Colliers
INTERNATIONAL

India Office Property Market Overview

Q3 2018

Colliers Quaterly

LEASING ACCELERATING

Summary & Recommendations

India's real GDP growth should reach about 7.5% for 2018 and stay strong for several years. Firm growth should fuel expansion in property and attract investment.

Gross absorption grew by 23% YOY in Q3 to 12.3million sq ft, and by 26% for the first nine months to 36.4mn sq ft, due to new interest from banking tenants and further expansion by tech groups.

For 2018-2021, we see average gross absorption of 46.0 million sq ft to exceed average new supply of 41.2 million sq ft by 12%. This should push up rents by 1.9% annually on average. Bengaluru should see the fastest growth, at 4.1%.

Developers should stick to supply plans to drive demand. Bengaluru and Hyderabad offer tenants the best combination of growth potential and availability of quality office stock, though rents are comparable to Chennai.

		Q3 2018	Full Year 2018	2018–21 Annual Average
Demand	Persistent demand from the technology sector should continue to drive demand while flexible workspace should further gain traction.	▼ 12.3 million sq ft	▲ 47.8 million sq ft	▲ 46.0 million sq ft
Supply	Our revised supply forecast for 2018-2021 is 165 million sq ft (15.3 million sq m), an addition of 30% to India's Grade A stock.	▼ 6.7 million sq ft	▼ 34.5 million sq ft	▲ 41.2 million sq ft

		End Q3/QOQ	End 2018/YOY	End 2021/ Annual Average Growth 2018–21
Rent	Demand for premium buildings will continue to increase across markets. We expect average rents to rise at an average annual rate of 1.9% over 2018-2021.	0.9% ▲ INR82.0	3.9% ▲ INR82.1	1.9% ▲ INR86.5
Vacancy	We expect vacancy to decline in premium and well-located office buildings given tenants' evident preference for quality.	-0.7pp ▼ 13.2%	-2.2pp ▼ 13.1%	1.7pp ▲ 14.8%

Source: Colliers International India Research
Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR72.71 as on 25 September 2018

DEMAND SET TO REMAIN STRONG LED BY TECHNOLOGY OCCUPIERS

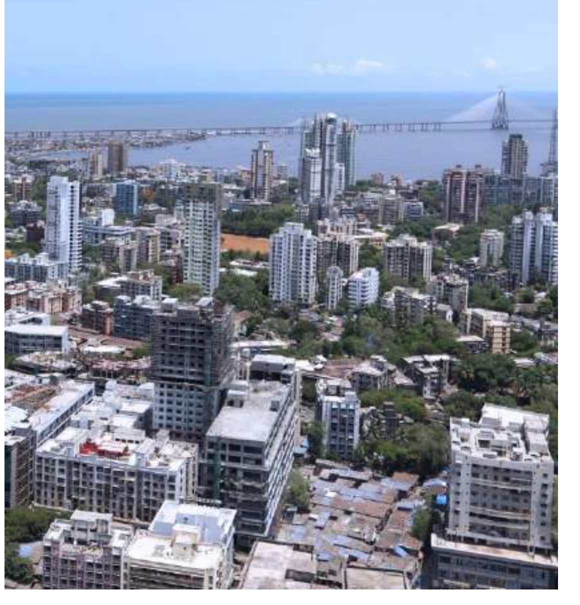
Gross leasing activity in India was recorded at 36.4 million sq feet (3.3 million sq metres) for the first nine months of 2018, up 26% YOY. Bengaluru again saw the bulk (30%) of leasing activity during Q3 at 3.7 million sq feet (343,866 sq metres) followed by Hyderabad which replaced Mumbai to be the second most active market. The leasing activity in Hyderabad doubled over Q2 to 2.1 million sq feet (195,167 sq metres) owing to large transactions by technology occupiers in the Secondary Business District (SBD) micromarket.

In contrast to leasing activity, new completions fell by 5% in Q3 from Q2 and stood at 22.9 million sq feet (2.12 million sq metres) YTD for 2018. The delay in construction has resulted in the deferment of new supply to later quarters.

Pan-India demand for Grade A office space was driven by the technology sector (48%) in Q3 2018, followed by banking and insurance representing 19% of the total leasing volume. The need for workspace efficiency and a collaborative work environment has increased demand for flexible workspace, which accounted for 13% of pan-India office leasing volume in Q3 2018.

India's Real Estate Investment Trust (REIT) is expected in early 2019 as the Blackstone Group LP-backed Embassy Office Parks filed offer documents to raise INR 5,000 crores (USD690 million). The portfolio comprises 33 million sq feet (3.0 million sq metres) of office and retail assets in Bengaluru, Mumbai, Pune and Noida. The REIT listing ought to provide liquidity to developers and owners and thus further attract institutional investment. Small retail investors should also get the chance to invest in real estate and earn a steady return.

The Reserve Bank of India has recently kept interest rates unchanged as it observes growth and inflation. The Bank suggested that there may be rate hikes in coming months as the policy stance has been changed to 'calibrated tightening'. Falling yields and hikes in interest rates may well have an adverse impact on property investment over the next few years. However, we expect leasing activity to maintain growth momentum due to strong GDP growth led by cities such as Bengaluru, Hyderabad and the NCR. We forecast average annual office leasing of 46 million sq feet (4.2 million sq meters) over 2018-2021, representing average annual increase of 1.5%.



Contents

DEMAND TO CONTINUE TO RISE

Summary & Recommendations

We expect factors including strong long-term economic growth, the availability of a deep talent pool, improvements in existing and upcoming infrastructure and a robust supply pipeline of 24.4 million sq ft (2.2 million sq m) over 2019-2021 to continue to drive demand for Grade A office space in Bengaluru.

- We advise occupiers to make pre-commitments to space in locations such as Whitefield and North Bengaluru owing to the availability of quality space at lower rents
- Developers should focus on completing new projects as per commitments to support occupier demand

		Q3 2018	Full Year 2018	2018–21 Annual Average
Demand	We expect demand to persist at a similar rate as 2017 and predict Grade A office gross absorption of 14.5 million sq ft (1.34 million sq m) in 2018.	▲ 3,720,000 sq ft	▲ 14,500,000 sq ft	▲ 14,500,000 sq ft
Supply	We expect a robust supply pipeline of 24 million sq ft (2.2 million sq m) over 2019-2021, likely to inflate inventory by 20%	▼ 600,000 sq ft	▼ 8,900,000 sq ft	▲ 8,300,000 sq ft

		End Q3/QOQ	End 2018/YOY	End 2021/ Annual Average Growth 2018–21
Rent	We expect rents to increase at an average of 4.1% annually over 2018-2021. Completion of the metro rail by 2021 is expected to support rents in micromarkets such as Whitefield and Electronic City	4.9% ▲ INR78.6	13.6% ▲ INR78.9	4.1% ▲ INR88.0
Vacancy	We expect the average city vacancy rate to decline to 7.0% by the end of 2021 from the current 8.8%	-1.2pp ▼ 8.8%	0.2pp ▲ 9.0%	-0.5pp ▼ 7.0%

Source: Colliers International India Research
Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR72.71 as on 25 September 2018

RISE IN PRE-COMMITMENTS DUE TO LOW VACANCY IN PREFERRED LOCATIONS

Bengaluru recorded gross office absorption of 3.7 million sq feet (343,866 sq metres) in Q3 2018, representing a notable hike of 55% from the same period last year. Total Grade A office leasing through Q3 2018 was 11.4 million sq feet (1.05 million sq metres). With various technology occupiers continuing to expand, we have revised our 2018 annual absorption forecast to 14.5 million sq feet (1.34 million sq metres). We expect office leasing momentum to continue over 2019-2021 and reaffirm our average annual gross absorption of 14.5 million sq feet (1.3 million sq metres).

The latest report by Colliers International Asia Pacific titled Top Locations in Asia – Technology Sector, published on 19 September, 2018, ranks Bengaluru as the top location for technology occupiers, among all Asian cities. High long-run economic growth, the depth of Bengaluru's talent pool, ample office stock, reasonable staff wages, affordable rents and cost of living all contributed to Bengaluru being ranked number one.

Further supporting the city's real estate growth is the steady demand from the technology sector that constituted 41% of the total leasing activity in Q3 2018. This was followed by the Banking Financial Services and Insurance (BFSI) sector accounting for 27% of leasing activity, flexible workspace operators on 15%, the engineering and manufacturing sector accounting for 7% and other sectors* accounting for 10%.

The third quarter witnessed the largest volume of pre-commitments in 2018, amounting to 1.7 million sq feet (157,992 sq metres) by occupiers such as JPMC and Accenture. We expect more technology occupiers to explore pre-commitment options in preferred locations such as the ORR, CBD and SBD due to the limited availability of space.

Gross effective rental values

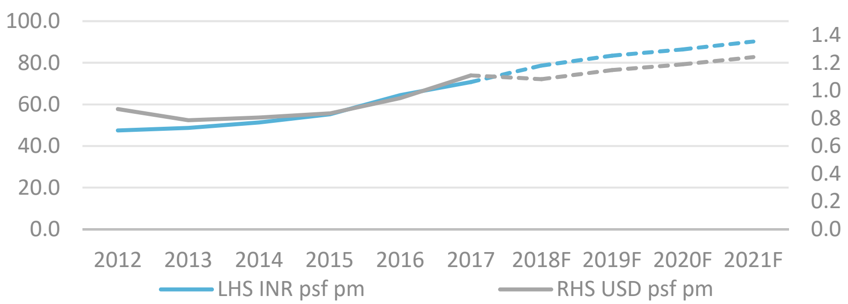
	Q3 2018 (INR psf pm)	Q3 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
CBD[1]	120- 200	1.7 – 2.8	6.7%	14.3%
SBD (Indiranagr-Koramangala)	90 - 150	1.2 – 2.1	0.0%	4.3%
Outer Ring Road (Sarjapur - Marathahalli)	83 - 92	1.1 – 1.3	2.9%	9.4%
Outter Ring Road (K.R. Puram - Hebbal)	78 - 88	1.1 – 1.2	3.8%	10.7%
Bannerghatta Road	70 - 95	1.0 – 1.3	6.5%	32.0%
Hosur Road	35 - 45	0.5 – 0.6	8.1%	14.3%
EPIP Zone/Whitefield	38 - 55	0.5 – 0.8	13.4%	16.3%
Electronic City	38 - 48	0.5 – 0.7	7.5%	22.9%
North (Hebbal - Yelahanka)	45 - 78	0.6 – 1.1	0.0%	5.1%
Others[2]	55 - 70	0.8 – 1.0	0.0%	8.7%

Source: Colliers International India Research
Note: Indicative Grade A rentals, includes both Non IT and IT-ITeS buildings; excludes Special Economic Zones (SEZs)

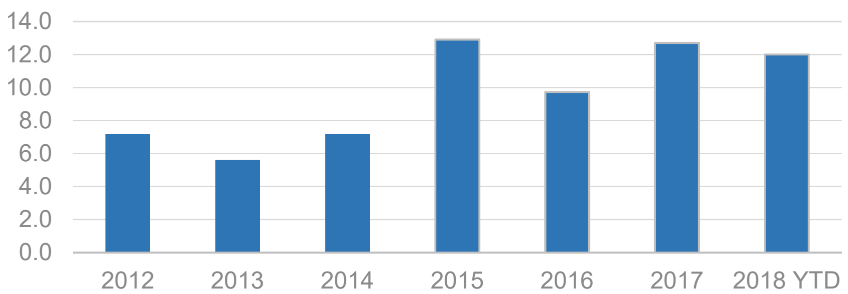
[1]CBD includes MG Road and, Richmond Road, Infantry Road, Cunningham Road, Sankey Road, Palace Road, Vittal Mallaya Road and others
[2]Others includes Sarjapur Road, Mysore Road

*Other sectors include ecommerce, human resources and healthcare

Rental trend



Gross office absorption (million sq ft)



Source: Colliers International India Research | YTD: Year-to-date - January to September

Major lease transactions in Q3 2018

Client	Building Name	Area (sq ft)	Location
WeWork	Vaishnavi Signature	250,000	ORR
Dell	Embassy Golf Links	180,000	Intermediate Ring Road
WeWork	Salarpuria Symbiosis	145,000	Bannerghatta Road
KPMG	Embassy Golf Links	138,000	Intermediate Ring Road
Koch/Molex	Kalyani Platina	112,000	Whitefield

Source: Colliers International India Research
Note: All figures are based on market information on 25 September 2018

NEW LAUNCHES TO INFLATE BENGALURU INVENTORY BY 20%

New Grade A supply of around 600,000 sq feet (55,700 sq metres) was delivered in Q3 2018, bringing total new supply so far in 2018 to 5.2 million sq feet (44,609 sq metres). In addition to scheduled completions, Q3 2018 witnessed 7.8 million sq feet (724,907 sq metres) of new project launches, with a scheduled completion timeline of 2021. Hence, we have revised our Grade A supply forecast to 24.4 million sq feet (2.2 million sq metres) over 2019-2021.

The upcoming completion of the Whitefield metro is encouraging developers to adhere to completion timelines, so as to cater to the strong demand. Over 2019-2021, Whitefield accounts for the largest proportion of new supply on31%, followed by Outer Ring Road (ORR) on 24%, and North Bengaluru on 19%.

Increasing demand pushed average city rents up by 4.9% QOQ, led by micromarkets such as Whitefield, Hosur Road, Electronic City and the CBD. We forecast average city rents to rise by 4.1% compounded annually through 2021.

Bangalore’s strengths are the highest long-run economic growth among Asian cities (9.6% over the next five years according to Oxford Economics), a wide and deep talent pool and low employer costs (reflecting moderate staff costs and office rents). Bengaluru is also the hub of the largest technology startups, drawing investments to the tune of USD400 million in Q1 2018. According to the Worldwide Cost of Living Survey, 2018 by The Economist, Bengaluru ranked at 129 as one of the cheapest locations across 133 countries, implying that Bengaluru is the cheapest among all the major Indian cities as well. We urge technology occupiers to recognize the growth potential of Bengaluru and to make pre-commitments to office space to leverage the currently lower rents in emerging locations such as Whitefield and North Bengaluru. This in turn should encourage developers to adhere to their completion timelines.

STEADY RENT RISE TO CONTINUE

Summary & Recommendations

With a steady influx of large-scale occupiers from the Information Technology and Information Technology enabled Services (IT-ITeS) sectors into the city, the Hyderabad office market is likely to continue to attract firm demand for office space over the next three years

> Given the limited vacancy of 3% in the SBD, we advise developers to fast track their projects as demand remains strong

> Occupiers with large space requirements in the SBD should make pre-commitments to space as a hedge against future rent rises and limited availability

		Q3 2018	Full Year 2018	2018–21 Annual Average
Demand	> The IT-ITeS sector is likely to stay dominant over 2019-2021; investments by the government should boost demand from the pharmaceutical and biotechnology sectors	▲ 2,130,000 sq ft	▼ 5,600,000 sq ft	▲ 5,500,000 sq ft
Supply	> More than 36.4 million sq ft (3.4 million sq m) of Grade A office development under various stages of construction should increase the total office stock by 60% over 2018-21	▼ 1,800,000 sq ft	▲ 5,5400,000 sq ft	▲ 9,100,000 sq ft
		End Q3/QOQ	**End 2018/YOY**	**End 2021/ Annual Average Growth 2018–21**
Rent	> Rental appreciation likely to continue especially in the SBD micromarket driven by upcoming premium buildings; average city rents likely to witness an annual increase of 2.8% in the next three years	1.0% ▲ INR44.0	2.1% ▲ INR44.2	2.8% ▲ INR47.7
Vacancy	> Vacancy set to increase gradually to 15% by 2021 due to completions of planned projects	-1.0pp ▼ 5.0%	+1.0pp ▲ 6.0%	+2.3pp ▲ 15%

Source: Colliers International India Research

Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR72.71 as on 25 September 2018

IT-ITES OCCUPIERS TO CONTINUE TO EXPAND IN THE SBD OVER 2018-21

Hyderabad recorded 2,130,000 sq feet (195,000 sq metres) of gross office leasing in Q3 2018. YTD gross absorption is 3,600,000 sq feet (334,000 sq metres), which is similar to 2017 levels. Considering the large-scale expansion plans of IT-ITeS occupiers, we expect the demand outlook to remain firm towards the end of 2018 and the momentum is likely to continue over the next three years.

In line with the trend over the past two years, the IT-ITeS sector has remained dominant. In Q3 there was an increase in the number of deals by IT-ITeS occupiers, and the average deal size was 79,000 sq feet (7,400 sq metres), higher than the annual average over the last two years of 45,000 sq feet (4,200 sq metres). Deals greater than 1,000,000 sq feet (92,900 sq metres) constituted 70% of total leasing activity in Q3 2018, which is 30% higher than Q2 2018, a likely indication of rising occupier confidence.

In our opinion, owing to the supply crunch in the SBD micromarket, large scale occupiers are likely to continue being proactive in take-up of the new office supply as soon as the projects reach completion.

According to the state's annual report for 2017-18, released by the Information Technology, Electronics & Communications department, IT exports should grow at a CAGR of 16% between now and 2020. This should create 400,000 direct jobs and 2,000,000 indirect jobs over the next three years. If these jobs materialise, we expect such positive developments to fuel further office demand over 2019-2021.

Gross effective rental values

	Q3 2018 (INR psf pm)	Q3 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
CBD[1]	45-52	0.6 – 0.7	2.1	2.1
Off CBD[2]	45-50	0.6 – 0.7	0.0	0.0
SBD[3]	60-68	0.8 – 0.9	4.1	6.7
PBD[4]	25-30	0.3 – 0.4	0.0	0.0

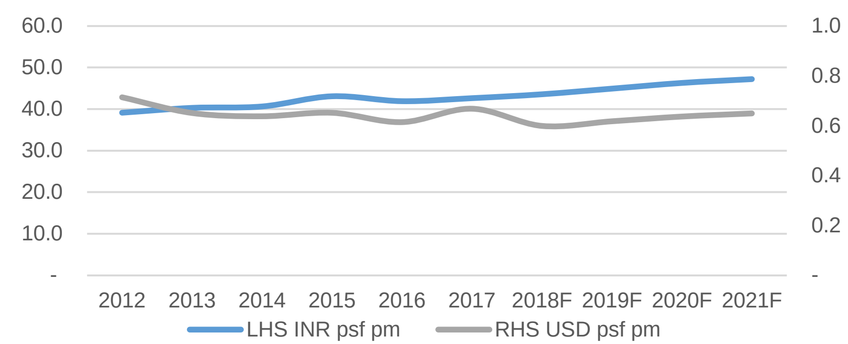
Source: Colliers International India Research
Note: Indicative Grade A rentals, includes both Non IT and IT-ITeS buildings

[1]Central Business District includes micromarkets such as Banjara Hills Road No.1,2, 10 and 12
[2] Off Central Business District includes micromarket such as Begumpet, Somajiguda
[3]Secondary Business District includes micromarkets such as Madhapur including HITEC City, Gachibowli, Nanakramguda, Manikonda and Raidurg, Kondapur
[4]Peripheral Business District includes micromarkets such as Pocharam, Uppal and Shamshabad

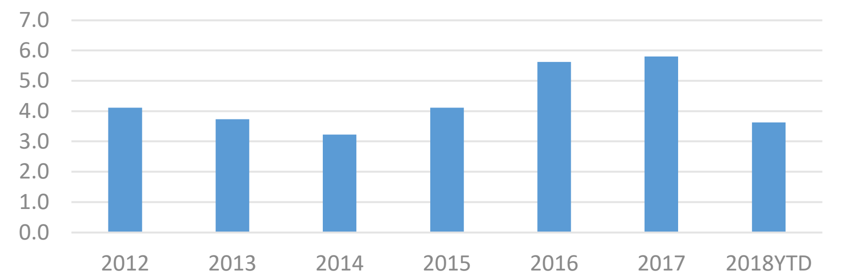
In 2018, the annual ease of doing business ranking published by the Indian Union Ministry of Commerce and Industry has pronounced Telangana state, of which Hyderabad is the capital, as the second most convenient place to do business in the country. The ranking indicates a positive outlook on Hyderabad's potential to attract large investments from various sectors and increase employment growth in the state which in turn should drive additional office demand.

The governments' focus on the State Life Sciences Policy and cluster development initiatives such as Hyderabad Pharma City, Genome Valley 2.0 and the Medical Devices Park is likely to attract investments in the pharmaceutical and biotechnology sectors over next five years.

Rental trend



Gross office absorption (million sq ft)



Source: Colliers International India Research | YTD: Year-to-date - January to September

Major lease transactions in Q3 2018

Client	Building Name	Area (sq ft)	Location
Service Now	Knowledge City	608,000	Raidurg
Facebook	RMZ Skyview	330,000	Raidurg
Micron	RMZ Skyview	250,000	Raidurg
Infor	RMZ Skyview	150,000	Raidurg
F5	RMZ Skyview	100,000	Raidurg

Source: Colliers International India Research
Note: All figures are based on market information on 25 September 2018

INFRASTRUCTURE ENHANCEMENTS TO STRENGTHEN OFFICE DEMAND

Hyderabad has witnessed new Grade A supply of about 2,900,000 sq feet (269,000 sq metres) so far in 2018. We forecast new Grade A office completions of more than 36.4 million sq feet (3.4 million sq metres) over 2018-21. About 93% of this upcoming supply is concentrated in the SBD micromarket while the remaining is distributed among the PBD (3%), Off CBD (2%) and CBD (2%) micromarkets. The upcoming supply is likely to increase the city's total office stock by 60%.

The SBD and CBD micromarkets recorded rental rises of 4.1% and 2.1% QOQ respectively in Q3 2018. Regardless of the huge upcoming supply over the next three years, we expect the average rents to witness a compound annual growth rate of 2.8%, driven by the upcoming premium buildings in the SBD micromarket. We advise developers to track demand closely and fast track their construction timelines in order to cater effectively to the rising demand.

As the city is witnessing unidirectional growth towards the west, this is overburdening the available infrastructure in this region at present. Thus collaboration between developers and the government in increasing the developments in other parts of Hyderabad along with required infrastructure enhancements should be considered in order to distribute the growth of the city in all directions over the next ten years.

Infrastructure initiatives such as further extension of the metro rail to the airport as well as metro station enhancements, road improvement projects under the Strategic Road Development Project, improvement of the international airport and a proposed regional ring road are a few key projects in progress. These projects should improve the connectivity between the SBD and PBD micromarkets and provide prospects for occupiers to shift their focus towards PBD after the next five years.

FLEXIBLE WORKSPACE OPERATORS DRIVE LEASING

Summary & Recommendations

For the second consecutive quarter, flexible workspace operators drove leasing activity in Mumbai. Gross leasing in Q3 was 1.9 million sq ft (180,000 sq m), a QOQ increase of 11%.

> We expect the part of the Mumbai Development Plan 2034 which relates to increasing the Floor Space Index (FSI) to be approved soon. This should allow developers additional floorspace in areas of the city which were previously excluded. We recommend developers to formulate their construction plans pro-actively to capitalise on this opportunity.

		Q3 2018	Full Year 2018	2018–21 Annual Average
Demand	> We expect gross absorption to increase in the coming quarters driven by Banking and Financial Services Institution (BFSI) occupiers.	▲ 1,944,000 sq ft	▲ 7,450,000 sq ft	▲ 6,210,000 sq ft
Supply	> Approximately 9.0 million sq ft (840,000 sq m) of new supply is scheduled to appear during 2019-2021.	▼ 0 sq ft	◄► 2,894,600 sq ft	▲ 2,950,000 sq ft

		End Q3/QOQ	End 2018/YOY	End 2021/ Annual Average Growth 2018–21
Rent	> We expect overall rents to strengthen by 1.5% YOY over 2018-2021, especially in the preferred micromarkets of Andheri East, Lower Parel, BKC and Thane.	0.0% ◄► INR145.0	1.5% ▲ INR145.0	1.5% ▲ INR153.0
Vacancy	> We expect vacancy rates through 2021 to decline as incremental demand in the coming years surpasses new additions.	0.0pp ◄► 13.0%	0.0pp ◄► 13.0%	-0.25pp ▼ 12.0%

Source: Colliers International India Research
Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR72.71 as on 25 September 2018

DESPITE ROBUST GROSS LEASING, RENTS REMAINED STABLE

Mumbai recorded gross absorption of 1.9 million sq feet (180,000 sq metres) in Q3 2018, a QOQ increase of 11%. This take-up was concentrated in the Andheri East (25%), Navi Mumbai (18%), LBS/Eastern Suburbs (15%) and Goregaon/JVLR (12%) micromarkets.

Flexible workspace operators continued to drive leasing activity, accounting for nearly 36% of gross absorption in Q3 2018, followed by BFSI occupiers representing 28% and consulting occupiers accounting for 15%. The remaining proportion was contributed by occupiers across varied sectors including IT-ITeS, manufacturing, media and pharmaceuticals. In Q3 2018, three of the top five deals were recorded by flexible workspace operators. These deals were in the micromarkets of Andheri East, Navi Mumbai and Goregaon/JVLR. Among notable transactions, WeWork expanded at multiple locations with leases ranging from 90,000 sq feet (8,360 sq metres) to 214,000 sq feet (19,890 sq metres).

We expect gross absorption by the BFSI sector through H1 2019 to be robust due to steady enquiries by occupiers looking to consolidate. In our opinion, cost-conscious occupiers considering consolidation and relocation should investigate micromarkets such as Lower Parel and Andheri East for their front-office operations, and Navi Mumbai and Thane for their back-office operations. Multi-National Corporations (MNCs), for which cost is not the first priority, should consider Bandra-Kurla Complex (BKC) as their first choice, for it being the BFSI hub characterized by superior quality developments.

Despite significant gross absorption, overall rental values in the city remained stable QOQ due to ample availability in existing Grade B developments.

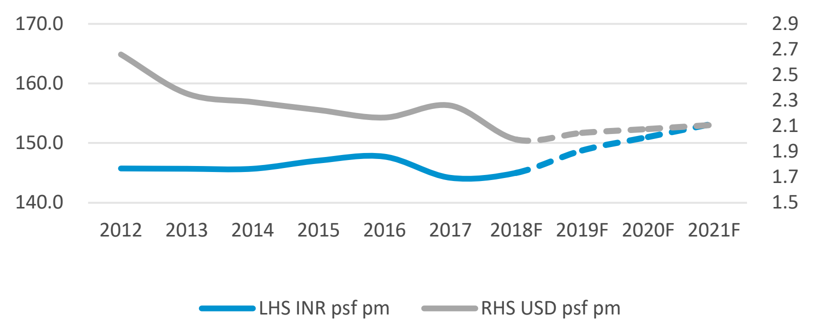
We expect overall city rents to strengthen by 1.5% YOY over 2018-2021, especially in the preferred micromarkets of Andheri East, Lower Parel, BKC and Thane owing to consistent leasing amidst the limited availability in Grade A developments.

Gross effective rental values

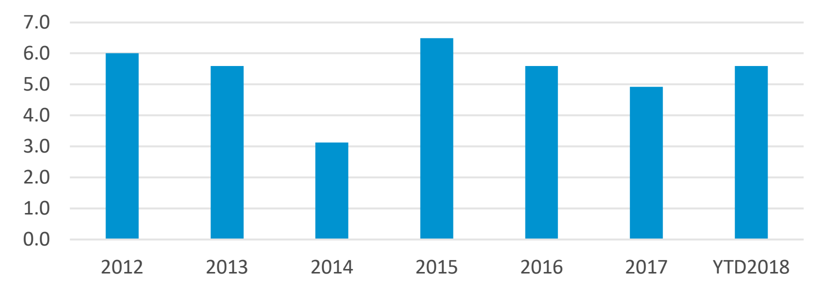
	Q3 2018 (INR psf pm)	Q3 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
CBD	200 - 250	2.8 - 3.4	0.0%	0.0%
Andheri East	85 - 130	1.2 - 1.8	0.0%	-2.3%
BKC	220 - 350	3.0 - 4.8	0.0%	2.7%
Lower Parel	140 - 195	1.9 - 2.7	0.0%	0.0%
Malad	80 - 105	1.1 - 1.4	0.0%	2.8%
Navi Mumbai	70 - 110	1.0 - 1.5	0.0%	5.9%
Powai	110 - 145	1.5 - 2.0	0.0%	6.3%
Worli/Prabhadevi	170 - 210	2.3 - 2.9	0.0%	0.0%
Goregaon/JVLR	100 - 130	1.4 - 1.8	0.0%	0.0%
Kalina	140 - 185	1.9 - 2.5	0.0%	1.6%
Thane	70 - 80	1.0 - 1.1	0.0%	0.0%
LBS/Eastern Suburbs	90 - 125	1.2 - 1.7	0.0%	2.4%

Source: Colliers International India Research
Note: Indicative Grade A rentals, includes only Non-IT developments
CBD includes Nariman Point, Ballard Estate, Cuffe Parade, Churchgate, Fort

Rental trend



Gross office absorption (million sq ft)



Source: Colliers International India Research | YTD: Year-to-date - January to September

Major lease transactions in Q3 2018

Client	Building Name	Area (sq ft)	Location
Accenture	Godrej IT Park	250,000	Vikhroli
WeWork	Raheja Platinum	214,300	Andheri East
WeWork	L&T Seawoods	189,300	Navi Mumbai
WeWork	Oberoi Commerz 2	122,300	Goregaon East

Source: Colliers International India Research
Note: All figures are based on market information on 25 September 2018.

CONSTRAINED NEW SUPPLY; BFSI ANTICIPATED TO DRIVE DEMAND

Mumbai witnessed no major new completions in Q3 2018. Developments that we expected to be completed were deferred because of delays with regulatory approvals. We expect about 9.0 million sq feet (840,000 sq metres) of new supply from Q4 2018 to 2021. Most of the planned supply is concentrated in the Andheri East and Navi Mumbai micromarkets.

Against a background of limited new supply and consistent gross absorption activity, overall vacancy levels in the city remained unchanged at around 13% since no incremental demand was noted and most leasing was comprised of relocations. We advise developers to revisit their construction plans and expedite completion of developments under construction in order to cater to the steady demand.

We expect robust leasing activity to continue over 2019-2021, and on a cumulative basis we forecast gross leasing of about 18.0 million sq feet (1.67 million sq metres) over the three-year period. We expect the BFSI and pharmaceutical sectors to drive the leasing activity in 2019, owing to steady enquiries for space in preferred micromarkets, namely Andheri East, Goregaon/JVLR and LBS/Eastern Suburbs.

While the approved part of the new Development Plan (DP) 2034 has been effective since 1 September 2018, developers will benefit once the remaining excluded part is approved. That should increase the floor space index (FSI) and unlock additional land in the city and peripheral areas. The DP 2034 should include aspects of linking permissible FSI to the road width and extending the use of permissible FSI which was earlier permitted only in suburbs to the island city. If permitted, this should restrict the height of residential and commercial towers on narrow roads, thus reducing pressure on the existing infrastructure.

RECORD HIGH LEASING ACTIVITY

Summary & Recommendations

The market is likely to remain dominated by back-end information technology occupiers. However, upcoming Grade A supply and improving connectivity should attract corporate occupiers as well.

- Over the next three to five years and in line with our earlier prediction, rents should stay stable in most micromarkets. Injection of new supply will likely keep the office market tilted in favour of occupiers.
- As the market favours tenants, occupiers should consider signing deals in new developments with good connectivity at NOIDA Expressway to achieve desirable rents.

		Q3 2018	Full Year 2018	2018–21 Annual Average
Demand	We expect the demand to remain steady over the next three years. Technology and manufacturing occupiers should lead demand.	▼ 779,611 sq ft	▲ 3,400,000 sq ft	▲ 3,400,000 sq ft
Supply	About 15.6 million sq ft (1.4 million sq m) of office developments is likely to be completed in a staggered manner in the next three years, increasing the total inventory by 53%.	▲ 390,000 sq ft	▼ 980,000 sq ft	▲ 3,900,000 sq ft

		End Q3 2018/QOQ	End 2018/YOY	End 2021/ Annual Average Growth 2018–21
Rent	Rents are likely to remain stable in the next three years with most new supply being the high-quality stock preferred by occupiers. Heavy new supply should temper rents.	0.0% ◀▶ INR60.0	1.0% ◀▶ INR 60.1	0.8% ▲ INR61.8
Vacancy	Owing to new completions in 2019 and 2020, we expect the vacancy rate to touch 34.4% at the end of 2020 before the demand catches up and pushes vacancy down to 30.2% in Q4 2021.	-1.8pp ▼ 32.6%	-7.8pp ▼ 30.7%	-2.5pp ▼ 30.2%

Source: Colliers International India Research
Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR72.71 as on 25 September 2018

Colliers INTERNATIONAL

NOIDA EXPRESSWAY CONTINUES TO SEE MAJORITY OF LEASING ACTIVITY

Leasing activity in NOIDA has gathered pace as tech occupiers and manufacturing companies lease space on the expressway. The market recorded gross absorption of 779,611 sq feet (72,428 sq metres) in Q3 2018. Compared to the same period last year, leasing has increased by 30% as the average deal size expanded three times to 70,874 sq feet (6,584 sq metres).

Q3 2018 saw leasing activity spread across various sectors. The engineering and manufacturing sector was the leading occupier with 38.5% of gross absorption followed by technology occupiers on 32.1%, and the banking, financial services and insurance sector (BFSI) on 23.5%.

The NOIDA expressway micromarket continued to dominate the leasing activity accounting for 61.2% of demand in Q3 2018. We expect this micromarket to remain the preferred destination amongst occupiers looking for consolidation and expansions across NOIDA due to the availability of Grade A office space and the excellent connectivity with Delhi. This dominance was primarily supported by technology-related occupiers, which concluded a few large deals in excess of 100,000 sq feet. The industrial sectors (57 to 60 and 63 to 65) and institutional sectors accounted for 32.1% and 6.7% of the leasing volume respectively.

We expect that the completion of the Delhi Metro Rail Corporation (DMRC) Blue Line extension from the existing City Centre metro station to sector 62 should further improve occupier confidence in the institutional and industrial micromarkets by year-end. Currently, the Blue Line metro rail, which connects central and south-west Delhi with NOIDA terminates at the NOIDA City Center station. The elevated metro-rail corridor is scheduled to have six metro stations - NOIDA Sector 34, NOIDA Sector 52, NOIDA Sector 61, NOIDA Sector 59, NOIDA Sector 62 and NOIDA Electronic City. This metro-line extension is also planned to offer better connectivity to nearby areas of Ghaziabad.

Gross effective rental values

	Q3 2018 (INR psf pm)	Q3 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
Commercial Sectors[1]	65 – 90	0.9 – 1.2	0.0%	5.3%
Institutional Sectors[2] (NON IT)	75 – 85	1.0 – 1.1	0.0%	4.0%
Institutional Sectors (IT)[2]	35 – 45	0.5 – 0.6	0.0%	4.5%
Industrial Sectors (IT)[3]	35 – 45	0.5 – 0.6	0.0%	0%
NOIDA Expressway	55 – 60	0.7 – 0.8	0.0%	4.5%

Source Colliers International India Research

[1]Sector 18 (hotels, shopping centres, banks, cinemas)

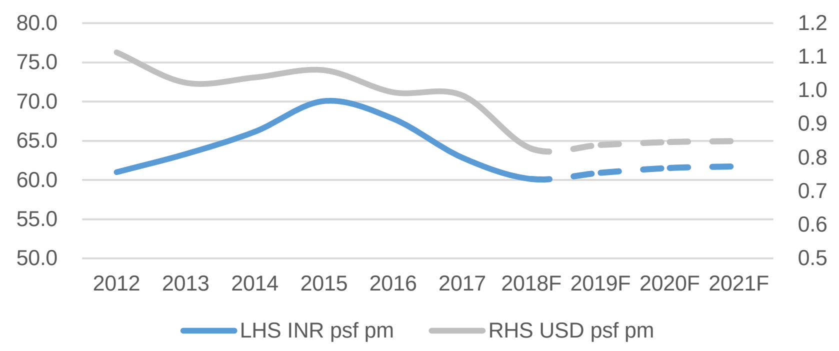
[2]Sector 16 A,62, 125,126,127,132,135,136,142,143,144,153,154

[3]Sector 1-9,57-60, 63-65 (factories, warehouses and IT services)

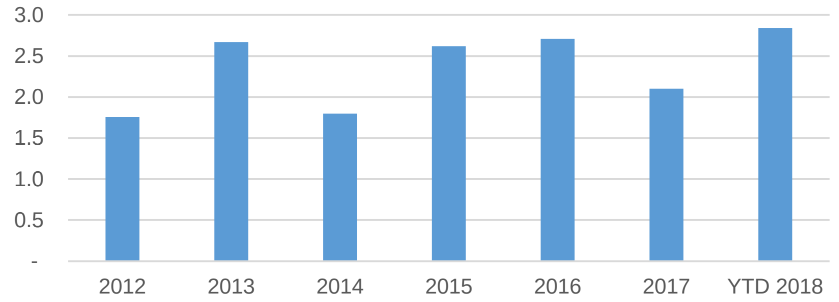
In addition, two-sections of the Pink Line metro of DMRC are scheduled to be operational from December 2018. This should further facilitate commuting between West Delhi, South Delhi and NOIDA by reducing the travel time. The improved communication is likely to improve talent mobility from other parts of the city to NOIDA.

In our opinion, the completion of various metro-rail networks in and around NOIDA should give a fillip to the leasing activity in the coming three years. The upcoming NOIDA - Greater NOIDA metro line is planned to improve the connectivity of the NOIDA Expressway and Greater NOIDA micromarkets. We expect this factor to work as a catalyst for demand in areas adjacent to the metro. Similarly, the Blue Line extension should increase demand by technology and manufacturing occupiers in the industrial and institutional sectors.

Rental trend



Gross office absorption (million sq ft)



Source: Colliers International India Research | YTD: Year-to-date - January to September

Major leasing transactions in Q3 2018

Client	Building Name	Area (sq ft)	Location
GE	Nirmal Sadan	300,000	Expressway
MCM	D-195	150,000	Industrial Sector
Paytm	VJ Tower	100,000	Expressway
Chetu	H/95	80,000	Industrial Sector

Source: Colliers International India Research
Note: All figures are based on market information on 25 September 2018.

VACANCY RATE TO SURGE IN 2019 AMID INCREASE IN GRADE A SUPPLY

NOIDA witnessed new supply of 390,000 sq feet (36,232 sq metres), noting a decline of 34% over the quarter. Despite infusion of new supply only in the NOIDA expressway micromarket, rents remained stable across all major micromarkets during the quarter owing to high vacancy levels. However, high quality Grade A developments in Commercial sectors and NOIDA expressway will command a premium over market rents

In our opinion, only about 15.6 million sq feet (1.4 million sq metres) of Grade A office supply is likely to be completed by 2021. This is despite the fact that around 26.6 million sq feet (2.5 million sq metres) of new supply is scheduled for completion by 2021. Our expectation is that 42% of this supply is likely to be deferred, as developers are likely to remain cautious about adding new supply amid the persistently high vacancy rates.

We expect the NOIDA Expressway micromarket to gain prominence over the coming years due to the infusion of high quality supply and improved connectivity. According to the developer’s construction schedule, 84% of the total supply over the period of 2019-2021 is scheduled to be concentrated in this micromarket.

We expect leasing activity to reach a new high of 3.4 million sq feet (315,870 sq metres) in 2018 led by technology and manufacturing occupiers. If achieved, this will set a record for leasing over the last eight years. Despite healthy absorption recorded this year, the vacancy rate has continued to rise to 32.6% due to new office supply addition. Colliers International forecasts that the vacancy level in NOIDA will stay in a range of 30-35% over the next three years.

SLOWDOWN IN LEASING ACTIVITY

Summary & Recommendations

Office leasing activity in Q3 2018 was 796,400 sq ft (73,987 sq metres), a decline of 60% QOQ. Considering the expansion plans of occupiers we expect demand to regain momentum in Q4 2018.

- 19.8 million sq ft (1.8 million sq metres) of Grade A office space is due to be added to the inventory over 2019-2021, implying growth of 29% in the city's office stock
- We recommend developers to follow their construction schedule supporting leasing activity in the coming years.
- We expect rents in prime districts such as Cybercity and adjacent locations to witness average annual rent growth of about 2% over 2018-2021. For occupiers, the high office quality and good connectivity of these areas outweigh the above-average rents.

		Q3 2018	Full Year 2018	2018–21 Annual Average
Demand	We expect growth in leasing activity over 2019-21 driven by finance and technology occupiers; flexible workspace operators to gain traction.	796,378 sq ft	5,500,000 sq ft	5,000,000 sq ft
Supply	We forecast a robust supply pipeline of 19.8 million sq ft (1.8 million sq m) until 2021 under various stage of construction.	970,000 sq ft	1,400,000 sq ft	5,300,000 sq ft

		End Q3 2018/QOQ	End 2018/YOY	End 2021/ Annual Average Growth 2018–21
Rent	Rents are likely to remain stable but trending upward for Grade A buildings in preferred micromarkets.	0.8% INR75.9	1.1% INR 76.1	0.6% INR77.1
Vacancy	The average city vacancy rate is set to increase only marginally due to stable demand amid rising supply.	0.0pp 30.4%	-1.4pp 29.0%	-2.3pp 29.6%

Source: Colliers International India Research
Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR72.71 as on 25 September 2018

TEPID LEASING ACTIVITY IN Q3 2018, EXPECTED TO PICK UP BY YEAR-END

Due to slower decision making on the part of occupiers, gross absorption declined 60% QOQ and 50% YOY. Q3 2018 noted leasing activity of 796,400 sq feet (73,987 sq metres) with most occupiers expanding operations in the city. Contributing to the decline, deals in excess of 50,000 sq ft (4,645 sq metres) comprised 43% of leasing activity, compared to 69% in Q2 2018.

Prime locations adjacent to the National Highway 8 (NH8), namely Cybercity and Udyog Vihar, constituted the majority (69%) of the leasing activity during the quarter. This was followed by Golf Course Road representing a 7% share. These locations have continued to be preferred by occupiers owing to quality developments, and connectivity by metro rail and NH8.

Unlike previous quarters when demand was driven by the IT-ITeS sector, this quarter banking, financial services, and insurance (BFSI) occupiers constituted 42% of total leasing. The IT-ITeS and flexible workspace occupiers were also active accounting for 17% and 12% respectively.

We expect the year 2018 to record 5.5 million sq ft (510,966 sq metres) of gross absorption as leasing activity typically surges in the last quarter of the year. This will likely be highest in the last two years, and a 22% increase over 2017. Following our earlier forecasts, aggregate gross absorption over 2018-2021 should remain robust with an annual average of 5.0 million sq feet (464,515 sq meters).

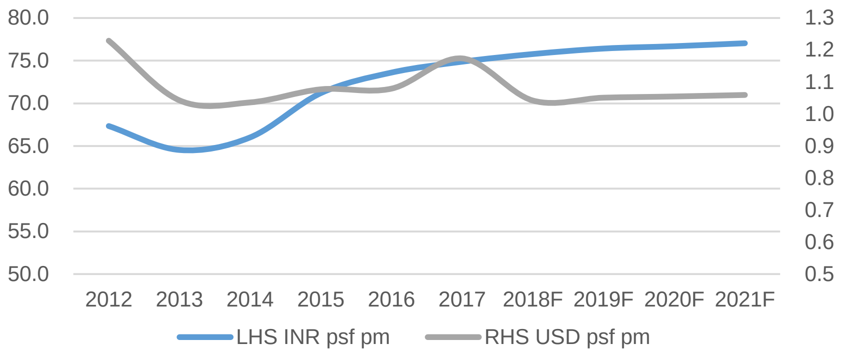
Gross effective rental values

	Q3 2018 (INR psf pm)	Q3 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
MG Road	110 - 140	1.5 – 1.9	2.0%	2.0%
Golf Course Road	110 – 200	1.5 – 2.7	0.0%	0.0%
Institutional Sectors (Sectors 44, 32 and 18)	60 - 90	0.8 – 1.2	0.0%	0.0%
Golf Course Extension/Sohna Road	50 – 75	0.7 – 1.0	4.2%	7.5%
National Highway 8	40 - 130	0.5 – 1.7	0.0%	5.0%
Udyog Vihar and Industrial Sectors	50 - 70	0.7 – 1.0	0.0%	4.5%
Manesar	25 – 35	0.3 – 0.5	0.0%	0.0%
DLF Cyber City (IT)	118 – 120	1.6 – 1.6	0.0%	3.2%

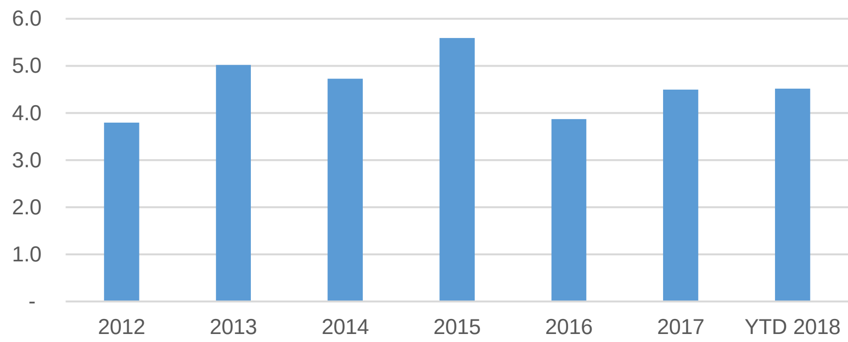
Source Colliers International India Research

On the infrastructure front, recently Haryana Urban Development Authority (HUDA) has started work on a new road connecting Delhi with Gurugram. The proposed road connects sector 114 and sector 115 to the Najafgarh-Bijwasan road near the Delhi-Gurugram border. Further, the same road connects to Dwarka, Sector 12. We expect this new road to divert traffic from NH8 which currently serves as the main connector between Gurugram and Delhi. It is planned to facilitate connectivity especially between various parts of South-West Delhi and Gurugram.

Rental trend



Gross office absorption (million sq ft)



Major lease transactions in Q3 2018

Client	Building Name	Area (sq ft)	Location
Zomato	Vipul Tech Square	105,000	Golf Course Road
Teleperformance	Individual Building	85,000	Udyog Vihar
Clifford Chance Business Services	Ambience Tower	50,000	NH-8
Personiv	Building No.6	33,700	Cybercity

Source: Colliers International India Research
Note: All figures are based on market information on 25 September 2018

ROBUST SUPPLY PIPELINE TO KEEP PACE WITH LEASING ACTIVITY

New supply has been declining over the last four years owing to a change in the construction schedule of developments. Q3 2018 saw 970,000 sq feet (90,115 sq metres) of new supply on Golf Course Extension Road. The total supply infused through Q3 2018 is approximately 1.3 million sq feet (120,773 sq metres) with no new supply recorded in Q2 2018.

The construction pipeline is strong over the next three years which should supply 20 million sq feet (1.85 million sq metres) of new development spread across NH8, M.G Road, Golf Course Road and Golf Course Extension Road. Since the new supply is scheduled to come in a staggered manner, rents should not see drastic changes. However, prime locations such as Cybercity and Golf Course Road should see average annual rent increases of about 2% over 2018-2021.

We expect the upcoming high-quality supply to keep pace with leasing activity with occupiers looking to expand or relocate in newer districts such as Golf Course Extension Road. As a result, the average deal size may also see a slight increase with availability of contiguous space at lower rents in the upcoming districts of Gurguram.

OFFICE | DELHI | Q3 2018 | 15 NOVEMBER 2018

CONTRACTING GROSS ABSORPTION

Summary & Recommendations

Office leasing activity in Q3 2018 registered a decline of 6.7% QOQ, with 560,000 sq ft (52,025 sq m) of gross absorption so far in 2018. Limited availability of quality Grade A office space in the CBD and SBD micromarkets restricted leasing activity.

- Despite expected supply of 4.8 million sq ft (445,935 sq m) during 2018 – 2021, we anticipate rents to remain steady. However, well-located quality Grade A developments will fetch rental premiums of to 3-5%. over the market rate.
- We suggest developers and landlords of Grade B & B+ buildings in the CBD redesign their workspaces to attract demand for flexible workspaces.

		Q3 2018	Full Year 2018	2018–21 Annual Average
Demand	We foresee an increase in absorption levels over the period of 2019 – 2021 primarily driven by finance and manufacturing occupiers.	▼ 139,670 sq ft	▼ 830,000 sq ft	▲ 1,000,000 sq ft
Supply	4.8 million sq ft (445,935 sq m) of office space is expected to be completed during 2018 – 2021, the majority of which is in South Delhi.	▲ 40,000 sq ft	▲ 40,000 sq ft	▲ 1,200,000 sq ft

		End Q3 2018/QOQ	End 2018/YOY	End 2021/ Annual Average Growth 2018–21
Rent	We expect CBD rents to increase by 2.7% over the next three years, faster than the city average rate owing to lack of Grade A space.	0.0% ◄► INR148.0	2.3% ▲ INR 148.7	1.2% ▲ INR150.2
Vacancy	We expect the city-wide vacancy rate to dip in Q4 2018 with no new supply coming online. However, sizeable supply over 2019 - 2021 should push up the vacancy rate.	2.6pp ◄► 7.9%	7.6pp ▼ 6.1%	-0.7pp ▼ 10.7%

Source: Colliers International India Research
Note: Demand represents gross leasing; 1 sq meter = 10.76 sq ft; pp: percentage point; USD1 = INR72.71 as on 25 September 2018

Colliers INTERNATIONAL

RESTRAINED LEASING DUE TO LIMITED AVAILABILITY OF QUALITY SPACE

The office market recorded gross absorption of 139,670 sq feet (12,975 sq metres) in Q3 2018, representing a quarterly contraction of 6.7%. Over the last three quarters, the continued decline in demand can be attributed to a lack of of Grade A space in major micromarkets such as the CBD and Aerocity, as evidenced by the CBD recording a significant decline in take up compared to last quarter. In Q3 2018, Grade A space take-up was evenly spread across the city, unlike the previous few quarters when the demand was mainly concentrated in the CBD and Aerocity micromarkets. This was mainly due to the scarce availability of Grade A space in both of these micromarket leading to restricted leasing while fresh demand was pushed to other micromarkets, such as Jasola.

Engineering and manufacturing companies were active during the quarter and accounted for 52.9% of the overall leasing volume, whereas the banking, financial services and insurance sector accounted for 11.8% of leasing and flexible workspace occupiers accounted for 5.7% of leasing.

The gross absorption over the first nine months of 2018 in Delhi stood at 560,000 sq feet (52,025 sq metres), which is 49.1% lower than the same period in 2017. This can be attributed to limited leasing activity in the CBD and Aerocity micromarkets owing to limited availability of Grade A inventory and sustained high rents. We expect demand during 2019 - 2021 will be primarily driven by occupiers looking for front offices at prime locations in the city as the rents in prime micromarkets do not favour back-end occupiers.

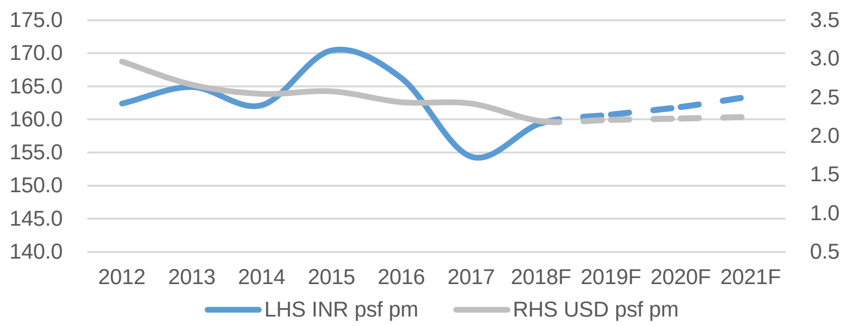
The reduction in demand over the last two quarters has resulted in a stabilisation of rents. However, we anticipate the quality Grade A office developments to continue to command a premium over average rents in supply-restrained locations such as the CBD and Aerocity in the next three years.

Gross effective rental values

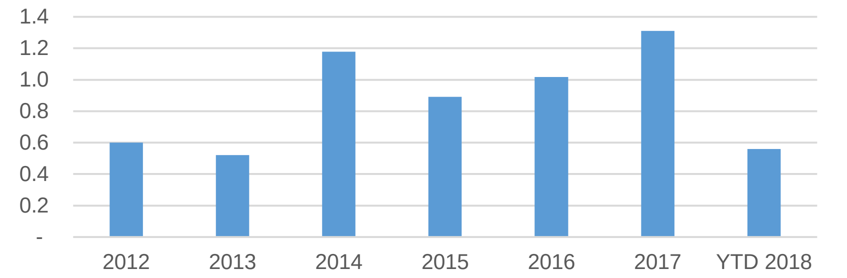
	Q3 2018 (INR psf pm)	Q3 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
Connaught Place (CBD)	140 – 425	1.9 – 5.8	0.0%	0.0%
Nehru Place	150 – 200	2.0 – 2.7	0.0%	0.0%
Saket	110 – 180	1.5 – 2.5	0.0%	0.0%
Jasola	80 – 115	1.1 – 1.6	0.0%	2.6%
Okhla	40 – 87	0.5 – 1.2	0.0%	1.6%
Aerocity	180 - 200	2.5 – 2.7	0.0%	8.6%

Source Colliers International India Research

Rental trend



Gross office absorption (million sq ft)



Source: Colliers International India Research | YTD: Year-to-date - January to September

Major lease transactions in Q3 2018

Client	Building Name	Area (sq ft)	Location
Hyundai	Uppals 6	22,000	Jasola
Rivierap	Individual Building	18,000	Delhi Other
Statkraft India	Salcon Rasvilas	17,938	Saket
NIIF	HT House	7,000	CBD

Source: Colliers International India Research
Note: All figures are based on market information on 25 September 2018

MEAGRE SUPPLY ADDITION IN 2018; STRONG GRADE A SUPPLY PIPELINE

The city saw new supply of 40,000 sq feet (4,000 sq metres) for the first time this year in Central part of the city. Considering the construction schedule, we expect around 4.3 million sq feet (399,483 sq metres) of Grade A office space to be completed over the next three years. This includes a commercial development by NBCC which has a gross leasable area of 3.0 million sq feet (278,710 sq metres). Out of the total supply pipeline, the majority of the developments are concentrated in the various business districts of South Delhi such as Nauroji Nagar, Aerocity, Bhikaji Cama Place and Okhla locations.

Limited contiguous space in Grade A buildings caused a slight increase in the average deal size of 8,700 sq feet (810 sq metres). This is about 5.8% larger than the average deal size in Q2 2018.

With significant new supply scheduled for completion in various South Delhi's business districts by 2021, we expect this corridor to be a hotspot for BFSI and manufacturing occupiers looking for large Grade A supply.

Underpinned by slow demand and a limited availability of quality space, average rents in Q3 2018 remained stable across all major micromarkets in the city. However, amidst modest absorption growth and an infusion of quality supply during 2018 - 2021, we expect annual average rental growth of 1.2%. The rise in rents should be caused by the sustained high rents in the prime locations of the city.

HIGH GROWTH IN GROSS ABSORPTION

Summary & Recommendations

Pune witnessed gross absorption of 1.8 million sq ft (167,200 sq m) in Q3 2018, more than double the absorption in Q2 2018. The leasing activity is driven by absorption of pre-committed spaces by technology occupiers and flexible workspace operators. Despite significant new supply, rental values appreciated 3-6% QOQ in select micromarkets including Nagar Road, Baner and Kharadi.

> We advise occupiers to consider pre-committing to space as there is limited availability of quality spaces in completed developments.

		Q3 2018	Full Year 2018	2018–21 Annual Average
Demand	We expect gross absorption to remain stable at current levels till 2021; pre-commitments in IT-SEZs are likely to continue.	1,766,100 sq ft	5,420,300 sq ft	4,660,000 sq ft
Supply	About 13 million sq ft (1.2 million sq m) of new supply, an increase of 29% citywide, is due to appear in 2019-2021. However, a portion of the new supply may be deferred.	968,800 sq ft	5,785,200 sq ft	4,640,000 sq ft

		End Q3/QOQ	End 2018/YOY	End 2021/ Annual Average Growth 2018–21
Rent	We expect overall rents to strengthen at a CAGR of 2% over 2018-2021; the key micromarkets of Baner, Bund Garden and Kalyani Nagar are likely to witness the fastest growth.	3.0% INR69.0	7.0% INR70.0	2.0% INR77.0
Vacancy	We expect steady leasing activity to keep the vacancy rate at around 6% till 2021.	-0.2pp 6.2%	0.2pp 6.2%	0.0pp 6.2%

Source: Colliers International India Research

Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR72.71 as on 25 September 2018

DESPITE SIGNIFICANT NEW SUPPLY, RENTAL VALUES APPRECIATE IN SELECT MICROMARKETS

In Q3 2018, Pune witnessed the infusion of around 1.0 million sq feet (92,900 sq metres) of new supply, almost half of the new supply registered in Q2 2018. Of this total, 44% is concentrated in Bavdhan, 23% in Kharadi and 13% in Senapati Bapat Road (Shivaji Nagar). The remaining 20% is spread across the micromarkets of Nagar Road, Baner and Hinjewadi.

More than half of the new supply, 56%, constitutes non-IT developments, coming onstream with rental values higher than the current market average, resulting to increase in average rents for most micromarkets in the city. For example, Nagar Road noted a change of 5.8%, Baner noted a 5.6% increase and Kharadi witnessed an increase of 3.1%, driven by infusion of new supply in Q3 2018, all of it comprising of non-IT developments.

Based on developers' construction schedules, we expect new Grade A supply of 13.0 million sq feet (1.2 million sq metres) over 2019-2021, adding a significant 29% to existing stock. The majority of the planned supply is concentrated in three micromarkets namely Kharadi (34%), Baner (27%) and Airport Road/Pune Station (20%). Of this new supply, 47% is IT developments, 29% is Non-IT developments and the remaining 23% is in Special Economic Zones (SEZ).

While we expect deferment of some supply to later years, we recommend developers to adhere to their construction plans in order to capitalise on positive occupier sentiment in the market.

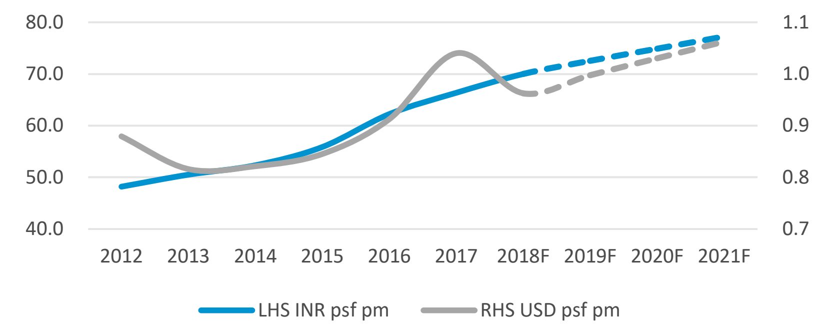
Despite the significant supply infusion in Q3 2018, the overall city vacancy rate declined by 0.2 percentage points to 6.2%. This was led by declines of 0.8-4.1 percentage points in the vacancy rate of various micromarkets including Baner, Nagar Road, Kharadi and Senapati Bapat Road. These declines were driven primarily by absorption of pre-committed spaces in newly completed developments.

Gross effective rental values

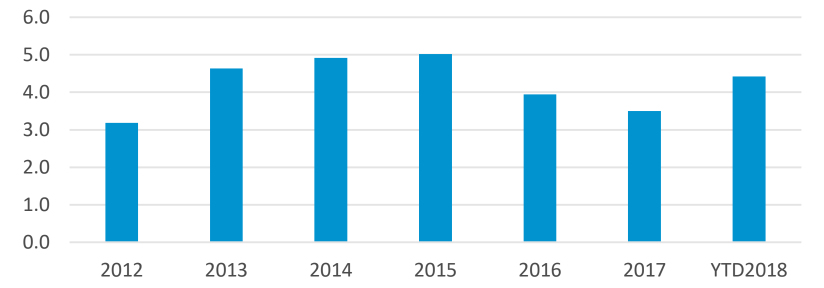
	Q3 2018 (INR psf pm)	Q3 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
Baner	60 - 72	0.8 - 1.0	5.6%	8.2%
Bund Garden	60 - 75	0.8 - 1.0	3.8%	8.0%
Airport Road/Pune Station	68 - 97	0.9 - 1.3	5.1%	10.0%
Aundh	63 - 66	0.9 - 0.9	0.8%	7.5%
Senapati Bapat Road	65 - 125	0.9 - 1.7	0.0%	2.7%
Bavdhan	50 - 52	0.7 - 0.7	3.0%	7.4%
Kalyani Nagar	60 - 68	0.8 - 0.9	4.9%	9.4%
Nagar Road	60 - 67	0.8 - 0.9	5.8%	5.8%
Hinjewadi	45 - 59	0.6 - 0.8	0.0%	5.1%
Hadapsar/Fursungi	70 - 78	1.0 - 1.1	0.0%	5.7%
Kharadi	60 - 105	0.8 - 1.4	3.1%	8.6%

Source: Colliers International India Research
Note: Indicative Grade A rentals

Rental trend



Gross office absorption (million sq ft)



Source: Colliers International India Research | YTD: Year-to-date - January to September

Major lease transactions in Q3 2018

Client	Building Name	Area (sq ft)	Location
Infosys Ltd.	ITPP - Cypress	401,300	Hinjewadi
FIGmd India Pvt Ltd.	Symphony IT Park B1	141,700	Bavdhan
eClerx Services Limited	The Quadron Business	129,200	Hinjewadi
Accenture Solution Pvt Ltd.	SP Infocity Block 5A	79,200	Fursungi

Source: Colliers International India Research
Note: All figures are based on market information as on 25 September 2018.

ROBUST ABSORPTION ACTIVITY TO CONTINUE; IT-SEZ(s) PREFERRED BY OCCUPIERS

In Q3 2018, Pune recorded gross absorption of 1.8 million sq feet (167,200 million sq metres), more than double the absorption in Q2 2018, due to absorption of pre-committed space. Most of the absorption activity was concentrated in three micromarkets, Hinjewadi (39%), Hadapsar/Fursungi (17%) and Bavdhan (11%).

For the second consecutive quarter, technology occupiers remained the major demand driver in Q3 2018, constituting 71% of the total leasing activity. Other sectors leasing space in Q3 included consulting, Banking and Financial Services Institutions (BFSI), flexible workspace operators and engineering & manufacturing companies. Occupiers continued to prefer taking space in Special Economic Zones (SEZs), as the quarter witnessed 69% leasing in IT-SEZ developments.

We expect steady absorption activity to continue, and forecast about 14.0 million sq feet (1.3 million sq metres) of cumulative gross absorption from Q4 2018 to 2021. Gross absorption so far in 2018 has already surpassed the last two years' average annual absorption. Hence, we expect 2018 to be a record year and to witness the highest absorption activity in the last five years, primarily driven by absorption of pre-committed spaces by technology and flexible workspace operators.

While we expect significant supply to come onstream during 2019, we predict that rent will strengthen by 4-5% due to consistent demand, especially in SEZ developments. Hence, we expect the vacancy rate to remain subdued in a range of 6-7%.

IT-ITES SECTOR TO DRIVE DEMAND

Summary & Recommendations

Demand in Chennai slowed with year to date (YTD) absorption declining 13% YoY in Q3 2018. However, the year should close at levels similar to 2017 as many leasing deals that we expected to close in Q3 were delayed to Q4 2018.

- The Tamil Nadu Information Communication Technology (ICT) Policy, released in Q3 2018, is likely to further strengthen the dominance of technology sector investments in Chennai
- As the city's office leasing outlook remains positive, we advise developers to adhere to their planned timelines for the upcoming Grade A supply to cater to steady occupier demand

		Q3 2018	Full Year 2018	2018–21 Annual Average
Demand	We expect gross absorption to remain consistent over 2019-2021 driven by the technology sector expansions and relocations in the city	▼ 760,000 sq ft	▲ 4,500,000 sq ft	▲ 4,800,000 sq ft
Supply	About 17 million sq ft (1.6 million sq m) likely to be added to the inventory over 2018-2021, increasing the total office stock by 30%	▼ 150,000 sq ft	▲ 2,500,000 sq ft	▲ 4,250,000 sq ft
		End Q3/QOQ	**End 2018/YOY**	**End 2021/ Annual Average Growth 2018–21**
Rent	Rents likely to continue increasing in the OMR pre-toll and OMR post-toll micromarkets; overall city rents to increase at a CAGR of 2.4% over 2018-2021	1.5% ▲ INR56.0	1.8% ▲ INR56.1	2.4% ▲ INR60.1
Vacancy	Vacancy rate likely to remain in a 10-11% range over 2019-2021	+0.4pp ▲ 11.4%	-0.4pp ▼ 11.0%	-0.3pp ▼ 10.2%

Source: Colliers International India Research
Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point

INCREASED OCCUPIER INTEREST IN ALTERNATIVE LOCATIONS

The third quarter saw leasing of about 760,000 sq feet (70,600 sq metres) leading to YTD 2018 absorption of 2,800,000 sq feet (260,000 sq metres). The YTD gross absorption declined 13% in comparison to the same period in 2017. Though the average deal size has increased in Q3, the fall in number of transactions has brought down the leasing volume. However, we expect the number of deals to increase in Q4 owing to steady enquiries by occupiers.

In line with our earlier forecasts, office demand in the city is moving towards micromarkets such as Old Mahabalipuram Road (OMR) Post-Toll and Mount Poonamalle High (MPH) Road with these micromarkets constituting 41% and 23% of the total office leasing respectively in Q3 2018. The Off Central Business District (Off CBD) and the CBD contributed 20% and 11% of the demand respectively while OMR Pre-Toll accounted for 5%.

The availability of quality contiguous floor plates has led occupiers looking to expand to consider the OMR Post-Toll micromarket. Over the next three years, occupiers looking for proximity to the city’s core locations are likely to consider the Off CBD and MPH Road micromarkets owing to the ease of connectivity and upcoming Grade A supply.

In line with our earlier forecasts, companies in the engineering and manufacturing sector started gaining momentum, accounting for 31% of the total demand in Q3 2018. The Information Technology and Information Technology enabled Services (IT-ITeS) sector represented 28% of total demand, the education services 12%, marketing & advertising 10%, banking, financial services and insurance companies 8%, flexible workspace operators 4% and other* sectors represented 7% of demand.

Gross effective rental values

	Q3 2018 (INR psf pm)	Q3 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
CBD[1]	70 – 90	1.0 – 1.2	0.0	0.0
Off CBD[2]	60 – 75	0.8 – 1.0	0.0	0.0
GST Road[3]	35 – 45	0.5 – 0.6	0.0	0.0
MPH Road[4]	50 – 65	0.7 – 0.9	0.0	0.0
OMR pre-toll[5]	57 – 83	0.8 – 1.1	3.7	5.3
OMR post-toll[6]	32 – 45	0.4 – 0.6	6.9	10.0
Ambattur	30 – 45	0.4 – 0.6	0.0	0.0

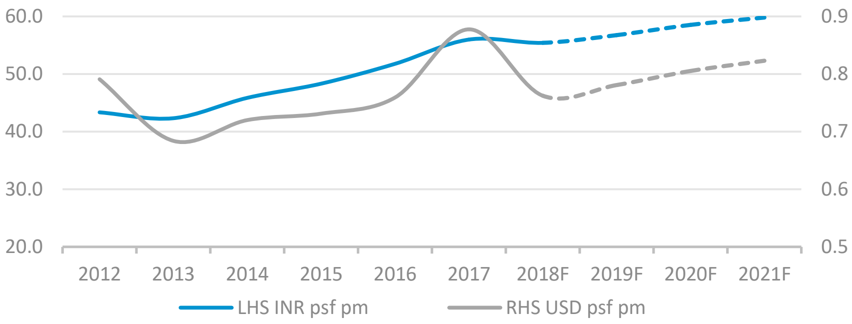
Source: Colliers International India Research
Note: Indicative Grade A rentals, includes both Non IT and IT-ITeS buildings; excludes Special Economic Zones (SEZs)
USD1 = INR72.7 as on 25 September 2018

[1]Nungambakkam, Nandanam, Teynampet, RK Salai, Alwarpet, Egmore, T Nagar, Chetpet
[2]Anna Nagar, Kilpauk, Nelson Manikam Road, Vadapalani, Guindy, MRC Nagar, Adyar
[3]Grand Southern Trunk Road
[4]Mount-Poonamallee High Road
[5]Old Mahabalipuram Road Pre-Toll (Madhya Kailash – Perungudi)
[6]Old Mahabalipuram Road Post-Toll (Thoraipakkam to Sholinganallur; Semmencherry to Siruseri; Pallavaram Thoraipakkam Road)

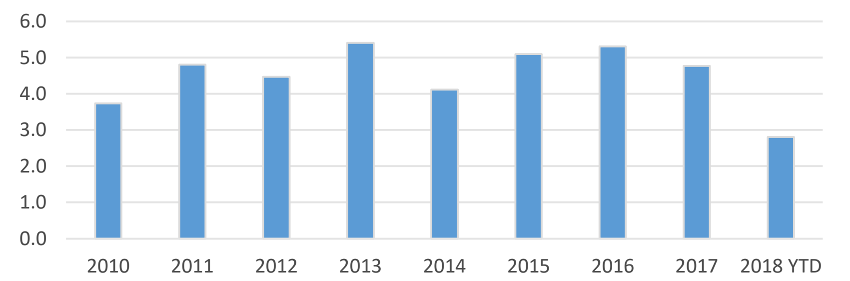
The state government released the Tamil Nadu ICT Policy in Q3 2018 with the objective of encouraging investment as well as increasing software production, exports and employment generation the the IT-ITeS sector. In our opinion, the consistent growth of the IT-ITeS sector coupled with a further policy push by the government including standard fiscal incentives such as capital subsidies, electricity tax exemptions and special incentives for micro, small and medium enterprises, is likely to further support the demand for office space over the next three years.

*Other sectors include ecommerce, human resources and health care

Rental trend



Gross office absorption (million sq ft)



Source: Colliers International India Research | YTD: Year-to-date - January to September

Major leasing transactions in Q3 2018

Client	Building Name	Area (sq ft)	Location
Mphasis	DLF Cybercity	141,000	Manapakkam
Paragon Digital Services	Cee Dee Yes - Pallikaranai	77,000	Pallikaranai
Archipelago	SKCL Tech Square	60,500	Guindy
HDFC	MD Towers	47,000	Vadapalani
Ensona	Chennai One SEZ	32,000	Pallavaram Thoraipakkam Road

Source: Colliers International India Research
Note: All figures are based on market information on 25 September 2018

17 MILLION SQ FEET OF NEW SUPPLY OVER 2018-2021

Over the first nine months of 2018, the city has witnessed completions of 1.24 million sq feet (116,000 sq metres) of Grade A office supply. We expect additional supply of 17 million sq feet (1.6 million sq metres) over 2018-2021, increasing the total office stock by 30%. The upcoming supply is distributed across micromarkets with OMR Post-Toll accounting for 52%, OMR Pre-Toll 26%, MPH Road 17%, CBD 3% and Off CBD 2%.

Rents have been on rise in the OMR corridor with a 5.3% YOY rise in OMR Pre-Toll and a 10.0% YOY rise recorded in the Post-Toll micromarket. In our opinion, by end of 2018 rents in these micromarkets are likely to further increase owing to the low vacancy levels in OMR Pre-Toll and rising demand in the OMR Post-Toll micromarket. Over 2018-2021, we also expect average citywide rents to rise by 2.2% annually driven by the rents in upcoming premium buildings.

The construction works of phase II of the metro-rail project, which is planned to cover the OMR corridor, is likely to be initiated by H1 2019 with pre-construction works having been recently initiated. The project is planned to run nearly 108 km along three corridors namely Madhavaram to Siruseri, Madhavaram to Shollinganallur and Koyambedu to Light House.

With enhanced connectivity, we expect that the upcoming phase II of the metro-rail project is likely to have a positive impact on city’s real estate market over next ten years.

This is especially true with the proposed elevated corridor along OMR, which is likely to enhance connectivity and further strengthen the rents along the corridor. However, with traffic issues being a key concern in this most active office micromarket, we expect that the project is likely to add more bottlenecks to OMR while it is under construction.

HIGHEST LEASING IN PAST SIX QUARTERS

Summary & Recommendations

The office market recorded 50% growth in leasing activity from Q2 2018 to Q3 2018. We expect technology occupiers to continue expanding in the Rajarhat, Sector V and New Town markets. In addition, the market remains favourable to tenants with low rents and sizeable upcoming supply during 2019-2021.

- Various initiatives taken by the state are aimed at attracting technology-related occupiers to the city
- We recommend technology occupiers and developers to pay attention to the new initiatives from the state government such as *Silicon Valley Asia Hub* and the new IT policy that offers tax exemptions and an increased floor space index.

		Q3 2018	Full Year 2018	2018–21 Annual Average
Demand	The city is likely to attract increased interest from cost-conscious tenants in the next three to five years due to lower rents than other metro cities and business-friendly state initiatives	302,939 sq ft	900,000 sq ft	950,000 sq ft
Supply	We expect total new supply of 3.1 million sq ft (292,645 sq m) to get completed between Q4 2018 and 2021.	0 sq ft	3,000,000 sq ft	920,000 sq ft

		End Q3 2018/QOQ	End 2018/YOY	End 2021/ Average Annual Growth 2018–21
Rent	We expect limited space availability in the Central Business District (CBD) and Secondary Business District (SBD) to push overall city rent by 2-3% annually over 2018-2021.	0.0% INR61.3	4.7% INR 61.8	2.7% INR64.8
Vacancy	City-level vacancy is likely to stay in the range of 25-30% during 2019-2021 due to the high supply pipeline in the peripheral locations.	-1.2pp 28.9%	-2.1pp 35.6%	-0.8pp 26.9%

Source: Colliers International India Research

Note: Demand represents gross leasing; 1 sq metre = 10.76 sq ft; pp: percentage point; USD = 72.71 INR on 25 September 2018

TECHNOLOGY OCCUPIERS DRIVE LEASING ACTIVITY

Kolkata recorded gross absorption of 302,939 sq feet (28,000 sq metres) in Q3 2018 representing a QOQ increase of about 50%. In Q3 2018, Grade A space take-up was concentrated in the Peripheral Business District (PBD) and Sector V, accounting for 43% and 38% of the total absorption respectively. Leasing activity in Information Technology developments accounted for 37% of the total absorption in Q3 2018. This is the predominant source of demand in the city, and developers should take note when planning their future supply. This is followed by commercial office developments on 23% and IT-Special Economic Zones (SEZs) on 22%. We expect the demand for IT developments such as IT parks and IT-SEZs to increase further due to the city government's initiatives to attract technology companies.

Average deal size increased to 20,000 sq feet (1,850 sq metres) from 5,500 sq feet (510 sq metres) in Q2 2018 owing to expansion by a few multi-national occupiers. The increase in the average deal size may be attributed to those occupiers which have been enticed towards the PBD micromarket, where there is ample supply and they can afford larger spaces at competitive rents. We expect the leasing trend during 2019-2021 to be primarily driven by relocation and expansions to Rajarhat, Sector V and New Town due to lower rents and contiguous availability of quality space compared to central districts.

Kolkata witnessed significant leasing by the Information Technology Enabled Services (IT-ITeS) occupiers accounting for 54% of the total followed by flexible workspace operators on 21% and engineering & manufacturing on 5%. We expect the dominance of the IT-ITeS sector to increase after the introduction of the Silicon Valley Hub Asia in the New Town area, which is the flagship initiative by the state administration to strengthen IT industry in the city.

Gross effective rental values

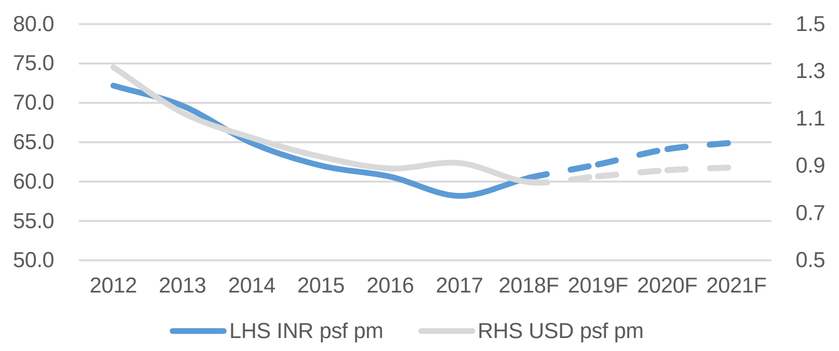
	Q3 2018 (INR psf pm)	Q3 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
CBD[1]	90 – 120	1.2 – 1.6	0.0%	10.5%
SBD[2]	60- 70	0.8 – 0.9	0.0%	0.0%
Sector V	40 - 45	0.5 – 0.6	0.0%	0.0%
PBD[3]	28 - 35	0.4 – 0.5	0.0%	6.7%

Source Colliers International India Research
[1]Park Street, Camac Street, Chowranghee Road, AJC Bose Road
[2]EM Bypass, Topsia, Ruby
[3]Salt Lake, New Town, Rajarhat

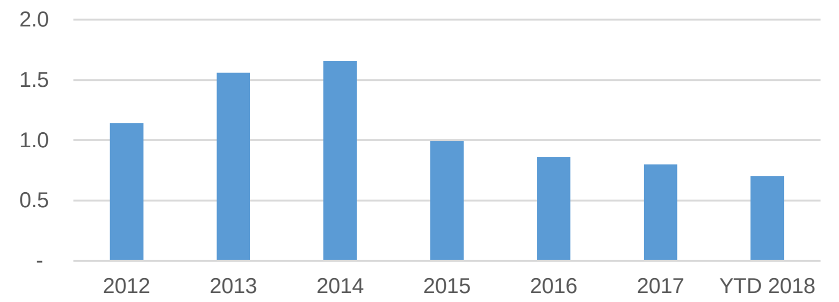
We expect Kolkata to record stable robust leasing activity during 2018-2021, with aggregate gross leasing of 3.8 million sq feet (353,000 sq metres) of Grade A office space is projected to be leased by occupiers. In line with this, a few occupiers have already pre-committed spaces in upcoming Grade A buildings. In our opinion, major initiatives from the state government such as the Silicon Valley Hub and the new IT policy are likely to propel the market further. However, we advise developers to keep a track of the demand and plan the construction timelines over next three years to avoid oversupply by 2021.

The city-level vacancy remained high at 28.9%, with the majority of available spaces in the peripheral locations of New Town and Rajarhat. We expect the vacancy rate to stay in the range of 26-30% during 2019-2021 owing to the new supply scheduled to be delivered.

Rental trend



Gross office absorption (million sq ft)



Source: Colliers International India Research | YTD: Year-to-date - January to September

Major lease transactions in Q3 2018

Client	Building Name	Area (sq ft)	Location
Spaces	RBD Boulevard	43,000	Sector V
Sify Technology	DLF IT Park	40,000	New Town
Accenture	Candor Techspace	35,000	New Town
Awfis	Unimark Central	21,000	CBD

Source: Colliers International India Research
Note: All figures are based on market information on 25 September 2018.

NO NEW COMPLETIONS; DEFERMENT IN NEW SUPPLY

High space availability in the Peripheral Business District (PBD) area has led a few developers to reschedule their ongoing projects which should result in deferment of new supply. However, we expect two to three big projects with leasable area in the range of 300,000 sq feet (20,000 sq metres) to 800,000 sq feet (70,000 sq metres) to be completed in Q4 2018.

The construction schedule of various developers suggests the further addition of 3.1 million sq feet (292,645 sq metres) of new Grade A supply from Q4 2018 till 2021. This represents about 12.2% of the current office stock.

On the infrastructure side, China recently proposed financing a bullet train which is planned to connect Bangladesh, China, India and Myanmar (BCIM) nations. This project is planned to connect Kolkata (India) to Kunming (China) with a route of 2,800 km (1,750 miles). We expect that this mega-project will likely provide impetus to the manufacturing sector in the region. The envisaged rail-route, which is still to be approved by India, is aimed to boost the trade in line with the ancient Silk Road trade route.

Another major step to boosting the office market is the Silicon Valley Hub Asia project, which is spread over 100 acres (40.4 hectares) providing state-of-the-art technology support, green buildings and a 4-Tier cloud-based data centre to attract large technology occupiers to the region. Already, companies like Amazon, Fujisoft and Reliance have shown interest in investing in the upcoming IT hub. The envisaged development has the potential to add a further 100 acres of land parcel, totaling 200 acres (80.9 hectares) for the combined development. As widely reported in the market, Infosys has already started the construction of its first campus in Kolkata which is spread over 50 acres (20.2 hectares) of land.