

GCC - Driving India's Real Estate Growth Story

2024

The report explores GCCs' growth and their transformative impact on India's real estate, talent, and sustainability landscape

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Chairman & Managing Director
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Foreword

Global Capability Centres (GCCs) have become a cornerstone of India's corporate landscape, occupying significant space and driving the demand for high-quality office real estate. With around 1,900 GCCs operating across India's top six cities, the sector is a key contributor to the growth of Grade A office spaces, particularly in Bengaluru and Hyderabad, which together account for three-fourths of the total leased space. This surge is indicative of India's growing appeal as a global outsourcing and innovation hub.

The IT/ITeS and BFSI sectors continue to dominate, representing 65% of the GCC footprint in India. This ongoing expansion is not limited to these sectors alone, with manufacturing and R&D hubs emerging as new drivers of growth. Importantly, the focus on sustainability is also gaining momentum, with many GCCs adopting Leadership in Energy and Environmental Design (LEED) standards to align with global Environmental, Social, and Governance (ESG) practices.

India's potential as a GCC powerhouse is further bolstered by proactive state policies, such as Karnataka's groundbreaking GCC policy, aimed at fostering growth in Tier 2 cities. These initiatives, combined with India's skilled talent pool and cost-effective real estate options, are expected to drive the sector's continued growth.

At Knight Frank India, we are proud to contribute to this dynamic sector by providing deep insights and market intelligence that help global businesses make informed decisions. As the GCC sector continues to expand, we look forward to supporting businesses in navigating India's real estate market and capitalizing on the immense opportunities that lie ahead.



Overview

Global Capability Centres (GCCs) are offshore establishments that multinational corporations set up to provide services to their parent entity. This is based on the leverage of global skills, resources, and knowledge. These entities are generally integrated into larger corporations and offer various services like research and development, IT support, outsourcing of business processes, engineering solutions, and other related functions.

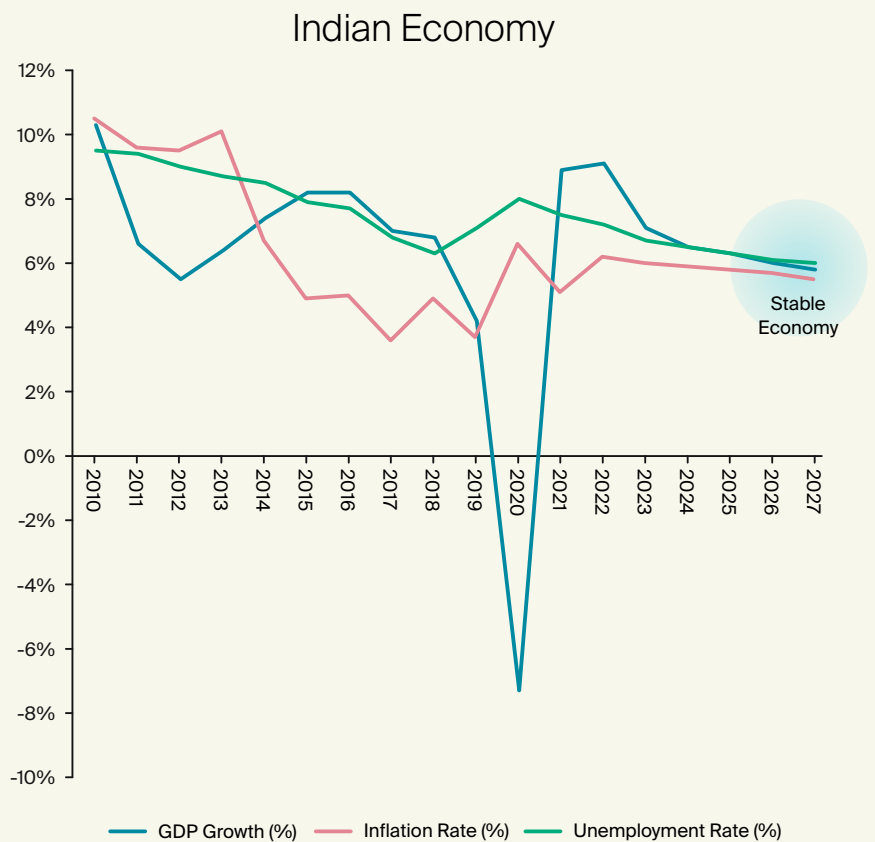
If we look at recent trends, the state of Karnataka has introduced a new GCC policy, the first of its kind in India that aims to establish the state as a global GCC leader by 2029. The policy is ambitious, targeting the creation of 500 new GCCs which would generate an estimated economic output of USD 50 bn, and create approximately 350,000 new jobs. It reflects a significant shift in GCC roles, moving from back-office functions to being innovation hubs that drive R&D, AI, and other advanced technologies. Let us go into the details of the economic trends and how the real estate domain of GCCs works.



Section A

Economy

Economic Outlook - Stable Indian Economy

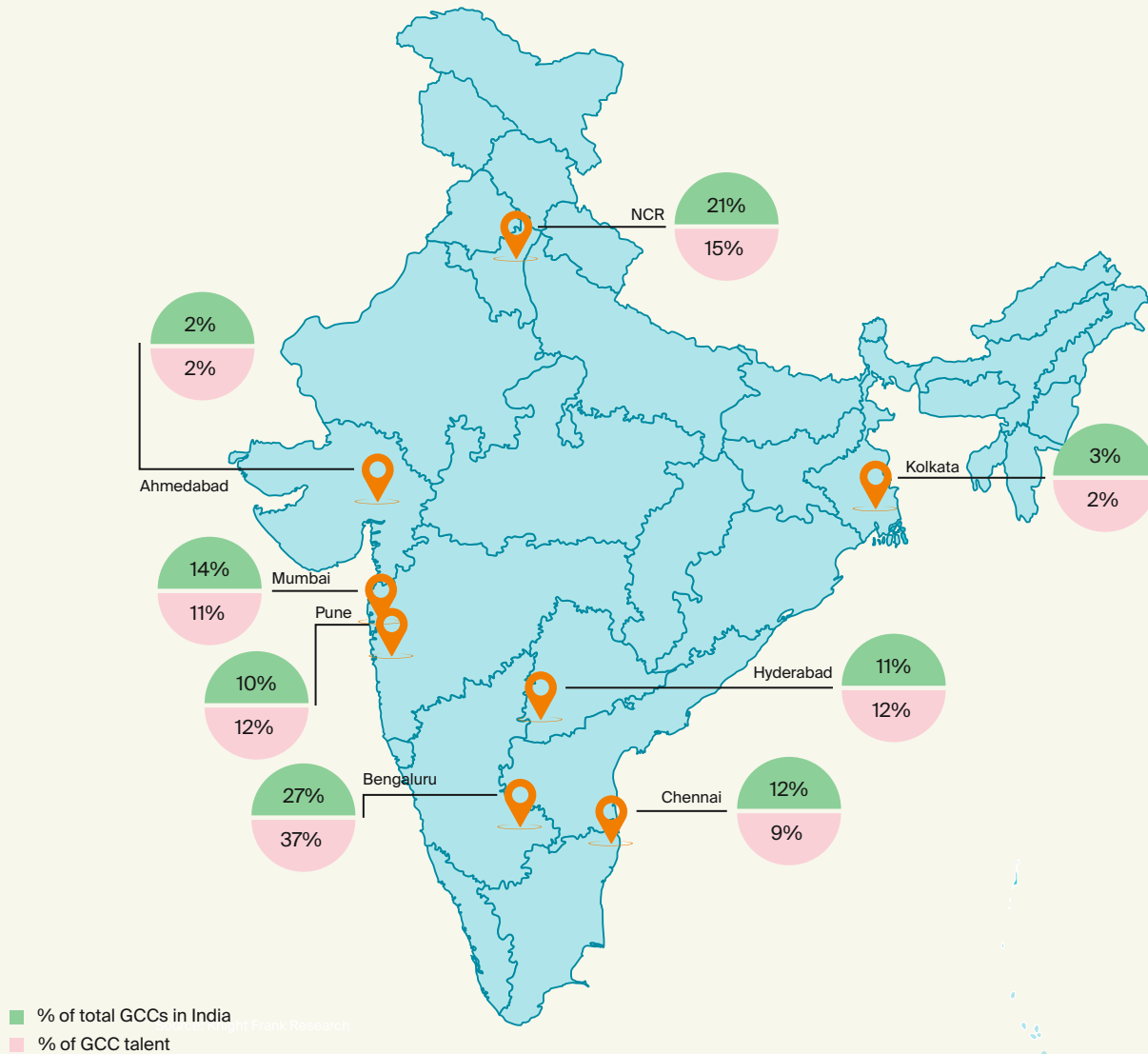


India's economic forecast for 2024-27 remains sound with strong GDP growth, controlled inflation, and a gradual reduction in unemployment. The GDP growth rate is anticipated to hold steady between 6% and 6.5%, driven by robust domestic consumption and significant investment flows. Inflation is projected to ease to approximately 5.5% by 2027, benefiting from stable food and energy prices, though periodic agricultural risks may impact price stability. Employment indicators are positive, with the unemployment rate expected to decline to around 6% by 2027 alongside rising labour force participation, especially among women, highlighting a more inclusive job market. Despite external economic challenges, India is well-positioned for enduring and resilient growth.

Section B

GCC Real Estate and Talent

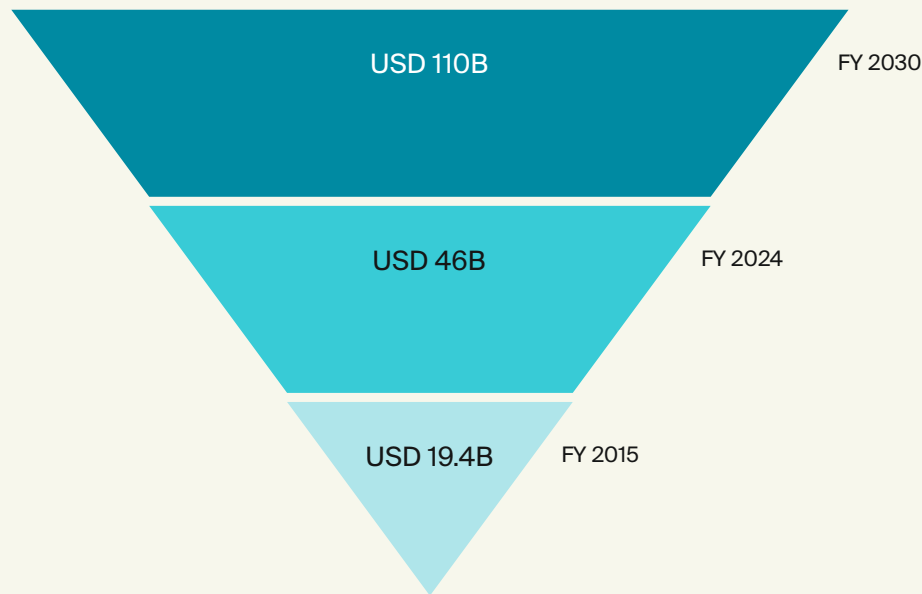
Talent & Geographical Coverage of GCCs in India



Source: Knight Frank Research, Deloitte

India has become the global GCC capital by offering the distinct benefit of consistent skilled talent across various locations, facilitating GCCs to expand operations for managing risks and ensuring business continuity. If we dissect further and look at the eight major cities of India, Bengaluru leads the GCC tally and is the top choice for platform engineering, and while Hyderabad and Delhi emerged as key contenders due to the flourishing of new IT hubs, Tier-2 cities also saw an increase in the overall movement. Chennai and Pune dominated primarily in automotive GCCs and Mumbai emerged as the top choice for BFSI GCCs. On the talent front, Bengaluru leads the tally with the highest percentage of around 37% of GCC talent located in the city followed by 15% in Delhi and 12% each in Hyderabad and Pune.

Market Size of GCC



Source: E&Y

According to Ernst and Young estimates, it is expected that by the end of 2024, the total revenue generated by all GCCs operating in India will be around USD 46 bn.

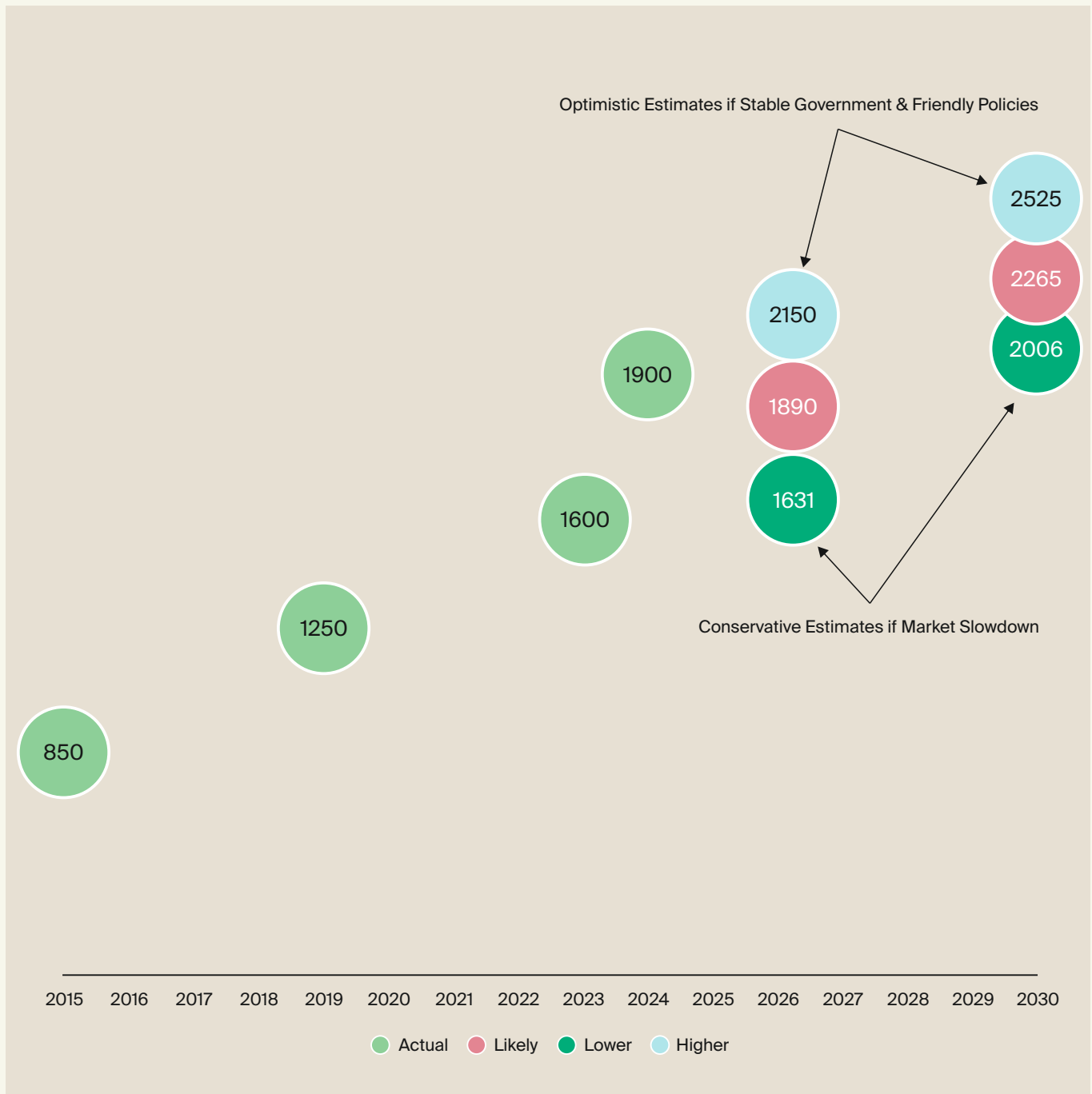
GCC Operating Model

| Work Location Modes | 100% In-Office | Mixed: Office/Home | 100% Work From Home |
|---------------------|---------------------|--------------------|---------------------|
| Offshore | Higher Savings | | Lowest Cost |
| Hybrid | Highest Cost Saving | | |
| High-Cost Onshore | Lowest Savings | | Highest Cost |

Source: Knight Frank Research

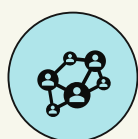
The current global operating model primarily balances roles based on location. The new distributed model incorporates centralized work-from-home strategies to minimize costs while managing risk and maintaining effectiveness. Migration of roles within this new model can achieve higher savings and lower costs effectively. If we look at the above model chart, the hybrid model gives the maximum benefit for a GCC in India. India remains a key hub for GCCs, alongside other destinations such as the US, Latin America, China, Europe, and the APAC region. While India, the US, and China stand out for their ease of hiring talent, India and the APAC region are noted for lower operational costs compared to global averages. Therefore, multinational corporations worldwide, increasingly view India as a preferred destination for establishing or expanding operations, with the US companies at the forefront of this trend.

Number of GCCs in India & Forecast



If we look at the total number of GCCs in India, there were only 1250 GCCs in 2019 which increased to around 1900 GCCs in 2024. Our optimistic estimation is for the number of GCCs to reach around 2525 by 2030, if we have a stable government and industry friendly policies. However, if the market slows down, our conservative estimate is for the number of GCCs to reach 2006 by the year 2030.

Growth Drivers for GCC



| SOCIO ECONOMIC PARAMETERS | BUSINESS IMPERATIVES | OPERATIONS AND COST RELATED | GOVT. POLICIES & INCENTIVES |
|---|---|---|--|
| City Appeal Evaluation of urban attractiveness. | Industry Connections Strength and extent of industry linkages. | Utilities and Power Availability and reliability of power and utilities. | Business Facilitation Ease of conducting business. |
| Sectoral Value Addition Measurement of sectoral contributions to the economy. | Innovation Ecosystem Development of innovative environments. | Workforce and Wages Labor costs and workforce conditions. | Skill Enhancement Initiatives for skill development. |
| Global Recognition International reputation and acknowledgment. | Talent Development Nurturing and availability of skilled workforce. | IT Infrastructure Quality of information and communication technology infrastructure. | Fiscal Measures Tax incentives and financial measures. |
| Economic Potential Index Ranking based on economic growth potential. | Research and Development Focus on intellectual property and R&D. | Real Estate Accessibility and quality of real estate options. | Regulatory Approvals Efficiency of regulatory processes. |

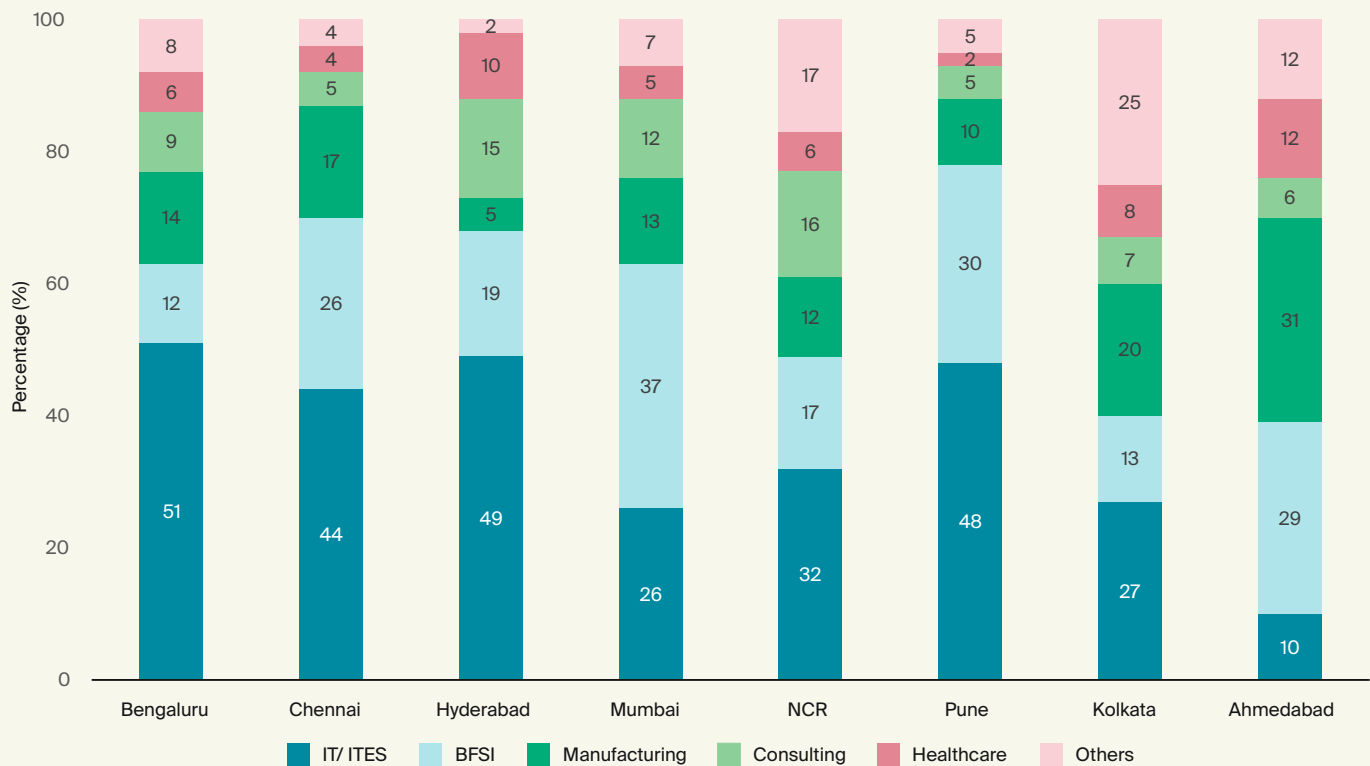
Source: Knight Frank Research

Key Focus Areas for Growth



| TALENT AND INNOVATION ECOSYSTEM | REAL ESTATE AND INFRASTRUCTURE | SUPPORTIVE GOVERNMENT POLICIES |
|---|---|--|
| Ecosystem for IT and IT-enabled services, proportion of IT exports. | Potential for commercial and IT park development. | ICT and sector-specific policy framework. |
| Intellectual property, R&D, software centers of excellence, data centers, academia, universities, and employable talent pool. | Models for asset acquisition – buy versus lease. | Support for research and innovation. |
| | Government and private developers | Skill development, center of excellence engagement, and public-private partnerships. |

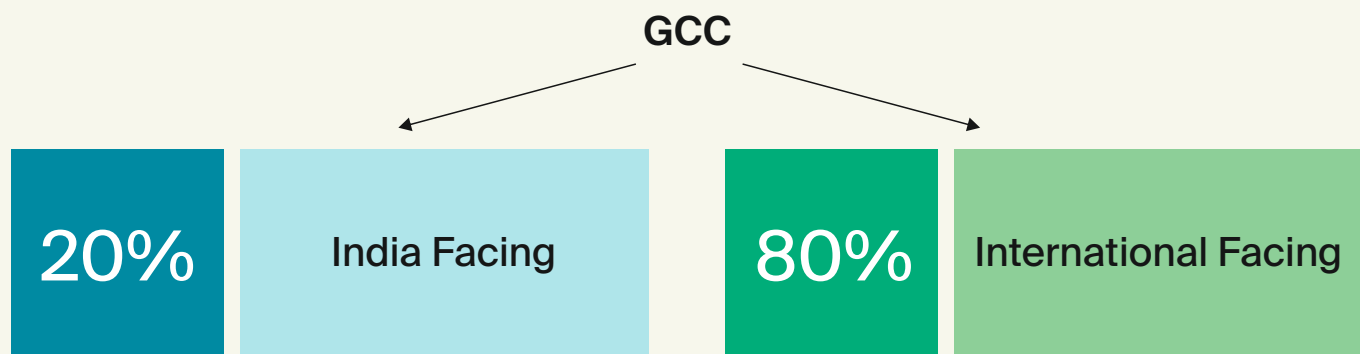
Industry Segment Distribution of Operational GCCs



Source: Knight Frank Research

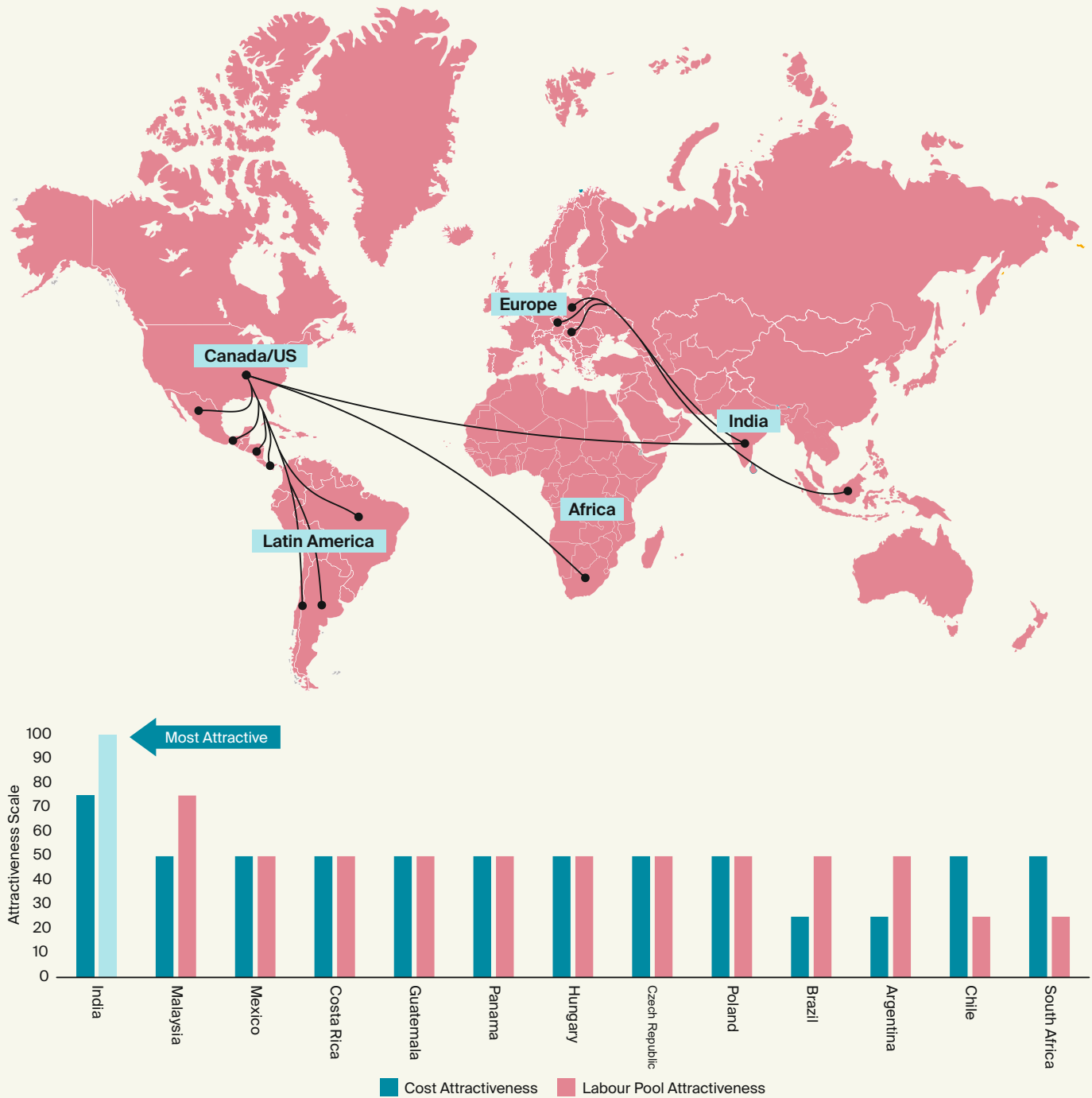
On the sector break of GCCs in India between 2018 and 2024 Q3, the IT/ITeS sector GCCs still lead the chart followed by BFSI and Consulting GCCs. Mumbai leads with the highest percentage of GCCs under the BFSI sector and Bengaluru leads with the highest percentage of GCCs in the IT/ITeS sector.

Tracking the operational aspect of the GCCs, around 80% of the GCCs are servicing international facing clients, while only 20% service India facing businesses.



Source: Analytics India Magazine

Attractiveness Scale of GCCs across Counties



Source: Knight Frank Research, Deloitte

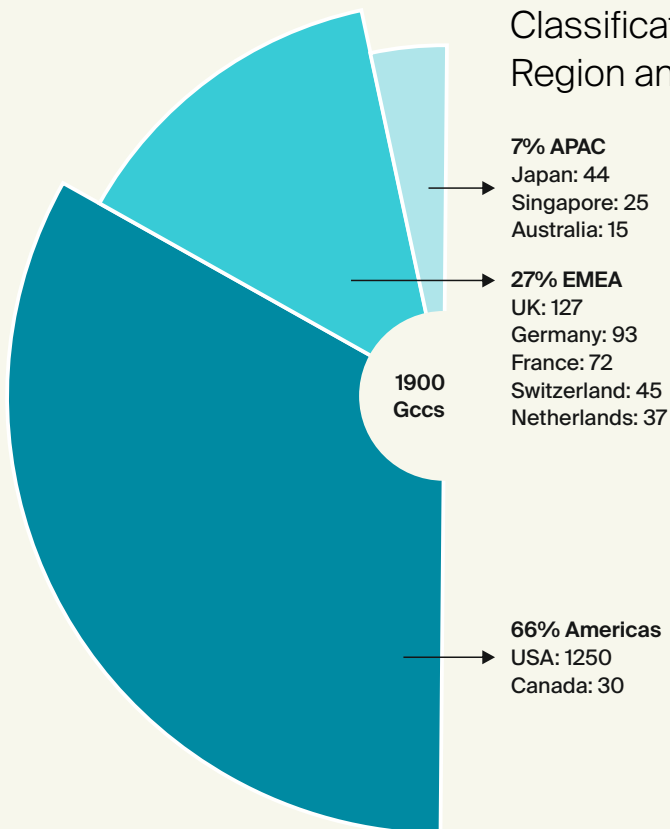
When we compare GCCs in India to those across other countries on labour pool attractiveness and cost attractiveness, India emerges as the leader and the global GCC capital on both the criteria of Labor and Cost.

Evolving Talent Landscape

As GCCs in India evolve, the roles of employees are also changing and evolving. There is a growing demand for talent with technology and digital skills such as AI/machine learning, data science, cloud architect etc. There is a shortage of such resources and retention of tech-talent is becoming more difficult as compared to operational roles which are easier to hire and retain. According to E&Y research, the employee cost, which is the cost per Full Time Equivalent (FTE), has increased by 29% between 2019 and 2023. It is expected to increase further by 33% from now till 2030. 80% of the overall cost per FTE are salaries, while the remaining costs include travel, facility, IT and communications.



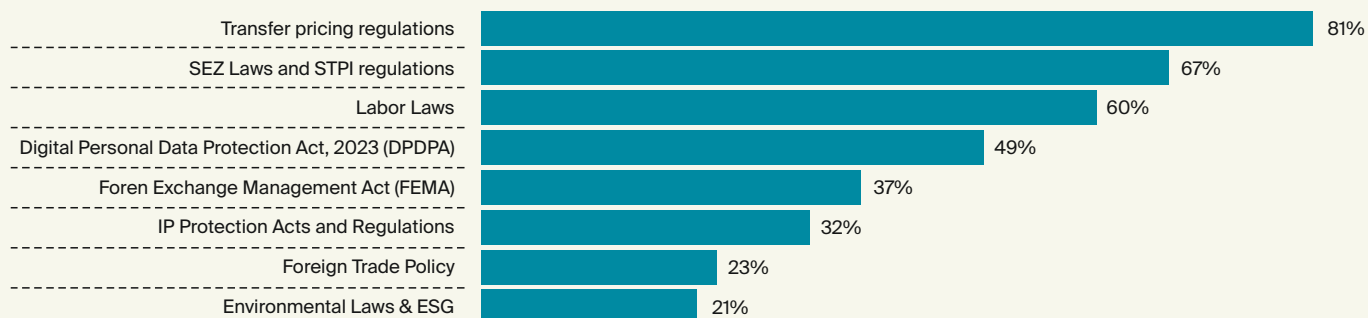
Classification of GCCs by Region and Country of origin



Classification of GCCs by Region and Country of origin - 2024

India's Global Capability Centres primarily draw investment from the Americas region. Around 66% of the GCCs originate from there, underscoring the region's strong role in driving this segment of India's industry. Meanwhile, 27% of India's GCCs originate from the EMEA (Europe, Middle East, and Africa) region, highlighting the interest from established markets and emerging economies within this diverse area. Finally, the APAC (Asia-Pacific) region contributes a smaller yet significant 7%, reflecting strategic expansion from neighbouring and regional countries. This geographic distribution emphasizes India's appeal across multiple continents, positioning it as a premier destination for global capability functions.

Government Regulatory Frameworks



Source: Nasscom

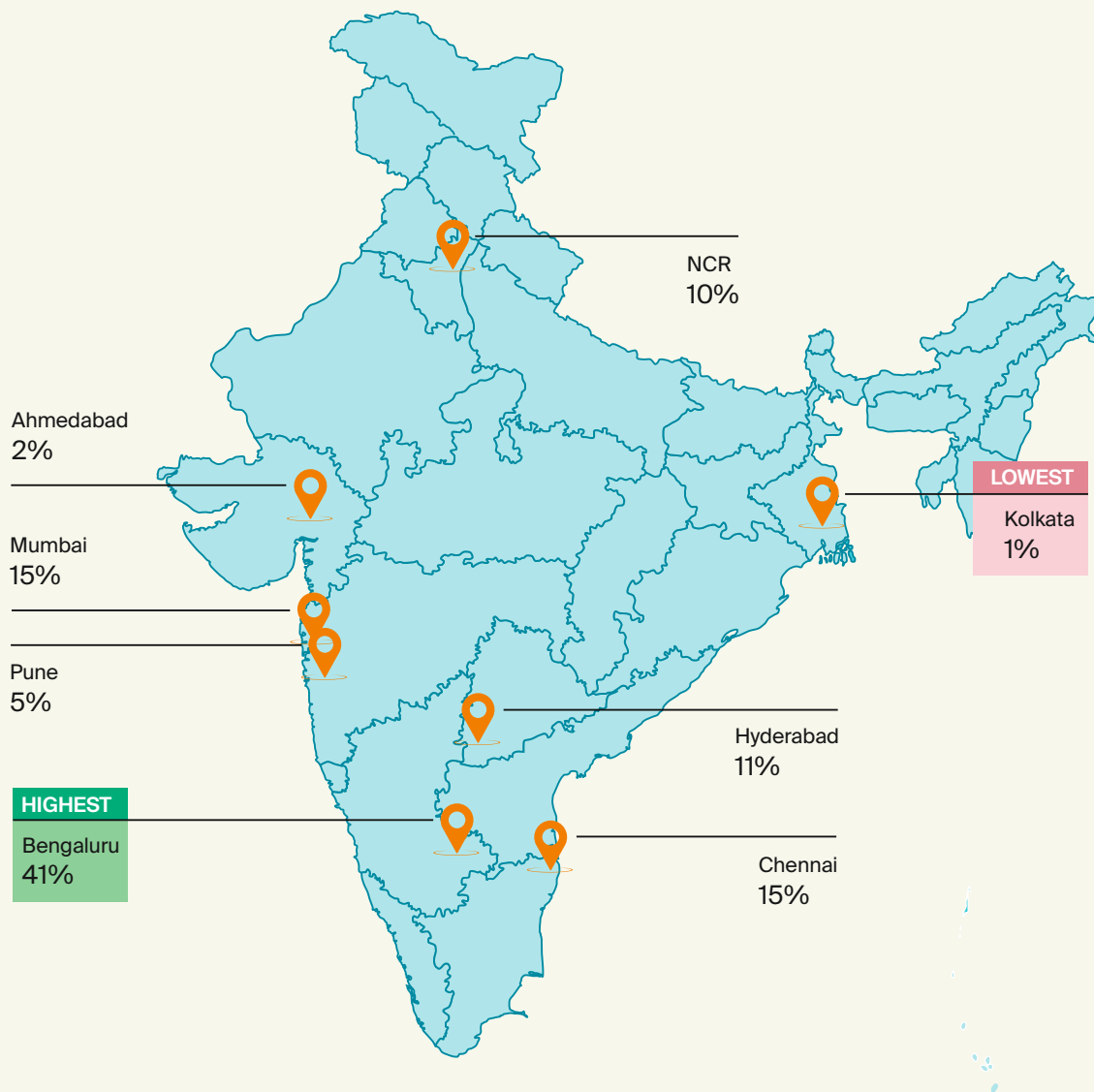
Looking at the regulatory landscape in India for GCCs, the joint survey conducted by Nasscom and KPMG in India shows the top regulations as key priorities for GCCs. 81% survey respondents mentioned transfer pricing regulation as a key priority for GCCs followed by SEZ laws and STPI regulations, with 67% respondents mentioning it. 60% respondents mentioned labour laws as a key priority for GCCs.



Section C

GCC and Flex Spaces

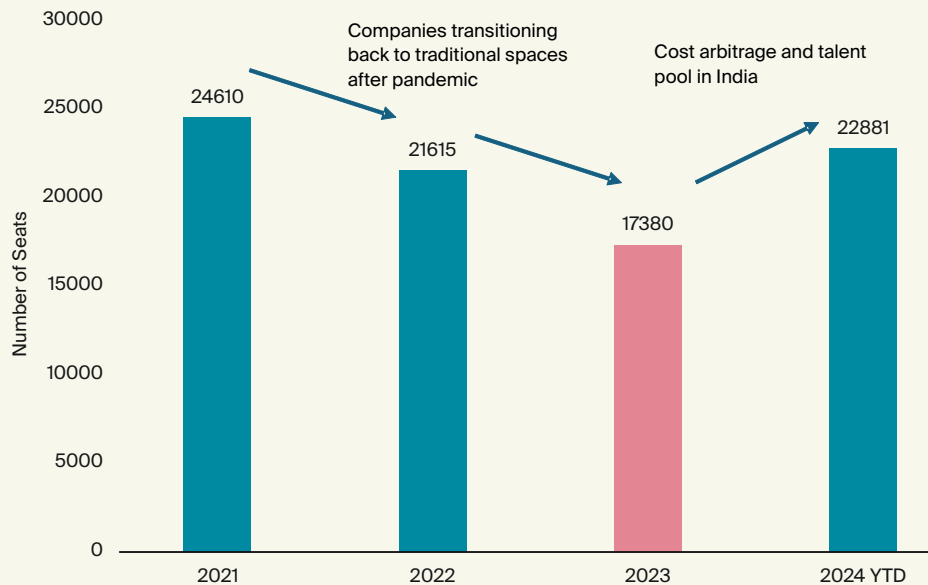
Flex Spaces Taken Up by GCCs in 2024 in Percentage Terms



Source: Knight Frank Research

A study of flex space occupancy by GCCs across India's eight major cities reveals that Bengaluru leads significantly, with 41% of GCC flex space utilization. This high percentage reflects Bengaluru's role as a dominant hub for tech and corporate innovation, driving substantial demand for flexible workspaces. In contrast, Kolkata has the lowest GCC flex space occupancy at just 1%, suggesting a limited presence of such centres in the city. This distribution underscores regional preferences and the concentration of GCCs in India's primary tech and business clusters, with Bengaluru at the forefront of flex space adoption.

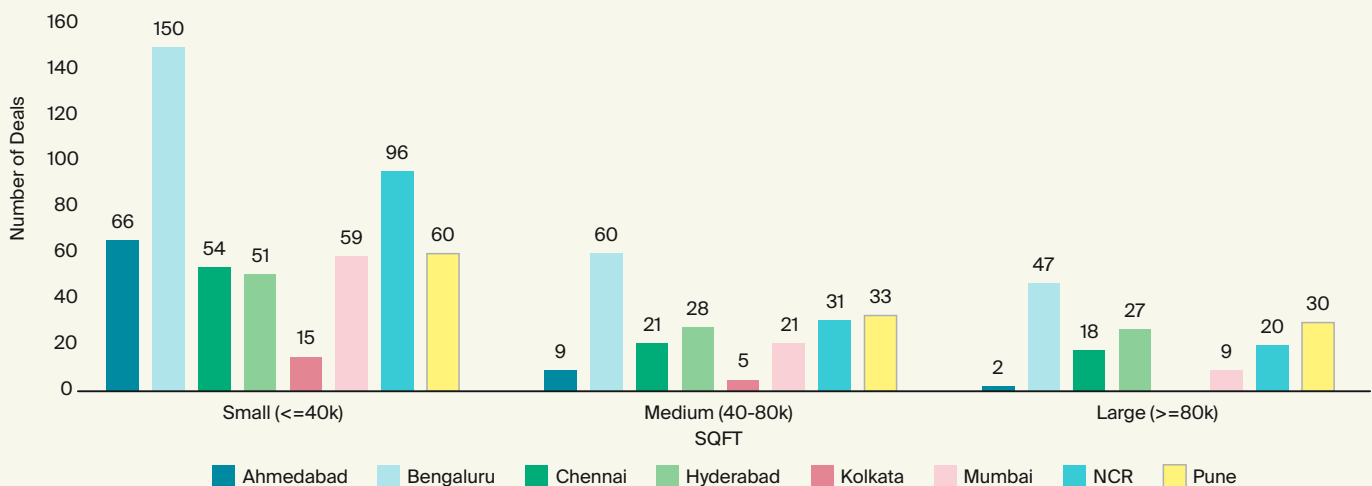
GCC Occupied Flex Seats – Year on Year



Source: Knight Frank Research

A YoY analysis of flex seat occupancy by GCCs shows a decline in flex space usage from the year 2021 to year 2023. This trend is largely due to companies returning to traditional office spaces as the immediate effects of the COVID-19 pandemic waned, leading to reduced reliance on flexible workspaces. However, a shift occurred in the year 2024, where data indicates a renewed increase in flex seat occupancy by GCCs. This uptick aligns with the slower economic growth in the US, prompting companies to leverage cost advantages and tap into India's extensive talent pool, driving demand for flexible office solutions. This reversal underscores India's cost-efficiency and talent as strategic factors influencing workspace choices among global companies.

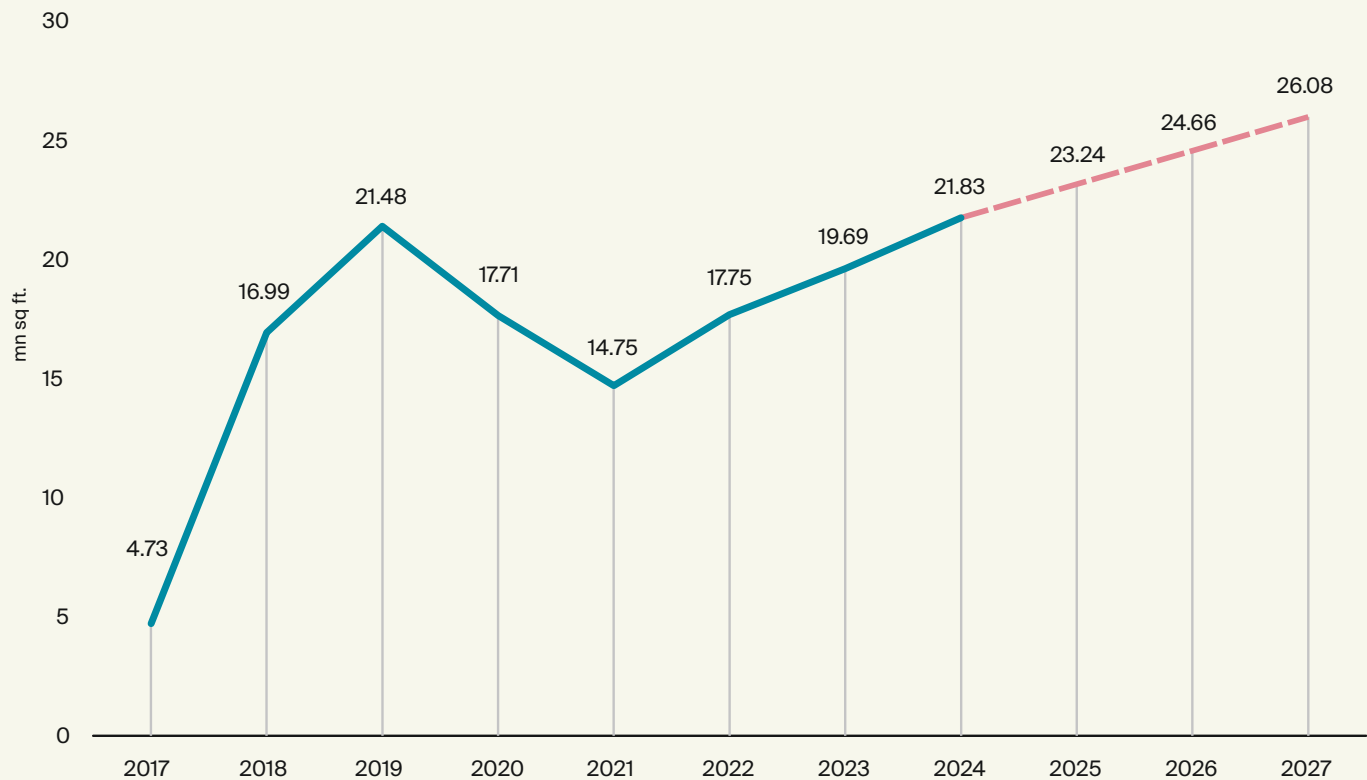
Flex Deals by Size across the eight major cities



Source: Knight Frank Research

An analysis of flex space deals across India's eight major cities from 2018 to Q3 2024 reveals that Bengaluru consistently leads in all deal size categories. For small-sized deals (under 40,000 sq ft), Bengaluru tops the list with 150 deals, followed by the NCR region with 96 deals. In the medium-sized segment (40,000 to 80,000 sq ft), Bengaluru leads again with 60 deals; Pune follows with 33 deals. Among large-sized deals (over 80,000 sq ft), Bengaluru remains the frontrunner with 47 deals, while Pune trails closely with 30 deals. This dominance by Bengaluru highlights its stronghold as a preferred location for flex space in India, across all deal sizes.

Future Outlook



Source: Knight Frank Research

The absorption of office space taken up by GCCs at a pan India level is estimated to reach around 26 mn sq ft by the year 2027 which itself will be a ground-breaking figure for the GCC market in India, as the global economy is in turmoil with tight monetary policies. India has a good support system with political stability, a healthy consumption based economy and a diligent regulatory system for the financial sector. With all these factors, GCCs continue to play a vital role for multinational companies as they transition to a value chain to help them become innovation hubs and centres of excellence.

One of the major drivers of the GCCs to reach an absorption of 26 mn sq ft is software exports which remains an important part of India's service exports with offshoring services seeing continued growth. Other important drivers for growth include a skilled workforce especially in the technology sector, expansion into Tier 2 cities as satellite centres, favourable government policies and improved infrastructure. Overall, a positive momentum in growth for GCCs in India is expected with all the economic, demographic and social factors favouring India.

Recommendations

The different drivers of growth for GCCs in India are not limited to BFSI or the technology sector but have expanded to other sectors including manufacturing. With the Government of India spending around 3.5% of the GDP on infrastructure, the growth in manufacturing sector is bound to happen in the coming years. Here are a few recommendations for the overall functioning and growth of GCCs in India.

Creative financing methods

GCCs in India should explore innovative financing strategies to optimize tax savings and reduce costs. One such effective approach is the lease renting model which helps the GCCs save on dividend tax as they would lease out everything needed to set up a GCC such as furniture and IT equipment from a third party provider.

Exploring new micro markets

GCCs in India should look for new micro locations within a city where they can get better connectivity with metro lines and other amenities required for a proper functioning of the GCC eco system in India.

Flexibility

GCCs should also look for more flexibility from the perspective of an office space so that they could make necessary changes and adjustments aligned with a rapidly evolving business environment.

Government policy

State governments in India should come up with their own GCC policies like the one released by Karnataka as it would give a road map for establishing new GCCs in different states of India.





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