India Office, Q1 2017

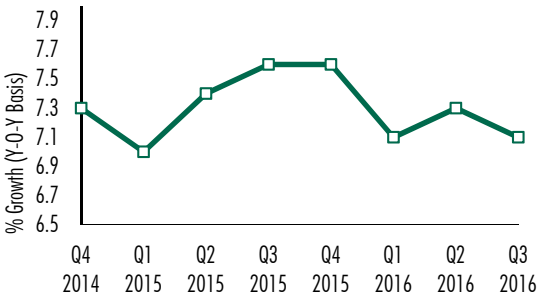
TRANSACTION ACTIVITY REMAINED UPBEAT IN THE FIRST QUARTER OF 2017

Rents Up 38 markets | Rents Stable 51 markets | Rents Down 0 markets | Demand (Y-O-Y) 8% | Supply (Y-O-Y) 59%

The Indian economy grew by 7% during the quarter ending December 2016, as compared to 7.4% in the previous quarter. This fall in growth was largely attributed to the demonetization move announced in November 2016, wherein the Indian government discontinued currency notes of INR 500 and 1,000 to address the issue of unaccounted cash in the economy. The demonetization exercise resulted in a short-term disruption across various sectors such as agriculture, Fast Moving Consumer Goods (FMCG), consumer durables, jewelry and real estate; particularly impacting the unorganized segment of these sectors. While an adverse and long-term impact of demonetization was expected for the economy, however, monthly data released for January and February 2017 has been quite encouraging; indicative of the fact that the economy is already on its way to fully absorb the impact of the policy. The latest advance growth estimates by the government have forecasted a GDP growth of 7.1% for 2016-17, as compared to 7.6% in the previous year.

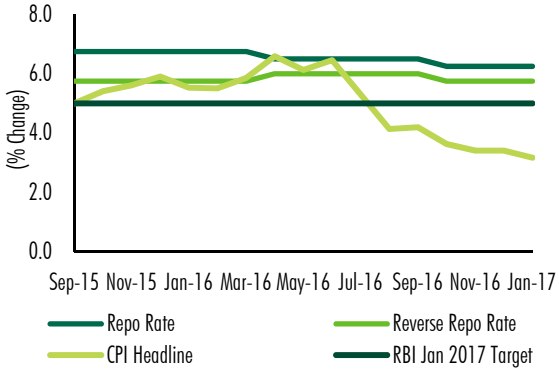
The liquidity shock unleashed by demonetization resulted in a drop in inflation in November and December 2016. Retail inflation (measured by consumer price inflation - CPI), after reaching a two-year low in January 2017, rose to 3.67% in February 2017, mainly led by escalating food prices. However, CPI still remained well within the Central Bank's target of 5% for 2017. The Wholesale Price Index (WPI) inflation also increased in February 2017, touching 6.55%, mainly due to increasing global oil prices.

Chart 1: GDP Growth Rates



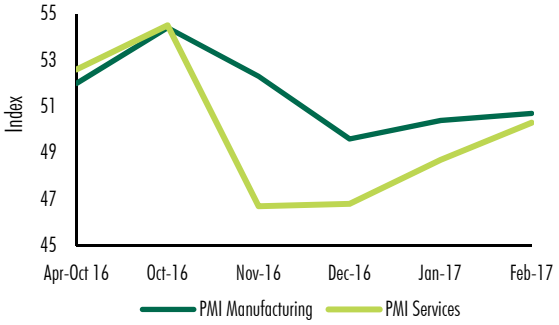
Source: MOSPI, Q1 2017.

Chart 2: Key Interest Rates



Source: MOSPI, RBI, Q1 2017.

Chart 3: Purchasing Manager's Index



Source: MOSPI, Q1 2017.

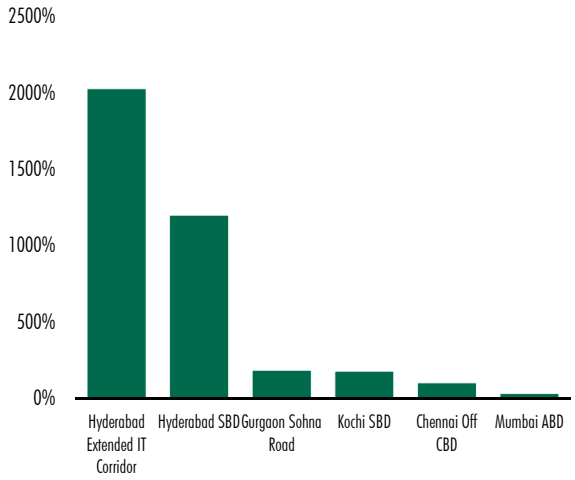
With inflation rates rising, the Central Bank has maintained a stable yet accommodative stance in its monetary policy in Q1 2017. However, in line with an increase in inflation and a hike in rates by the US Federal Reserve, the bank has changed its stance from 'accommodative' to 'neutral'.

After touching sub-50 levels due to demonetization, Purchasing Managers' Indices (PMI) - for manufacturing and services) have both rebounded in the early months of 2017, indicating an improvement in the sector.

On the policy front, one of the most notable initiatives likely to impact the commercial segment is the state level implementation of the Real Estate Regulation and Development Act (RERA) by May 2017 and the introduction of modified guidelines for real estate investment trusts (REITs) in India in November. The direct policy impetus coupled with the impact of the government's recent demonetization drive is likely to result in the formalization and regulation of the sector. This in turn, is expected to boost transparency and lead to a shift in investment flows from other asset classes into the commercial real estate sector.

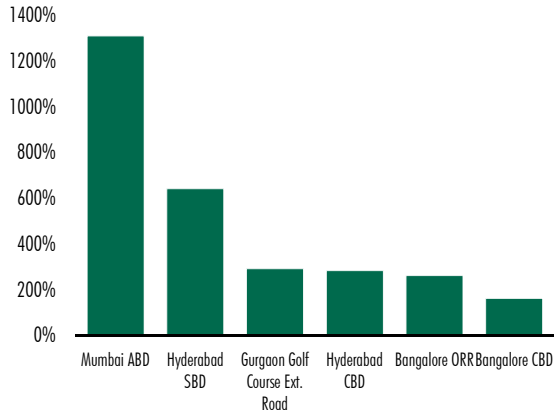
Additionally, in the latest budget, the affordable housing sector was given a boost by being awarded an 'infrastructure status', along with relaxations in completion timelines and area measurement. Moreover, the budget also allowed for other taxation benefits pertaining to the real estate sector; reduction of 'long-term' holding period for capital gains of properties, change in indexation base year to calculate capital gains and allowing for the liability to pay capital gains tax to arise in the year of completion (for joint development agreements). The government also gave an impetus to the infrastructure sector by announcing increased investment outlays, monetization of airport land assets and Public-Private Partnership (PPP) mode for airport operations. All these measures are likely to boost the organised real estate activity across various segments and ease operational efficiencies.

Chart 4: Growth in Transaction Activity in Prominent Micro-markets (Q-o-Q)



Source: CBRE Research, Q1 2017.

Chart 5: Growth in Transaction Activity in Prominent Micro-markets (Y-o-Y)



Source: CBRE Research, Q1 2017.

While the quarter remained positive from a legislative perspective, the National Association of Software and Services Companies (NASSCOM) cut growth projections for the IT sector for the year 2017, amidst ongoing global uncertainties. The commercial sector is largely influenced by global IT corporate occupiers (particularly those headquartered in the US) outsourcing their operations to India. The policies of the new US government may prove to be a deterrent to emerging nations, as these measures are widely anticipated to be protectionist in nature. Any such new regulations are likely to play a critical role in determining the growth trajectory of the IT sector, as well as the commercial real estate segment in India.

DELHI NCR, BANGALORE AND MUMBAI LED QUARTERLY LEASING ACTIVITY

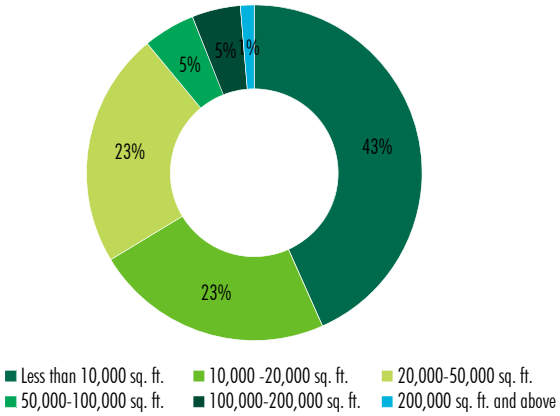
From the perspective of office space take-up, the first quarter of 2017 was one of the strongest first quarters witnessed in the past several years. Steady occupier interest resulted in quarterly leasing activity touching approximately 8 million sq. ft., rising by about 8% on an annual basis. Leasing during the quarter was mainly led by Delhi NCR (National Capital Region), Bangalore and Mumbai accounting for almost 55% of the transaction activity, followed closely by Hyderabad. As compared to the previous year, Chennai and Pune witnessed a rise in space take-up in Q1 2017, largely on account of sustained occupier interest.

Transaction activity across cities remained concentrated in key micro-markets; prominent locations being Gurgaon in Delhi NCR; Airoli and Bandra Kurla Complex in Mumbai; Outer Ring Road, CBD and North Bangalore in Bangalore; Madhapur, Kondapur and Gachibowli (IT Corridor) in Hyderabad; the Old Mahabalipuram Road (OMR) stretch along Taramani, Perungudi and Navallur in Chennai; Hinjewadi, Kharadi, Nagar Road in Pune; Salt Lake Sector V and Rajarhat in Kolkata and Kakkanad in Kochi.

SMALL TO MEDIUM-SIZED TRANSACTIONS (LESS THAN 50,000 SQ. FT.) DOMINATED SPACE TAKE-UP

In line with the trend observed over the past several quarters, office space take-up was dominated by small and medium-sized transactions. Small-sized transactions (less than 10,000 sq. ft.) comprised of almost 43% of all transactions reported during the quarter; with a 46% share garnered by deals ranging between 10,000 – 50,000 sq. ft. The share of large-sized deals (greater than 100,000 sq. ft.) rose from 4% in the previous quarter to 6% in the present quarter. Bangalore, Hyderabad, Mumbai and Chennai dominated the large-sized deal closures mainly from occupiers belonging to the IT/ITeS, Banking Financial Services Insurance (BFSI) and engineering and manufacturing sectors. Key

Chart 6: Segmentation of Transaction Activity as per Transaction Size in Q1 2017



Source: CBRE Research, Q1 2017.

large-scale transactions included space take-up by leading organizations such as IBM, Nokia, WeWork and Jacobs Engineering.

IT/ITES CONTINUED TO DRIVE TRANSACTION ACTIVITY

Office transaction activity continued to be driven by IT/ITeS corporates, garnering a 37% share in the overall space leased during the quarter. However, the share of other sectors such as engineering and manufacturing (18%) and BFSI rose (21%), during the quarter. Additionally, co-working operators continued to remain active, completely leasing recently completed developments in Mumbai and Bangalore.

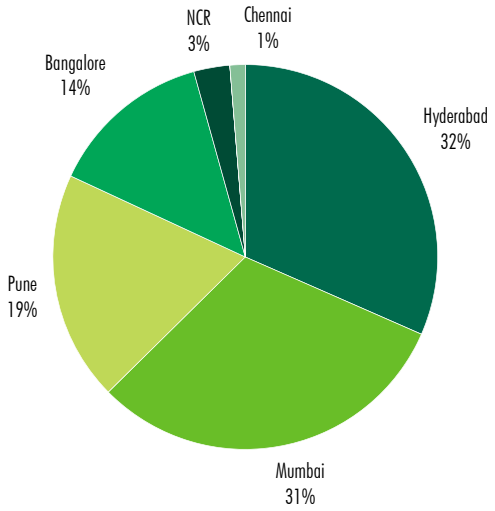
BANGALORE AND MUMBAI CONTINUED TO LEAD PRE-COMMITMENTS

Pre-leasing continued to be witnessed in the key cities of Bangalore and Mumbai. Unlike the previous quarter, pre-leasing activity was mostly driven by engineering and manufacturing, research and consulting firms, locking space in projects which are nearing completion.

QUARTERLY SUPPLY ADDITION TOUCHED 3 MILLION SQ. FT.; HYDERABAD FOLLOWED BY MUMBAI LED DEVELOPMENT COMPLETIONS

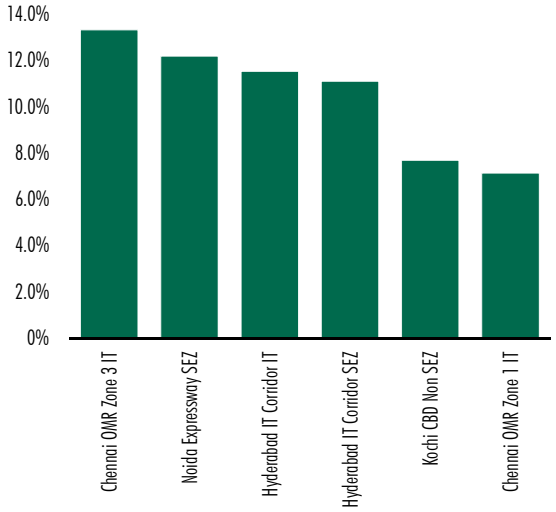
Approximately 3.1 million sq. ft. of new supply was completed during the quarter; a drop of

Chart 7: City Wise Split of New Supply in Q1 2017



Source: CBRE Research, Q1 2017.

Chart 8: Strongest Office Rental Growth, Q4 2016 vs Q1 2017



Source: CBRE Research, Q1 2017.

almost 60% on a y-o-y basis. Hyderabad and Mumbai's share was more than 60%; followed by Pune at 19%. Delays in regulatory clearances were reported in cities such as Delhi NCR, Bangalore and Chennai, resulting in large supply slippages in mostly the peripheral locations of these cities. Negligible supply addition was recorded in Kolkata and Kochi.

Non-SEZ projects dominated new development completions, accounting for almost a 60% share. Majority of the supply addition was concentrated in locations such as the Old Madras Road MG Road and Residency Road in Bangalore; Airoli, Goregaon, Kurla (West) and Andheri East in Mumbai; Banjara Hills (CBD), Madhapur (IT Corridor) and Nanakramguda (Extended IT Corridor) in Hyderabad; Mylapore (CBD) in Chennai; Nagar Road (SBD) in Pune; Rajarhat in Kolkata and South City Road (Gurgaon) in Delhi NCR.

SUSTAINED RENTAL MOMENTUM WITNESSED ACROSS MOST CITIES

Rental values continued to rise in the Central Business Districts (CBDs) of Chennai, Pune and Kochi. Sustained occupier interest resulted in an appreciation in rentals by around 2-14% q-o-q in the SEZ segment in Mount Poonamallee High Road and Old Mahabalipuram Road in Chennai; DLF Cybercity, NH-8 and Golf Course Extension Road, Noida Expressway in Delhi NCR; IT Corridor, Extended IT Corridor and PBD in Hyderabad and PBD (Hinjewadi, Wakad) in Pune.

The Southern cities of Chennai and Hyderabad and Pune in the West, continued to witness strong rental momentum. Rental values escalated by 2-15% q-o-q across most non-SEZ developments in South Bangalore in Bangalore; Madhapur, Kondapur, Raidurg and Hitec City and Gachibowli (IT Corridor), Kukatpally, Nanakramguda and Manikonda (Extended IT Corridor) and SBD locations such as Ameerpet, Himayatnagar, Sarojini Devi Road in Hyderabad; Guindy, Ekkaduthangal, Vadapalani & MRC Nagar and Old Mahabalipuram Road in Chennai; DLF Cybercity in Delhi NCR; Off CBD locations such as Aundh, Baner, Viman Nagar and PBD Wakad, Hinjewadi in Pune.

MARKET SUMMARY

- Steady leasing activity observed on a q-o-q basis, primarily driven by Gurgaon
- Supply addition limited to Gurgaon, rentals rose mainly across SEZ developments

NEW COMPLETIONS

The region continued to witness regulatory hurdles; resulting in shifting of completion timelines of projects in Gurgaon and Noida to subsequent quarters. Fresh supply in the region was limited to a small-sized development on South City Road, Gurgaon.

SPACE TAKE-UP

IT developments continued to be preferred by occupiers, accounting for almost half of the entire take-up, followed by non IT developments, accounting for 35% of the absorption. In Gurgaon, the leasing activity was mostly concentrated across DLF Cybercity, NH-8 and Sohna Road. As occupiers remained focused on core locations, secondary space take-up dominated the overall traction.

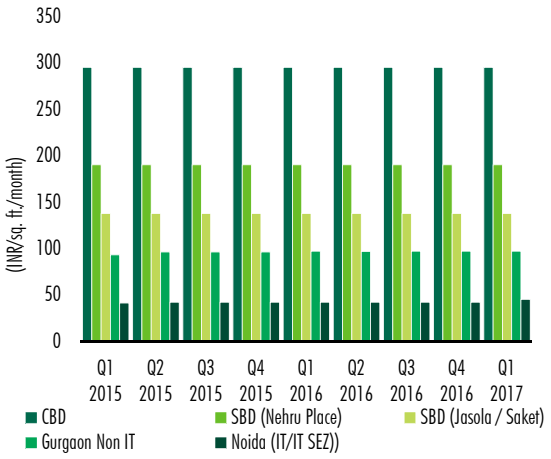
OCCUPIER TRENDS

IT/ITeS corporates led the leasing activity with a share of over 35%, followed by BFSI and research, consulting and analytics firms. While IT/ITeS corporates acquired small to medium-sized spaces, corporates from other sectors mainly took up small-sized spaces.

PRICING TRENDS

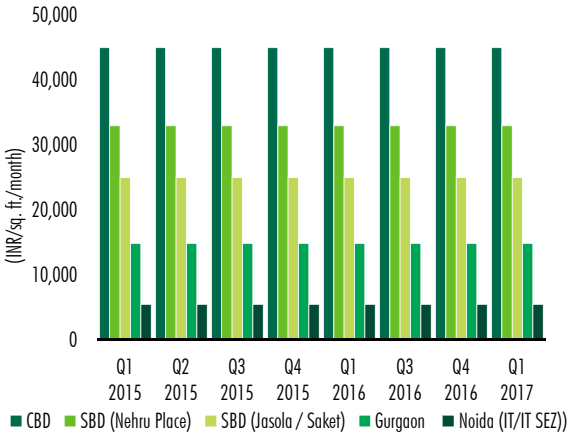
Declining vacancy levels resulted in increased rentals in the range of 2-5% across all SEZ developments in micro-markets in Delhi NCR, including DLF Cybercity and NH-8 in Gurgaon; and about 11-13% along Noida Expressway in Noida.

Chart 9: Rental Value Movement



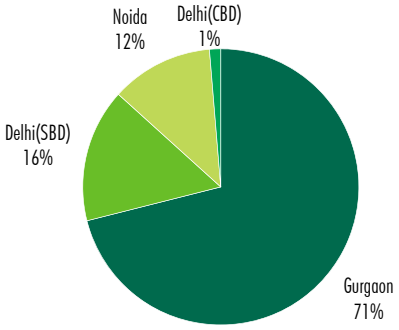
Source: CBRE Research, Q1 2017.

Chart 10: Capital Value Movement



Source: CBRE Research, Q1 2017.

Chart 11: Segmentation of Transaction Activity



Source: CBRE Research, Q1 2017.

Micro-market	Key Highlights	Demand Q-o-q	Vacancy Q-o-q	Rent Q-o-q
CBD	Dominated by small sized transactions with rentals maintaining stability.	▼	▼	▶
Gurgaon	Leasing activity declined on a quarterly basis, occupier focus remained towards core micro-markets.	▼	▼	▲
Noida	Leasing activity remained limited, rental growth witnessed in the SEZ segment on Noida Expressway	▼	▼	▶

Table 1: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Two Horizon Center	Golf Course Road, Gurgaon	65,500	Quorum Club
Worldmark 3	Aerocity, Delhi	45,000	Azure Power
DLF Building 8	DLF Cybercity, Gurgaon	37,000	Oppo Mobiles

Source: CBRE Research, Q1 2017.

Table 2: Sub-market Key Stats

Micro-market	Average Rent in Q1 2017 (INR/sq. ft. / month)	Average Rent in Q4 2016 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Connaught Place) Grade A	295	295	0.0	0.0
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)	97	97	0.0	1.3
Gurgaon Grade A (IT)	80	78	1.2	5.7
NOIDA Grade A (IT/IT SEZ)	45	42	7.0	7.0

Source: CBRE Research, Q1 2017.

MARKET SUMMARY

- Leasing activity declined in the first quarter; large-sized space take-up remained limited
- Peripheral micro-markets of Thane and Navi Mumbai accounted for more than 45% of the total transaction activity
- New supply was added in Airoli, Goregaon, Kurla and Andheri

NEW COMPLETIONS

New supply addition grew by 20% y-o-y and was spread across multiple locations in the city. In the peripheral locations, it was in the form of a small-sized non-IT development in Goregaon and a medium-sized SEZ development in Airoli, Navi Mumbai. The city also witnessed the completion of two small-sized non-IT developments in Andheri (E) and one medium-sized development in Kurla (W) in ABD.

SPACE TAKE-UP

Office space take-up was driven by both front-office and back-office requirements. The micro-markets of ABD and PBD – Thane/Navi Mumbai were the dominant micro-markets, attracting about 70% of the total transaction activity. However, large-sized deals remained limited to pre-leases witnessed in a recently completed SEZ development at Airoli in Navi Mumbai.

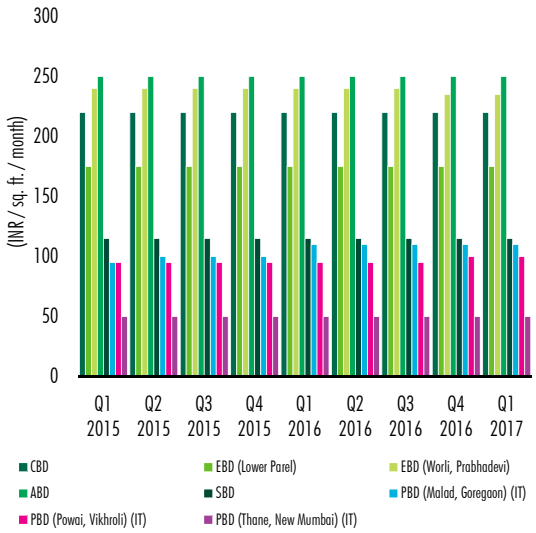
OCCUPIER TRENDS

Occupiers from the IT/ITeS sector were the biggest drivers of space take-up, followed by BFSI firms. While the demand from IT/ITeS companies was largely concentrated in PBD – Navi Mumbai and Thane, the space take-up by BFSI tenants was spread across Andheri in the SBD, Lower Parel in the EBD and Bandra Kurla Complex (BKC) and Kurla (W) in ABD.

PRICING TRENDS

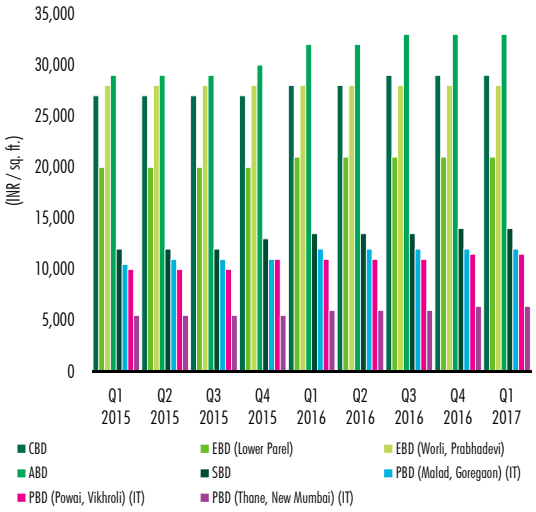
Rental values were mostly stable across all segments in all micro-markets of the city.

Chart 12: Rental Value Movement



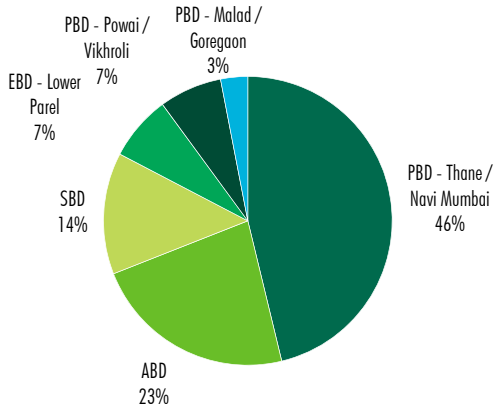
Source: CBRE Research, Q1 2017.

Chart 13: Capital Value Movement



Source: CBRE Research, Q1 2017.

Chart 14: Segmentation of Transaction Activity



Source: CBRE Research, Q1 2017.

Micro-market	Key Highlights	Demand q-o-q	Vacancy q-o-q	Rent q-o-q
ABD	Leasing activity grew by 30% on q-o-q basis led by a large-sized space take-up by a co-working operator	▲	▼	▶
EBD – Lower Parel	Various small to medium-sized transaction closures led to a 55% q-o-q increase in leasing activity	▲	▼	▶
PBD – Thane / Navi Mumbai	Few large-sized deal closures and select small-sized transactions resulted in healthy leasing activity with rental values increasing by 5-10% y-o-y across IT and SEZ segments	▼	▼	▶

Table 3: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Enam Sambhav Building	ABD	180,000	WeWorks
Mindspace (West) Building 2	PBD - Thane, Navi Mumbai	180,000	Jacobs Engineering
Urmi Estate	EBD - Lower Parel	25,000	New York Film Academy
Satellite Gazebo	SBD	12,500	Yahoo

Source: CBRE Research, Q1 2017.

Table 4: Sub market Key Stats

Micro-market	Average Rent in Q1 2017 (INR/sq. ft. / month)	Average Rent in Q4 2016 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Nariman Point, Fort, Cuffe Parade) Grade A	220	220	0.0	0.0
CBD (Nariman Point, Fort, Cuffe Parade) Grade B	170	170	0.0	0.0
EBD (Lower Parel) Grade A	175	175	0.0	0.0
EBD (Worli, Prabhadevi) Grade A	235	235	0.0	-2.1
ABD (Bandra Kurla Complex, Kalina) Grade A	250	250	0.0	0.0
ABD (Bandra Kurla Complex, Kalina) Grade B	195	195	0.0	0.0
SBD (Andheri, Vile Parle, Jogeshwari) Grade A	115	115	0.0	0.0
SBD (Andheri, Vile Parle, Jogeshwari) Grade B	80	80	0.0	0.0
PBD (Malad, Goregaon) Grade A (IT)	110	110	0.0	0.0
PBD (Powai, Vikhroli) Grade A (IT)	100	100	0.0	5.3
PBD (Thane, New Mumbai) Grade A (IT/IT SEZ)	55	55	0.0	10.0

Source: CBRE Research, Q1 2017.

MARKET SUMMARY

- ORR, CBD and NBD constituted for over 80% of the demand
- Supply completions witnessed in the EBD and CBD

NEW COMPLETIONS

Supply completions in the city were in the form of three non-SEZ developments including a medium-sized property on Old Madras Road in EBD and two small to medium sized properties on MG Road and Residency Road in CBD. Significant supply slippages were witnessed across most micro-markets due to delays in receiving completion certificates.

SPACE TAKE-UP

Space take-up was largely concentrated in non-SEZ developments; almost half of the leasing activity was witnessed across Sarjapur-Outer Ring Road (ORR), followed by NBD and PBD in mainly small to medium-sized formats. The CBD also witnessed steady absorption, driven by a German IT firm and an American co-working operator - both completely leasing recently operational developments.

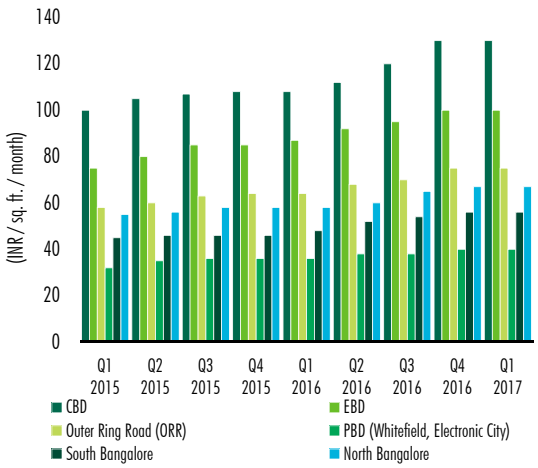
OCCUPIER TRENDS

Organizations belonging to engineering and manufacturing, BFSI and IT/ITeS segments were the main occupiers of space, followed by research and consulting sectors. Primary leasing dominated overall demand, mainly constituting of medium to large-sized deals in ORR and NBD. Medium to large-sized pre-commitments continued to drive demand towards micro-markets of ORR, NBD and PBD.

PRICING TRENDS

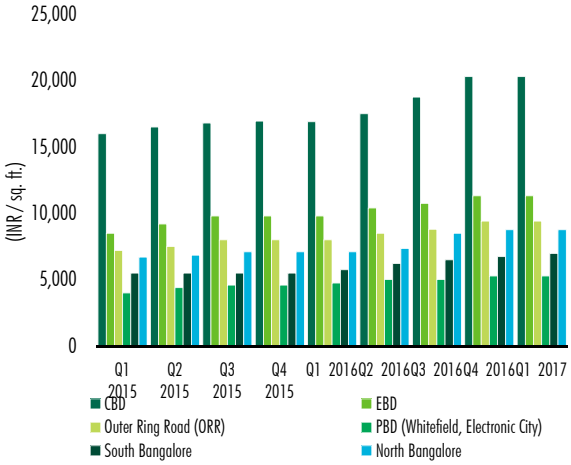
Sustained occupier interest resulted in rental values rising by 3 – 5% in South Bangalore during the quarter.

Chart 15: Rental Value Movement



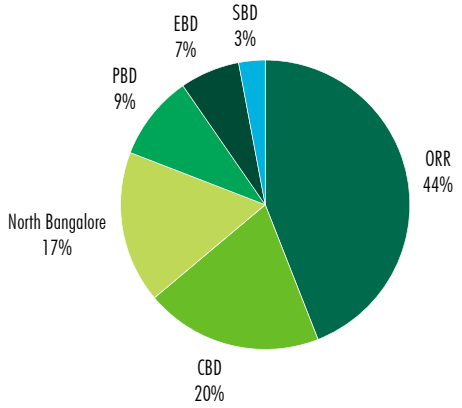
Source: CBRE Research, Q1 2017.

Chart 16: Capital Value Movement



Source: CBRE Research, Q1 2017.

Chart 17: Segmentation of Transaction Activity



Source: CBRE Research, Q1 2017.

Micro-market	Key Highlights	Demand Q-o-q	Vacancy Q-o-q	Rent Q-o-q
ORR	Sustained occupier interest coupled with low vacancy levels resulted in rents rising by about 20-22% y-o-y.	▼	▼	▲
PBD	Sustained demand coupled with a low rental base resulted in rents in the non-SEZ segment rising by about 15-17% y-o-y.	▼	▼	▲
NBD	Occupier interest for large sized spaces coupled with increasing demand resulted in rents rising by about 20-22% on a y-o-y basis.	▼	▼	▲

Table 5: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Manyata Embassy - M2 Block	NBD	170,000	Nokia
RMZ Ecoworld - 5B	ORR	40,000	Ellucian
RMZ Ecoworld - 6B	ORR	34,000	Crestron Electronics
Pritech Park - Block 11	ORR	31,000	MSG Global

Source: CBRE Research, Q1 2017.

Table 6: Sub-market Key Stats

Micro-market	Average Rent in Q1 2017 (INR/sq. ft. / month)	Average Rent in Q4 2016 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (MG Road, Residency Road) Grade A	130	130	0.0	20.4
CBD (MG Road, Residency Road) Grade B	87	87	0.0	4.8
EBD (Koramangala, Indira Nagar) Grade A	100	100	0.0	14.9
EBD Koramangala, Indira Nagar) Grade B	80	80	0.0	11.1
Outer Ring Road Grade A	75	75	0.0	17.2
PBD (Whitefield, Electronic City) Grade A	42	40	0.0	11.1
South Bangalore Grade A	58	56	3.6	20.8
North Bangalore Grade A	67	67	0.0	15.5

Source: CBRE Research, Q1 2017.

MARKET SUMMARY

- Leasing activity witnessed an increase on a quarterly basis
- IT Corridor followed by Extended IT Corridor dominated leasing activity
- Rental values continued to inch up in IT and Extended IT Corridor

NEW COMPLETIONS

The city witnessed fresh supply addition in the form of two large-sized SEZ developments in Nanakramguda (Extended IT Corridor) and Madhapur (IT Corridor), along with a medium-sized non-IT development in Banjara Hills (CBD).

SPACE TAKE-UP

Several large-sized deals closed in the SEZ segment consisted of culmination of pre-commitments in recently completed developments. Non–IT office parks on the other hand (accounting for about 28% of the leasing activity), were targeted by occupiers looking for small to medium-sized spaces. Leasing activity in other micro-markets of CBD, SBD and PBD were limited to mostly small-sized deals in secondary space across non-IT developments.

OCCUPIER TRENDS

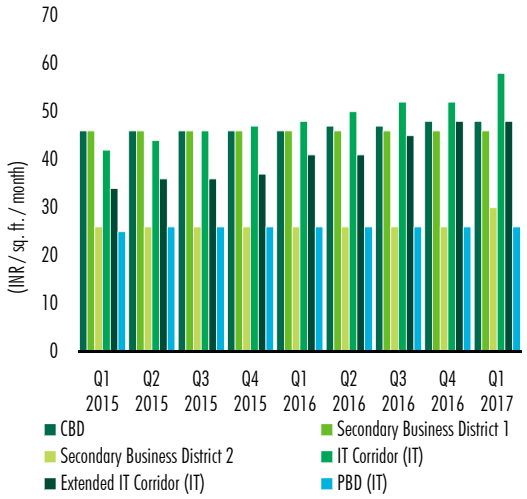
IT/ITeS occupiers dominated transaction activity, with a share of about 50%, followed by BFSI companies (18%), engineering and manufacturing (4%) and pharmaceuticals (4%).

PRICING TRENDS

Sustained occupier demand in the IT Corridor, coupled with limited space availability, resulted in a rental appreciation of about 10-12% q-o-q across segments in this micro-market.

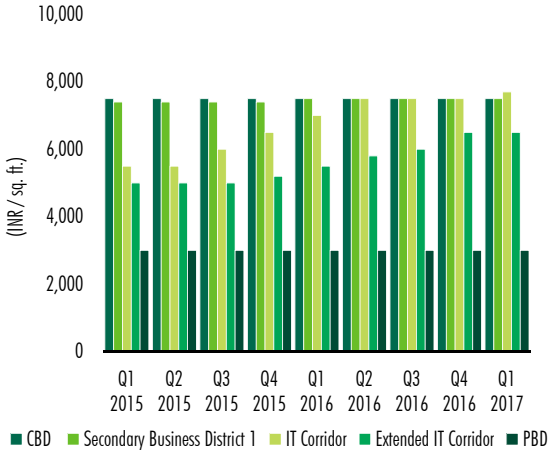
A similar trend was witnessed in the Extended IT Corridor as well, with the non-IT and SEZ developments recording a rental appreciation of 5 – 10% q-o-q.

Chart 18: Rental Value Movement



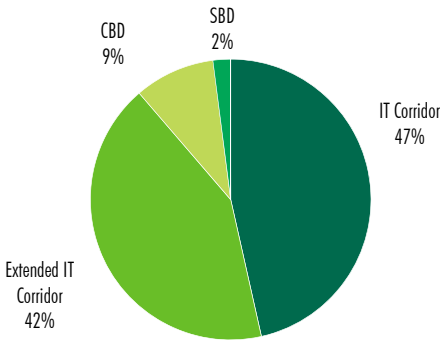
Source: CBRE Research, Q1 2017.

Chart 19: Capital Value Movement



Source: CBRE Research, Q1 2017.

Chart 20: Segmentation of Transaction Activity



Source: CBRE Research, Q1 2017.

Micro-market	Key Highlights	Demand Q-o-q	Vacancy Q-o-q	Rent Q-o-q
CBD (Begumpet/Rajbhavan Road, Banjara Hills (Road No. 1,2,10,12)	While quarterly leasing activity dipped, rentals remained stable, rising by about 1-3% on a y-o-y basis.	▼	▲	▶
IT Corridor (HITEC City, Madhapur, Kondapur, Gachibowli)	Sustained occupier demand resulted in a rental appreciation of rentals increasing by 10-12% q-o-q and 20-25% y-o-y.	▼	▼	▲
Extended IT Corridor (Nanakramguda, Raidurg, Manikonda, Kukatpally)	Space take-up picked up, aided by the addition of fresh supply. This contributed to a positive momentum in rental values, especially in the non-IT and SEZ segments.	▲	▼	▲

Table 7: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
APFSC	Extended IT Corridor	100,000	Karvy
My Home Hub Phase II	IT Corridor	43,000	Primera Medical Technologies
Western Pearl	IT Corridor	38,800	Workafella

Source: CBRE Research, Q1 2017.

Table 8: Sub-market Key Stats

Micro-market	Average Rent in Q1 2017 (INR/sq. ft. / month)	Average Rent in Q4 2016 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Begumpet, Punjagutta, Somajiguda and parts of Banjara Hills)	48	48	0.0	2.1
Secondary Business District 1 (Parts of Banjara Hills, Jubilee Hills)	46	46	0.0	0.0
Secondary Business District 2 (Ameerpet, Himayathnagar, Kukatpally)	30	26	15.4	15.4
IT Corridor (HITEC City, Madhapur, Kondapur, Raidurg) Grade A (IT)	58	52	11.5	20.8
IT Corridor (HITEC City, Madhapur, Kondapur, Raidurg) Grade A (SEZ)	60	54	11.1	25.0
Extended IT Corridor (Nanakramguda,, Manikonda, Gachibowli) Grade A (IT)	48	48	0.0	17.1
PBD (Shamshabad, Pocharam, Uppal) Grade A (IT)	26	26	0.0	0.0

Source: CBRE Research, Q1 2017.

MARKET SUMMARY

- Marginal dip in transaction activity, on account of low vacancy
- 50% of transaction activity witnessed in OMR Zones followed by CBD (~20%)

NEW COMPLETIONS

The Central Business District (CBD) witnessed the completion of a small-scale non-IT development in Mylapore.

SPACE TAKE-UP

Several organizations belonging to the IT/ITeS sector are consolidating their footprint in the city, which has resulted in the release of secondary space across quality developments. Subsequently, office leasing activity in leading micro-markets such as CBD, OMR Zone I, OMR Zone III and GST Road in the present quarter was mainly recorded in these recently vacated, second generation spaces.

OCCUPIER TRENDS

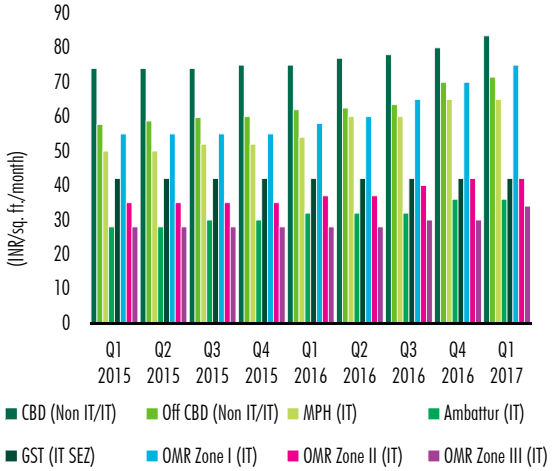
Similar to other cities, office space take-up was driven by the IT/ITeS sector, which contributed to about 56% of space take-up; followed by the engineering and manufacturing, BFSI and auto sectors.

PRICING TRENDS

A sustained occupier interest resulted in an appreciation of about 4 – 7% q-o-q in rental values in CBD.

Negligible vacancy levels resulted in a growth in rentals of about 3 – 6% q-o-q in the non-IT segment in Off CBD micro-markets and 5 – 7% q-o-q in IT and SEZ developments in OMR Zone I. Rising preference for large-sized floor plates, along with declining vacancy levels in OMR Zone I and II led to a rental appreciation of 13 -15% q-o-q in IT and SEZ developments in OMR Zone III.

Chart 21: Rental Value Movement

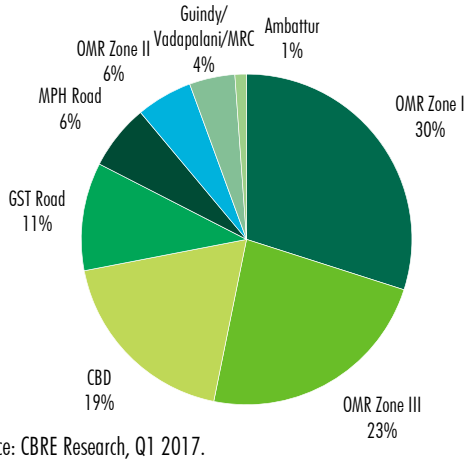


Source: CBRE Research, Q1 2017.

Chart 22: Capital Value Movement

Source: CBRE Research, Q1 2017.

Chart 23: Segmentation of Transaction Activity



Source: CBRE Research, Q1 2017.

Micro-market	Key Highlights	Demand q-o-q	Vacancy q-o-q	Rent q-o-q
OMR Zone III	Leasing activity rose by 80% on q-o-q basis, resulting in an increase in rentals	▲	▶	▲
OMR Zone I	Low vacancy levels resulted in a decline in quarterly leasing activity. Nevertheless, due to sustained occupier interest, rentals increased across all segments on a y-o-y basis	▼	▼	▲
CBD	Occupier demand remained strong on a quarterly basis, seeing an increase by about 3-5% y-o-y	▼	▼	▲

Table 9: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Ceedeeyes Navalur	OMR Zone III	122,400	Valeo India
Ascendas Cybervale	GST Road	112,000	Renault Nissan
Krishna Statesman	CBD	40,000	Shriram Value Services
Prince Infocity II	OMR Zone I	30,000	Tata Communications

Source: CBRE Research, Q1 2017.

Table 10: Sub-market Key Stats

Micro-market	Average Rent in Q1 2017 (INR/sq. ft. / month)	Average Rent in Q4 2016 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Anna Salai, Nungambakkam, RK Salai, T Nagar, Egmore, Alwarpet) Grade A (Non IT/IT)	84	80	4.4	11.3
Guindy, Ekkaduthangal, Vadapalani, Santhome & MRC Nagar Grade A (NonIT/IT)	72	70	2.1	15.3
Mount Poonamallee High Road (IT SEZ)	65	65	0.0	20.4
GST Road (SEZ)	42	42	0.0	0.0
Ambattur, Ambattur Industrial Estate and Padi Grade A (IT)	36	36	0.0	12.5
OMR 1 - Taramani to Perungudi Toll Grade A (IT)	75	70	7.1	29.3
OMR 2 - Perungudi toll up to Sholinganallur Grade A (IT)	42	42	0.0	13.5
OMR 3 - Sholinganallur to Padur Grade A (IT)	34	30	13.4	21.4

Source: CBRE Research, Q1 2017.

MARKET SUMMARY

- Limited availability of large-sized space led to a decline in quarterly leasing activity
- SBD accounted for close to 50% of total transaction activity
- Supply addition was witnessed at Nagar Road in SBD

NEW COMPLETIONS

Supply addition declined by about 33% on a q-o-q basis, with only one medium-sized non-IT development getting completed at Nagar Road in SBD.

SPACE TAKE-UP

Office space take-up was concentrated in SBD, accounting for almost 50% of the total space take-up, followed by CBD at 17%. More than 80% of this demand was observed in primary spaces, resulting in a marginal reduction in vacancy levels across most micro-markets. Due to limited availability of IT space, bulk of demand was concentrated in non-IT developments.

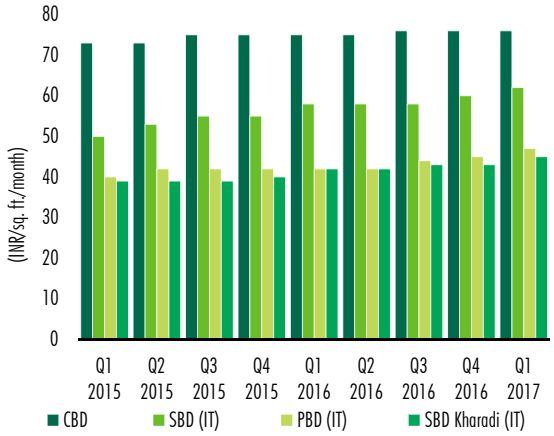
OCCUPIER TRENDS

Occupiers from the IT/ITeS sector were the primary drivers of space, followed by BFSI firms. While demand from IT/ITeS companies was spread across the city, BFSI occupiers leased space mainly in CBD and SBD. Organizations from the engineering and manufacturing sector, media, research and consulting were other prominent occupiers of space.

PRICING TRENDS

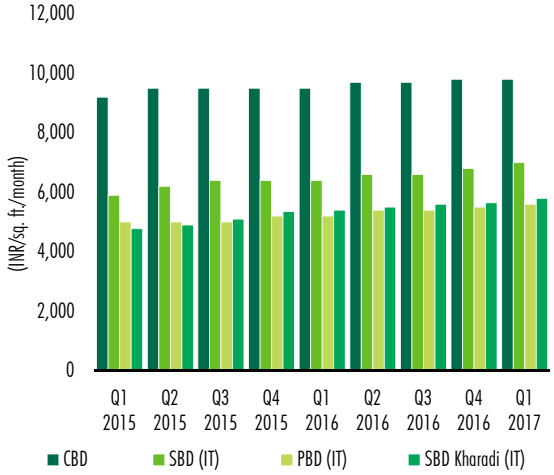
Limited availability of investment grade space led to a marginal increase in rental values across all micro-markets. In the non-IT segment, rental values increased by 3-5% q-o-q in PBD, while in the IT segment, rentals grew by 4-7% q-o-q across all micro-markets. Rental values for SEZ developments also increased by 1-3% q-o-q in PBD.

Chart 24: Rental Value Movement



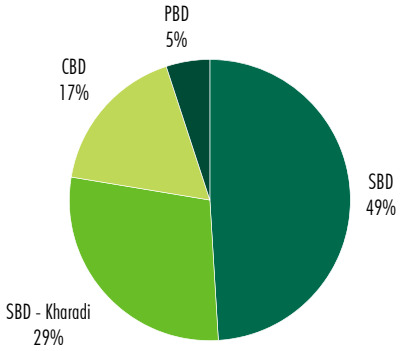
Source: CBRE Research, Q1 2017.

Chart 25: Capital Value Movement



Source: CBRE Research, Q1 2017.

Chart 26: Segmentation of Transaction Activity



Source: CBRE Research, Q1 2017.

Micro-market	Key Highlights	Demand q-o-q	Vacancy q-o-q	Rent q-o-q
CBD	Negligible availability of non-IT space led to subdued leasing activity across CBD; bulk of the demand was concentrated in IT developments	▼	▼	▶
SBD	Limited large-sized space take-up led to a decline in transaction activity. However, supply addition gathered some momentum, as one medium-sized non-IT development was completed at Wadgaon Sheri	▼	▶	▲
PBD	Lack of large-sized floor plates led to a decline in quarterly transaction activity	▼	▼	▲

Table 11: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Trion Park	SBD	330,000	Fiserv India
WTC, Tower IV	SBD - Kharadi	132,000	TIAA Global Business
Chrome	SBD	40,000	Red Brick Offices
Pentagon 5	SBD	30,000	Consultadd Services

Source: CBRE Research, Q1 2017.

Table 12: Sub-market Key Stats

Micro-market	Average Rent in Q1 2017 (INR/sq. ft. / month)	Average Rent in Q4 2016 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Koregaon Park, Kalyani Nagar, Camp, Wakdewadi, Shivajinagar, Yerwada) Grade A	76	76	0.0	1.3
CBD (Koregaon Park, Kalyani Nagar, Camp, Wakdewadi, Shivajinagar, Yerwada) Grade B	59	59	0.0	0.0
SBD (Aundh, Baner, Pashan, Balewadi, Viman Nagar, Nagar Road, Magarpatta City, Hadapsar, Wanowrie) (Non-IT)	65	65	0.0	12.1
SBD (Aundh, Baner, Pashan, Balewadi, Viman Nagar, Nagar Road, Magarpatta City, Hadapsar, Wanowrie (IT)	62	60	6.9	12.7
SBD (Aundh, Baner, Pashan, Balewadi, Viman Nagar, Nagar Road, Magarpatta City, Hadapsar, Wanowrie) (SEZ)	65	65	0.0	0.0
PBD (Pimpiri- Chinchwad, Wakad, Hinjewadi, Bavdhan, Pashan, Undri, Phursungi, Wagholi) (IT)	47	45	6.8	11.9
PBD (Pimpiri- Chinchwad, Wakad, Hinjewadi, Bavdhan, Pashan, Undri, Phursungi, Wagholi) Grade A (SEZ)	55	54	1.9	19.6

Source: CBRE Research, Q1 2017.

MARKET SUMMARY

- Leasing declined on a quarterly basis; peripheral locations continued to drive demand
- Negligible supply addition, rentals maintained stability

NEW COMPLETIONS

The city did not witness addition of any fresh Grade A supply during the quarter.

SPACE TAKE-UP

A decline was witnessed in the demand levels on a quarterly basis. Leasing was mostly concentrated in IT developments in the peripheral micro-markets of Salt Lake Sector V and Rajarhat.

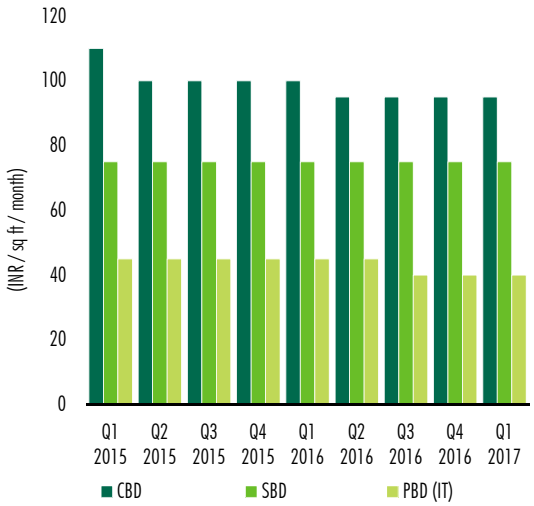
OCCUPIER TRENDS

BFSI companies dominated leasing activity, followed by domestic engineering & manufacturing and IT/ITeS firms. The peripheral micro-markets continued to attract occupier interest, owing to significant availability of investment-grade office space at competitive rentals.

PRICING TRENDS

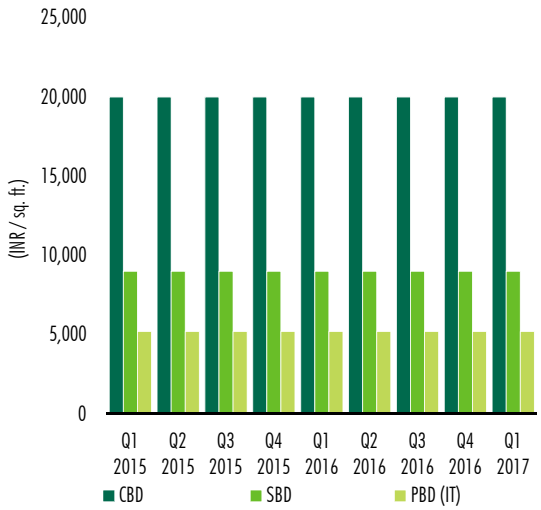
In line with the previous few quarters, rental values remained largely stable across all segments in the various micro-markets of the city.

Chart 27: Rental Value Movement



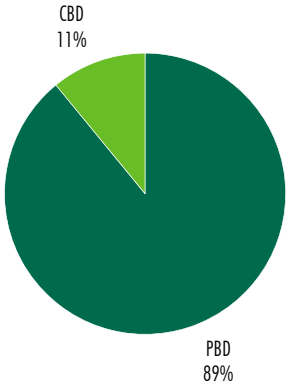
Source: CBRE Research, Q1 2017.

Chart 28: Capital Value Movement



Source: CBRE Research, Q1 2017.

Chart 29: Segmentation of Transaction Activity



Source: CBRE Research, Q1 2017.

Micro-market	Key Highlights	Demand Q-o-q	Vacancy Q-o-q	Rent Q-o-q
CBD	The CBD witnessed limited leasing activity, with demand declining by more than 60% on a q-o-q basis.	▼	▶	▶
PBD	The micro-market accounted for bulk of the activity during the year; recording a growth of more than 75% y-o-y in Q1 2017.	▼	▶	▶

Table 13: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Technopolis	PBD	20,000	ICICI Bank
Ecospace	PBD	7,500	Thinksol Software Pvt. Ltd
Sugam Building	PBD	7,000	Destimoney

Source: CBRE Research, Q1 2017.

Table 14: Sub-market Key Stats

Micro-market	Average Rent in Q1 2017 (INR/sq. ft. / month)	Average Rent in Q4 2016 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Park Street, Camac Street, Theatre Road) Grade A	95	95	0.0	-5.0
Secondary Business District Grade A	75	75	0.0	0.0
Peripheral Business District (Salt Lake, Rajarhat) (IT) Grade A	40	40	0.0	-11.0
Peripheral Business District (Salt Lake, Rajarhat) (SEZ) Grade A	38	38	0.0	11.8

Source: CBRE Research, Q1 2017.

MARKET SUMMARY

- Transaction activity witnessed an increase on a quarterly basis
- 80% of the leasing activity was concentrated in the SBD
- An increase in rental values witnessed in the CBD

NEW COMPLETIONS

The city did not witness addition of any fresh Grade A supply during the quarter.

SPACE TAKE-UP

The SEZ segment dominated leasing activity, mainly consisting of small to medium-sized space take-ups. While the SBD dominated leasing activity in the SEZ segment, the Off CBD and CBD markets witnessed small sized deal closures in the non-SEZ segment.

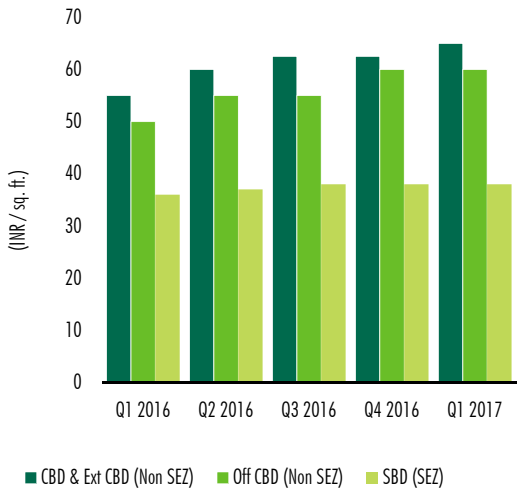
OCCUPIER TRENDS

Transaction activity in the city was mostly driven by IT/ ITeS organizations, which contributed to almost 70% of the space take-up, followed by engineering and manufacturing, BFSI and telecommunication companies. While IT/ITeS occupiers took up small-medium sized spaces, mainly in the SBD, companies from other sectors took up space in the CBD and Off CBD micro-markets.

PRICING TRENDS

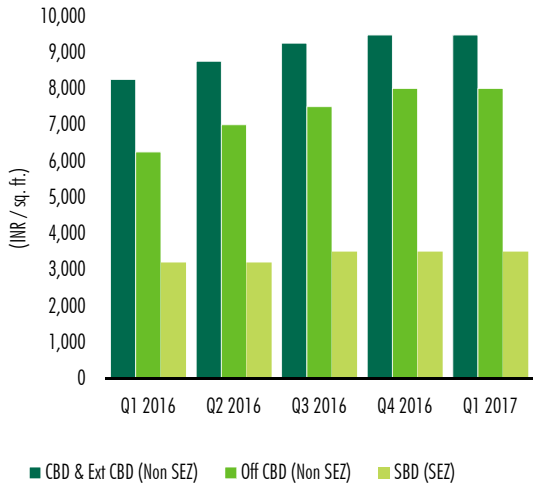
Limited space availability, coupled with demand for small-sized spaces for front-office operations in the CBD, resulted in an appreciation in rentals by 7-8% on a q-o-q basis. All the other micro-markets maintained stability in rentals.

Chart 30: Rental Value Movement



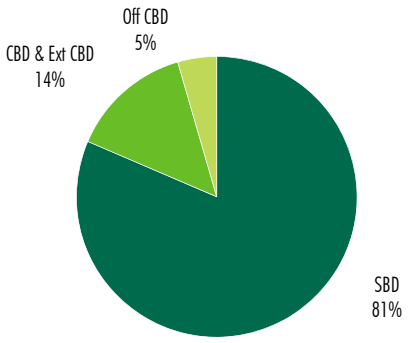
Source: CBRE Research, Q1 2017.

Chart 31: Capital Value Movement



Source: CBRE Research, Q1 2017.

Chart 32: Segmentation of Transaction Activity



Source: CBRE Research, Q1 2017.

Micro-market	Key Highlights	Demand q-o-q	Vacancy q-o-q	Rent q-o-q
CBD	Sustained occupier interest along with limited space availability resulted in rents rising by about 15-17% y-o-y.	▲	►	▲
SBD	Ample availability of investment grade space led to leasing activity almost doubling on a quarterly basis. Rising occupier demand resulted in rentals rising by 5-6% y-o-y.	▲	▼	►

Table 15: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Smart City	SBD	30,000	IBS
Athulya	SBD	4,900	Marlabs
CUC	CBD	4,500	VFS

Source: CBRE Research, Q1 2017.

Table 16: Sub-market Key Stats

Micro-market	Average Rent in Q1 2017 (INR/sq. ft. / month)	Average Rent in Q4 2016 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD & Ext CBD (MG Road, Kaloor, Kadavanthara, Marine Drive) Grade A (Non SEZ)	65	63	4.0%	18.2%
Off CBD (Vytilla, Pallarivattam, Edapally) Grade A (Non SEZ)	60	60	0.0%	20.0%
SBD (Kakkanad) (SEZ)	38	38	0.0%	5.6%

Source: CBRE Research, Q1 2017.

GLOBAL EVENTS, POLICY REFORMS TO IMPACT THE SECTOR

The commercial real estate sector in India continued to evolve in Q1 2017, witnessing an increased share of smaller cities in the overall space take-up, coupled with a sustained rental growth.

However, economic uncertainty triggered by an anticipated protectionist policy environment in the US, might have a substantial impact on the office sector in India. The increased stringency for H1-B visas - inducing inward employment in US over outsourcing operations to alternate locations, may impact occupier demand from American IT/ITeS firms in particular. While India's overall appeal as an established outsourcing destination and the cost arbitrage offered is unlikely to change; however, any protectionist measure undertaken by the new US regime will certainly have a long-term fallout on the sector. Consequently, NASSCOM has also lowered expected growth of the IT sector in India to 8-10% for the current year. The overall impact of the change in US policy and subsequent operations of ITeS firms is likely to pan out in the coming quarters only, particularly since several organizations have announced their intentions of keeping a check on future workforce requirements.

With the world well into the era of 'digitization', artificial intelligence (AI) is also likely to be increasingly adopted across various sectors of the industry. Occupier inculcation of innovative technologies under the ambit of AI may adversely impact workforce requirements. However, on a positive note, it is also anticipated that specific government emphasis on AI is likely to translate into higher office demand from users belonging to the sun-rise sectors of automation and robotics.

Also, other prominent sectors such as BFSI, engineering and manufacturing, research and consulting are likely to constitute a larger share in the leasing activity. Occupier demand is also expected from other sectors, including pharmaceuticals, telecommunications and e-commerce, which would also provide an impetus to the demand for commercial space.

Locally, occupier sentiment seems to remain largely undaunted by the impact of the demonetization drive. We anticipate that the current decline in government bond yields is likely to spur valuation of commercial assets, thereby, increasing the likelihood of their inclusion in future REIT portfolios. We expect a positive long- term impact on the commercial sector - greater institutional investments along with an overall increase in transparency.

The year is also expected to witness the implementation of RERA (which also covers the commercial segment) by the next quarter and the country's first REIT listing – signifying positive developments for the real estate sector. With the impact of both global and domestic factors playing out in the coming months, the real estate sector in India is expected to go through a necessary transition – emerging as a more formalized/organized industry segment, which would continue to support organizations entering or expanding their footprint across leading cities.

MULTIPLE THEMES LIKELY TO DRIVE LEASING ACTIVITY

Office leasing activity is expected to sustain in the short-term, backed by companies looking to expand or consolidate operations. However, we expect leasing activity to be marginally impacted in the medium to long-term. Due to a deficiency of space in core micro-markets, we expect occupiers to continue moving towards supply-laden peripheral locations, particularly in cost-effective investment grade developments. With all cities under various stages of development, the rising traffic congestion has become an important factor impacting location strategies adopted by various occupiers. We anticipate that infrastructure initiatives (such as completion of new highways, introduction of MRTS services,

etc.) would influence occupier preferences and their decision making in the coming quarters.

This is likely to have an impact on certain peripheral locations, which are expected to see the completion of impending infrastructure, particularly in certain pockets of Gurgaon (Delhi NCR) and Bangalore. Regulatory clearances in specific locations in Bangalore, Mumbai and Delhi NCR are also likely to boost leasing activity in the coming quarters.

The use of 'co-working spaces' is expected to rise, with the concept being adopted not only by start-ups and individuals, but also by organizations with fluid expansion/occupation plans. We anticipate an increase in both domestic and international co-working operators offering such solutions, thereby raising the 'quality' of space offered, going forward.

Occupiers, while expanding their footprint across the country and implementing their expansion plans, are expected to keep a strong check on space utilization ratios and innovations in workplace strategies. On the other hand, occupier consolidation strategies are likely to be basis quality of space, city infrastructure along with maximizing space and cost efficiency. Additionally, we expect developer focus on BTS (built-to-suit) developments to continue in Bangalore and Chennai. We also anticipate that as a part of their expansion strategies, select tenants will adopt the 'Hub and Spoke' model. Office space take-up would be undertaken across multiple projects (as compared to a single development) keeping in mind costs, location and preferred operation modes.

Pre-commitments in projects which are nearing completion are expected to continue in the coming months, particularly in the cities of Bangalore and Hyderabad, Pune and Delhi- NCR. Pre-leasing is also likely to be an increasingly adopted practice of occupying space due to limited availability of 'ready-to-move-in' space in the coming quarters. We also expect a rising trend of occupiers planning long- term strategies keeping in mind quality of city infrastructure and state-specific government policies.

SUPPLY COMPLETIONS MAINLY IN PERIPHERAL/SUB-URBAN MICRO-MARKETS

On the supply front, a significant quantum of space is expected to be released in the decentralized locations of leading cities over the next few quarters. Most of this supply is concentrated in peripheral/sub-urban locations of leading cities, which is likely to attract enhanced enquiries and strong pre-commitment activity in the coming months. Also, in case of Bangalore and Delhi NCR, the upcoming developments in 2017 would consist of pent-up supply, scheduled for completion in the earlier quarters.

RENTAL GROWTH EXPECTED TO CONTINUE ACROSS CITIES

With supply slippages recorded across most cities, we expect a supply-demand gap over the next few quarters, which is likely to drive rental growth. However, while the trend is likely to be witnessed across most peripheral and sub-urban micro-markets, we expect growth to taper in the coming quarters. Additionally, while rental values are likely to grow across micro-markets, we expect occupiers to close deals on favorable lease terms, taking advantage of the rental-arbitrage offered in cost-effective locations.

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