GROSS LEASING AT A NEW HIGH

Summary & Recommendations

Gross absorption grew by 17% yoy in 2018 to 50.2 million sq ft (4.7 million sq m) driven by technology, flexible workplace and banking and finance occupiers. However, new supply fell by 10% to 29.8 million sq ft (2.8 million sq m) in 2018. The combined effect of incremental demand over 2018-2021 and additional supply during the same period should strengthen rents by a CAGR of 1.7% till 2021 while also pushing vacancy to 15.1%.

We recommend tech occupiers planning to expand in Bengaluru to make early commitments to space as we expect rental appreciation.

As expanding flexible workspace operators offer new-style offices, we advise developers to offer premium services and flexibility to tenants, at least in the peripheral locations with high vacancy, to retain leasing momentum.

		Q4 2018	Full Year 2019	2018–21 Annual Average
Demand	> The technology sector will likely be the key driver of demand followed by the banking, financial services and insurance, flexible workspace and consulting sectors.	13.2 mn sq ft	45.7 mn sq ft	46.8 mn sq ft
Supply	> We expect substantial new supply in Bengaluru, the NCR and Hyderabad in 2019 as developers respond to steady demand.	7.7 mn sq ft	51.3 mn sq ft	46.7 mn sq ft

		QOQ / End Q4	YOY / End 2019	Annual Average Growth 2018–21 / End 2021
Rent	> We expect average rents to rise at an average annual rate of 1.7% over 2018-2021 driven by high-quality assets in core locations.	0.5% / INR82.4	1.9% / INR83.9	1.7% / INR86.7
Vacancy	> We expect the scheduled supply pipeline, if developed according to current schedules, to boost vacancy over the next three years. This should have a limited impact on rents as high quality assets command a premium.	-2.7pp / 10.6%	3.4pp / 14.0%	1.5pp / 15.1%

Source: Colliers International

Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR69.55 as on 31 December 2018

TECHNOLOGY, FLEXIBLE WORKPLACE AND BFSI DRIVE DEMAND

2018 gross leasing activity across seven major cities in India was 50.0 million sq feet (4.7 million sq metres). This was the highest in the last eight years and was driven by buoyant leasing in Bengaluru and Delhi-NCR. Compared to 2017, gross leasing increased by 17% as occupiers continued to expand and consolidate. The top three sectors contributing to gross leasing were IT-ITeS on 43% of the total, flexible workplaces on 14% and BFSI (banking, finance and insurance) on 12%.

The average leased area in India has declined by 18% from 45,200 sq feet (4,200 sq metres) in 2016 to 37,100 sq feet (3,448 sq metres) in 2018. Although the number of transactions has increased, the declining average lease size implies shrinking workplaces as a result of increased efficiency with improved per square foot occupancy.

New supply declined by 20% compared to 2017 and stood at 26.3 million sq feet (2.4 million sq metres) in 2018. The delay in completions owing to a slow pace of construction and approvals resulted in the deferment of new supply. Bengaluru had the highest quantity of new supply at 8.0 million sq feet (743,200 sq metres), followed by Pune at 5.8 million sq feet (538,800 sq metres).

In Q4, overall rental values increased by 2.5% yoy across major cities against a backdrop of buoyant leasing and a decline in new supply. Hyderabad noted the highest increase in rental values at 8% followed by Bengaluru where rents increased by 5%.

We expect the peripheral locations in major cities such as Bengaluru, NCR and Mumbai to gain occupier attention as they offer better quality contiguous space at lower rents. Moreover, flexible workplace operators in both central as well as peripheral business districts may see increased leasing. However, net take-up of space by occupiers may see lower growth given the growing need for workspace efficiency and cost effectiveness.

Source: Colliers International

BENGALURU DOMINATES OFFICE LEASING ACTIVITY

Summary & Recommendations

2018's office market performance reaffirms Bengaluru's pivotal position in office demand among the seven major cities in India, accounting for the highest proportion of leasing volume. Despite leasing activity picking up in other southern cities, we advise occupiers to retain confidence in Bengaluru as it is one of the fastest growing cities in Asia and offers the requisite pool of talent for tech occupiers.

> We continue to recommend that developers adhere to completion timelines to cater to strong occupier demand.

> In our opinion, occupiers should consider pre-leasing space as we expect rents to rise.

		Q4 2018	Full Year 2019	2018–21 Annual Average
Demand	> We expect robust demand of around 14 million sq ft (1.3 million sq m) in 2019, similar to 2018.	▲ 2.6 mn sq ft	▲ 14.0 mn sq ft	▲ 14.1 mn sq ft
Supply	> In light of buoyant office demand, developers are launching new projects. We forecast a robust supply pipeline of 36.8 million sq ft (3.4 million sq m) over 2019-2021.	▼ 2.8 mn sq ft	▼ 16.0 mn sq ft	▲ 11.2 mn sq ft

		QOQ / End Q4	YOY / End 2019	Annual Average Growth 2018–21 / End 2021
Rent	> We project rents to increase by 4.5% compounded annually over 2018-2021.	0.0% ◀ ▶ INR78.7	4.0% ▲ INR81.8	4.5% ▲ INR89.8
Vacancy	> We expect healthy demand in preferred locations to lower the vacancy level to 7.0% by 2021 from the current 8.8%	0.0pp ◀ ▶ 8.8%	0.5pp ▲ 8.5%	-0.6pp ▼ 7.0%

Source: Colliers International
Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR69.55 as on 31 December 2018

Colliers INTERNATIONAL

HEALTHY LEASING MOMENTUM TO CONTINUE IN 2019

Bengaluru retained its leading position in office leasing among the seven major cities in India, representing 28% of pan-India leasing volume, despite 2018 witnessing 14 million sq feet (1.3 million sq metres) of gross absorption, a decline of 9% yoy. The last quarter of 2018 witnessed 2.6 million sq feet (241,635 sq metres) of gross leasing, which is a 30% decline from the previous quarter. However, we expect Bengaluru to continue with an average annual leasing momentum of 14.1 million sq feet (1.3 million sq metres) over 2018-2021.

Demand for Grade A office space in Q4 2018 was driven by expansion and relocation by technology occupiers, accounting for 56% of total leasing volume. Other sectors driving demand were the banking sector with 11%, engineering and manufacturing with 9% and flexible workspace operators with 7%. Other sectors* accounted for 17% of leasing activity.

Despite a decline in the number of deals in 2018 compared to the previous year, the average lease increased from 48,000 sq feet (4,460 sq metres) in 2017 to 55,340 sq feet (5,143 sq metres) in 2018. Large deals over 100,000 sq feet (9,293 sq metres) constituted around 70% of the total gross leasing in 2018, implying an increase in business confidence.

Outer Ring Road (ORR) continued to garner occupier interest resulting in 48% of the total gross leasing in 2018. Other micromarkets that saw notable transaction activity were the Secondary Business District (SBD) with 15%, and the Central Business District (CBD) with 12%. The CBD is gaining traction mainly from flexible workspace operators. Other micromarkets such as Whitefield and North Bengaluru recorded 7% and 6% of gross leasing, respectively.

We expect infrastructure upgrades such as the six elevated corridors, the steel flyover, the Peripheral Ring Road, a suburban rail network and the ongoing Namma Metro project to ease mobility of commuters at an inter- and intra-city level, thus improving regional connectivity and preparing the city for a further expansion of development .

Bengaluru, gross effective rental values, Q4 2018

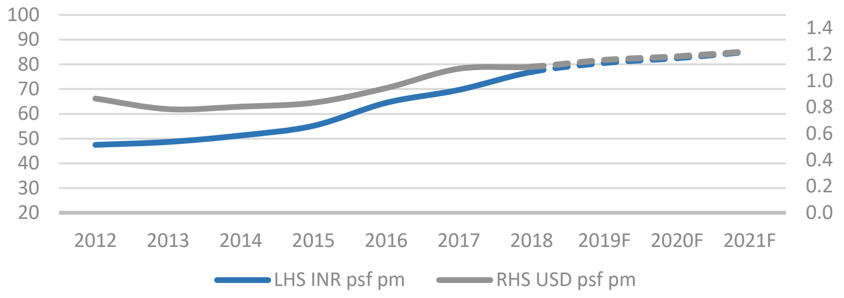
	Q4 2018 (INR psf pm)	Q4 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
CBD[1]	120- 200	1.7 – 2.9	0.0	6.7
SBD (Indiranagr-Koramangala)	90 - 150	1.3– 2.1	0.0	4.3
Outer Ring Road (Sarjapur - Marathahalli)	83 - 92	1.2 – 1.3	0.0	2.9
Outter Ring Road (K.R. Puram - Hebbal)	78 - 88	1.1 – 1.3	0.0	7.1
Bannerghatta Road	70 - 95	1.0 – 1.4	0.0	13.8
Hosur Road	35 - 45	0.5 – 0.6	0.0	8.1
EPIP Zone/Whitefield	38 - 55	0.6 – 0.8	0.0	16.3
Electronic City	38 - 48	0.6 – 0.7	0.0	7.5
North (Hebbal - Yelahanka)	45 - 78	0.7 – 1.1	0.0	5.1
Others[2]	55 - 70	0.8 – 1.0	0.0	0.0

Source: Colliers International
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

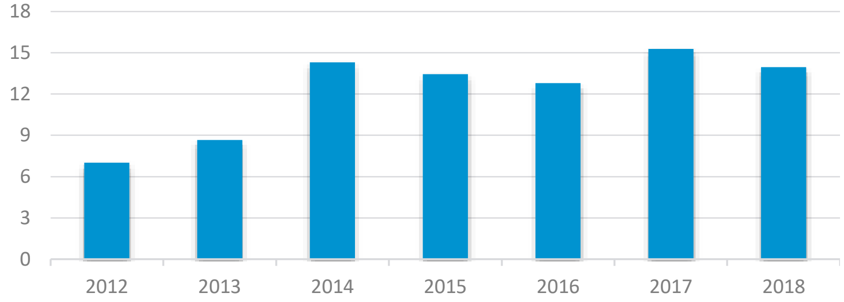
*Other sectors include ecommerce, human resources and healthcare.

Bengaluru, rental trend 2012-2021F



Source: Colliers International

Bengaluru, gross office absorption (million sq ft)



Source: Colliers International

Bengaluru, major leasing transactions, Q4 2018

Client	Building Name	Area (sq ft)	Location
Nvidia Graphics Private Limited	Bagmane Constellation Business Park	500,000	ORR
Reliance Jio	Avana @One	300,000	Sarjapur Road
Accenture	RGA Tech Park	296,770	Sarjapur Road
Honeywell	Kalyani Tech Park	151,731	ORR
Sapient	Prestige Cessna Business Park	150,000	ORR

Source: Colliers International
Note: All figures are based on market information as of 31 December 2018

NEW LAUNCHES INFLATE SUPPLY FORECAST

The fourth quarter of 2018 witnessed notable supply of 2.86 million sq feet (265,800 sq metres), a threefold increase from the previous quarter. However, 2018 overall witnessed a decline of 37% compared to the previous year, with only 8.0 million sq feet (743,494 sq metre) of Grade A supply. Developers are optimistic for Bengaluru's increasing demand for Grade A office space and have launched a further round of new projects. Thus, we have revised our forecast to 36.8 million sq feet (3.4 million sq metres) of Grade A supply over 2019-2021.

ORR continues to be the most active micromarket, hosting 37% of the upcoming supply. This is followed by Whitefield with 27%, North Bengaluru with 15%, SBD with 8% and the remaining in locations such as CBD, Electronic City and others accounting for 13% of the total upcoming supply over 2019-2021.

Despite notable supply, we expect rental values to rise at a compounded annual rate of 3.5% due to heightened demand. 2018 witnessed a 4.8% rental increase led by micromarkets such as Whitefield, Electronic City and Bannerghatta Road. The dedicated efforts by the government to improve infrastructure is likely to boost the commercial development in the city.

Based on the current trends of continued leasing by the technology sector, we foresee an impending supply crunch in the coming years, that is expected to result in strong rental growth. However, strong fundamentals such as higher economic growth of around 9.6% over the next five years and the availability of a vast talent pool should give Bengaluru an edge over other major southern cities. We recommend developers adhere to completion timelines so as to retain occupier interest in Bengaluru.

RISE IN NEW GRADE A SUPPLY

Summary & Recommendations

In 2018, the NCR saw 10.1 million sq ft (935,530 sq m) of leasing activity. The NCR office market is likely to retain its position as the second most active market across the country with respect to gross absorption. However, we expect the vacancy level to rise to 29.9% from the current 28.1% by 2021 owing to robust upcoming supply during the same period.

- In line with our earlier prediction, average rents are likely to rise marginally over the next three years.
- We recommend cost-conscious occupiers with large space requirements to expand in locations such as NOIDA Expressway and GCER since these districts offer rents up to 50% lower than in secondary and established business districts.

		Q4 2018	Full Year 2019	2018–21 Annual Average
Demand	> We expect gross absorption to remain steady, averaging 9.3 million sq ft (866,785 sq m) over the next three years driven by technology and consulting occupiers.	▲ 2.2 mn sq ft	▼ 9.2 mn sq ft	▼ 9.5 mn sq ft
Supply	> Based on developers' latest construction schedules and market updates, we expect the NCR market to add another 43.0 million sq ft (4.0 million sq m) between 2019-21.	▼ 850,000 sq ft	▲ 12.9 mn sq ft	▲ 11.5 mn sq ft

		QOQ / End Q4	YOY / End 2019	Annual Average Growth 2018–21 / End 2021
Rent	> We expect rents to increase over the next three years led by demand in key business districts and premium buildings in Gurugram and NOIDA.	0.1% ▲ INR94.7	0.9% ▲ INR95.5	0.7% ▲ INR96.7
Vacancy	> Major upcoming supply in the satellite cities of NOIDA and Gurugram should push the vacancy rate from 28.1% in Q4 2018 to 29.9% in Q4 2021.	-1.4pp ▼ 28.1%	0.1pp ▲ 28.2%	0.6pp ▲ 29.9%

Source: Colliers International

Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR69.55 as on 31 December 2018

RECORD ABSORPTION LEVELS WITH MUTED SUPPLY

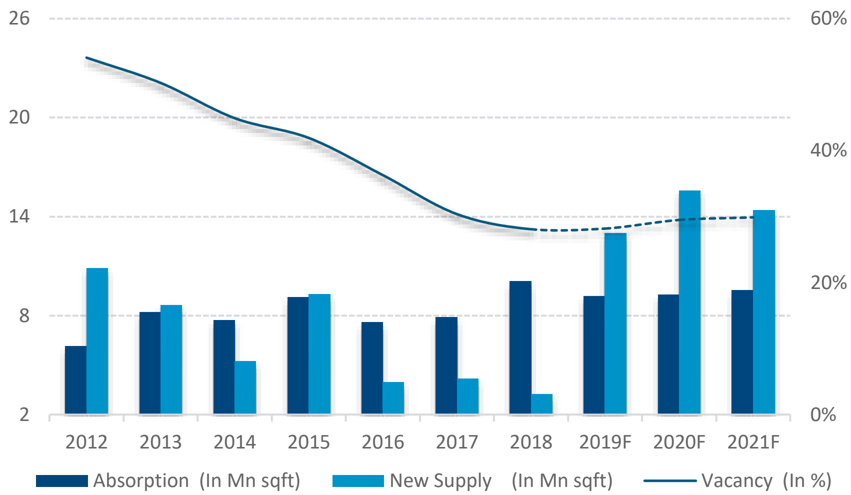
In 2018, the National Capital Region (NCR) recorded the highest leasing volume in the past eight years. The overall absorption of the region was 10.1 million sq feet (938,320 sq metres) in 2018, a 27.3% yoy increase. In Q4 2018, the NCR witnessed three major pre-commitments in Gurugram totaling 435,000 sq feet (40,410 sq metres). These are likely to be absorbed in 2019.

Across NCR, demand came primarily from the IT-ITeS sector, accounting for 24.1% of total leasing. This was followed by Banking, Finance and Insurance Services (BFSI) sector with 16.7% and engineering and manufacturing sector which accounted for about 15.1% of total leasing. Due to delays in construction, new completions during 2018 declined by 23% over 2017 to stand at 3.2 million sq feet (297,290 sq metres).

As a major trend, high rents coupled with lack of availability of large floor plates in prime locations in Delhi drove occupiers to other preferable micromarkets in satellite cities. Locations that offer well-maintained office space and excellent connectivity with other parts of the region garnered occupiers' interest. Therefore, micromarkets such as NOIDA Expressway accounted for 13.8% of the overall leasing in the NCR, followed by Cyber City (Gurugram) with 12.6% and Udhyog Vihar (Gurugram) at 8.9%. The average asking rent for these micromarkets is INR79 per sq feet per month (USD1.1 per sq feet per month) which is 16.6% lower than the region's average rent of INR94.7 per sq feet per month (USD1.3 per sq feet per month).

As the metro-rail corridor between NOIDA and Greater NOIDA is scheduled to be operational from Q1 2019, we foresee that these markets will remain popular with occupiers.

NCR, gross absorption, supply & vacancy trend 2012-2021F



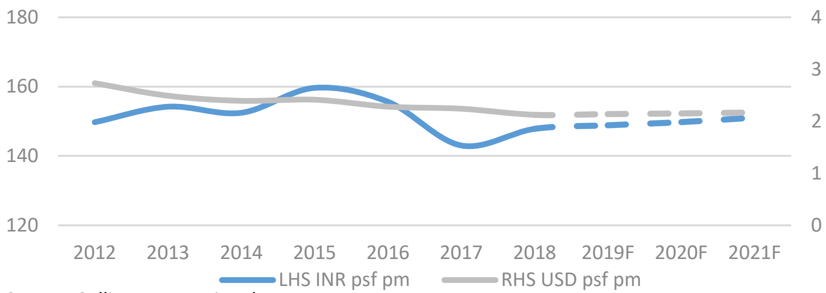
Source: Colliers International

NCR, major leasing transactions, Q4 2018

Client	Building Name	Area (sq ft)	Location
Tech Mahindra	Knowledge Boulevard	150,000	NOIDA Institutional
WeWork	Delhi One	150,000	NOIDA Commercial
Teleperformance	Individual Building	85,000	Udhyog Vihar
Yatra	Gulf Adiba	80,000	Udhyog Vihar
Hero Fincorp	Individual Building	60,000	Mohan Cooperative
DCM	Bharti Worldmark	49,000	Aerocity

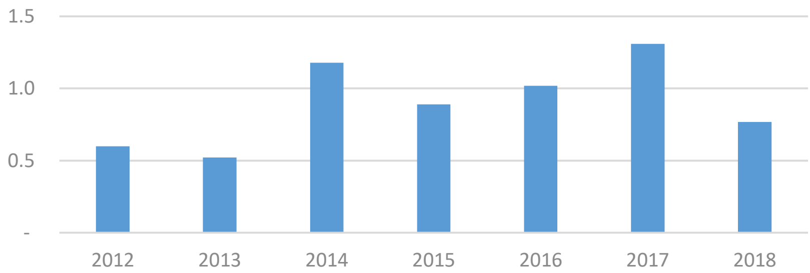
Source: Colliers International
Note: All figures are based on market information as on 31 December 2018

Delhi, rental trend 2012-2021F



Source: Colliers International

Delhi, gross office absorption (million sq ft)



Source: Colliers International

Delhi, gross effective rental values, Q4 2018

	Q4 2018 (INR per sq feet pm)	Q4 2018 (USD per sq feet pm)	QOQ Change (%)	YOY Change (%)
Connaught Place (CBD)	140 – 425	2.0 – 6.1	0.0%	0.0%
Nehru Place	150 – 200	2.1 – 2.9	0.0%	0.0%
Saket	110 – 180	1.6 – 2.6	0.0%	0.0%
Jasola	80 – 120	1.1 – 1.7	0.0%	2.6%
Okhla	40 – 87	0.6 – 1.2	0.0%	1.6%
Aerocity	180 - 200	2.6 – 2.9	0.0%	8.6%

Source Colliers International
Note: Indicative Grade A rentals

DECLINE IN LEASING ACTIVITY

In 2018, Delhi's office market recorded gross absorption of 770,000 sq feet (71,535 sq metres), representing an annual reduction of 41.4% owing to limited availability in quality developments.

The Aerocity micromarket remained a favourite amongst the corporate occupiers. In 2018, Aerocity accounted for 29.3% of the overall leasing followed by the Central Business District (CBD) with 13.6%. The Secondary Business Districts (SBD) such as Saket, Nehru place and Jasola together represented 19.6% of the office space take-up.

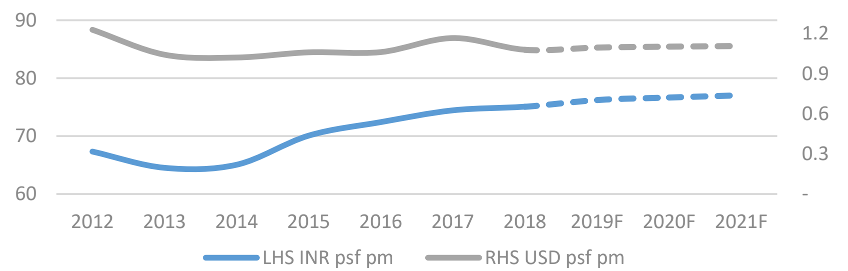
In 2018, leasing activity was led by occupiers in the engineering & manufacturing sector, accounting for 24% of gross absorption, followed by the BFSI sector representing 21%. Flexible workspace operators leased 9.3% of space in 2018, which is 7.4 pps higher than in 2017.

In the last two quarters of 2018, an additional 400,000 sq feet (37,160 sq metres) of supply was released into the market. Looking at future development plans from 2019-2021, Delhi is planned to see 3.9 million sq feet (359,535 sq metres) of office supply, increasing the existing office stock by 26.4%.

The city-wide average asking rents rose 2.6% yoy, and the growth in rents are in direct relation to the limited office supply.

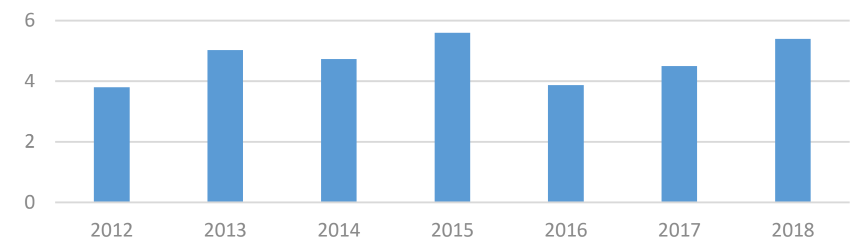
Against the backdrop of robust upcoming supply over the next three years, we expect the average city vacancy rate to rise from the current 10.5% to 12.3% by the end of 2021. The higher vacancy rate will probably flatten the rental growth over the next three years in Delhi.

Gurugram, rental trend 2012-2021F



Source: Colliers International

Gurugram, gross office absorption (million sq ft)



Source: Colliers International

Gurugram, gross effective rental values, Q4 2018

	Q4 2018 (INR per sq feet pm)	Q4 2018 (USD per sq feet pm)	QOQ Change (%)	YOY Change (%)
MG Road	110 - 140	1.6 – 2.0	0.0%	2.0%
Golf Course Road	110 – 200	1.6 – 2.9	0.0%	0.0%
Institutional Sectors (Sectors 44, 32 and 18)	60 - 90	0.8 – 1.3	0.0%	0.0%
Golf Course Extension/Sohna Road	50 – 75	0.7 – 1.1	0.0%	4.2%
National Highway 8	40 - 130	0.6 – 1.8	0.0%	0.0%
Udhyog Vihar and Industrial Sectors	50 - 70	0.7 – 1.0	0.0%	0.0%
Manesar	25 – 35	0.3 – 0.5	0.0%	0.0%
DLF Cyber City (IT)	118 – 120	1.7 – 1.7	0.0%	2.6%

Source Colliers International
Note: Indicative Grade A rentals

RISE IN LEASING; GCER SEEING HIGH OCCUPIER INTEREST

In 2018, Gurugram witnessed gross absorption of 5.4 million sq feet (500,750 sq metres), an increase of 19.8% yoy. The Cyber City micromarket emerged as the most preferred location, constituting 21.7% of overall leasing activity, followed by Golf Course Extension Road (GCER) and Golf Course Road at 15.8% and 12.1%, respectively.

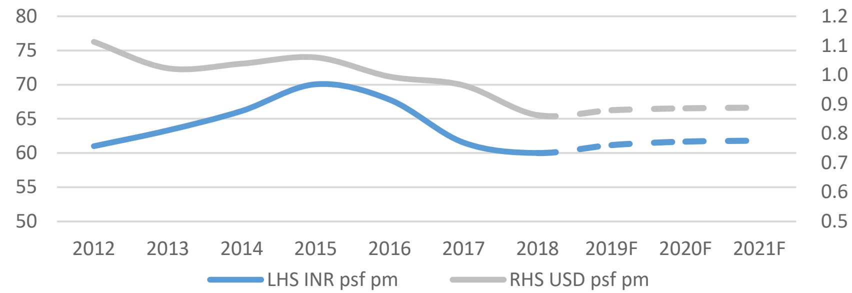
On the supply front, the city witnessed 1.4 million sq feet (127,280 sq metres) of new supply, which is the lowest since 2009. This can be attributed to the fact that the developers are going slow on completing new projects in the wake of persistently high vacancy rates. Gurugram has a supply pipeline 24.6 million sq feet (2.2 million sq metres) during 2019-2021, which should increase the city-wide Grade A office stock by 30.9%.

As projected in our earlier reports, GCER has emerged as a new commercial hub. We expect the Grade A supply pipeline in this micromarket to keep pace with leasing activity over the next three years. Occupiers should look at expanding or relocating to GCER as it offers great connectivity with quality real estate at rents 17.6% lower than the city average.

In 2018, average rents in Gurugram increased by 0.9% yoy, however the highest rental growth of 4.2% yoy was observed in the GCER micromarket due to increased occupier demand. Overall, we expect average asking rents to remain stable with a modest growth of 0.6% CAGR in the next three years.

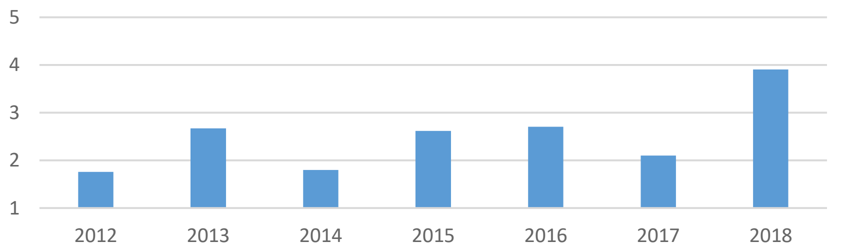
Colliers forecasts Gurugram's office market to remain one of most prominent, with about 14.5 million sq feet (1.35 million sq metres) of cumulative leasing over the next three years. To complement that, a robust supply pipeline of 24.6 million sq feet (2.2 million sq metres) is scheduled to be delivered by the end of 2021. As a result, the vacancy rate is likely to stay above 30% in the next three years.

NOIDA, rental trend 2012-2021F



Source: Colliers International

NOIDA, gross office absorption (million sq ft)



Source: Colliers International

NOIDA, gross effective rental values, Q4 2018

	Q4 2018 (INR per sq feet pm)	Q4 2018 (USD per sq feet pm)	QOQ Change (%)	YOY Change (%)
Commercial Sectors[1]	65 – 90	0.9 – 1.3	0.0%	0.0%
Institutional Sectors[2] (NON IT)	75 – 85	1.0 – 1.2	0.0%	0.0%
Institutional Sectors (IT)[2]	35 – 45	0.5 – 0.6	0.0%	0.0%
Industrial Sectors (IT)[3]	35 – 45	0.5 – 0.6	0.0%	0.0%
NOIDA Expressway	55 – 60	0.8 – 0.8	0.0%	0.9%

Source Colliers International; [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)
Note: Indicative Grade A rentals

HIGHEST EVER LEASING ACTIVITY, AMPLE SUPPLY TO MEET DEMAND

NOIDA's office market witnessed record leasing activity in 2018 at 3.9 million sq feet (363,250 sq metres), registering a significant increase of 86.2% yoy. The IT-ITeS sector continues to be the largest occupier accounting 28% of overall absorption, followed by the engineering & manufacturing sector at 24% and the BFSI sector with 13% of the overall leasing in 2018.

In 2018, the NOIDA's Grade A office market saw new completions of 1.5 million sq feet (137,495 sq metres) increasing the city-wide stock by 5.2%. However, being motivated by the increased corporate demand, we project developers will look at completing their ongoing projects amounting to 14.4 million sq feet (1.3 million sq metres) by the end of year 2021.

In line with our previous projections, the micromarket of NOIDA Expressway has gained importance and constituted 35% of the overall leasing. Amongst all the sectors, occupiers hailing from the engineering & manufacturing background rented about 50% of the Grade A space in NOIDA Expressway this year.

In 2018, rents did not rise in the NOIDA office market as the current vacancy rate, at 30.1%, is quite high compared to other markets. Despite a sizeable supply of 14.4 million sq feet (1.3 million sq metres) scheduled by the end of 2021, we anticipate rents to increase at 0.8% CAGR due to steady demand from technology occupiers.

In our opinion, value will be the key factor driving occupier demand in NOIDA. The leasing trend is moving towards micromarkets such as NOIDA Expressway and the Commercial sectors which constitute newly built Grade A buildings with great connectivity to other parts of the NCR. To supplement that, the upcoming Aqua Line metro corridor will probably result in increasing attractiveness of the NOIDA Expressway micromarket amongst the corporate occupiers.

MEDIA & ADVERTISING SECTOR DRIVE ABSORPTION

Summary & Recommendations

In Q4 2018, Mumbai recorded gross absorption of 2.1 million sq ft (195,167 sq m), registering a qoq increase of 5.7%. Media and advertising companies accounted for 22% of quarterly leasing activity, displacing flexible workspace operators as the top sector for demand after a long period of expansion.

- We recommend developers to expedite completion of their projects in order to capitalize on positive occupier sentiment in the market. We also advise developers to align their plans to the new DP 2034 which is likely to come in force in early 2019.
- We suggest BFSI occupiers looking for premium front-office space should focus on BKC, while cost-sensitive occupiers should evaluate options in Lower Parel and Andheri micromarkets.

		Q4 2018	Full Year 2019	2018–21 Annual Average
Demand	We expect gross absorption to increase, driven by Banking and Financial Services Institution (BFSI) occupiers.	▲ 2.0 mn sq ft	▲ 5.5 mn sq ft	▲ 6.3 mn sq ft
Supply	About 9.0 million sq ft (840,000 sq m) of new supply is scheduled to appear during 2019-2021.	▲ 1.0 mn sq ft	▼ 3.0 mn sq ft	▲ 2.9 mn sq ft

		QOQ / End Q4	YOY / End 2019	Annual Average Growth 2018–21 / End 2021
Rent	We expect rents to appreciate at a CAGR of 1.8% till 2021. The preferred micromarkets of Andheri East, Lower Parel, BKC and Thane are likely to witness the fastest growth.	0.0% ◀▶ INR145.0	2.8% ▲ INR149.0	1.8% ▲ INR153.0
Vacancy	We expect incremental demand over 2019-2021 to match new supply during the same period, keeping vacancy at the current level of about 11% at the end of 2021.	-2.0pp ▼ 11.0%	1.0pp ▲ 12.0%	0.0pp ◀▶ 11.0%

Source: Colliers International
Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR69.55 as on 31 December 2018

DESPITE ROBUST LEASING, RENTS REMAINED STABLE

In Q4 2018, Mumbai recorded gross absorption of 2.1 million sq feet (195,170 sq metres), registering an increase of 5.7% qoq. Leasing activity was concentrated in the micromarkets of Andheri East (30%), Bandra-Kurla Complex-BKC (18%), LBS/Eastern Suburbs (16%) and Goregaon/JVLR (13%).

Leasing activity was dominated by media and advertising occupiers, which accounted for nearly 22% of quarterly gross absorption, replacing flexible workspace operators as the top contributors to gross leasing after several quarters. The media segment was closely followed by BFSI occupiers representing 21% of quarterly gross absorption and flexible workspace operators accounting for 12%. Two large deals, in the range of 150,000–300,000 sq feet (13,940-27,880 sq metres), led the leasing activity in Q4 2018. These deals were reportedly transacted by WPP Group and Netflix in the Andheri East and BKC micromarkets, respectively. 72% of the quarterly leasing activity was concentrated in non-IT developments while the remaining was in IT developments. In Q4 2018, no leasing was noted in IT-SEZs.

The growing need for workspace efficiency and a collaborative work environment increased demand for flexible workspaces in 2018. In 2018, flexible workspace operators accounted for 20% of gross absorption, second only to the BFSI sector which accounted for 25%. This represented a threefold increase from the level of 2017. Demand for flexible workspaces were mainly driven by increased demand from the IT industry, looking for ways to mitigate real estate costs and seeking flexible solutions. This led global and domestic flexible workspace operators such as WeWork, TableSpace and CoWrks to expand aggressively in the city.

Continuing with the trend in 2018, we expect the BFSI sector to drive leasing activity through H1 2019 due to steady enquiries by occupiers looking to consolidate their office spaces. For premium front-office space, BFSI occupiers should focus on BKC micromarket, while cost-sensitive occupiers should evaluate options in micromarkets such as Lower Parel and Andheri.

Mumbai, gross effective rental values, Q4 2018

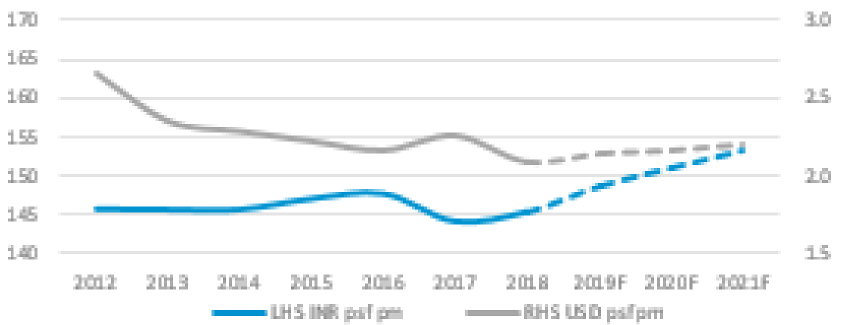
	Q4 2018 (INR psf pm)	Q4 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
CBD	200 - 250	2.9 - 3.6	0.0%	0.0%
Andheri East	85 - 130	1.2 - 1.9	0.0%	-2.3%
BKC	220 - 350	3.2 - 5.0	0.0%	2.7%
Lower Parel	140 - 195	2.0 - 2.8	0.0%	0.0%
Malad	80 - 105	1.2 - 1.5	0.0%	2.8%
Navi Mumbai	70 - 110	1.0 - 1.6	0.0%	5.9%
Powai	110 - 145	1.6 - 2.1	0.0%	6.3%
Worli/Prabhadevi	170 - 210	2.4 - 3.0	0.0%	0.0%
Goregaon/JVLR	100 - 130	1.4 - 1.9	0.0%	0.0%
Kalina	140 - 185	2.0 - 2.7	0.0%	-1.5%
Thane	70 - 80	1.0 - 1.2	0.0%	0.0%
LBS/Eastern Suburbs	90 - 125	1.3 - 1.8	0.0%	-2.3%

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

Despite significant gross absorption, overall rental values in the city remained stable over the quarter due to ample availability in existing Grade B developments. Rents appreciated by 0.9% over 2017 and were recorded as INR145 per sq feet per month (USD2.1 per sq feet per month) at the end of December 2018.

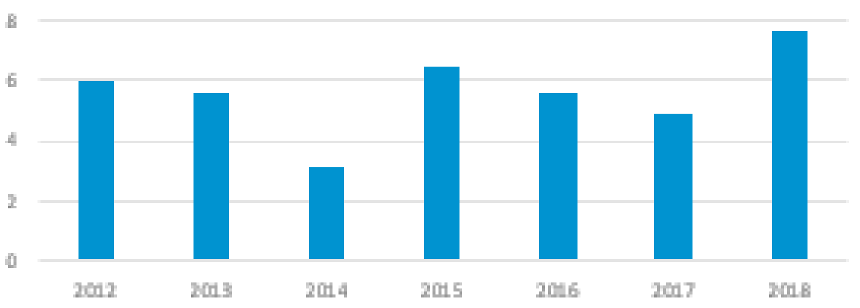
We expect rents to grow at a CAGR of 1.8% through 2021, especially in the preferred micromarkets of Andheri East, Lower Parel, BKC and Thane, owing to steady leasing demand and limited availability in Grade A developments.

Mumbai, rental trend 2012-2021F



Source: Colliers International

Mumbai, gross office absorption (million sq ft)



Source: Colliers International

Mumbai, major leasing transactions, Q4 2018

Client	Building Name	Area (sq ft)	Location
WPP Group	The Orb	300,000	Andheri East
HDFC Bank	Empire Plaza	162,000	LBS Road
Netflix Inc.	Godrej BKC	150,000	BKC
WeWork	Oberoi Commerz 2	122,300	Goregaon East

Source: Colliers International

Note: All figures are based on market information on 31 December 2018.

DESPITE INFUSION OF SUPPLY, VACANCY LEVELS DECLINED

In Q4 2018, Mumbai witnessed new supply of 1.03 million sq feet (95,725 sq metres). This is only the second time Mumbai has seen over 1.0 million sq feet (92,940 sq metres) of new supply, after Q2 2018. About 81% of the new supply was concentrated in the LBS Road/Eastern Suburbs micromarket, and the remaining in Navi Mumbai. These projects were completed later than scheduled; however, this should provide opportunities to occupiers looking for large contiguous floorplates in Grade A developments in these micromarkets.

Amidst new supply and robust leasing, vacancy declined by 2.0 pps qoq to 11% in Q4 2018. We advise developers to reformulate their construction plans and expedite completion of developments in order to capitalize on positive occupier sentiment in the market.

We expect about 9.0 million sq feet (840,000 sq metres) of new supply over 2019-2021. Most of the planned supply is concentrated in the Andheri East and Navi Mumbai micromarkets.

We expect robust leasing activity to continue over 2019-2021, and we forecast gross leasing of about 18.0 million sq feet (1.7 million sq metres) cumulatively over the three-year period. We anticipate the BFSI and pharmaceutical sectors to drive the leasing activity in 2019, owing to steady enquiries for space in the preferred micromarkets of Andheri East, Goregaon/JVLR and LBS/Eastern Suburbs.

We see the new Development Plan 2034 as a proactive move that would propel real estate development in Mumbai in the coming years. Colliers expects this plan to address the issues relating to long-standing bottlenecks by unlocking free space for development. One of the most promising inclusions for developers is the regulation to link permissible FSI to the road width and extending the use of permissible Floor Space Index (FSI) from suburbs to include the island city as well. This should restrict the height of residential and commercial towers on narrow roads, thus reducing pressure on the existing infrastructure. We recommend developers to align their plans to the new DP to maximize returns as soon as the DP comes into force.

STRONG SUPPLY PIPELINE TO PUSH VACANCY LEVELS

Summary & Recommendations

We expect the office market to witness strong demand from IT-ITeS occupiers over the next couple of years. The strong supply pipeline suggests that developers are capitalising on buoyant demand.

> We recommend developers to adhere to project timelines as demand remains strong.

> Pre-commitments continue to drive the SBD micromarket. Occupiers should pre-commit to space as vacancy levels are declining due to the high level of existing pre-commitments.

> In key locations such as the SBD and PBD, we expect rents to increase by 10-15% by year-end. Occupiers requiring space in 2019 should move quickly to make commitments for their requirements.

		Q4 2018	Full Year 2019	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.	▲ 3.6 mn sq ft	▼ 6.3 mn sq ft	▲ 6.8 mn sq ft
Supply	> More than 38.4 million sq ft (3.5 million sq m) of Grade A space under development should increase the total office stock by 50% over 2019-21.	▼ 1.5 mn sq ft	▲ 9.7 mn sq ft	▲ 9.9 mn sq ft
		QOQ / End Q4	**YOY / End 2019**	**Annual Average Growth 2018–21 / End 2021**
Rent	> SBD rents likely to continue rising driven by premium buildings; new supply is largely pre-committed leaving limited availability, thus average city rents are likely to increase 2.3% annually through 2021.	5.5% ▲ INR45.8	2.2% ▲ INR46.8	2.3% ▲ INR49.0
Vacancy	> Vacancy set to increase gradually to 15.0% by end-2021 due to the completion of planned projects.	0.9pp ▲ 5.9%	4.1pp ▲ 10.0%	3.0pp ▲ 15.0%

Source: Colliers International
Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR69.55 as on 31 December 2018

CITY SEES HIGHEST ABSORPTION IN LAST EIGHT YEARS

2018 witnessed gross absorption of 6.8 million sq feet (631,740 sq metres), the highest in the last eight years; this outcome reflected heightened leasing activity by IT-ITeS occupiers. Large transactions (deals greater than 1.0 million sq feet or 92,900 sq metres) constituted 63% of leasing activity during the year.

The IT-ITeS sector continued to be the dominant demand driver, accounting for 87% of transactions, followed by flexible workplace operators on 10%. The endeavour to push the state's gaming and animation industry also contributed to rising demand from technology companies, among other initiatives to attract occupiers.

Although the number of deals transacted in 2018 declined yoy, large size deals pushed the average deal size to almost double to 64,400 sq feet (5,983 sq metres). This indicates rising business confidence of technology occupiers as the city offers requisite talent pool, infrastructure and facilities.

According to Oxford Economics, Hyderabad should be the fourth fastest growing city in the world from 2019 to 2035 with GDP growth of 8.5%. We expect this to have a positive impact on real estate sector with office demand likely to rise further during the period.

We expect occupier demand to remain strong, supported by the upcoming supply over the next three years. We expect the steady demand in the SBD micromarket to push rents up 10% by the end of 2019.

Recently, the government announced Vision 2030 for Hyderabad aimed at creating a vibrant business ecosystem not limited to HiTec City, and instead offering a single integrated master plan for the next 20 years. This plan demonstrates the government's conscious effort to enable sustained growth after the notable growth seen over the past few years.

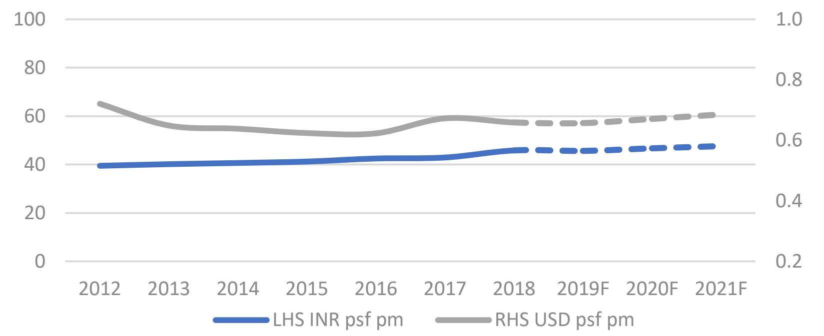
Hyderabad, gross effective rental values, Q4 2018

	Q4 2018 (INR psf pm)	Q4 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
CBD[1]	50-60	0.7 – 0.9	13.4	15.8
Off CBD[2]	45-50	0.6 – 0.7	0.0	0.0
SBD[3]	60-70	0.9 – 1.0	1.6	8.3
PBD[4]	25-35	0.4 – 0.5	9.1	9.1

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

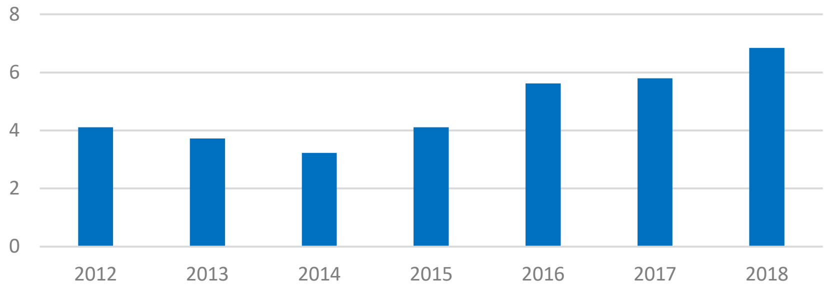
[1]Central Business District includes micromarkets such as Banjara Hills Road No.1,2, 10 and 12
[2] Off Central Business District includes micromarket such as Begumpet, Somajiguda
[3]Secondary Business District includes micromarkets such as Madhapur including HITEC City, Gachibowli, Nanakramguda, Manikonda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

Hyderabad, rental trend 2012-2021F



Source: Colliers International

Hyderabad, gross office absorption (million sq ft)



Source: Colliers International

Hyderabad, major leasing transactions, Q4 2018

Client	Building Name	Area (sq ft)	Location
Qualcomm	RMZ Skyview	400,000	Raidurg
Intel	Salarpuria	400,000	Raidurg
Google	Salarpuria Capital	300,000	Nanakramguda
Microsoft	Salarpuria	230,000	Raidurg

Source: Colliers International
Note: All figures are based on market information on 31 December 2018.

SUPPLY PLANNED TO SURGE IN THE SECONDARY BUSINESS DISTRICT

In Q4 2018, Hyderabad witnessed new Grade A supply of about 1.4 million sq feet (134,245 sq metres), totaling 4.3 million sq feet (399,480 sq metres for 2018. We forecast new Grade A office completions of 38.4 million sq feet (3.5 million sq metres) over 2019-21. More than 90% of the upcoming supply is concentrated in the SBD micromarket, a market that has attracted occupiers owing to high connectivity and large quality developments. As a result, rental values in the SBD appreciated by 8% over 2018 despite the infusion of new supply. We advise developers to adhere to their construction schedules to cater to the steady demand.

The vacancy level increased over the last quarter by 0.9 pps owing to the infusion of supply in Q4 2018. The development pipeline suggests that vacancy levels will continue to increase over the next two years.

The State government's commitment to spend INR450 billion (USD6.5 billion) over the next three years to upgrade infrastructure in Greater Hyderabad should elevate the city's economic prospects. The infrastructure upgrades include construction of flyovers, skyways, underground cabling and the development of parks. These projects should improve the connectivity and are likely to attract occupiers and developers.

LEASING ACTIVITY AT A FIVE-YEAR HIGH

Summary & Recommendations

Pune recorded gross absorption of 2.3 million sq ft (210,040 sq m) in Q4 2018, a qoq increase of 28%. In line with our forecast, 2018 saw the highest annual gross absorption in the last five years, amounting to 6.7 million sq ft (620,820 sq m). Demand was driven by technology occupiers as they continued to expand in SEZs.

> We recommend developers expedite construction of SEZ developments and make them operational before March 2020 in order to take advantage of the fiscal benefits accrued under the Sunset Clause.

> We recommend occupiers looking to expand in SEZs for direct tax benefits should make pre-commitments in projects in advanced stages of construction to avoid delays in starting operations which may lead to disqualification.

		Q4 2018	Full Year 2019	2018–21 Annual Average
Demand	> We expect steady leasing activity to continue growing at current levels till 2021; pre-commitments in IT-SEZs are likely to continue.	▲ 2.3 mn sq ft	▲ 4.8 mn sq ft	▲ 5.3 mn sq ft
Supply	> About 14.3 million sq ft (1.3 million sq m) of new Grade A supply is due during 2019-2021. However, a portion of new supply may be deferred beyond 2021 due to regulatory delays.	▼ 883,700 sq ft	▲ 5.2 mn sq ft	▲ 5.0 mn sq ft

		QOQ / End Q4	YOY / End 2019	Annual Average Growth 2018–21 / End 2021
Rent	> We expect rents to strengthen at a CAGR of 3.7% through 2021; the key micromarkets of Baner, Bund Garden and Kharadi are likely to witness the fastest growth.	0.0% ◀ ▶ INR69.3	4.8% ▲ INR72.6	3.7% ▲ INR77.3
Vacancy	> Amidst a significant supply infusion but steady leasing activity, we expect the vacancy rate to remain subdued at around 6% till 2021.	-0.3pp ▼ 5.9%	0.1pp ▲ 6.0%	0.0pp ◀ ▶ 6.0%

Source: Colliers International
Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR69.55 as on 31 December 2018

Colliers INTERNATIONAL

DOMINATED BY TECHNOLOGY OCCUPIERS, ROBUST LEASING ACTIVITY TO CONTINUE; RENTS REMAINED STABLE

In Q4 2018, Pune recorded gross absorption of 2.3 million sq feet (210,040 sq metres), a quarterly increase of 28%. The full year 2018 saw 6.7 million sq feet (620,820 sq metres) of leasing activity. In line with our forecast, 2018 registered the highest annual gross absorption in the last five years.

In 2018 we saw occupiers demonstrate a clear preference for IT-Special Economic Zones (IT-SEZs). Almost half (48%) of the gross absorption in 2018 was recorded in IT-SEZ developments, while 29% and 23% of total leasing was recorded in IT and Non-IT developments respectively.

The micromarkets with considerable stock of IT-SEZ developments continued to attract occupiers' interest. In Q4 2018, 72% of the gross absorption was concentrated in the micromarkets of Senapati Bapat Road, Hinjewadi, Kharadi and Hadapsar/Fursungi, distributed amongst them almost equally. The remaining gross absorption was spread across the Airport Road/Pune Station, Baner and Bund Garden micromarkets.

Overall, the IT-ITeS sector accounted for the majority of demand, 49%, in Q4 2018, followed by flexible workspace operators on 19%, and engineering and manufacturing on 10%.

Reflecting positive occupier sentiment in the market, occupiers pre-committed spaces in line with their expansion plans. In Q4 2018, the city recorded 1.2 million sq feet (111,280 sq metres) of pre-commitments, which is equivalent to half the gross absorption recorded during the same period, and was driven by technology and flexible workspace operators. Against a backdrop of limited city-wide availability, as reflected by the single digit vacancy, occupiers are making commitments to space in buildings under construction.

Pune, gross effective rental values, Q4 2018

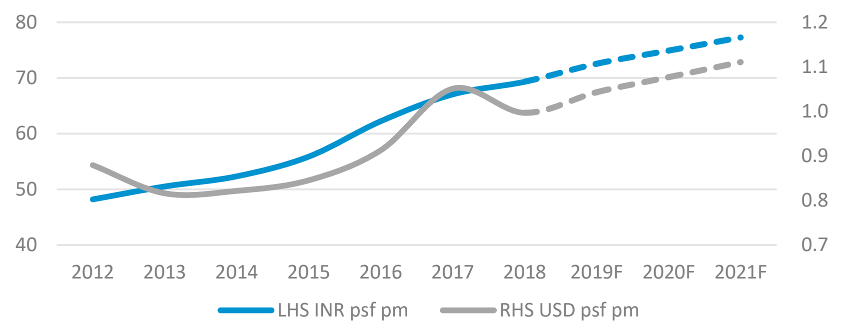
	Q4 2018 (INR psf pm)	Q4 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
Baner	60 - 72	0.9 - 1.0	0.0%	6.5%
Bund Garden	60 - 75	0.9 - 1.1	0.0%	5.5%
Airport Road/Pune Station	68 - 97	1.0 - 1.4	0.0%	4.4%
Aundh	63 - 66	0.9 - 0.9	0.0%	3.2%
Senapati Bapat Road	65 - 125	0.9 - 1.8	0.0%	0.0%
Bavdhan	50 - 52	0.7 - 0.7	0.0%	2.0%
Kalyani Nagar	60 - 68	0.9 - 1.0	0.0%	4.9%
Nagar Road	60 - 67	0.9 - 1.0	0.0%	5.8%
Hinjewadi	45 - 59	0.6 - 0.8	0.0%	4.0%
Hadapsar/Fursungi	70 - 78	1.0 - 1.1	0.0%	3.5%
Kharadi	60 - 105	0.9 - 1.5	0.0%	0.0%

Source: Colliers International
Note: Indicative Grade A rentals

We expect steady leasing activity to continue and forecast about 14.3 million sq feet (1.3 million sq metres) of cumulative gross absorption during 2019-2021. We expect absorption of pre-committed spaces to drive leasing activity in 2019, as nearly 60% of the pre-commitments recorded during 2017 and 2018 is likely to be absorbed during 2019.

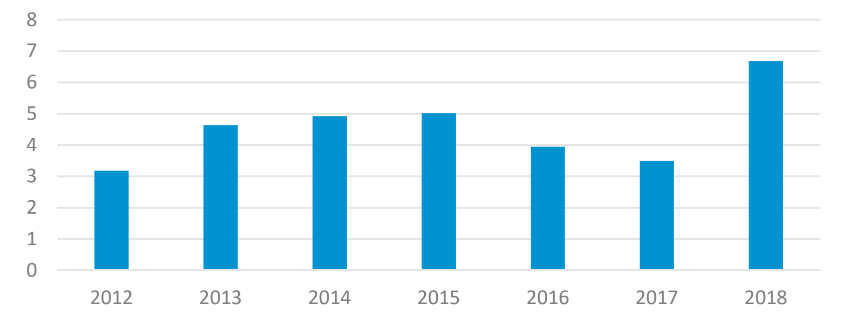
Although rents remained stable on quarterly basis, select micromarkets namely Baner, Nagar Road and Bund Garden witnessed strong growth of 5.5%-6.5% over the year.

Pune, rental trend 2012-2021F



Source: Colliers International

Pune, gross office absorption (million sq ft)



Source: Colliers International

Pune, major leasing transactions, Q4 2018

Client	Building Name	Area (sq ft)	Location
eClerx Services Limited	The Quadron	112,700	Hinjewadi
AWFIS	Godrej Eternia	48,000	Wakdewadi
Mitsubishi Electric	ICC Devi Gaurav Tech Park	47,900	Pimpri
Yash Technologies	Magarpatta Cybercity	44,000	Hadapsar

Source: Colliers International
Note: All figures are based on market information as on 31 December 2018.

DESPITE SIGNIFICANT SUPPLY INFUSION, OVERALL VACANCY LEVELS DECLINE

In Q4 2018, Pune witnessed new supply of about 883,700 sq feet (82,130 sq metres), 10% lower than the previous quarter. Of this, 57% was concentrated in the micromarket of Hadapsar/Fursungi, followed by Senapati Bapat Road on 38%, while the remaining 5% was spread across Baner and Kharadi. Almost 71% of the new supply constitutes non-IT developments while the remaining is IT-SEZ developments.

The vacancy rate declined by 0.3 pps over the last quarter to 5.9% in Q4 2018. The decline was led by the micromarkets of Kharadi, Bund Garden and Aundh that witnessed a vacancy decline in the range of 1.1-3.4 pps qoq.

We expect about 14.3 million sq feet (1.3 million sq metres) of new Grade A supply during 2019-2021, contributing 21% to the existing stock. This new supply is comprised of 45% IT developments, 28% non-IT developments and the remaining 27% in IT-SEZs. The majority of planned supply is likely to be concentrated in three micromarkets: Kharadi (32%), Baner (27%) and Airport Road (19%).

We expect part of the planned supply to be deferred due to delays in securing regulatory approvals. We recommend developers to reformulate their construction plans to concentrate on the existing occupier demand, especially for IT-SEZ developments. Also, developers should expedite construction of IT-SEZ developments and make them operational before 31 March 2020 in order to avail the fiscal benefits accrued under the Sunset Clause.

We recommend occupiers looking to expand in SEZs for direct tax benefits should pre-commit only in projects that are in advanced stages of construction to avoid delays in starting operations which may lead to disqualification.

Amidst the significant supply pipeline scheduled to be completed during 2019-2021 and robust leasing activity, especially in IT-SEZ developments, we expect rental values to strengthen by a 3.7% CAGR over 2019-2021.

NEW SUPPLY TO SUPPORT LEASING IN 2019

Summary & Recommendations

We expect leasing in Chennai in 2019 to surpass that of 2018, which witnessed a slowdown in Grade A gross leasing. However, regulatory reforms such as the Tamil Nadu ICT Policy and the relaxation of the FSI for commercial buildings, coupled with infrastructure upgrades should further support the demand for Grade A office space in Chennai over 2019-2021.

> With a few transactions in the finalisation stages, we expect an increase in office space take-up by flexible workspace operators in 2019.

> We advise occupiers to be strategic in selecting their office locations by making commitments to new supply in preferred locations with good connectivity that currently have limited availability.

		Q4 2018	Full Year 2019	2018–21 Annual Average
Demand	> We expect demand for Grade A office space in 2019 to surpass 2018, with gross absorption of 4.6 million sq ft (427,510 sq m)	▲ 970,000 sq ft	▲ 4.6 mn sq ft	▼ 4.5 mn sq ft
Supply	> We expect an addition of around 19.4 million sq ft (1.8 million sq m) of Grade A supply over 2019-2021, increasing office stock by over 35%.	▲ 130,000 sq ft	▲ 2.9 mn sq ft	▲ 5.5 mn sq ft

		QOQ / End Q4	YOY / End 2019	Annual Average Growth 2018–21 / End 2021
Rent	> Overall city rents to increase at a CAGR of 2.4% over 2018-2021 driven by premium buildings in preferred location.	0.6% ▲ INR56.2	2.5% ▲ INR57.1	2.4% ▲ INR60.1
Vacancy	> While the vacancy rate is likely to decline in 2019, we expect it to rise from 2020 onwards owing to an increase in new completions.	1.3pp ▲ 12.7%	-1.7pp ▼ 9.3%	3.6pp ▲ 16.3%

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

ENHANCED CONNECTIVITY AIDS LEASING IN OFF CBD LOCATIONS

Chennai recorded 3.9 million sq feet (364,310 sq metres) of gross leasing in 2018, which is a 18% decline from the previous year. This is likely due to low availability of Grade A office space in preferred locations such as Old Mahabalipuram Road (OMR) pre-toll and Mount Poonamallee High (MPH) Road. However, we expect the gross leasing over 2019-2021 to grow at a robust average annual pace of 4.5 million sq feet (426,140 sq metres).

2018 also witnessed a decline in number of transactions as well as average transaction size from 22,500 sq feet (2,091 sq metres) to 19,000 sq feet (1,765 sq metres). Despite this slowdown, in view of the robust supply pipeline in preferred locations, we expect the leasing momentum to be well supported by supply over 2019-2021.

Compared to 2017, due to the low availability of Grade A office space, OMR Pre Toll witnessed less leasing, accounting for 20% of the total 2018 leasing volume, whereas in 2017, around 32% of take-up was in this micromarket. OMR Post Toll saw similar leasing momentum to 2017, accounting for 19% of the total leasing volume. In contrast to other micromarkets, Guindy is characterised by excellent road and metro connectivity, hence it witnessed increased leasing compared to 2017, representing 17% of 2018 leasing volume. Other micromarkets such as MPH Road and the Central Business District (CBD) also witnessed increased traction, accounting for 19% and 16% of the total 2018 leasing volume, respectively.

Demand for Grade A office space was driven by expansion and consolidation of companies in the Information Technology and Information Technology Enabled Services (IT-ITeS) sector, accounting for 37% of the total leasing volume in 2018. Banking, financial services and insurance (BFSI) witnessed heightened traction, accounting for 14% of the total leasing volume. Other sectors that garnered occupier interest in 2018 were engineering and manufacturing with 7%, and the media sector with 5% of total leasing volume. Flexible workspace operators almost doubled their space take-up yoy, accounting for 9% of leasing volume.

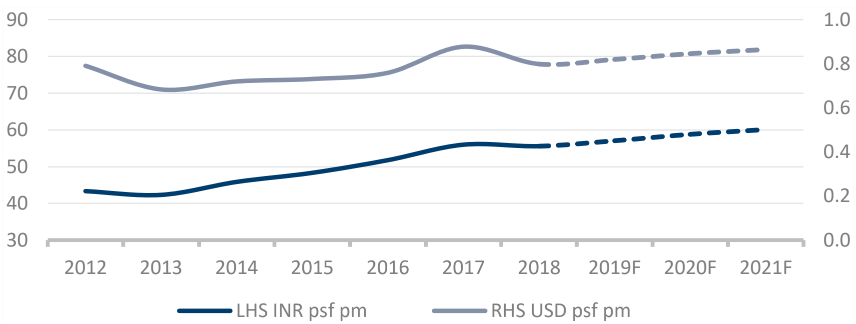
Chennai, gross effective rental values, Q4 2018

	Q4 2018 (INR psf pm)	Q4 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
CBD[1]	70 – 90	1.0 – 1.3	0.0	0.0
Off CBD[2]	60 – 75	0.9 – 1.1	0.0	0.0
GST Road[3]	35 – 45	0.5 – 0.6	0.0	0.0
MPH Road[4]	55 – 65	0.8 – 0.9	4.3	4.3
OMR pre-toll[5]	57 – 83	0.8 – 1.2	0.0	5.3
OMR post-toll[6]	32 - 45	0.5 – 0.6	0.0	10.0
Ambattur	30 – 45	0.4 – 0.6	0.0	0.0

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

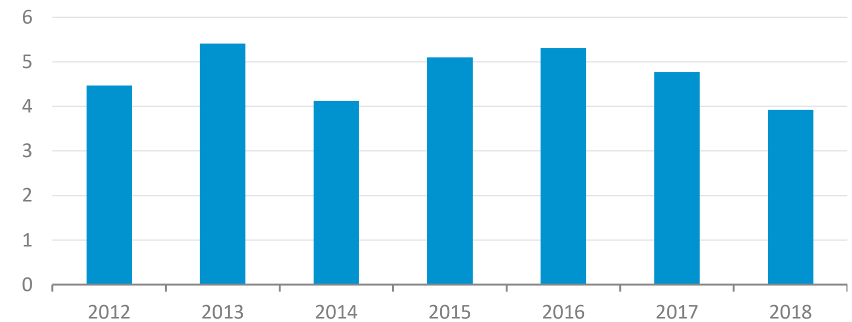
[1]Nungambakkam, Nandanam, Teynampet, RK Salai, Alwarpet, Egmore, T Nagar, Chetpet
[2]Anna Nagar, Kilpauk, Nelson Manikam Road, Vadapalani, Guindy, MRC Nagar, Adyar
[3]Grand Southern Trunk Road
[4]Mount-Poonamallee High Road
[5]Old Mahabalipuram Road Pre-Toll (Madhya Kailash – Perungudi)
[6]Old Mahabalipuram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

Chennai, rental trend 2012-2021F



Source: Colliers International

Chennai, gross office absorption (million sq ft)



Source: Colliers International

Chennai, major leasing transactions, Q4 2018

Client	Building Name	Area (sq ft)	Location
The Hive	SRP Stratford	88,225	OMR - Pre Toll
Smartworks	Olympia National Tower	75,330	Guindy
IndiQube	Brigade Vantage	60,620	OMR - Pre Toll
SRM Technologies	Olympia Teknos	52,000	Guindy
Infosys	RMZ One Paramount	46,157	MPH Road

Source: Colliers International
Note: All figures are based on market information on 31 December 2018

SPECIAL ECONOMIC ZONE (SEZ) SUPPLY DOMINATING PIPELINE

2018 witnessed a substantial addition of around 2.5 million sq feet (232,340 sq metres) of Grade A office space, a 41% increase from the previous year. Based on scheduled timelines of Grade A developers in the city, we project a robust supply pipeline of around 19.4 million sq feet (1.85 million sq metres) over 2019-2021. We expect this new supply to increase Chennai's total office stock by over 35%. As around 70% of the upcoming supply consists of IT-SEZ developments, we expect developers to expedite construction so as to transfer incentives to occupiers with the impending sunset clause in March 2020 that will terminate the tax benefits.

OMR Post Toll is scheduled to account for around 50% of the total upcoming supply over 2019-2021, providing a good opportunity for occupiers looking to relocate or consolidate and as hedge against an increase in rents. However, the preferred location for technology occupiers, OMR Pre Toll, is witnessing around 20% of the upcoming supply over 2019-2021.

In view of a robust supply pipeline supporting the demand for Grade A office space in Chennai, we expect rents to increase around 2.4% compounded annually over 2018-2021. This rental increase will likely be driven by micromarkets such as OMR Post Toll, OMR Pre Toll and MPH Road.

Fueling our expected increase of take-up in Chennai are the regulatory reforms such as the release of the Tamil Nadu ICT Policy and the relaxation of Floor Space Index (FSI) norms for commercial buildings from the earlier ratio of 1.5 to 2.0, along with infrastructure developments such as the completion of Phase II of the metro and the proposed elevated corridor over OMR.

DEMAND FROM INFORMATION TECHNOLOGY LIKELY STEADY

Summary & Recommendations

In Q4 2018, the Kolkata office market logged gross absorption of 215,500 sq ft (20,020 sq m), an increase of 5.0% yoy. This was driven mainly by the IT sector. However, overall vacancy also increased due to completion of a sizable IT-ITeS building in the Sector V micromarket.

- Initiatives such as the IT policy, the launch of a Silicon Valley Asia Hub and hosting of The Global Blockchain Congress are measures by the state government to attract IT occupiers to the city.
- In view of limited quality space and high rents in the CBD, we recommend occupiers consider relocating to PBD areas as these offer contiguous space at rents about 60% lower.

		Q4 2018	Full Year 2019	2018–21 Annual Average
Demand	Occupiers are likely to favour micromarkets like Sector V and PBD for affordable rents and availability of supply; we expect flexible workspaces to gain traction in 2019.	215,500 sq ft	1.0 mn sq ft	960,000 sq ft
Supply	We project new supply of about 2.4 million sq ft (218,320 sq m) during 2019-2021.	800,000 sq ft	1.6 mn sq ft	920,000 sq ft

		QOQ/ End Q4	YOY/ End 2019	Annual Average Growth 2018–21/ End 2021
Rent	We expect overall rents to grow at a 2.0% CAGR between now and 2021, with the PBD micromarket likely to witness the fastest growth.	0.0% INR61.0	2.5% INR 62.5	2.0% INR64.8
Vacancy	We expect the vacancy rate to fall due to steady demand projections and low upcoming supply.	1.4 pp 30.3%	0.6pp 30.9%	-1.5pp 25.8%

Source: Colliers International

Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR69.55 as on 31 December 2018

FLEXIBLE WORKSPACE OPERATORS ARE THE MAJOR DEMAND DRIVER IN 2018

The Kolkata office market witnessed a 13.8% increase in gross absorption in 2018. In Q4 2018, overall absorption was 215,500 sq feet (20,020 sq metres) with the full year 2018 reaching 910,000 sq feet (84,542 sq metres). In 2018, Sector V and the Peripheral Business District (PBD) areas remained the most active micromarkets in terms of leasing volume contributing 54% and 34% to total absorption, respectively. While lower rents and availability in Grade A buildings led the demand for micromarkets like Sector V and New Town, the Central Business District (CBD) area remained popular amongst occupiers looking for a well-connected location. However, owing to the limited availability of leasable office space in the CBD, the average transaction size in this micromarket was 42% lower than the city-average deal size which was 12,900 sq feet (1,120 sq metres).

Flexible workspace operators contributed 10% of the total leasing volume, while technology occupiers accounted for 29%. In terms of developments, IT-ITeS and IT-Special Economic Zones (SEZs) offices attracted 57% of the overall transaction volume and the remaining absorption took place in the non-IT office spaces.

Occupier expansion accounted for 82% of transactions, followed by companies relocating at 16%. Most of the offices in 2018 relocated to Sector V from the CBD and Secondary Business District (SBD) areas because of the availability of contagious space. We expect office absorption between 2019-2021 to be dominated by occupiers looking to expand to peripheral micromarkets in search of large contiguous space and competitive rents.

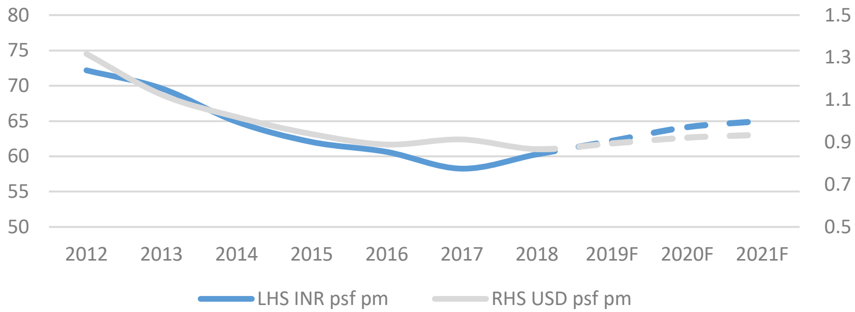
The Grade A office vacancy rate in Q4 2018 increased by 0.1pp over the past year. However, vacancy grew by 1.4 pps qoq to 30.3%. By the end of 2019, we expect the city-wide vacancy rate to be 30.9% due to the new supply scheduled to be delivered during the period.

Kolkata, gross effective rents, Q4 2018

	Q4 2018 (INR psf pm)	Q4 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
CBD[1]	90 - 120	1.3 – 1.7	0.0%	10.5%
SBD[2]	60 - 70	0.8 – 1.0	0.0%	0.0%
Sector V	40 - 45	0.6 – 0.6	0.0%	0.0%
PBD[3]	28 - 35	0.4 – 0.5	0.0%	0.0%

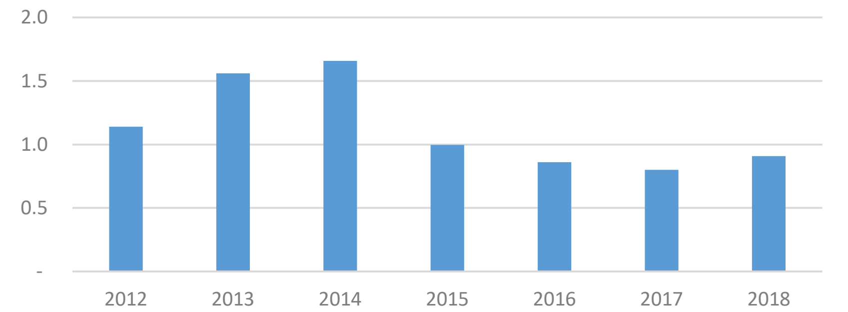
Source: Colliers International
[1]Park Street, Camac Street, Chowranghee Road, AJC Bose Road
[2]EM Bypass, Topsia, Ruby
[3]Salt Lake, New Town, Rajarhat
Note: Indicative Grade A rentals

Kolkata, rental trend 2012-2021F



Source: Colliers International

Kolkata, gross office absorption (million sq ft)



Source: Colliers International

Kolkata, major leasing transactions, Q4 2018

Client	Building Name	Area (sq ft)	Location
Capgemini	Candor Techspace	45,000	PBD
Decathlon	Mediaciti	25,000	Sector V
Mitsui OSK Lines	Ecocenter	16,000	Sector V
Bhushan Steel	Jasmine Tower	15,000	CBD

Source: Colliers International
Note: All figures are based on market information on 31 December 2018

MAJOR SUPPLY PLANNED IN SECTOR V

In Q4 2018, the Sector V micromarket witnessed highest new Grade A supply of the year, adding 800,000 sq feet (74,320 sq metres) to stock. Due to increased leasing momentum in 2018, we witnessed developers quickly completing their projects, which pushed the total supply to 1.3 million sq feet (125,420 sq metres) by the end of the year.

We project new supply of about 2.4 million sq feet (218,320 sq metres) over the next three years, increasing total stock by 8.9%. About 50% of the planned developments are in the Sector V micromarket, followed by the SBD micromarket on 43%, while the CBD is planned to account for 7.4%.

Kolkata hosted The Global Blockchain Congress – Consensus 2018, in an effort to attract companies in the Information Technology enabled Services (IT-ITeS) sector. The summit was focused on the integration of blockchain technology with various other industries. During the two-day event, the state government also partnered with the Indian Statistics Institute to set up a Blockchain centre of excellence. We expect initiatives like the Blockchain Congress and the Silicon Valley Hub Asia project to garner significant interest from the IT and allied industries. This should support demand for IT-ITeS and IT-SEZ office spaces in the next three years.

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