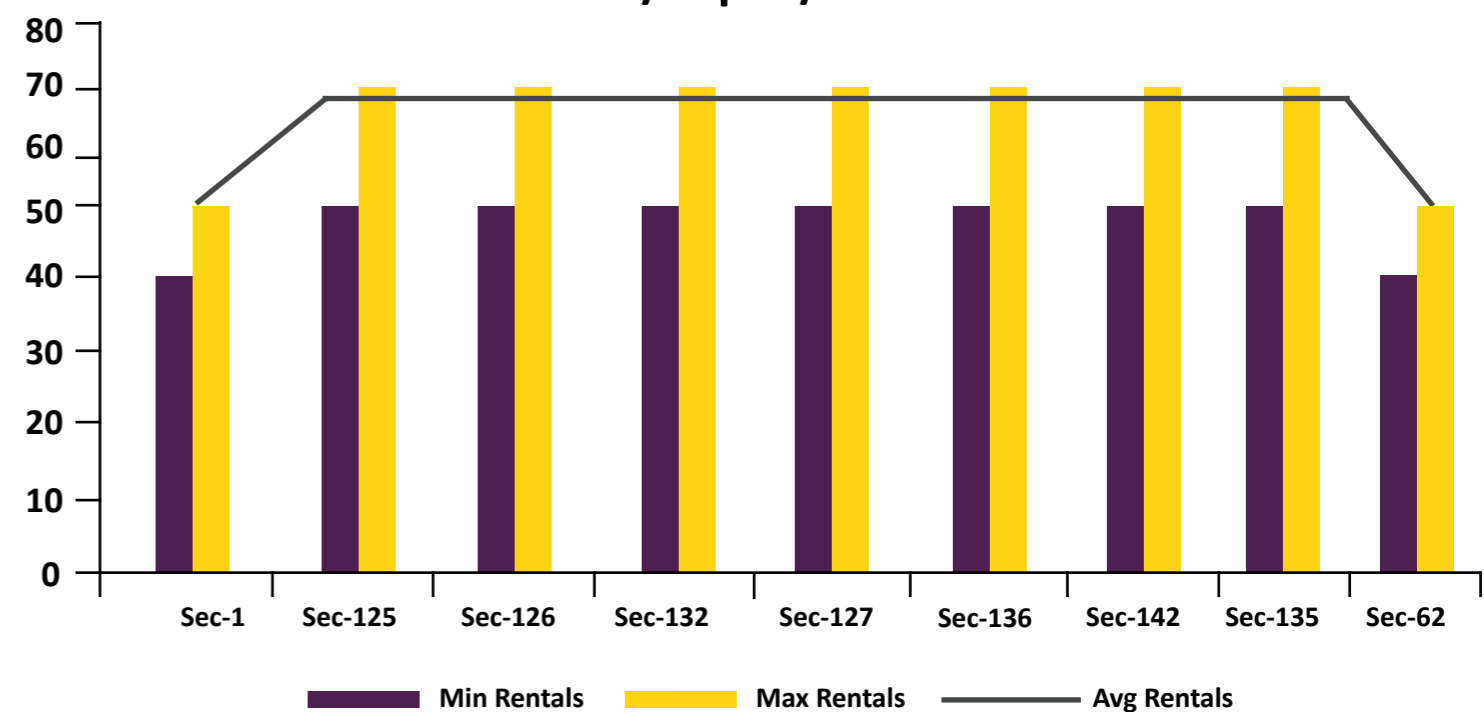
Source- 360 Realtors

Gurgaon Micro Markets Office Space Rentals INR/Sq. Ft/ Month



Source- 360 Realtors

Micro market Office Space Rental Noida INR/ Sq. Ft/ Month



Source- 360 Realtors

However, as major domestic & international organizations are cutting down on IT spending & deferring digital initiatives, the downtrend will reverberate across IT/ ITeS leasing activities in Noida & Gurgaon. As a part of the business continuity plan, many companies will move to more affordable destinations. Likewise, to accommodate mandated safety & hygiene requirements, a major makeover in the office layout is expected.



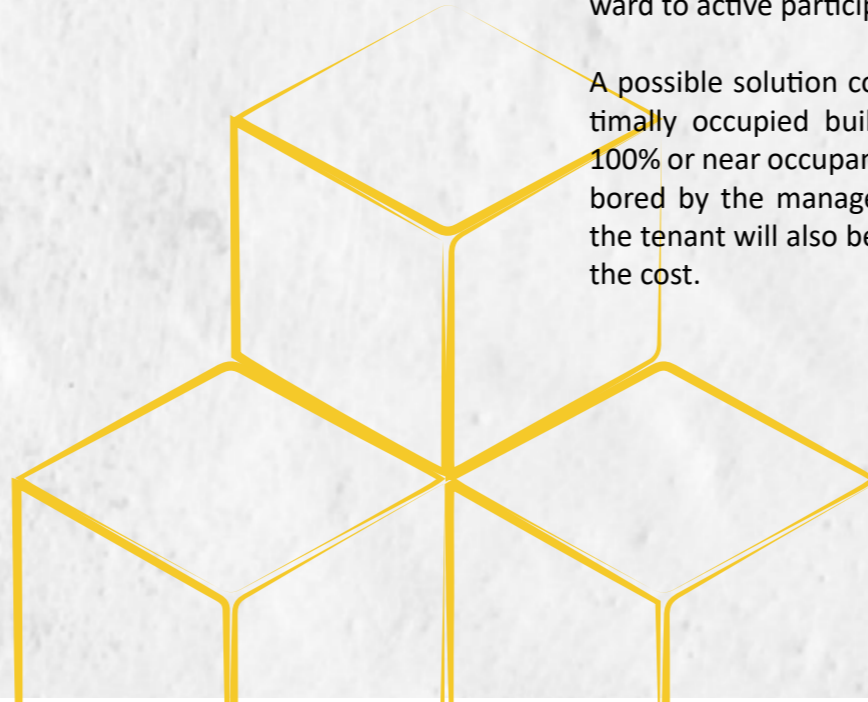
Pivot to Grade- B & Grade-C Premises



Amid pandemic, many companies have begun to question the need for Grade A office spaces. As firms cut costs to weather the recession, office real estate will be at the top of the list to shed. Already Grade-B spaces (INR 80-100) & Grade-C space (INR 50-60) are witnessing a sudden spurt in enquiries.

IT/ ITeS companies are facing muted demand due to a cut down in IT spending globally. Hence, they will like to reduce the cost of operations. Likewise, there is a strong possibility of a mandate to increase space usage per employee. Currently, space usage is around 30-40 Sq. Ft/employee & might be increased to 80-90 Sq. Ft. This will be an incremental cost burden leading to increased demand for more cost-effective spaces.

While some IT/ITeS companies might look to remote working in order to compress their real estate footprint, most are already looking at ways to future-proof their portfolios. As part of the business continuity plan, some of the IT companies might move to grade B and C offices in the suburbs and peripheries to cut down on their real estate cost. But moving away to the peripheries means that additional costing will be incurred on transportation, and might even create a reservation for certain employees, so these parameters also need to be kept in account while moving away from the city centers.



CAM Charge Negotiation

An area that will be open for discussions will be Common Area Maintenance (CAM). Usually, CAM encapsulates a host of components such as building maintenance, security, washrooms maintenance, cafeteria, air conditioning, power backups, etc.

After the lockdown, when offices will re-open there will be incremental charges, roughly to the tune of 20%. Building management will be required to invest more in security, screenings, hygiene, safety, etc.

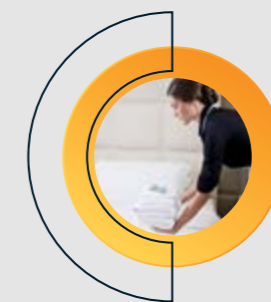
Likewise, more human interfaces will be required, thereby incurring capital expenditures as well as recurring costs.

In a time flagged by revenue compression but higher maintenance costs, neither the occupier nor the building management will be willing to take up the complete onus of the incremental costs.

While the occupier will expect some relief in the form of no further obligations, the building management will look forward to active participation.

A possible solution could be that in optimally occupied building spaces, with 100% or near occupancy, the cost can be boreed by the management. Otherwise, the tenant will also be required to share the cost.

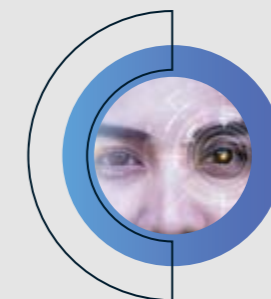
Incremental CAM Cost



Human Interface



Hygiene



Security & Screening



Standby Ambulance

Layout Makeover

How to reconfigure the workplace is the main talking point right now across the business world, from small start-ups to giant corporations, everyone is busy planning that how they will reopen their offices. The de-densification is one of the pertinent aspect of maintaining social distancing but apart from that IT companies have to let go of their open, collaborative workspace culture.

For the virus-free smooth functioning of the offices, Sneeze guards (barrier) that can be mounted on a desk, also other innovations include hand sanitisers built into desks that are positioned at 90-degree angles or that are enclosed by translucent plastic partitions; air filters that push air down and not up; outdoor gathering space to allow collaboration without viral transmission; and windows that actually open, for freer air flow. Some modifications IT companies can do to help improve employee safety and confidence as they return to work: Reconfigure workstations to support additional space in between employees — at least 6 feet apart.

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