

India Office, Q1 2015

# Overall absorption drops in the first quarter; new supply addition outstrips demand

 Rents Up  
9 Markets

 Rents Stable  
23 markets

 Demand (Y-O-Y)  
22%

 Supply (Y-O-Y)  
32%

## IMPROVED GROWTH PROSPECTS AS ECONOMIC MOMENTUM PICKS UP

While presenting its annual budget for 2015-16, Government of India highlighted that the country's economy was faring better place compared to the rest of the world. This was mainly attributed to reduced vulnerabilities concerning economic slowdown, inflation, slackening domestic demand and currency fluctuations. The budget estimated a GDP growth rate of 7.4% in 2014-15 (an increase over 6.9% in 2013-14). Banking upon macroeconomic stability, greater fiscal prudence, high employment generation and indigenous manufacturing, growth may touch 8.1-8.5% in 2015-16. This would make India the fastest growing major economy in the world, potentially even ahead of China.

Besides conveying improved economic sentiments, the annual budget also proposed growth reinvigorating measures; although only a few proposals were outlined for the real estate and construction sectors. The government provided an exemption of capital gains tax for sponsors transferring assets held in form of units to a Real Estate Investment Trust (REIT) upon listing; and also provided exemption on rental income from assets directly owned by the REIT.

Infrastructure also received a major thrust in the budget, with the government announcing increased investments and setting up of tax-free infrastructure bonds to finance its plans through a national fund. The government also announced

an intention to build 60 million new houses towards the 'Housing for all by 2022' initiative, and implement the much awaited Goods and Services Tax (GST).

Improved growth prospects and a balanced budget were further induced by the Central Bank easing key policy rates by 50 basis points in the first quarter—the first such rate cut in almost two years. Significant easing of inflationary pressures along with positive developments in the domestic economy gave the bank enough headroom to unveil growth-stimulating measures. In the context of improving economic growth and positive consumer confidence, further rate cuts anticipated during 2015 are expected to enable recovery, and strengthen the growth prospects of India's real estate market in 2015 and beyond.

## DECLINE IN QUARTERLY ABSORPTION; RISING CASES OF OCCUPIERS COMMITTING SPACE IN UNDER-CONSTRUCTION PROJECTS

After a particularly strong fourth quarter of 2014, the first quarter of 2015 reported subdued activity in the office market across various cities. This was largely because most corporate occupiers were still strategizing their plans for the year, with only few transaction decisions implemented in the first quarter. Occupiers were also faced with reduced vacancy levels in established micro-markets; which resulted in increased instances of occupiers committing space in under-construction projects that are nearing completion—largely led by Gurgaon and

Bangalore, which observed pre-commitments of more than a million square feet each.

The quarter under review observed an overall absorption of nearly 5 million sq. ft. of office space³ a drop of more than 50% q-o-q. Mumbai led transaction activity with a share of 26%, followed by Delhi National Capital Region (NCR) (20%), and Bangalore and Pune with a share of around 18% each. Occupier interest remained focused on dominant micro-markets, such as Gurgaon in Delhi NCR; Thane, Navi Mumbai, Powai, Vikhroli and Andheri in Mumbai; Outer Ring Road and Whitefield in Bangalore; Madhapur and Uppal in Hyderabad; and Hinjewadi and Kharadi in Pune.

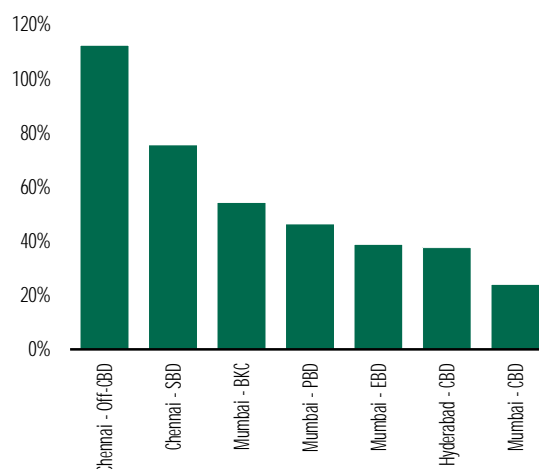
#### DEMAND DRIVERS – SEGMENTS, TRANSACTION SIZES AND INDUSTRY SECTORS

Almost 41% of the transaction activity recorded in the first quarter was concentrated in IT developments. Prominent SEZ projects located in Gurgaon, Bangalore and Pune also witnessed considerable traction, and accounted for a share of around 23% of total transactions in the quarter. Majority of this space was leased by corporate occupiers either for their back-end or for a combination of back-end and front-end operations.

Of the total number of deals concluded during this review period, large-sized transactions (above 90,000 sq. ft. ) accounted for only around 4% of the total deal closures; while transactions in the range of 10,000-30,000 sq. ft. contributed around 30%. Bangalore Mumbai and Pune witnessed demand for larger format office spaces (above 100,000 sq. ft.).

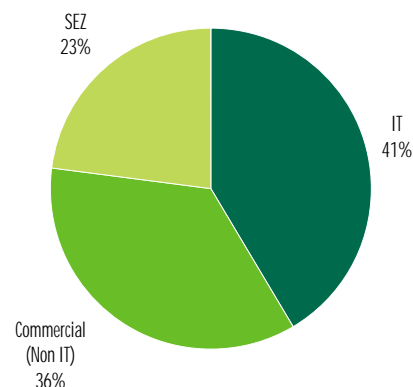
Among sectors driving office demand, information technology, banking / financial services and engineering firms were the leaders³ together contributing to a share of around 44% of the total leased space during Q1 2015. Other prominent sectors included consulting and research, pharmaceuticals, media, and infrastructure and real estate, among

Chart 1: Growth in Transaction Activity in Prominent Micro-markets (Q-o-Q)



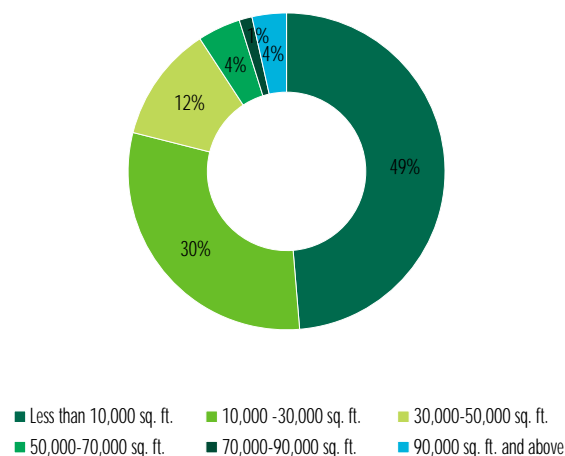
Source: CBRE Research, Q1 2015.

Chart 2: Segment Wise Split of Transaction Activity



Source: CBRE Research, Q1 2015.

Chart 3: Segmentation of Transaction Activity as per Transaction Size



Source: CBRE Research, Q1 2015.

others. Furthermore, the e-commerce segment accounted for a share of about 7% to the total transaction activity, with Mumbai, Bangalore and Gurgaon being the prominent hubs attracting enhanced activity levels by online retailers such as Amazon, Flipkart, Snapdeal, Housing.com and Pepperfry.

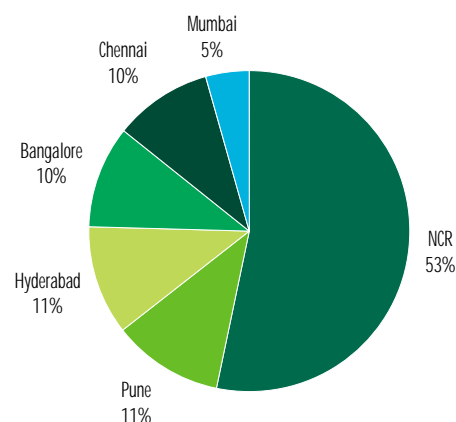
#### **PENT UP SUPPLY RELEASED IN NCR; DEVELOPMENT COMPLETIONS OUTSTRIP DEMAND**

In line with trends observed during the second half of 2014, the January-March period this year witnessed completion of numerous large-sized office projects across Delhi NCR, Mumbai, Bangalore, Hyderabad, and Pune. Overall supply addition continued to remain strong as more than 8 million sq. ft. of new office space was completed in the present quarter, an increase of around 4% on a q-o-q basis and around 32% on a y-o-y basis. Commercial (non-IT) projects accounted for more than half of the supply that came on-stream in Q1 2015. New phases of existing SEZ projects were also completed in Gurgaon.

Delhi NCR led project completions, contributing to around 53% of the total supply released during the quarter. The pent up supply accumulated over the past few months was released in Aerocity and in Okhla Industrial Area in Delhi, as well as in the peripheral micro-markets of Gurgaon and Noida. Other cities such as Bangalore, Hyderabad, Pune and Chennai also reported many completions, although the slippage rate in these cities was relatively much higher compared to Delhi NCR, with completion of numerous office projects delayed to subsequent quarters.

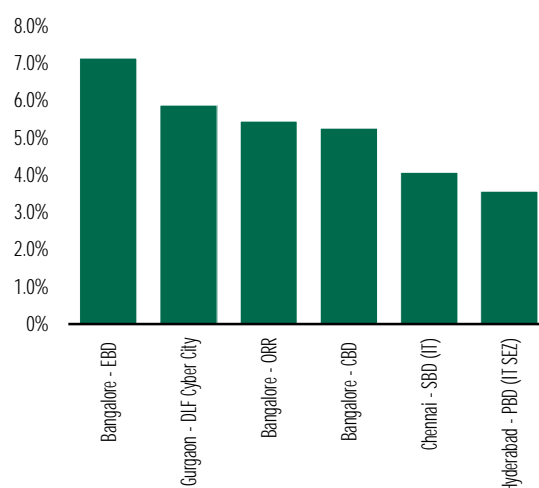
Most of the new supply released during the quarter was concentrated in locations such as Hosur Road, Outer Ring Road (ORR) and Sarjapur Road in Bangalore; IT Corridor in Hyderabad; Baner, Viman Nagar, Kharadi, and Pimpri in Pune; and Perungudi in Chennai. A subdued off-take of office space amid significant addition of new supply led to an increase of more than 200 bps q-o-q in vacancy levels in Delhi NCR; even

**Chart 4: City Wise Split of New Supply**



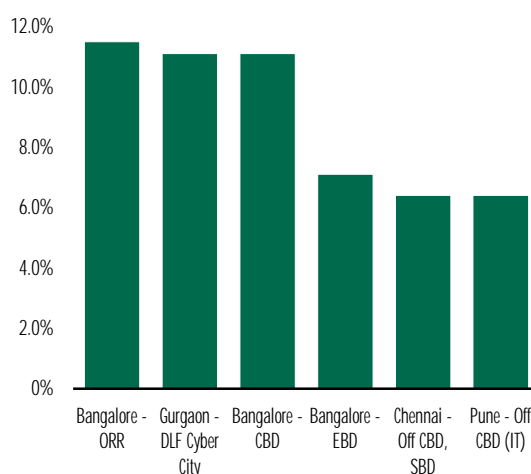
Source: CBRE Research, Q1 2015.

**Chart 5: Strongest Office Rental Growth, Q-o-Q**



Source: CBRE Research, Q1 2015.

**Chart 6: Strongest Office Rental Growth, Q1 2015 Vs Q1 2014**



Source: CBRE Research, Q1 2015.

as vacancy levels inched downwards in both Mumbai and Bangalore.

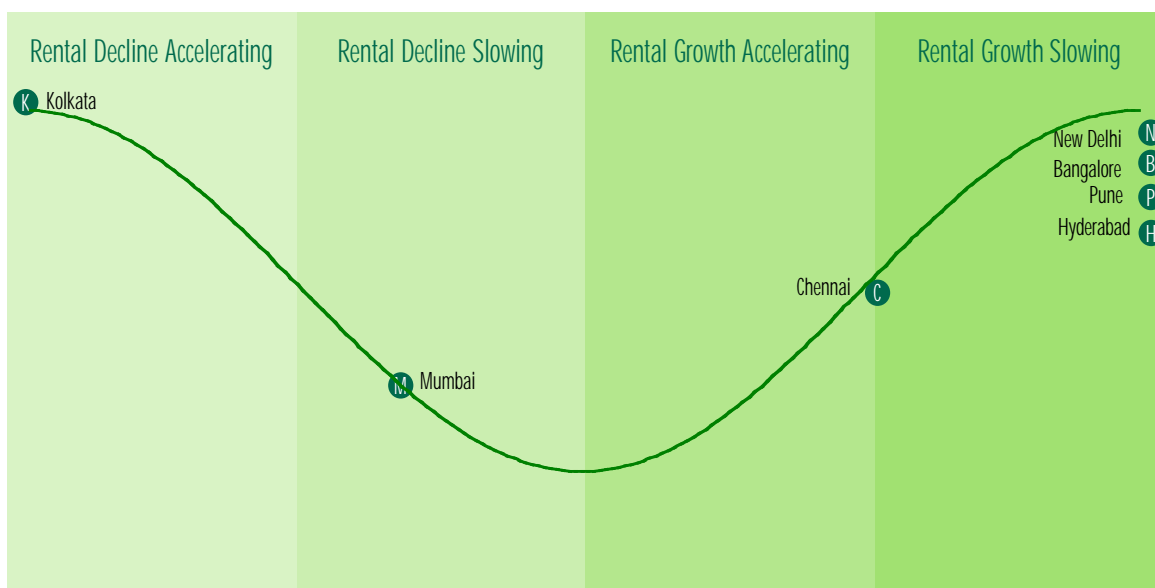
#### SELECT PREMIUM MARKETS CONTINUED TO REGISTER RENTAL GROWTH

Rental values were largely stable across most centralized office locations, with the exception of Bangalore where they appreciated by 5-6% q-o-q in the core locations of MG Road and Residency

Road because of strong occupier demand.

Furthermore, sustained occupier interest in IT and IT SEZ projects in DLF Cybercity in Gurgaon; Outer Ring Road (ORR) in Bangalore; Guindy, Velacherry, Perungudi, Mount Ponnammalle Road and Taramani in Chennai; Aundh Baner, Viman Nagar, Hinjewadi and Kharadi in Pune, resulted in a q-o-q rental appreciation of 5-6% in each of these micro-markets.

Chart 7: India Office Rental Cycle, Q1 2015



\*The rental cycle is intended to display the trend in prominent Grade A buildings in leading micro-markets of the city.

Source: CBRE Research, Q1 2015.

## MARKET SUMMARY

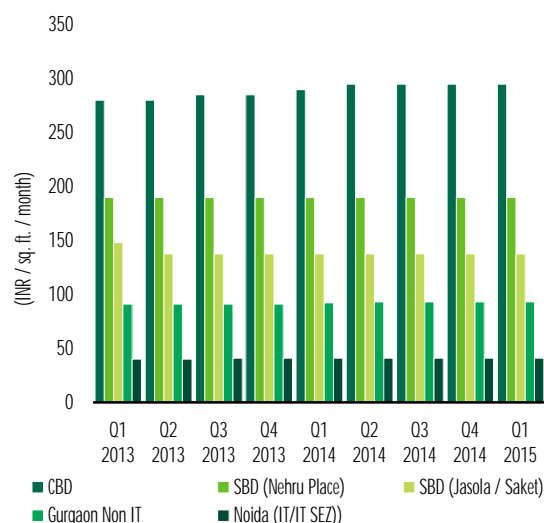
- Gurgaon dominated transaction activity in Delhi NCR with a share of 68%
- Development completions surged by around 70% q-o-q, as significant pent up supply was released in Q1
- Rents continue to inch upwards in DLF Cybercity

The first quarter of 2015 was a rather slow start for the **Central Business District (CBD)** of **Connaught Place**. Devoid of any fresh supply infusion, the central hub witnessed few small format transactions in developments such as DLF Centre, World Trade Tower and PTI Building. Sectors driving demand included banking / financial services and media. Rental values continued to remain stable across developments in the quarter.

Transaction activity witnessed a steep decline in the **Secondary Business District (SBD)** of **Nehru Place**, **Saket** and **Jasola**. Majority of transaction closures were for small-sized spaces, and were largely concentrated in locations such as Saket, Shivaji Marg and Aerocity. Prominent transactions included Rusta leasing around 3,600 sq. ft. in Rectangle One, Saket; Safe Net leasing around 2,900 sq. ft. in DLF Tower, Shivaji Marg; and Bombardier leasing around 3,400 sq. ft. in Aerocity. On the supply front, three commercial projects were completed in Aerocity and Okhla; contributing nearly 20% to the overall development completions reported in the entire region. Vacancy rates increased marginally q-o-q; while rental values remained stable during the quarter.

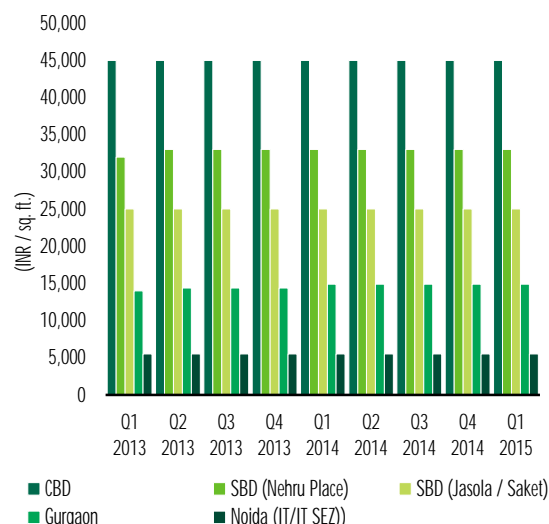
After a robust fourth quarter of 2014, the peripheral region of **Gurgaon** saw corporate occupiers strategizing their plans for the coming few months and being cautious while committing to space during the review period. Consequently, despite a particularly strong supply infusion reported in the peripheral locations of the city, transaction activity slowed

Chart 8: Rental Value Movement



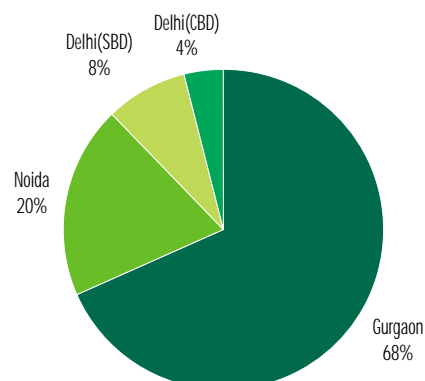
Source: CBRE Research, Q1 2015.

Chart 9: Capital Value Movement



Source: CBRE Research, Q1 2015.

Chart 10: Segmentation of Transaction Activity



Source: CBRE Research, Q1 2015.

down by more than 30% on a quarterly basis. Space take-up was majorly concentrated in IT and SEZ developments, even as occupier focus remained firmly on leasing small to medium format office spaces (2,500- 30,000 sq. ft.). Prominent sectors driving demand included IT/ITeS, manufacturing and engineering, banking / financial services and e-commerce, among others. Prominent transactions included Corporatedge leasing around 13,000 sq. ft. at DLF Building 5, DLF Cybercity and V Square Development Company leasing around 7,100 sq. ft. at JMD Megapolis IT Park, Sohna Road.

On the supply front, the commercial segment gained traction with close to a million square feet of development completions reported on NH-8, Golf Course Extension Road and Sector 83. Additionally, new phases of prominent IT SEZ

projects were completed in locations such as Gwalpahari and Sohna Road. Restrained demand coupled with a robust supply addition led to a strong increase in vacancy levels, albeit, mostly in the peripheral locations of the city. Rental values were mostly stable during the review period. An exception was DLF Cybercity, which witnessed a rental appreciation of around 2-3% in select IT developments owing to strong occupier interest and low vacancy levels.

Transaction activity in Noida witnessed a marginal decline on a quarterly basis, with demand being driven mostly towards IT/SEZ space. New projects were completed along the Noida- Greater Noida Expressway, in both IT and commercial segments, resulting in increased vacancy levels. Similar to earlier quarters, rental values remained largely stable across most prominent office locations of Noida.

Table 1: Selected Leasing Transactions

| Property             | District  | Size (in sq. ft.) | Tenant          |
|----------------------|-----------|-------------------|-----------------|
| Rectangle One, Saket | New Delhi | 3,600             | Rusta           |
| DLF Plaza Tower      | Gurgaon   | 7,400             | British Airways |
| Vipul Trade Centre   | Gurgaon   | 3,500             | USG Boral       |
| Vatika Business Park | Gurgaon   | 10,000            | Praxis          |

Source: CBRE Research, Q1 2015.

Table 2: Sub-market Key Stats

| Micro-market                           | Average Rent in Q1 2015 (INR/sq. ft. / month) | Average Rent in Q4 2014 (INR/sq. ft. / month) | Q-o-Q change (%) | Y-o-Y Change (%) |
|--|---|---|------------------|------------------|
| CBD (Connaught Place) Grade A          | 295   | 295   | 0.0              | 1.7              |
| CBD (Connaught Place) Grade B          | 160   | 160   | 0.0              | 0.0              |
| Secondary Market (Nehru Place) Grade A | 190   | 190   | 0.0              | 0.0              |
| Secondary Market (Jasola) Grade A      | 115   | 115   | 0.0              | 0.0              |
| Secondary Market (Saket) Grade A       | 160   | 160   | 0.0              | 0.0              |
| Gurgaon Grade A (Non IT)               | 93  | 93  | 0.0              | 0.8              |
| Gurgaon Grade A (IT)                   | 70  | 68  | 2.4              | 4.5              |
| NOIDA Grade A (IT/IT SEZ)              | 41  | 41  | 0.0              | 0.0              |

Source: CBRE Research, Q1 2015.

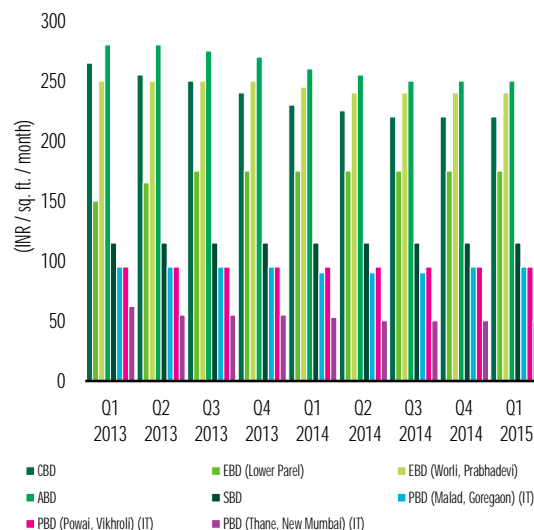
**MARKET SUMMARY**

- Office space absorption records around 44% increase q-o-q
- E-commerce companies leased approximately 15% of the total transacted space
- Rental values continue to remain pressurized across most micro-markets

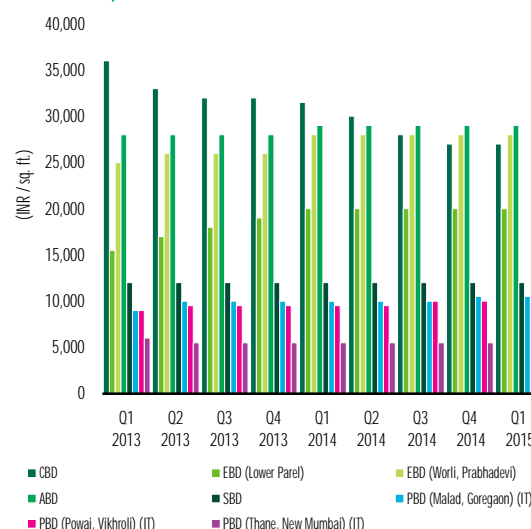
The **Central Business District (CBD)** of **Nariman Point, Fort and Cuffe Parade** witnessed a marginal increase in demand for small to medium sized office spaces from corporate occupiers in the banking / financial services and engineering / manufacturing sectors. Prominent transactions included Taj Hotels leasing around 32,000 sq. ft. in Express Towers and DBS Bank committing around 12,000 sq. ft. in Fort House. In line with the trend observed over the past three quarters, rental values were mostly stable, albeit, witnessing marginal pressures.

Commercial leasing activity picked up in the **Extended Business District (EBD)** of **Lower Parel** with increased occupier interest from corporates, from sectors such as banking / financial services and media, that were keen on exploring cost-effective office space in the micro-market. On the supply side, an IT development was completed, which did not have a significant impact on vacancy levels. Rental values in this micro-market remained largely stable over the previous quarter. On the other hand, space take-up in **Worli** and **Prabhadevi** remained low. Owing to negligible demand levels and no supply addition, vacancy and rental values maintained stability during the review period.

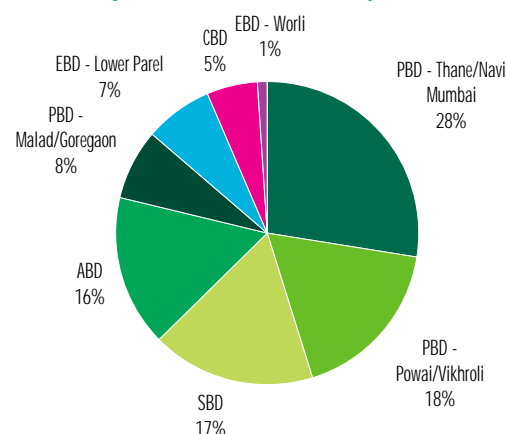
Transaction activity remained upbeat in the **Alternative Business District (ABD)** of **Bandra Kurla Complex** and **Kurla (W)** with closure of a few small to mid-size transactions, largely from corporates in the financial, media and engineering sectors. Healthy absorption levels led to a marginal decline in vacancy rates, estimated to be in the range of 20-21% by the end of the quarter. Supply addition remained

**Chart 11: Rental Value Movement**


Source: CBRE Research, Q1 2015.

**Chart 12: Capital Value Movement**


Source: CBRE Research, Q1 2015.

**Chart 13: Segmentation of Transaction Activity**


Source: CBRE Research, Q1 2015.



muted and rental values maintained stability during the review period.

The **Secondary Business District (SBD)** of **Andheri, Vile Parle and Jogeshwari** observed healthy demand-supply dynamics. This region witnessed an increase in transaction activity for small to medium sized office spaces led by pharmaceutical, media and financial sector firms. Furthermore, pre-commitment activity was observed in a non IT development at Andheri. In terms of supply, significant quantum of office space was released with the completion of two commercial projects – Balaji Business Park and 215 Atrium - Phase II at Andheri. Rental values continued to remain stable.

The **peripheral** micro-markets continued to remain the preferred locations of corporate occupiers looking for medium to large-format spaces to implement their consolidation or expansion plans. The micro-markets of **Thane, Navi Mumbai, Powai, Vikhroli, Malad and Goregaon** observed strong demand for IT space and accounted for more than 50% of the total space transacted during the quarter. Demand was largely driven by corporates from sectors such as e-commerce, IT/ITeS and pharmaceuticals. Supply addition remained muted, while vacancy rates declined marginally on the back of strong occupier demand. Rental values remained stable across all locations during Q1 2015.

Table 3: Selected Leasing Transactions

| Property              | District    | Size (In sq. ft.) | Tenant             |
|-----------------------|-------------|-------------------|--------------------|
| Winchester            | PBD - Powai | 120,000           | Housing.com        |
| Supreme Business Park | PBD - Powai | 25,000            | IMS Health         |
| Express Towers        | CBD         | 6,200             | Thai Consulate     |
| The Capital           | ABD         | 4,000             | Max Life Insurance |

Source: CBRE Research, Q1 2015.

Table 4: Sub market Key Stats

| Micro-market                                    | Average Rent in Q1 2015 (INR/sq. ft. / month) | Average Rent in Q4 2014 (INR/sq. ft. / month) | Q-o-Q change (%) | Y-o-Y Change (%) |
|---|---|---|------------------|------------------|
| CBD (Nariman Point, Fort, Cuffe Parade) Grade A | 220   | 220   | 0.0              | -4.3             |
| CBD (Nariman Point, Fort, Cuffe Parade) Grade B | 170   | 170   | 0.0              | -2.9             |
| EBD (Lower Parel) Grade A                       | 175   | 175   | 0.0              | 0.0              |
| EBD (Worli, Prabhadevi) Grade A                 | 240   | 240   | 0.0              | -2.0             |
| ABD (Bandra Kurla Complex, Kalina) Grade A      | 250   | 250   | 0.0              | -3.8             |
| ABD (Bandra Kurla Complex, Kalina) Grade B      | 195   | 195   | 0.0              | -2.5             |
| SBD (Andheri, Vile Parle, Jogeshwari) Grade A   | 115   | 115   | 0.0              | 0.0              |
| SBD (Andheri, Vile Parle, Jogeshwari) Grade B   | 80  | 80  | 0.0              | -5.9             |
| PBD (Malad, Goregaon) Grade A (IT)              | 95  | 90  | 0.0              | 5.6              |
| PBD (Powai, Vikhroli) Grade A (IT)              | 95  | 95  | 0.0              | 0.0              |
| PBD (Thane, New Mumbai) Grade A (IT/IT SEZ)     | 50  | 50  | 0.0              | 0.0              |

Source: CBRE Research, Q1 2015.



# MARKET SUMMARY

- Outer Ring Road (ORR) continued to lead office leasing activity with around 43% share
- Significant pre-commitment reported from e-retailers and IT majors
- Steady occupier enquiries resulted in rental appreciation (5-8%) in CBD, ORR and EBD.

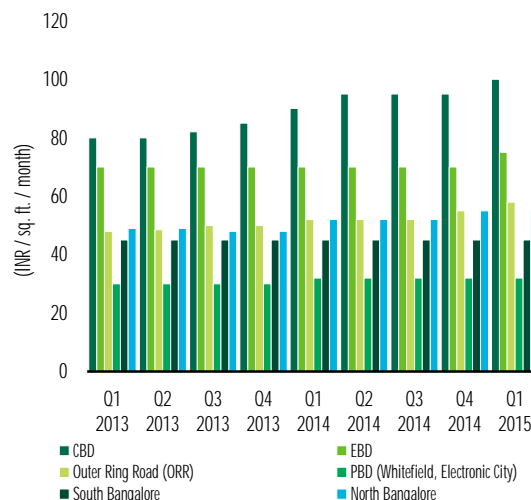
Commercial leasing activity in the **Central Business District (CBD)** of **MG Road, Richmond Road, Residency Road** and **Lavelle Road** remained low; transaction closures were confined to the take up of smaller format office spaces during the quarter. Sustained occupier demand and lack of quality office space options contributed towards a rental appreciation of about 5-6% on a quarterly basis.

The **Extended Business District (EBD)** of **Indira Nagar, Koramangala, Old Madras Road** and **CV Raman Nagar** witnessed a decline in transaction activity owing to lack of quality office space. However, lower vacancy levels and sustained occupier demand in select commercial developments contributed to a rental appreciation of 7-8% on a q-o-q basis.

After witnessing an improvement in leasing sentiments in the second half of 2014, the **Peripheral Business District (PBD)** of **Whitefield** and **Electronic City** observed a slowdown in transaction activity in the first quarter. This region saw the closure of a few large-sized transactions by corporates such as Exxon Mobil committing around 150,000 sq. ft. in Prestige Shantiniketan, while Tech Mahindra committed around 140,000 sq. ft. in Goldhill Supreme. On the supply front, this micro-market witnessed the completion of a single commercial development on Sarjapur Road. Despite a decline in demand, sustained occupier interest ensured rental values to maintain stability on a quarterly basis.

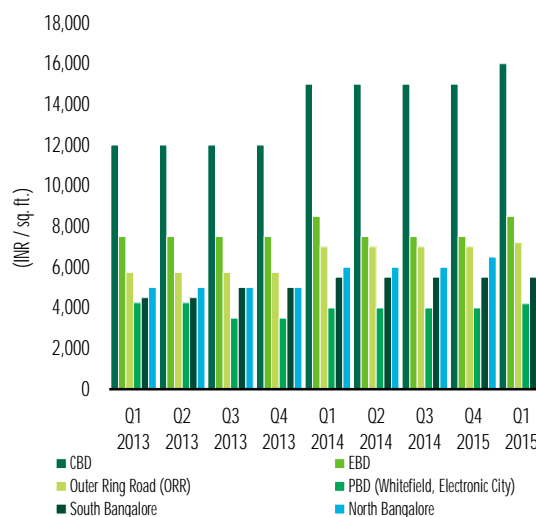
The **Sarjapur-Outer Ring Road (ORR)** continued to witness significant interest from IT/ITeS occupiers during the review period. Although

Chart 14: Rental Value Movement



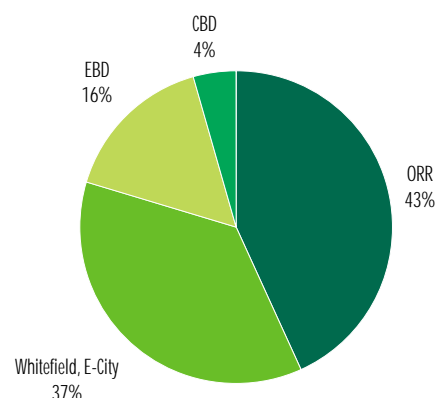
Source: CBRE Research, Q1 2015.

Chart 15: Capital Value Movement



Source: CBRE Research, Q1 2015.

Chart 16: Segmentation of Transaction Activity



Source: CBRE Research, Q1 2015.

leasing activity within completed developments witnessed a steep decline in the present quarter, a significant quantum of pre-commitment activity was observed within some of the prominent under construction developments such as Prestige Tech Platina, Salarpuria Hallmark, Mapletree - Global Technology Park and Bagmane Constellation. Large-sized pre-commitment activity (above 100,000 sq. ft.) was observed by corporates such as Amazon, Walmart and Vodafone, among others.

On the supply front, this micro-market witnessed the completion of a single commercial development. Sustained occupier interest led to a rental appreciation of 5-6% over Q4 2014, in the non-IT/ITeS segment, while the SEZ segment witnessed appreciation of 3-4% on a q-o-q basis.

Office leasing activity in **South Bangalore** remained dormant in the first quarter. The micro-market witnessed the completion of a single commercial development on Hosur Road, which is expected to trigger revival in leasing activity in the coming months. Rental values continued to remain stable.

Compared to the previous review period, **North Bangalore** witnessed sluggish transaction activity in the present quarter. However, pre-commitment activity was observed in prominent developments such as Karle Town Centre and certain under-construction blocks within Manyata Tech Park at Nagwara, which are nearing completion. Continued occupier interest in the area led to stability in rental values on a quarterly basis.

Table 5: Selected Leasing Transactions

| Property               | District | Size (in sq. ft.) | Tenant                          |
|------------------------|----------|-------------------|---------------------------------|
| Prestige Shantiniketan | PBD      | 150,000           | Exxon Mobil India               |
| Goldhill Supreme       | PBD      | 140,000           | Tech Mahindra Business Services |
| RMZ EcoWorld           | ORR      | 100,000           | RBS Business Services           |
| Bagmane Tech Park      | EBD      | 45,000            | Talisma Corporation             |
| Gopalan Global Axis    | PBD      | 30,000            | Aditya Birla Minacs             |

Source: CBRE Research, Q1 2015.

Table 6: Sub-market Key Stats

| Micro-market                              | Average Rent in Q1 2015 (INR/sq. ft. / month) | Average Rent in Q4 2014 (INR/sq. ft. / month) | Q-o-Q change (%) | Y-o-Y Change (%) |
|---|---|---|------------------|------------------|
| CBD (MG Road, Residency Road) Grade A     | 100   | 95  | 5.3              | 11.1             |
| CBD (MG Road, Residency Road) Grade B     | 75  | 73  | 2.7              | 7.1              |
| EBD (Koramangala, Indira Nagar) Grade A   | 75  | 70  | 7.1              | 7.1              |
| EBD (Koramangala, Indira Nagar) Grade B   | 60  | 60  | 0.0              | 0.0              |
| Outer Ring Road Grade A                   | 58  | 55  | 5.5              | 11.5             |
| PBD (Whitefield, Electronic City) Grade A | 32  | 32  | 0.0              | 0.0              |
| South Bangalore Grade A                   | 45  | 45  | 0.0              | 0.0              |
| North Bangalore Grade A                   | 55  | 55  | 0.0              | 5.8              |

Source: CBRE Research, Q1 2015.

## MARKET SUMMARY

- IT corridor constituted more than 50% of total space take up
- SEZ developments dominated transaction activity with 75% share
- IT/ITeS sector remained the major contributor to overall office demand

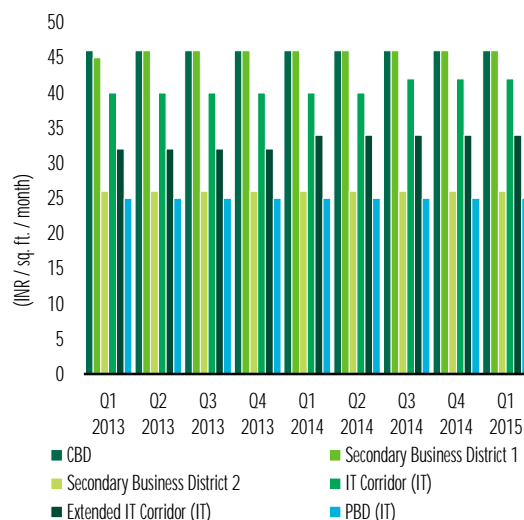
The **Central Business District (CBD)** encompassing areas of **Begumpet, Punjagutta, Somajiguda** and parts of **Banjara Hills** witnessed a marginal increase in space take up with the closure of few smaller format office transactions. Limited demand coupled with negligible supply addition led to stable rentals in this micro-market.

The **Secondary Business District (SBD)** of **Ameerpet, Himayathnagar, parts of Banjara Hills** and **Jubilee Hills** continued to experience a lack of demand for office space, with negligible transaction activity during the quarter. While no fresh supply was added, rental values remained at the same level as the previous quarter.

After a strong performance in the last quarter, the **IT Corridor of Madhapur, Kondapur, HITEC City** and **Gachibowli** witnessed a decline in office space take-up in the first three months of the year. Locations such as Madhapur and Gachibowli witnessed significant interest from IT majors; however transaction closures remained low during the review period. On the supply front, this region witnessed completion of an IT and SEZ development in the Kondapur and Raidurg areas. Owing to subdued demand and substantial supply availability, rental values across segments remained largely stable during this review period.

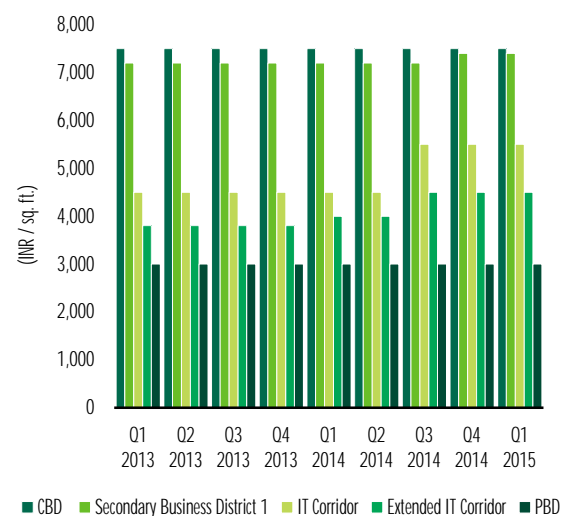
The **Extended IT Corridor of Nanakramguda** and **Manikonda** witnessed enhanced level of corporate enquiries for large scale consolidation and expansion requirements; however, no significant transaction closures were recorded during the quarter. Leasing activity remained

Chart 17: Rental Value Movement



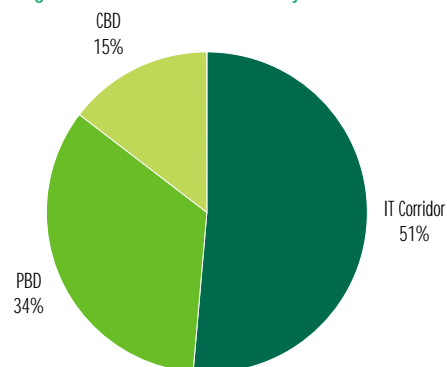
Source: CBRE Research, Q1 2015.

Chart 18: Capital Value Movement



Source: CBRE Research, Q1 2015.

Chart 19: Segmentation of Transaction Activity



Source: CBRE Research, Q1 2015.

largely stagnant and inactive due to accessibility issues. Going forward, this region is expected to witness significant occupier demand owing to quality office space options with larger floor plates and competitive rental values. Rental values in both IT and non IT segments remained stable during Q1 2015. An emerging trend witnessed in this micro- market has been the purchase of large office spaces by both end users and investors. Corporates in the IT/ITeS sectors are among the lead commercial office space

buyers resulting in capital appreciation of 10-11% on a quarterly basis.

The **peripheral** region of **Shamshabad, Uppal** and **Pocharam** witnessed an uptick in demand with few transaction closures witnessed in an SEZ development in Uppal, where an IT and a healthcare firm committed space during the quarter. Owing to strong occupier demand, rental values in the select SEZ developments appreciated by 3-4% on a q-o-q basis.

Table 7: Selected Leasing Transactions

| Property     | District    | Size (in sq. ft.) | Tenant     |
|--------------|-------------|-------------------|------------|
| NSL Arena    | PBD         | 33,000            | Inventurus |
| Avance HO6   | IT Corridor | 19,800            | ThinCi     |
| GOC building | CBD         | 10,000            | SPCL       |
| Vaibhav      | CBD         | 2,500             | Tinyowl    |

Source: CBRE Research, Q1 2015.

Table 8: Sub-market Key Stats

| Micro-market   | Average Rent in Q1 2015 (INR/sq. ft. / month) | Average Rent in Q4 2014 (INR/sq. ft. / month) | Q-o-Q change (%) | Y-o-Y Change (%) |
|--|---|---|------------------|------------------|
| CBD (Begumpet/Rajbhavan Road, Banjara Hills (Road No. 1,2,10,12))                    | 46  | 46  | 0.0              | 0.0              |
| Secondary Business District 1 (Parts of Banjara Hills, Jubilee Hills)                | 46  | 46  | 0.0              | 0.0              |
| Secondary Business District 2 (Ameerpet, Himayath Nagar, Sarojini Devi Road)         | 26  | 26  | 0.0              | 0.0              |
| IT Corridor (HITEC City, Madhapur, Kondapur, Gachibowli) Grade A (IT)                | 42  | 42  | 0.0              | 5.0              |
| IT Corridor (HITEC City, Madhapur, Kondapur, Gachibowli) Grade A (IT SEZ)            | 43  | 43  | 0.0              | 4.9              |
| Extended IT Corridor (Nanakramguda, Raidurg, Manikonda, Kukatpally) Grade A (IT)     | 34  | 34  | 0.0              | 0.0              |
| Extended IT Corridor (Nanakramguda, Raidurg, Manikonda, Kukatpally) Grade A (IT SEZ) | 40  | 40  | 0.0              | 0.0              |
| PBD (Shamshabad, Pocharam, Uppal) Grade A (IT)                                       | 25  | 25  | 0.0              | 0.0              |
| PBD (Shamshabad, Pocharam, Uppal) Grade A (IT SEZ)                                   | 29  | 28  | 3.6              | 3.6              |

Source: CBRE Research, Q1 2015.

# MARKET SUMMARY

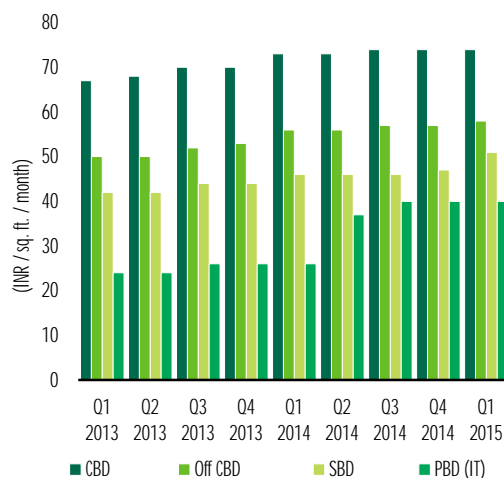
- Transaction activity picked up by around 60% on a q-o-q basis
- Off CBD micro-markets led transaction activity with a share of about 42%
- Rents in IT developments in Off CBD / SBD micro-markets witnessed a marginal increase

The **Central Business District (CBD)** of **Anna Salai, T Nagar, RK Salai, Alwarpet and Nungambakkam** slight increase in transaction activity with sustained demand from small and mid-size corporates exploring second generation space options, offering relatively lower rentals. Vacancy levels declined marginally while rental values maintained stability during the quarter.

Owing to close proximity to the city center, locations such as **Taramani** and **Guindy** in **Off/non-CBD** continued to remain the preferred micro-markets for office space leasing, predominantly for IT/ITeS firms. However, due to low availability of quality office space, few corporate occupiers also focused on exploring office projects in the suburban micro-markets. Owing to strong occupier demand, vacancy levels remained negligible; while rental values in prominent IT developments appreciated by 3- 4% over Q4 2014.

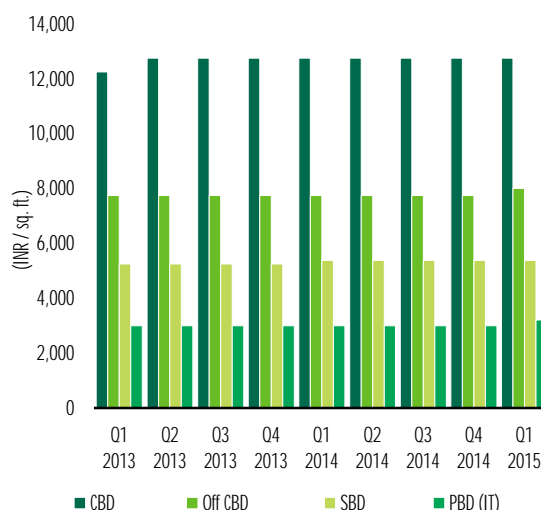
In terms of leasing activity, the **suburban** micro-markets of **Rajiv Gandhi Salai** (also known as Old Mahabalipuram Road (OMR) or IT Corridor), **Perungudi** and **Mount Poonamallee Road** remained active and accounted for around 37% of the total space leased in the city during the quarter. These micro-markets have been witnessing strong interest from corporate occupiers owing to lower rentals, good connectivity and better quality office space options with larger floor plates. On the supply front, Perungudi witnessed the completion of a large-sized IT development during the review period. Owing to increased occupier interest, rentals of select IT developments appreciated in the range of 4- 5% over the previous quarter.

Chart 20: Rental Value Movement



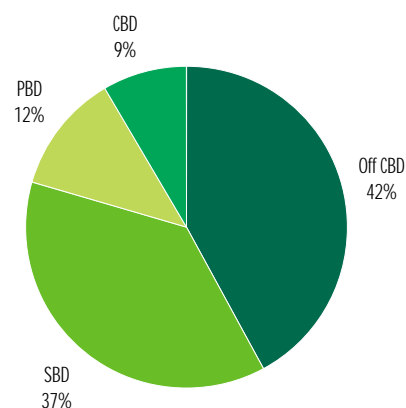
Source: CBRE Research, Q1 2015.

Chart 21: Capital Value Movement



Source: CBRE Research, Q1 2015.

Chart 22: Segmentation of Transaction Activity



Source: CBRE Research, Q1 2015.

Space absorption in the **Peripheral Business District (PBD) of Perungalathur, Sholinganallur, Siruseri, Ambattur and GST Road** remained largely subdued during the review period with take up of medium-sized spaces in prominent technology parks in

Ambattur. The entire supply lined up for completion in Q1 2015 was pushed back further into the year, largely because of construction delays amid low occupier interest. Vacancy levels remained generally high in the office developments in the peripheral micro-markets of Ambattur, GST Road and Sholinganallur.

Table 9: Selected Leasing Transactions

| Property         | District | Size (In sq. ft.) | Tenant                     |
|------------------|----------|-------------------|----------------------------|
| DLF IT SEZ       | SBD      | 70,000            | Plintron                   |
| Kochar IT Park   | PBD      | 25,000            | Access Healthcare Services |
| Sabari Sunnyside | CBD      | 12,500            | Bilfinger India            |
| Olympia Platina  | Off CBD  | 12,200            | Ramboll India              |

Source: CBRE Research, Q1 2015.

Table 10: Sub-market Key Stats

| Micro-market  | Average Rent in Q1 2015 (INR / sq. ft. / month) | Average Rent in Q4 2014 (INR / sq. ft. / month) | Q-o-Q change (%) | Y-o-Y Change (%) |
|---|---|---|------------------|------------------|
| CBD (Anna Salai, Nungambakkam, RK Salai, T Nagar, Egmore, Alwarpet) Grade A                         | 74  | 74  | 0.0              | 2.1              |
| Off CBD (Guindy, Kiplauk, Taramani, Adyar, Anna Nagar) Grade A (Non IT/IT)                          | 58  | 57  | 2.6              | 6.4              |
| Suburban Business District (Velachery, Perungudi, Mount Poonamallee Road) Grade A (Non IT)          | 44  | 44  | 0.0              | 0.0              |
| Suburban Business District (Velachery, Perungudi, Mount Poonamallee Road) Grade A (IT)              | 51  | 49  | 4.1              | 6.3              |
| Suburban Business District (Velachery, Perungudi, Mount Poonamallee Road) Grade A (IT SEZ)          | 60  | 60  | 0.0              | 15.4             |
| Peripheral Business District (Perungalathur, Sholinganallur, Siruseri, Ambattur, GST Road) (IT)     | 27  | 27  | 0.0              | 3.4              |
| Peripheral Business District (Perungalathur, Sholinganallur, Siruseri, Ambattur, GST Road) (IT SEZ) | 40  | 40  | 0.0              | 37.9             |

Source: CBRE Research, Q1 2015.

# MARKET SUMMARY

- Large supply influx during the quarter; pressures to escalate in the coming months
- Peripheral markets constituted approximately 50% of the total space take-up
- Prominent IT buildings (Off CBD) and SEZ developments (PBD) observed rental appreciation

The **Central Business District (CBD)** of **MG Road, Koregaon Park, Bund Garden, Kalyani Nagar, Dhole Patil, FC Road and JM Road** observed a strong decline in space take up in the present quarter. On the supply side, Shivaji Nagar witnessed the addition of commercial office space during this review period. Restrained demand amid supply addition led to a slight increase in vacancy levels; while rental values maintained stability during the quarter.

The **Off CBD** of **Viman Nagar, Magarpatta, Aundh, Baner, Shanker Seth Road and Nagar Road** witnessed a slight increase in demand, during the quarter. Transaction activity was largely driven by medium sized space take-ups by IT/ITeS and Knowledge Process Outsourcing (KPO) companies. In terms of supply, locations such as Baner, Balewadi and Viman Nagar witnessed completion of few small scale commercial developments during this review period. Although rental values remained stable in the non IT and SEZ segments, sustained occupier interest led to a marginal rental appreciation (in select IT developments) of around 1-2% over that of Q4 2014.

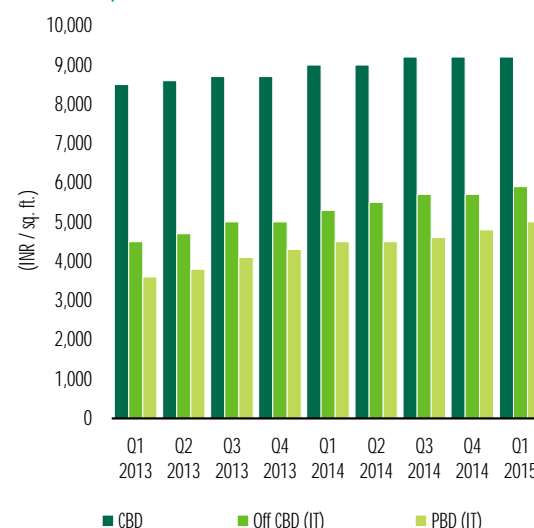
The **Peripheral Business District (PBD)** of **Hinjewadi, Kharadi, Hadapsar and Talawade** witnessed strong demand for SEZ space; hence an increase in absorption levels with closure of numerous small to mid-sized transactions in the present quarter. On the supply front, locations of Kharadi and Pimpri witnessed significant project completions (both IT and Non IT), contributing approximately 65% to the total supply released in the city during this quarter. A spurt in

Chart 23: Rental Value Movement



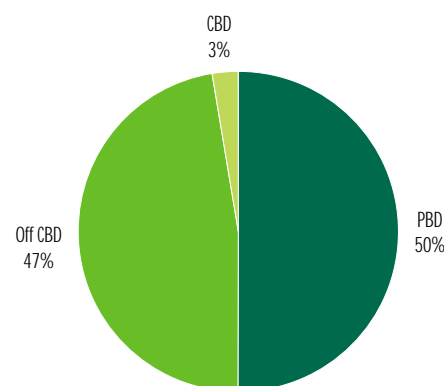
Source: CBRE Research, Q1 2015.

Chart 24: Capital Value Movement



Source: CBRE Research, Q1 2015.

Chart 25: Segmentation of Transaction Activity



Source: CBRE Research, Q1 2015.



transaction activity in the SEZ segment led to a rental appreciation of 2-3% on a q-o-q basis;

however, values remained stable in the Non IT and IT segments.

Table 11: Selected Leasing Transactions

| Property   | District | Size (in sq. ft.) | Tenant       |
|------------|----------|-------------------|--------------|
| EON SEZ    | PBD      | 70,000            | First Data   |
| Commerzone | Off CBD  | 42,000            | Schlumberger |
| Blue Ridge | PBD      | 39,000            | 3DPLM        |
| E Space    | Off CBD  | 38,000            | AB Minacs    |
| Binarius   | Off CBD  | 20,000            | Thoughtworks |

Source: CBRE Research, Q1 2015.

Table 12: Sub-market Key Stats

| Micro-market  | Average Rent in Q1 2015 (INR/sq. ft. / month) | Average Rent in Q4 2014 (INR/sq. ft. / month) | Q-o-Q change (%) | Y-o-Y Change (%) |
|---|---|---|------------------|------------------|
| CBD (Shivaji Nagar, Bund Garden Road, Koregaon Park, MG Road, Dhole Patil) Grade A              | 73  | 73  | 0.0              | 1.4              |
| CBD (Shivaji Nagar, Bund Garden Road, Koregaon Park, MG Road, Dhole Patil) Grade B              | 58  | 58  | 0.0              | 1.8              |
| Off CBD (Magarpatta, Aundh, Baner, Shankar Seth Road, Viman Nagar, Nagar Road) Grade A (Non IT) | 56  | 56  | 0.0              | 3.7              |
| Off CBD (Magarpatta, Aundh, Baner, Shankar Seth Road, Viman Nagar, Nagar Road) Grade A (IT)     | 50  | 49  | 2.0              | 6.4              |
| Off CBD (Magarpatta, Aundh, Baner, Shankar Seth Road, Viman Nagar, Nagar Road) Grade A (IT SEZ) | 60  | 60  | 0.0              | 33.3             |
| PBD (Hinjewadi, Kharadi, Hadapsar, Talawade, Kharadi) Grade A (IT)                              | 40  | 40  | 0.0              | 0.0              |
| PBD (Hinjewadi, Kharadi, Hadapsar, Talawade, Kharadi) Grade A (IT SEZ)                          | 43  | 42  | 2.4              | 4.9              |

Source: CBRE Research, Q1 2015.

## MARKET SUMMARY

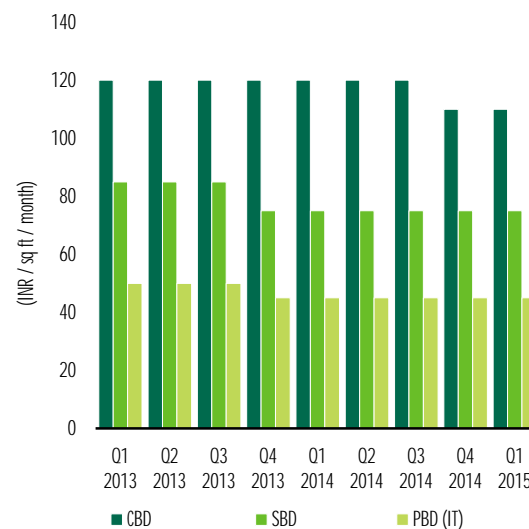
- A drop reported in office leasing across most markets
- Leasing activity largely concentrated in the peripheral markets

The **Central Business District (CBD)** of **Chowringhee, B.B.D Bagh, Park Street** and **Camac Street** witnessed sluggish transaction activity. Owing to lack of suitable office space, **Arcadia Central** (an under construction development on Camac Street) witnessed pre-commitment from **Religare Securities** in the present quarter. There was no addition to the office stock and rental values were largely stable when compared to the previous quarter.

The **Secondary** micro-markets of **EM Bypass, Kasba - Gariahat, Topsia** and **Sarat Bose Road** remained largely dormant owing to absence of quality supply infusion in the present quarter. This district also saw reduced enquiries from corporates looking for office space owing to limited supply availability. Rental values remained largely stable in this micro-market.

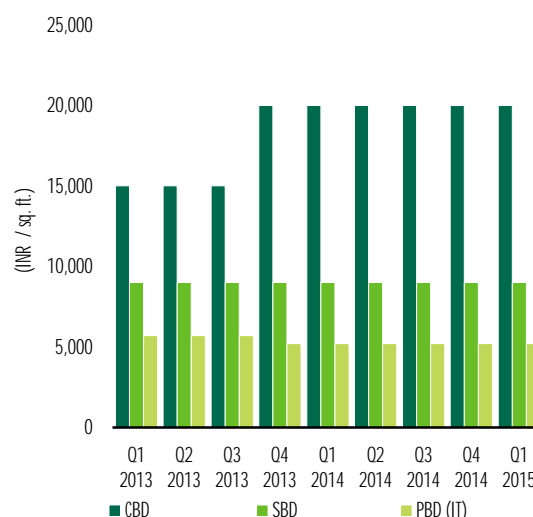
Commercial leasing activity in the peripheral micro-markets of **Salt Lake** and **Rajarhat** witnessed stagnation and thus low absorption level in the present quarter. There were no significant project completions in this micro-market and vacancy levels continued to remain high, estimated in the range of 18-20%.

Chart 26: Rental Value Movement



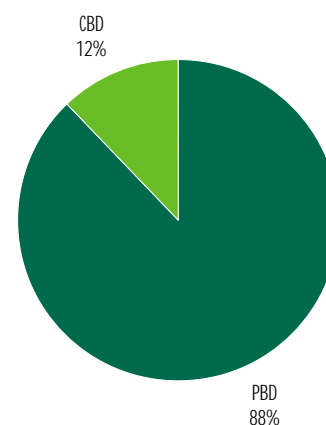
Source: CBRE Research, Q1 2015

Chart 27: Capital Value Movement



Source: CBRE Research, Q1 2015

Chart 28: Segmentation of Transaction Activity



Source: CBRE Research, Q1 2015

Table 13: Selected Leasing Transactions

| Property            | District | Size (In sq. ft.) | Tenant   |
|---------------------|----------|-------------------|----------|
| Godrej Waterside    | PBD      | 18,000            | Bandhan  |
| Ecospace            | PBD      | 16,000            | NIIT     |
| Infinity Think Tank | PBD      | 5,000             | Ola Labs |

Source: CBRE Research, Q1 2015.

Table 14: Sub-market Key Stats

| Micro-market  | Average Rent in Q1 2015 (INR/sq. ft. / month) | Average Rent in Q4 2014 (INR/sq. ft. / month) | Q-o-Q change (%) | Y-o-Y Change (%) |
|---|---|---|------------------|------------------|
| CBD (Park Street, Camac Street, Theatre Road) Grade A               | 110   | 110   | 0.0              | -8.3             |
| Secondary Business District Grade A                                 | 75  | 75  | 0.0              | 0.0              |
| Peripheral Business District (Salt Lake, Rajarhat) (IT) Grade A     | 45  | 45  | 0.0              | 0.0              |
| Peripheral Business District (Salt Lake, Rajarhat) (IT SEZ) Grade A | 34  | 34  | 0.0              | 3.0              |

Source: CBRE Research, Q1 2015.

## MARKET OUTLOOK

## BETTER GROWTH PROSPECTS TO STIMULATE OFFICE SPACE DEMAND

The International Monetary Fund (IMF) has projected improved growth prospects during 2015 and 2016 for India and the US – the only two major economies expected to witness a positive momentum. For the Indian economy, this should fuel office space leasing by domestic occupiers. Furthermore, a positive momentum in the US economy, which happens to be the single largest source of foreign multinational-led office leasing activity in the country, will also have a significant impact on absorption levels in forthcoming months. Additionally, reforms such as relaxed foreign investment in sectors such as insurance, defense and infrastructure might see prominent occupiers from these sectors entering or expanding their footprint across leading cities.

## DEMAND LEVELS TO IMPROVE; IT AND BANKING TO REMAIN THE DOMINANT SECTORS

Office demand is expected to pick up in the coming months as occupiers implement their business plans across cities. A sizable quantum of pre-commitments made during the review period is likely to further boost space absorption in the forthcoming quarters – particularly in Delhi NCR, Bangalore and Mumbai. Industry sectors such as IT/ITeS and banking / financial services are likely to remain the dominant demand drivers for office space, with engineering / manufacturing, e-commerce, telecom and pharmaceuticals being the other active sectors.

With very limited space availability in core locations, transaction activity will continue to percolate towards the peripheral micro-markets of most leading cities – occupiers attracted by the prospects of larger floor plates, cost effective rents and new infrastructure in such locations. An emerging trend likely to gain stronger momentum over the next few years is that of tier

II cities such as Chennai and Hyderabad attracting demand for purchasing office space or building for self use from large corporate occupiers for their real estate requirements.

## THE YEAR 2015 TO BE A SUPPLY PEAK FOR MOST CITIES

A significant quantum of space is expected to be released in 2015, predominantly in the decentralized or peripheral locations of leading cities. A large portion of the supply pipeline that was lined up for completion in the first quarter will spill over into the next few quarters – implying that supply risk over the next six months will be very high. This new supply will alter current market dynamics in many of the major cities, especially in Delhi NCR where newer micro-markets such as the Southern Peripheral Road and Golf Course Extension Road are likely to witness an infusion of office space. Most of these supply laden decentralized micro-markets of Delhi NCR, Mumbai and Bangalore will see a supply peak, which might force landlords to turn more flexible towards rental negotiations, ensuring they remain tenant markets. These trends will put tenant retention firmly at the top of the landlords' agenda in forthcoming months, at least for peripheral locations.

## RENTAL DIVERGENCE EXPECTED BETWEEN PRIME AND PERIPHERAL MARKETS

Despite an influx of new office space in peripheral markets, however, prime office locations will continue to suffer from a deficit of large quality space. Consequently, rental values in such prime markets might continue to witness growth in the near to medium term. This divergence in asset pricing trends is likely to further increase the leverage enjoyed by corporate office space occupiers in supply-laden peripheral markets of leading cities, even as the corporate leasing market of prime locations becomes more developer-driven.

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