India Office, Q4 2016

Transaction activity crosses 40 million sq. ft. in 2016

Rents Up 31 Markets | Rents Stable 52 markets | Rents Down 1 Market | Demand (Y-O-Y) 9% | Supply (Y-O-Y) 12%

GROWTH CONCERNS AMIDST SIGNIFICANT POLICY IMPETUS

As per the data released by the government in November 2016, the Indian economy grew by about 7.3% during the quarter ending September 2016, as compared to 7.1% in the previous quarter. This upward momentum was attributed to an improved performance of several industry sectors, which recorded a growth rate higher than 7%, including 'Public administration and 'financial, insurance, real estate and professional services' amongst others. However, the latest advance growth estimates released by the government in January 2017 have lowered GDP growth for 2016-17 to 7.1%, as compared to 7.6% in the previous year. This indicates that economic growth could be touching a three year low, even though the complete impact of the demonetization policy is yet to be reflected in the analysis.

However, on a positive note, retail inflation (measured by consumer price inflation) reached a two year low, with provisional data for November 2016 indicating a rate of 3.63%, well within the Central Bank's target of 5% for 2017. Following the government's demonetization drive in November 2016, it was widely anticipated that the policy review by the Central Bank in December would result in the announcement of a rate cut. The Central Bank however, chose to maintain status quo, while doing away with the incremental Cash Reserve Ratio (CRR) that had been put in place as a temporary measure to curb the excess liquidity with banks post demonetization. So, while the Central Bank did not undertake a rate cut, the removal of the incremental CRR has allowed banks to pass on the benefits of the increased liquidity to consumers in the form of lower lending rates.

The year 2016 witnessed the introduction and amendment of many legislations, which led to a direct and an indirect impact on the sector. The most notable initiatives to impact the commercial segment were the parliamentary approval to the Real Estate (Regulation and Development) Act (RERA) (and its subsequent state-level implementation by H1 2017) and the introduction of modified guidelines for real estate investment trusts (REITs) in India in November. The direct policy impetus coupled with the impact of the government's recent demonetization drive is likely to result in the formalization and regulation of the sector. This in turn, is expected to boost transparency and investment flows into the commercial real estate sector, going forward.

While the year remained positive from a legislative perspective, National Association of Software and Services Companies (NASSCOM) made a downward revision on the growth projections for the IT sector for the current year, amidst global uncertainties. Also, as the sector is largely influenced by global IT corporates outsourcing their operations to India, the stance of the new US president on outsourcing will also play a key role in determining the growth trajectory of the IT sector as well as the commercial segment in India.

BANGALORE AND DELHI NCR (NATIONAL CAPITAL REGION) LED OFFICE SPACE TRACTION ON AN ANNUAL BASIS; MUMBAI AND HYDERABAD MADE A STRONG COMEBACK DURING 2016

Sustained occupier interest led to stability in quarterly office space leasing, with demand touching about 13.9 million sq. ft. during the last quarter of 2016, rising by about 20% on a q-o-q basis. Leasing during the quarter was mainly led by Bangalore and Delhi NCR, accounting for more than 50% of the total traction, followed by Pune and Mumbai. On an annual basis, gross absorption crossed the 40 million sq. ft. mark; touching close to 43 million sq. ft by the end of 2016, thereby registering a growth of 9% on a y-o-y basis.

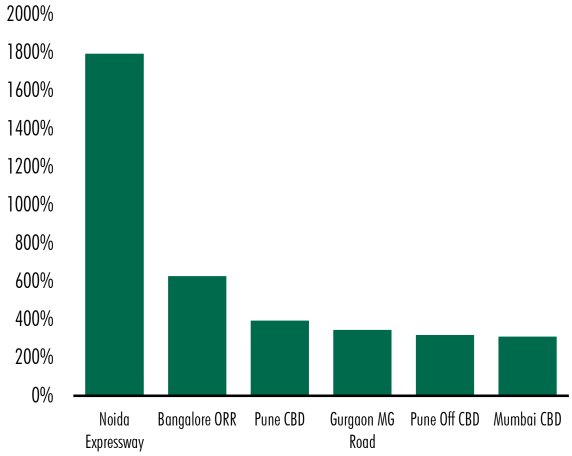
While Bangalore and Delhi NCR dominated office leasing on an annual basis (accounting for a share of about 47% in the overall space take-up), however, both cities individually saw a marginal drop in leasing activity in 2016. On the other hand, Mumbai and Hyderabad witnessed an increase in space take-up on an annual basis, accounting for a share of 14% each in leasing activity in 2016. Hyderabad in particular, witnessed a steep rise in occupier demand, with absorption more than doubling to cross 6 million sq. ft. during 2016.

Leasing activity in the quarter was mainly concentrated in key micro-markets of most leading cities; prominent locations being Gurgaon in Delhi NCR; Airoli, Malad, Goregaon, Vikroli and Thane/Navi Mumbai in Mumbai; Outer Ring Road, Whitefield and Electronic City in Bangalore; Raidurg and Madhapur (IT Corridor) in Hyderabad; the Old Mahabalipuram Road (OMR) stretch along Perungudi, Sholinganallur and Thoraipakkam in Chennai; Hinjewadi, Kharadi, Baner and Yerawada in Pune; and Salt Lake Sector V and Rajarhat in Kolkata.

RISE IN PRE-COMMITMENT ACTIVITY; MAINLY IN GURGAON, BANGALORE AND HYDERABAD

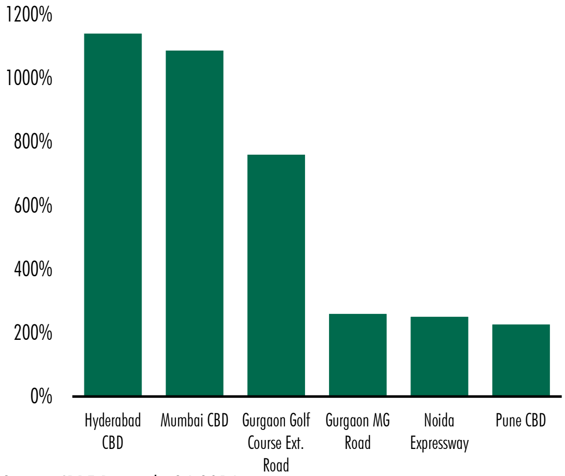
Pre-leasing activity rose on a quarterly basis, with more instances reported in Gurgaon, Bangalore and Hyderabad. Similar to the previous quarter, pre-let activity was driven mainly by IT/ITeS and BFSI (Banking, Financial Services, and Insurance) occupiers booking space in properties scheduled for completion in the coming quarters. Owing to lack of quality office spaces with larger floor plates in completed developments, several under-construction projects (particularly in peripheral micro-markets) attracted an increased number of enquiries. Furthermore, there were few pre-leases also reported in other cities, including Mumbai, Noida and Kolkata. Throughout 2016, more than 10 million sq. ft. of pre-leasing activity was by about 78% on a q-o-q basis. Bangalore and

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



Source: CBRE Research, Q4 2016.

Chart 2: Growth in Transaction Activity in Prominent Micro-markets (Y-o-Y)



Source: CBRE Research, Q4 2016.

reported across cities; mainly from corporates belonging to the IT/ITeS and BFSI sectors, along with a few instances from engineering and manufacturing and research, consulting and analytics firms.

SMALL TO MEDIUM-SIZED TRANSACTIONS (LESS THAN 50,000 SQ. FT.) REMAINED THE PREFERRED FORMAT OF OCCUPATION

Similar to the previous quarters, office demand was dominated by small and medium-sized space transactions. Small-sized transactions (less than 10,000 sq. ft.) made up close to 42% of all transactions reported during the quarter; with a similar share garnered by deals ranging between 10,000 – 50,000 sq.ft. The share of large-sized deals (greater than 100,000 sq. ft.) grew from 5% to 7% on a q-o-q basis. Bangalore, Mumbai, Pune and Gurgaon dominated the large-sized deal closures mainly from occupiers belonging to the IT/ITeS, engineering and manufacturing and research and consulting sectors. Key large-scale transactions included space take-up by leading corporates such as KPMG, Infosys, Accenture, Unisys and Shell, amongst others.

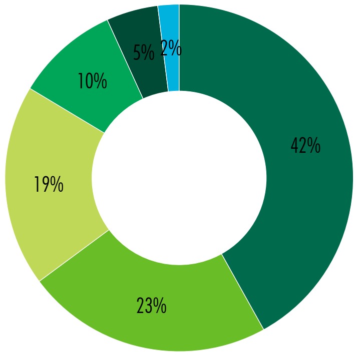
IT/ITES CONTINUED TO DRIVE DEMAND; FOLLOWED BY BFSI AND ENGINEERING AND MANUFACTURING

Office transaction activity continued to be driven by IT/ITeS corporates across the seven leading cities, garnering a share of about 44% of the entire space leased during the quarter. Other sectors such as engineering and manufacturing, BFSI and research and consulting were also significant contributors, collectively accounting for about 28% of the quarterly leasing activity.

SUPPLY ADDITIONS GREW BY AROUND 78% Q-O-Q; BANGALORE FOLLOWED BY MUMBAI LED DEVELOPMENT COMPLETIONS

Supply completions during the final quarter of the year were close to 13.2 million sq. ft.; rising

Chart 3: Segmentation of Transaction Activity as per Transaction Size in Q4 2016



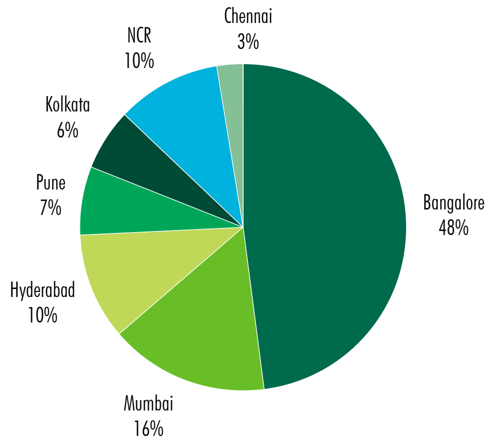
Source: CBRE Research, Q4 2016.

Mumbai led this supply, accounting for almost 64% of all development completions reported during the quarter. The city of Bangalore

witnessed supply completions post the much-awaited regulatory clearances during the current quarter, resulting in a release of significant built-up supply. Hyderabad also witnessed an increased supply completion of over a million sq. ft. during the current quarter. On an annual basis, approximately 35 million sq. ft. of new supply was introduced in the market; a decline of about 12% on a y-o-y basis. The drop was largely on account of construction slippages witnessed in markets such as the Delhi NCR (Gurgaon and Noida).

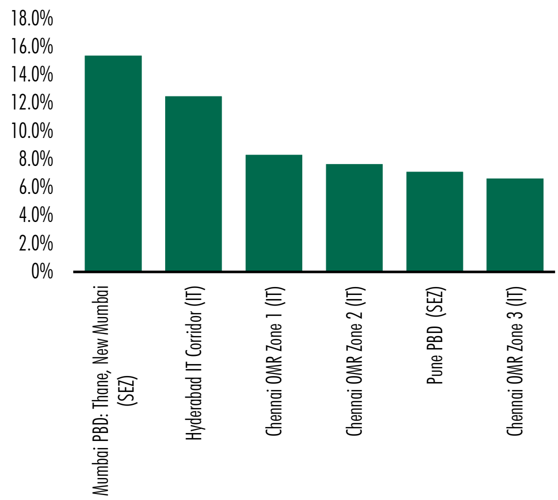
Non-SEZ projects dominated completions, accounting for almost 65% of the newly completed supply reported during the quarter under review. Majority of the development completions during the quarter were concentrated in locations such as the Outer Ring Road (ORR), Whitefield and Electronic City and North Bangalore in Bangalore; Airoli, Vikhroli and Andheri East in Mumbai; Madhapur,

Chart 4: City Wise Split of New Supply in Q4 2016



Source: CBRE Research, Q4 2016.

Chart 5: Strongest Office Rental Growth, Q3 2016 vs Q4 2016



Source: CBRE Research, Q4 2016.

Kondapur and Gachibowli (IT Corridor) and (Nanakramguda) Extended IT Corridor in Hyderabad; Guindy and Valsarvakam in Chennai; Hadapsar, Baner and Hinjewadi in Pune; and Rajarhat and Ruby Connector in Kolkata and Sohna Road, South City Road, Noida City and Noida Expressway in Delhi NCR.

SUSTAINED RENTAL MOMENTUM WITNESSED IN THE SOUTHERN CITIES AND PUNE

Rental values continued to inch upwards in the Central Business Districts (CBDs) of most leading cities with the exception of Delhi NCR, Mumbai and Kolkata. Sustained occupier interest and lower vacancy rates in select prominent developments resulted in marginal rental appreciation of around 2-8% q-o-q in MG Road/Residency Road in Bangalore; Anna Salai, Nungabakkam, RK Salai, T Nagar, Alwarpet and Egmore in Chennai; Begumpet/Rajbhavan Road and Banjara Hills in Hyderabad and Shivaji Nagar, Bund Garden Road, Koregaon Park, MG Road in Pune.

Also, sustained occupier interest led to a rental appreciation across key micro-markets of the Southern cities, along with Pune. Rentals grew by 2-7% q-o-q across most non-SEZ developments in South and North Bangalore, Outer Ring Road, Whitefield and Electronic City and Indira Nagar, Koramangala, Old Madras Road and CV Raman Nagar in Bangalore; Madhapur, Kondapur, Raidurg and Hitec City and Gachibowli (IT Corridor) and Kukatpally, Nanakramguda and Manikonda (Extended IT Corridor) in Hyderabad; Off CBD locations such as Aundh, Hinjewadi, Kharadi and Baner and PBD locations such as Talawade, Pimpiri-Chinchwad, Wakad, Hinjewadi, Bavdhan, Narhe, Undri, Phursungi, Wagholi, Kharadi in Pune.

Likewise, Chennai also witnessed a rental appreciation (around 4-15% q-o-q) across micro-markets including Guindy, Mount Poonamalle Road, Ambattur OMR Zone I (Taramani to Perungudi Toll) and OMR Zone II (Perungudi toll up to Sholinganallur) in the wake of continual demand from occupiers during the review period. In Delhi NCR, rental growth was only witnessed in DLF Cyber City, Gurgaon during the current quarter. Similar to the previous quarter, Mumbai and Kolkata witnessed stability in rental values across most micro-markets.

MARKET SUMMARY

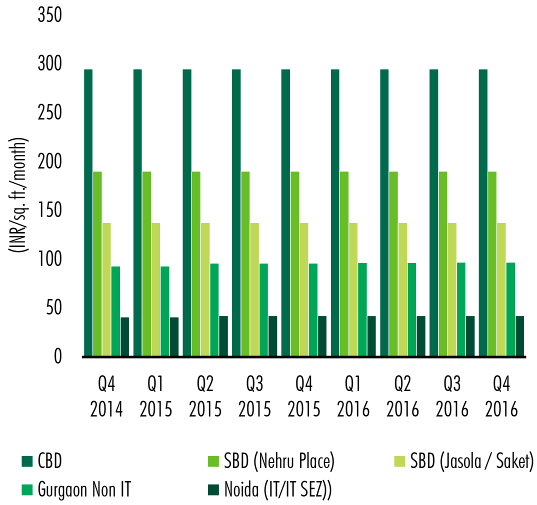
- Quarterly leasing more than doubled; Gurgaon continued to drive
- Rents remained stable across most micro-markets, except DLF Cyber City

The **Central Business District (CBD) of Connaught Place** witnessed a growth in leasing activity during the quarter, mainly occurring in developments, such as Gopaldas Bhawan and Hindustan Times (HT) House. Deals in the micro-market were largely in the range of 5,000 - 20,000 sq. ft. with space take-up from corporates belonging to sectors such as BFSI and pharmaceuticals. Negligible supply addition coupled with sustained occupier interest led to a marginal dip in vacancy levels. Rental values remained stable on a quarterly basis.

The Secondary Business District (SBD) of Nehru Place, Saket and Jasola witnessed a steady increase in office leasing; transaction activity was mainly concentrated in Aerocity, Jasola, Okhla and Netaji Subash Place. Leasing was dominated by small-sized deals (5,000 - 10,000 sq. ft.), driven by demand from BFSI and infrastructure, real estate and logistics firms. Negligible supply addition coupled with steady absorption resulted in a marginal decline in vacancy levels during the quarter.

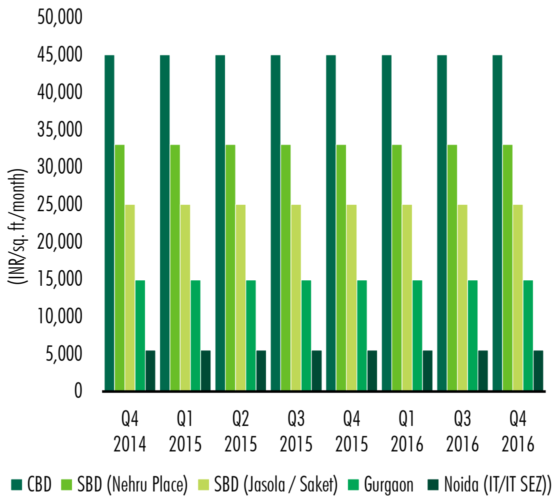
Gurgaon continued to dominate the office leasing in Delhi NCR, with increased demand mainly driven by corporates hailing from IT/ITeS, engineering and manufacturing and BFSI sectors. Leasing activity occurred mostly in the form of small-medium sized transactions (10,000 – 50,000 sq. ft.). On the supply front, the city witnessed the completion of a prominent SEZ block on Sohna Road along with a small commercial development on South City Road. Rental values remained largely stable across all micro-markets, with the exception of DLF Cyber City, which witnessed a growth of about 1-3% q-o-q.

Chart 6: Rental Value Movement



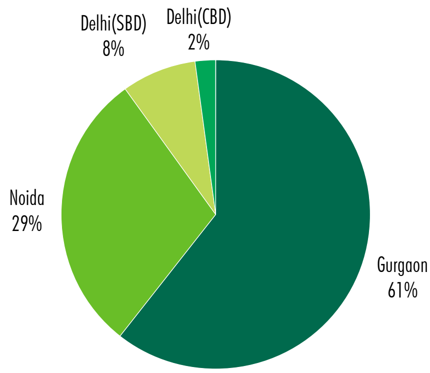
Source: CBRE Research, Q4 2016.

Chart 7: Capital Value Movement



Source: CBRE Research, Q4 2016.

Chart 8: Segmentation of Transaction Activity



Source: CBRE Research, Q4 2016.

Noida witnessed a rise in leasing activity during the quarter, with the closure of small and medium-sized transactions (5,000 - 50,000 sq. ft.). Office demand was largely concentrated in developments on the Noida – Greater Noida Expressway and in Sector 62, and was mainly driven by demand from IT/ITeS, engineering and manufacturing and BFSI companies. The city witnessed supply completion in the form of two IT developments in Noida City and Noida Expressway. Rental values remained stable across all micro-markets during the last quarter of 2016.

Table 1: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
DLF Building 10	Gurgaon	84,700	Schneider
Ambience Corporate Park	Gurgaon	67,000	Zara - Inditex
Gopaldas Bhawan	Delhi	14,500	Karl Storz
Mindmill Corporate Tower	Noida	14,000	Hindalco

Source: CBRE Research, Q4 2016.

Table 2: Sub-market Key Stats

Micro-market	Average Rent in Q4 2016 (INR/sq. ft. / month)	Average Rent in Q3 2016 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Connaught Place) Grade A	295	295	0.0	0.0
CBD (Connaught Place) Grade B	160	160	0.0	0.0
Secondary Market (Nehru Place) Grade A	190	190	0.0	0.0
Secondary Market (Jasola) Grade A	115	115	0.0	0.0
Secondary Market (Saket) Grade A	160	160	0.0	0.0
Gurgaon Grade A (Non IT)	97	97	0.0	1.3
Gurgaon Grade A (IT)	79	78	1.3	4.4
NOIDA Grade A (IT/IT SEZ)	42	42	0.0	0.0

Source: CBRE Research, Q4 2016.

MARKET SUMMARY

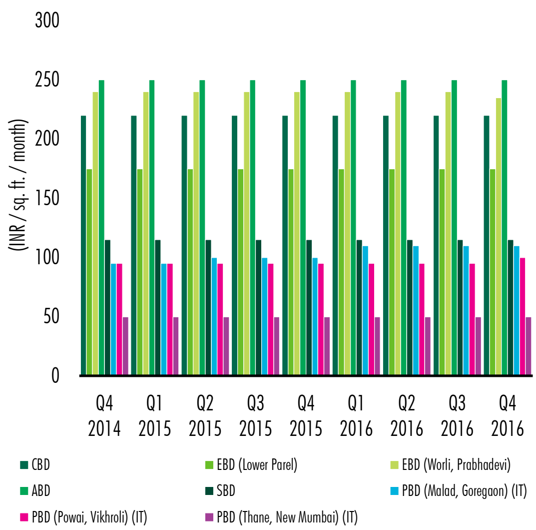
- Transaction activity was largely stable, as compared to the previous quarter
- Non-IT and SEZ supply was added across PBD, SBD and ABD micro-markets
- Rental and capital values continued to remain stable across most micro-markets

Leasing activity in the **Central Business District (CBD)** of **Nariman Point, Fort** and **Cuffe Parade** increased as compared to the previous quarter. Transaction activity consisted of a few small sized deals along with a large-sized space taken up by a foreign BFSI corporate; with the latter being the key reason for this spurt in demand. Rental and capital values were mostly stable; vacancy levels marginally declined across prominent investment grade developments. Unlike the previous three quarters, outright transactions remained limited.

In the **Extended Business District (EBD**) of **Lower Parel,** leasing activity remained limited. Few small-sized transactions were observed across notable IT developments in the micro-market. Corporates belonging to sectors such as BFSI, engineering and manufacturing and media were the primary occupiers of space. No new supply addition was reported and the rental values were mostly stable across all developments. The micro-markets of **Worli** and **Prabhadevi** also witnessed limited transactions. Leasing activity was observed mainly from BFSI companies across non-IT developments in the micro-market. Due to subdued demand levels, rental values declined by 2-3% q-o-q across the non-IT segment.

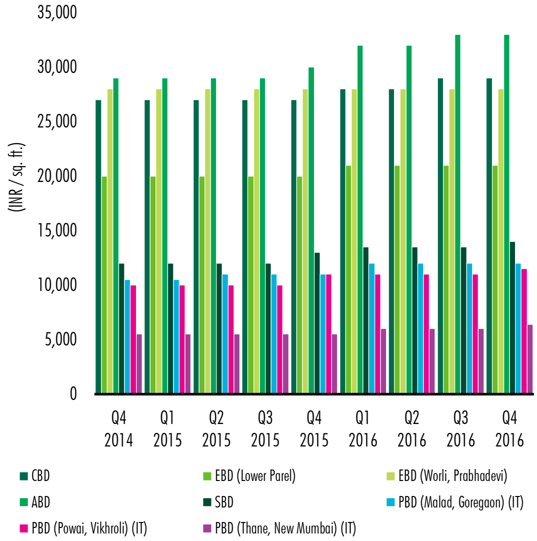
Occupier sentiment remained steady across the front office micro-market of **Bandra Kurla Complex (BKC)**, and surrounding locations of **Kurla (W)** and **Kalina.** However, when compared to the previous quarter, the quantum of space taken up witnessed a marginal decline. Though a large number of transactions were concluded across the micro-market, majority of the leasing activity was observed for small-sized front office space. BFSI (mainly financial services)

Chart 9: Rental Value Movement



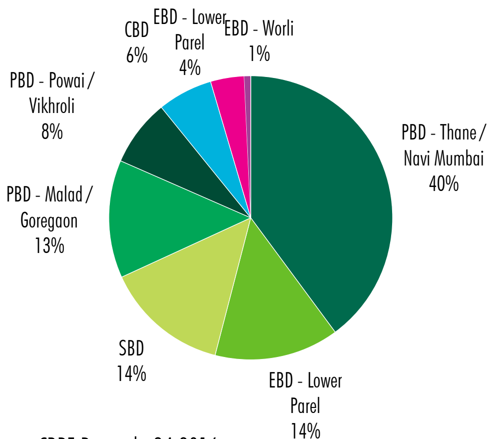
Source: CBRE Research, Q4 2016.

Chart 10: Capital Value Movement



Source: CBRE Research, Q4 2016.

Chart 11: Segmentation of Transaction Activity



Source: CBRE Research, Q4 2016.

companies were the primary drivers of demand during the current quarter. Rental and capital values in the micro-market continue to remain stable, even though vacancy levels dropped across most developments.

Office leasing activity witnessed a marginal decline in the **Secondary Business District (SBD)** of **Andheri, Vile Parle** and **Jogeshwari**. Leasing activity was limited to small-sized space take-up from engineering and manufacturing, media and BFSI (mainly financial services) companies. One large-sized space take-up by a domestic media firm was also recorded in a newly completed non-IT building at Sakinaka in Andheri (E). Rental values continued to remain stable on a q-o-q basis.

Demand for office space was strong across the **peripheral micro-markets** during the current quarter, accounting for more than 60% of the overall space take-up in the city. Consolidation and expansion activity by several leading occupiers has been a major driver of demand in this micro-market. Along with space take-up in completed assets, culmination of several pre-commitments also contributed to a q-o-q increase in office space demand.

Various mid to large-sized transaction closures were observed across investment grade buildings at **Vikhroli, Goregaon, Malad and Airoli**. BFSI, IT/ITES, retail and engineering companies were the major occupiers of office space. In the micro-markets of **Airoli, Vashi and Thane,** healthy lease renewal and pre-commitment activity was observed. Rental values across IT developments in Powai and Vikhroli increased by 4 – 6% q-o-q, while they continued to remain stable across the other micro-markets in the peripheral region.

Table 3: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Chibber House	SBD	122,500	FCB Ulka
Crescenzo	ABD	101,300	J Kumar Infraprojects Ltd
247 Park - Phase I	PBD - Powai, Vikhroli and Kanjurmarg	60,000	Link Intime India Pvt Ltd

Source: CBRE Research, Q4 2016.

Table 4: Sub market Key Stats

Micro-market	Average Rent in Q4 2016 (INR/sq. ft. / month)	Average Rent in Q3 2016 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Nariman Point, Fort, Cuffe Parade) Grade A	220	220	0.0	0.0
CBD (Nariman Point, Fort, Cuffe Parade) Grade B	170	170	0.0	0.0
EBD (Lower Parel) Grade A	175	175	0.0	0.0
EBD (Worli, Prabhadevi) Grade A	235	240	-2.1	-2.1
ABD (Bandra Kurla Complex, Kalina) Grade A	250	250	0.0	0.0
ABD (Bandra Kurla Complex, Kalina) Grade B	195	195	0.0	0.0
SBD (Andheri, Vile Parle, Jogeshwari) Grade A	115	115	0.0	0.0
SBD (Andheri, Vile Parle, Jogeshwari) Grade B	80	80	0.0	0.0
PBD (Malad, Goregaon) Grade A (IT)	110	110	0.0	10.0
PBD (Powai, Vikhroli) Grade A (IT)	100	95	5.3	5.3
PBD (Thane, New Mumbai) Grade A (IT/IT SEZ)	55	55	0.0	10.0

Source: CBRE Research, Q4 2016.

MARKET SUMMARY

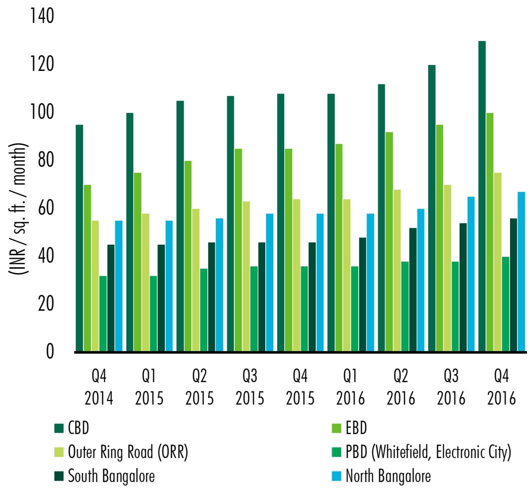
- Rise in quarterly demand, mainly in ORR, PBD and NBD
- Supply completion also largely concentrated in ORR, PBD and NBD; continued rental escalation across most micro-markets

The **Central Business District (CBD)** including **Vittal Mallya Road, MG Road and Vasant Nagar** witnessed an increase in occupier traction during the quarter; driven by demand from IT/ITeS and BFSI firms. The micro-market witnessed the completion of two developments on Lavelle Road and Cubbon Road. Leasing activity was a healthy mix of secondary and primary space deals, with certain pre-lease deals getting culminated in the newly completed developments. Sustained occupier demand coupled with limited availability of space resulted in a rental escalation in the range of 7–9% q-o-q.

The **Extended Business District (EBD)** including **Indira Nagar, Koramangala, Old Madras Road, Domlur** and **CV Raman Nagar** witnessed a dip in leasing activity on a quarterly basis, with deals in the current quarter mostly in the form of small to medium-sized transactions (15,000 – 70,000 sq. ft.). Corporates belonging to IT/ITeS, e-commerce and BFSI sectors were the primary occupiers of space in this micro-market. In terms of supply, a new investment grade commercial development was completed on the Inner Ring Road. Reduced availability of office space led to a rise of 4-6% q-o-q in rental values.

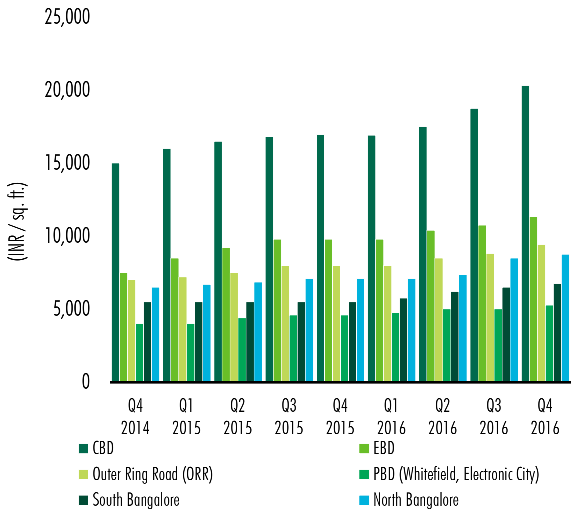
Accounting for more than half of the transaction activity in the city, the **Sarjapur-Outer Ring Road (ORR)** remained the most preferred destination; driven by demand from BFSI, e-commerce and IT/ITeS occupiers. Pre-commitment activity increased and was largely reported in prominent tech parks, on account of several occupiers looking for larger spaces for expansion. On the supply front, projects which were delayed in receiving completion certificates in the past few quarters became operational - including four commercial and two SEZ

Chart 12: Rental Value Movement



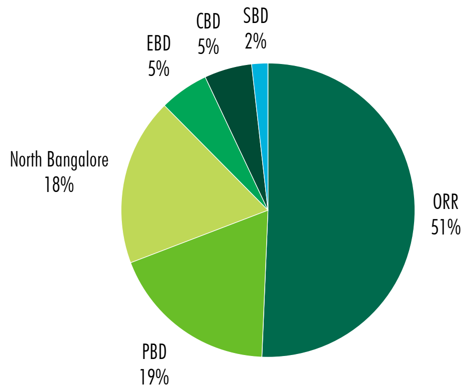
Source: CBRE Research, Q4 2016.

Chart 13: Capital Value Movement



Source: CBRE Research, Q4 2016.

Chart 14: Segmentation of Transaction Activity



Source: CBRE Research, Q4 2016.

developments. Sustained occupier demand and limited office space led to a rental appreciation in the range of 4-8% on a quarterly basis in both SEZ and Non-SEZ segments.

The **Peripheral Business District (PBD)** including **Whitefield** and **Electronic City** observed steady occupier demand from IT/ITeS, pharmaceutical and BFSI corporates looking -at expansion and consolidation during the review period. Office leasing activity was dominated by medium to large-sized space take ups, with two large-sized transactions (greater than 100,000 sq. ft.) reported in the newly operational tech park on Sarjapur Road. On the supply front, four commercial and one SEZ developments in Whitefield and Sarjapur Road became operational. Sustained occupier demand led to a rental appreciation in the range of 4-6% q-o-q and 10-12% y-o-y.

South Bangalore including **Bannergatta Road, JP Nagar, Jayanagar** and **Mysore Road** observed limited office leasing activity, mostly driven by IT/ITeS and engineering and manufacturing corporates looking at expansion. Mainly medium-sized transactions (25,000 - 30,000 sq. ft.) were closed in developments on Bannerghatta Road and Bomanhalli. Similar to previous quarters, negligible supply addition was witnessed. Limited space availability coupled with significant occupier interest resulted in a rental appreciation of 3-5% on a q-o-q basis across the SEZ and non-SEZ segments.

North Bangalore witnessed a rise in office leasing mainly driven by IT/ITeS, FMCG and engineering and manufacturing firms. Leasing was dominated by medium-large sized transactions, with a few large-sized transactions (greater than 100,000 sq. ft.) reported in developments in Nagawara and Thanisandra. In line with the previous quarters, pre-leasing activity across prominent developments remained steady. On the supply front, one commercial development on Nagvara ORR and one SEZ development in Banaswadi witnessed completion. Sustained occupier demand led to a rental value appreciation of about 2-4% q-o-q across SEZ and non-SEZ segments.

Table 5: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
RMZ Ecoworld – 7	ORR	764,500	KPMG
RGA Tech Park - Block 3	PBD	300,000	Unisys
Bhartiya City - Block 1	NBD	210,000	Infosys
RMZ Ecoworld - 6B	ORR	149,000	State Street Global Services

Source: CBRE Research, Q4 2016.

Table 6: Sub-market Key Stats

Micro-market	Average Rent in Q4 2016 (INR/sq. ft. / month)	Average Rent in Q3 2016 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (MG Road, Residency Road) Grade A	130	120	8.3	20.4
CBD (MG Road, Residency Road) Grade B	87	85	2.4	4.8
EBD (Koramangala, Indira Nagar) Grade A	100	95	5.3	17.6
EBD Koramangala, Indira Nagar) Grade B	80	78	2.6	14.3
Outer Ring Road Grade A	75	70	7.1	17.2
PBD (Whitefield, Electronic City) Grade A	40	38	5.3	11.1
South Bangalore Grade A	56	54	3.7	21.7
North Bangalore Grade A	67	65	3.1	15.5

Source: CBRE Research, Q4 2016.

MARKET SUMMARY

- More than 80% leasing activity was concentrated in the IT Corridor
- About 2-7% rental increase reported in CBD, IT Corridor and Extended IT Corridor

The **Central Business District** of **Begumpet, Panjagutta, Somajiguda and parts of Banjara Hills** witnessed an increase in transaction activity, mainly driven by demand from IT/ ITeS corporates. Most of the deal closures were in the second generation space. Continued demand for space in CBD for front office operations with a negligible addition in supply led to an increase in rentals of about 1 - 3% on q-o-q basis.

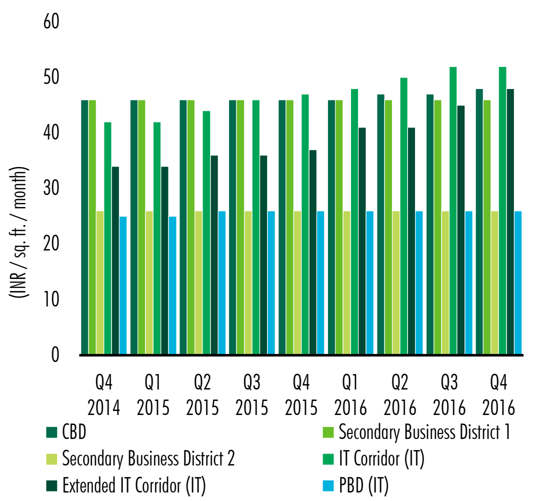
Negligible leasing activity was observed in **Secondary Business Districts** in locations across **Ameerpet, Himayathnagar, Parts of Banjara Hills and Jubilee Hills.** Rental values largely remained stable during the review period.

Leasing activity remained dormant in the **Peripheral Business Districts** of **Shamshabad, Pocharam and Uppal.** Owing to negligible supply and demand, rental values remained largely stable in the micro-market.

The **IT Corridor** comprising of **Madhapur, Kondapur, Raidurg and Hitec City and Gachibowli** continued to dominate office space leasing in Hyderabad. Majority of the leasing activity was driven by IT/ITeS and BFSI corporates. A couple of large-scale transactions (>200,000 sq. ft.) were witnessed in investment grade developments in Raidurg. Sustained occupier interest coupled with negligible vacancy levels resulted in a rental appreciation of 2 - 5% on a q-o-q basis in the non-IT and SEZ segments. On the supply front, the micro-market witnessed the completion of an SEZ in Madhapur and two non-IT developments in Kondapur and Gachibowli.

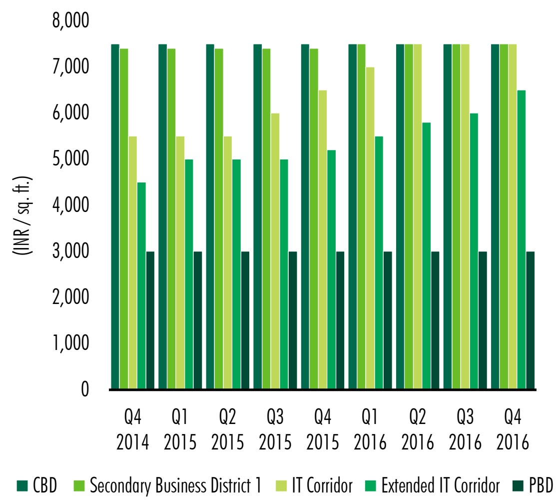
Leasing activity in locations of **Kukatpally, Nanakramguda and Manikonda** in **Extended IT**

Chart 15: Rental Value Movement



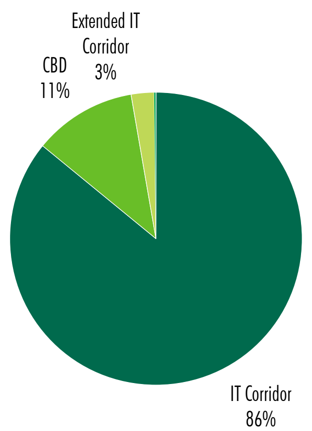
Source: CBRE Research, Q4 2016.

Chart 16: Capital Value Movement



Source: CBRE Research, Q4 2016.

Chart 17: Segmentation of Transaction Activity



Source: CBRE Research, Q4 2016.

Corridor dropped in the current quarter, witnessing the closure of a few small-sized transactions (<20,000 sq. ft.) only. Fresh supply addition was observed in the form of an SEZ development in Nanakramguda. Rising enquiry levels in this micro-market due to limited space availability in the IT Corridor led to a rental appreciation of about 4-7% q-o-q in non-IT, IT and SEZ developments.

Table 7: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Divyasree Orion B5	IT Corridor	87,000	Fact Set Systems India Private Limited
Ilyas Mohammed Khan Estate	CBD	75,000	Virinchi Limited
Titanium	IT Corridor	40,000	Aurobindo Pharmaceuticals

Source: CBRE Research, Q4 2016.

Table 8: Sub-market Key Stats

Micro-market	Average Rent in Q4 2016 (INR/sq. ft. / month)	Average Rent in Q3 2016 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Begumpet, Punjagutta, Somajiguda and parts of Banjara Hills)	48	47	2.1	4.3
Secondary Business District 1 (Parts of Banjara Hills, Jubilee Hills)	46	46	0.0	0.0
Secondary Business District 2 (Ameerpet, Himayathnagar, Kukatpally)	26	26	0.0	0.0
IT Corridor (HITEC City, Madhapur, Kondapur, Raidurg) Grade A (IT)	54	52	0.0	10.6
IT Corridor (HITEC City, Madhapur, Kondapur, Raidurg) Grade A (SEZ)	54	52	3.8	12.5
Extended IT Corridor (Nanakramguda,, Manikonda, Gachibowli) Grade A (IT)	48	45	6.7	29.7
PBD (Shamshabad, Pocharam, Uppal) Grade A (IT)	26	26	0.0	0.0

Source: CBRE Research, Q4 2016.

MARKET SUMMARY

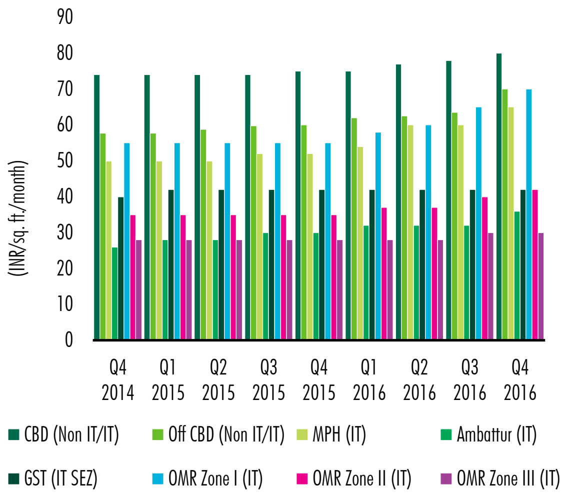
- A record 5.8 million sq. ft. leased in 2016, OMR Zone I and OMR Zone II contributed to over 60% of the leasing activity
- Rentals continued to strengthen across major micro-markets; supply addition restricted to small-sized IT/ non-IT developments

Central Business District (CBD) of **Anna Salai, Nungambakkam, RK Salai, T Nagar and Alwarpet** witnessed a marginal decline in leasing activity on a quarterly basis; however was one of the top three destinations for office occupiers in Chennai during the year. Negligible supply addition drove corporates to lease in quality, second-generation space. Majority of the leasing was in the form of small to medium-sized deals (<50,000 sq. ft.). Sustained occupier demand for quality space led to a marginal increase in rentals of 4 – 6% q-o-q.

Office leasing in **Off CBD** remained low on account of limited availability of ready to move-in spaces. Sustained demand for space along with negligible vacancy levels resulted in a rental appreciation of 5 – 15% q-o-q basis in investment grade non-IT and IT developments. Fresh supply addition in the form of multiple small-scale developments (both IT and non-IT) were observed in Valsarvakam and Guindy. These developments are likely to sustain occupier interest in the coming quarters in this micro-market.

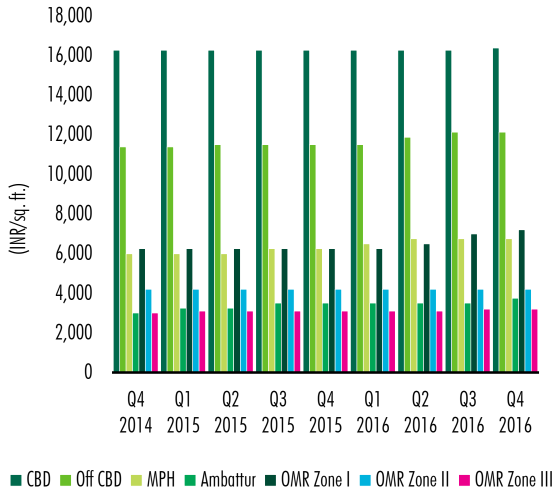
The **OMR Zone I**, comprising of locations of **Taramani to Perungudi Toll**, continued to remain pivotal; accounting for about 40% of the city's leasing activity during the current quarter. The demand for office space was mainly concentrated in prominent IT and SEZ developments. Leading IT/ ITeS and engineering and manufacturing corporates continued to expand their back-office presence in the city by leasing medium to large-sized space formats in this micro-market. Sustained demand for office space by large corporates coupled with the

Chart 18: Rental Value Movement



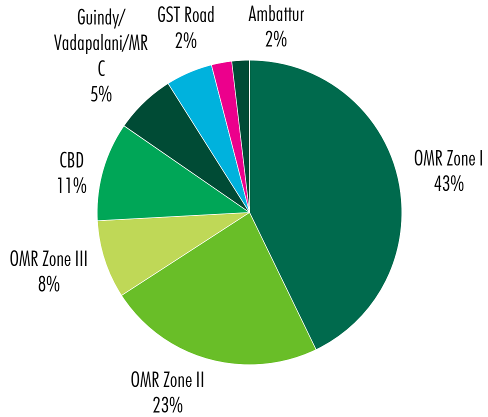
Source: CBRE Research, Q4 2016.

Chart 19: Capital Value Movement



Source: CBRE Research, Q4 2016.

Chart 20: Segmentation of Transaction Activity



Source: CBRE Research, Q4 2016.

limited availability of space resulted in a rental appreciation of about 4 – 8% q-o-q in both IT and non-IT segments. Rental values, however, remained stable in the SEZ segment.

OMR Zone II comprising of areas **including Thuraipakkam, Karapakkam** and **Sholinganallur** continued to benefit from limited space availability in OMR Zone I. Multiple mid to large-sized transactions from IT/ITeS majors were concluded, resulting in the micro-market emerging as the second most preferred office occupier destination in Chennai. Rising occupier interest resulted in a rental appreciation of about 4 – 5% on a q-o-q basis across investment grade IT and SEZ developments.

OMR Zone III comprising of areas such as **Navallur and Padur** witnessed an increase in office leasing activity with a few medium-large sized transactions concluded in this micro-market. Rental values largely remained stable on a quarterly basis.

Leasing activity in **Mount Poonamallee High Road** mainly occurred in second generation space across IT and SEZ developments. Rental values were mostly stable in both SEZ and non-IT segments, however– grew by 7 – 9% q-o-q in the IT segment, on account of limited availability of space. The micro-market also witnessed instances of prominent developers undertaking campus developments, owing to a sustained demand from leading occupiers.

The micro-markets of **Ambattur** and **Padi** witnessed significant interest from occupiers over the past few quarters. However, limited availability of space resulted in subdued transaction volumes during the current quarter. Sustained occupier interest resulted in rental values rising by 11-13% q-o-q in the IT segment.

The Great Southern Trunk Road (GST Road), characterized by SEZ developments and a few IT developments, did not witness any major deal closures during the review period. Transaction activity remained subdued on account of low space availability, amidst negligible supply addition. Rental values also remained largely stable.

Table 9: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Ramanujan IT SEZ	OMR Zone 1	172,000	GE
Chennai One	OMR Zone 2	61,000	Comcast
Pacifica Tech Park	OMR Zone 3	30,000	Nokia
Prestige Polygon	CBD	6,700	Fiserv
AMG Tower	Guindy, Vadapalani & MRC Nagar	4,900	Aqua Speed

Source: CBRE Research, Q4 2016.

Table 10: Sub-market Key Stats

Micro-market	Average Rent in Q4 2016 (INR/sq. ft. / month)	Average Rent in Q3 2016 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Anna Salai, Nungambakkam, RK Salai, T Nagar, Egmore, Alwarpet) Grade A (Non IT/IT)	80	78	2.6	8.1
Guindy, Ekkaduthangal, Vadapalani, Santhome & MRC Nagar Grade A (NonIT/IT)	70	64	10.2	16.7
Mount Poonamallee High Road (IT SEZ)	65	60	8.3	25.0
GST Road (SEZ)	42	42	0.0	0.0
Ambattur, Ambattur Industrial Estate and Padi Grade A (IT)	36	32	12.5	20.0
OMR 1 - Taramani to Perungudi Toll Grade A (IT)	70	65	7.7	27.3
OMR 2 - Perungudi toll up to Sholinganallur Grade A (IT)	42	40	5.0	20.0
OMR 3 - Sholinganallur to Padur Grade A (IT)	30	30	0.0	7.1

Source: CBRE Research, Q4 2016.

MARKET SUMMARY

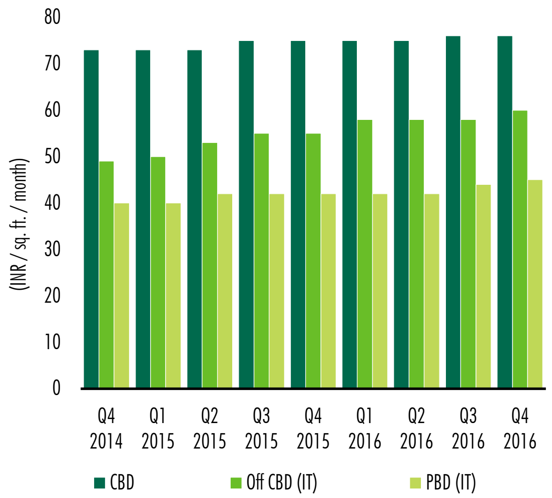
- Small-to-medium sized transactions drove demand for office space
- Supply completion in the form of small to medium-sized non-IT and SEZ developments
- Rental values grew in the IT and non-IT segments across most micro-markets

Leasing activity increased in the **Central Business District (CBD)** of **MG Road, Koregaon Park, Bund Garden, Kalyani Nagar, Dhole Patil, FC Road and JM Road**. Various small-sized transactions were concluded by BFSI (mainly financial services) companies and IT / ITeS firms for their front-office operations. The micro-market also witnessed the completion of a small-sized investment grade development. On account of the new supply addition, rental values across non-IT developments remained largely stable, while increasing by 2-4% q-o-q across IT developments.

The **Off CBD** micro-market of **Viman Nagar, Magarpatta, Aundh, Baner and Shanker Seth Road** witnessed an increased demand for office space; accounting for more than 70% of the overall space take-up in the city. Various medium to large-sized transactions (50,000 – 150,000 sq. ft.) by BFSI companies were concluded, majorly across prominent IT buildings in the city. Sustained demand and limited availability contributed to 1 – 4% q-o-q increase in rental values across IT and non-IT buildings. Rents remained largely stable in the SEZ segment. In terms of new supply, two investment grade non-IT developments were completed in Hadapsar and Baner.

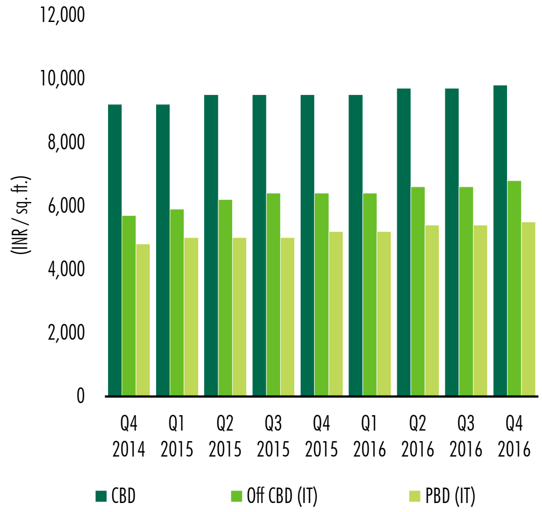
Leasing activity declined in the **Peripheral Business District (PBD)** of **Hinjewadi, Kharadi, Hadapsar and Talawade.** Only one large-sized and a few small-sized transactions were closed, mainly by IT / ITeS companies. On the supply front, an SEZ development was added as a part of an existing campus in Hinjewadi. Rental values remained largely stable in the SEZ segment, while they increased by 1-3% q-o-q across IT and non-IT developments.

Chart 21: Rental Value Movement



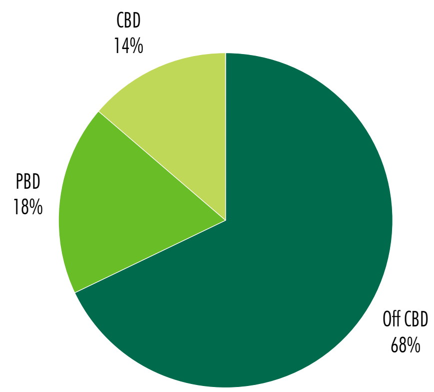
Source: CBRE Research, Q4 2016.

Chart 22: Capital Value Movement



Source: CBRE Research, Q4 2016.

Chart 23: Segmentation of Transaction Activity



Source: CBRE Research, Q4 2016.

Table 11: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Business @ Mantri	Off CBD	40,000	Bajaj Finserv
Business Plaza	CBD	37,000	KPMG
ICC Trade Tower	CBD	10,000	Sumo Digital
Cerebrum B3	Off CBD	9,000	Nile Technologies

Source: CBRE Research, Q4 2016.

Table 12: Sub-market Key Stats

Micro-market	Average Rent in Q4 2016 (INR/sq. ft. / month)	Average Rent in Q3 2016 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Shivaji Nagar, Bund Garden Road, Koregaon Park, MG Road, Dhole Patil) Grade A	76	76	0.0	1.3
CBD (Shivaji Nagar, Bund Garden Road, Koregaon Park, MG Road, Dhole Patil) Grade B	59	59	0.0	0.0
Off CBD (Magarpatta, Aundh, Baner, Shankar Seth Road, Viman Nagar, Nagar Road) Grade A (Non IT)	65	64	1.6	12.1
Off CBD (Magarpatta, Aundh, Baner, Shankar Seth Road, Viman Nagar, Nagar Road) Grade A (IT)	60	58	3.4	9.1
Off CBD (Magarpatta, Aundh, Baner, Shankar Seth Road, Viman Nagar, Nagar Road) Grade A (SEZ)	65	65	0.0	4.8
PBD (Hinjewadi, Kharadi, Hadapsar, Talawade, Kharadi) Grade A (IT)	45	44	2.3	7.1
PBD (Hinjewadi, Kharadi, Hadapsar, Talawade, Kharadi) Grade A (SEZ)	54	54	0.0	17.4

Source: CBRE Research, Q4 2016.

MARKET SUMMARY

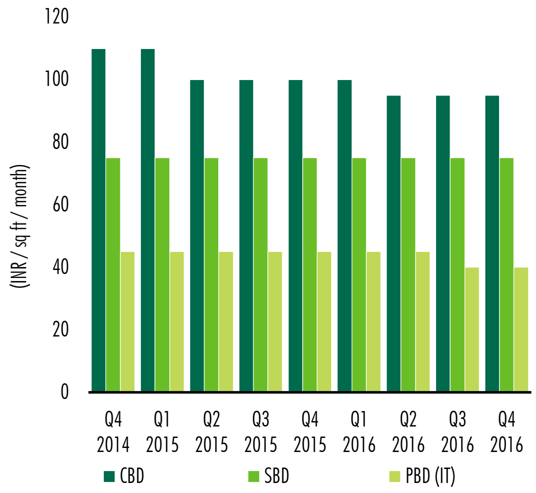
- PBD micro-markets of Salt Lake V and Rajarhat continued to lead leasing activity
- Rental values remained stable across all micro-markets; supply addition mainly in SBD and PBD

Leasing activity in the **Central Business District (CBD)** of **Chowringhee, B.B.D Bagh, Park Street** and **Camac Street** decreased on a quarterly basis, mainly due to low demand coupled with limited investment grade options. The micro-market witnessed a few small-sized office transactions in developments, mainly in Park Circus. The micro-market did not witness any addition in supply, resulting in a marginal decline in vacancy levels. Rental values, however, remained stable during the review period.

Leasing activity in the **Secondary** micro-markets of **EM Bypass, Kasba - Gariahat, Topsia** and **Sarat Bose Road** marginally rose during the current quarter. Leasing mainly consisted of medium-sized transactions by engineering and manufacturing and e-commerce occupiers. The micro-market also witnessed supply addition in the form of a non-IT development in Ruby Connector, which resulted in a marginal increase in vacancy. Rental values, however, remained largely stable

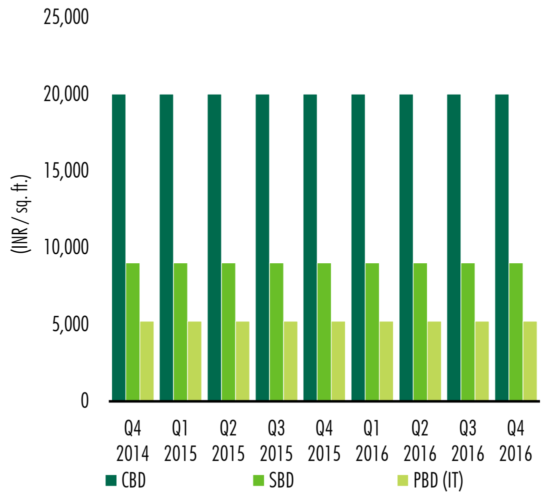
Office space traction in the **Peripheral** micro-markets of **Salt Lake V** and **Rajarhat** recorded significant growth during the quarter. Transaction activity was mainly led by occupiers belonging to the engineering and manufacturing, telecommunication and pharmaceuticals sectors. The micro-market also witnessed supply addition in the form of a large-scale IT development in Rajarhat, leading to an increase in vacancy levels. Rental values maintained stability during the quarter.

Chart 24: Rental Value Movement



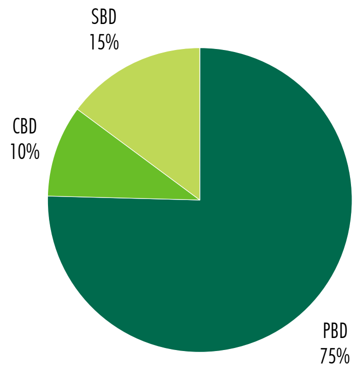
Source: CBRE Research, Q4 2016.

Chart 25: Capital Value Movement



Source: CBRE Research, Q4 2016.

Chart 26: Segmentation of Transaction Activity



Source: CBRE Research, Q4 2016.

Table 13: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Srijan Tech Park	PBD	15,000	Reliance Communications Ltd
Acropolis	SBD	10,000	Emami Cements
Bharat Chambers	CBD	6,500	Mondelez India Foods Pvt. Ltd

Source: CBRE Research, Q4 2016.

Table 14: Sub-market Key Stats

Micro-market	Average Rent in Q4 2016 (INR/sq. ft. / month)	Average Rent in Q3 2016 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Park Street, Camac Street, Theatre Road) Grade A	95	95	0.0	-5.0
Secondary Business District Grade A	75	75	0.0	0.0
Peripheral Business District (Salt Lake, Rajarhat) (IT) Grade A	40	40	0.0	-11.0
Peripheral Business District (Salt Lake, Rajarhat) (SEZ) Grade A	38	38	0.0	11.8

Source: CBRE Research, Q4 2016.

GLOBAL EVENTS, LOCAL POLICY REFORMS TO IMPACT THE SECTOR

The commercial real estate sector in India continued to evolve in 2016 with rising share of smaller cities in overall space take-up, addition of quality supply across markets, along with the dynamic rental growth seen in specific locations. However, global economic uncertainty triggered by Brexit (and similar political events in other parts of Europe) and election of Donald Trump as the next US President are events that might have a long term impact on the commercial real estate sector in India. A likely change in the US outsourcing policy might also adversely impact the space traction generated by global corporates who outsource their operations to India. While India's overall appeal as an established outsourcing destination, and the cost arbitrage offered, is unlikely to be impacted in the short to medium term; however, any protectionist measure undertaken by the new US regime will certainly have a long term fallout on the sector.

Locally, while the occupier sentiments seem to remain undaunted by the impact of the demonetization drive, the overall impact is likely to become clearer in the coming quarters. Liquidity crunch might slowdown construction activity in select locations (mostly involving smaller unlisted players), which is likely to have an adverse impact on the transaction activity. Nevertheless, the long term benefits of demonetization are immense, particularly from the perspective of greater institutional investments flowing into the commercial sector and an overall increase in transparency.

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

MULTIPLE THEMES LIKELY TO DRIVE LEASING ACTIVITY

Office leasing activity is expected to remain steady in the coming months, backed by corporates looking to expand or consolidate their operations. Due to a deficiency of space in core micro-markets, we expect occupiers to continue moving towards supply-laden peripheral locations, particularly in cost-effective investment grade developments with large floor plates. With all cities under various stages of development, the rising traffic congestion has become an important factor effecting location strategies of various occupiers. We anticipate that infrastructure initiatives (such as completion of new highways, introduction of MRTS services, etc.) would govern occupier preference and their decision making in the coming quarters.

This will have an impact on certain peripheral locations which are also likely to see the completion of impeding infrastructure, particularly in certain pockets of Gurgaon (Delhi NCR) and Bangalore. Regulatory clearances in locations in Bangalore are also likely to boost leasing activity in the coming quarters. A number of occupier enquiries for medium to large sized office spaces are expected to conclude in the city in forthcoming quarters, thus adding to the transaction momentum.

While the IT/ITeS sector is likely to remain one of the dominant drivers for office space, the announcement of President-elect Trump's policies may affect leasing demand from US-based corporates – which have traditionally been a significant contributor over the past few years. Consequently, NASSCOM has also lowered expected growth of the IT sector in India to 8-10% for the current year. The overall impact of the change in US policy and subsequent operations of ITeS firms is likely to pan out in the coming quarters only. However, other prominent sectors such as BFSI, engineering and manufacturing and research and consulting are likely to lend support to leasing activity. Certain traction is also expected from sectors including pharmaceuticals, telecommunications and e-commerce, which would provide an impetus to the demand for commercial space. With the world well into the era of 'digitalization', artificial intelligence (AI) is also likely to be increasingly adopted across industry sectors. Occupier inculcation of innovative technologies under the ambit of AI may impact employee force requirements. We also anticipate that specific government emphasis on AI is also likely to in turn trickle down to higher office demand from corporates belonging to new sectors including automation and robotics.

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

Pre-commitments in projects which are nearing completion are expected to continue to improve in the coming months, particularly in the cities of Bangalore, Hyderabad and Mumbai. We expect occupiers to remain buoyant on Hyderabad; on the other hand, rising saturation, inadequate infrastructure and high rentals in other leading markets such as Bangalore are likely to be critical issues for occupiers in 2017.

SUPPLY COMPLETIONS MAINLY IN PERIPHERAL MICRO-MARKETS

On the supply front, a significant quantum of space is expected to be released in the decentralized locations of leading cities over the next few quarters. Most of this supply is concentrated in peripheral locations of leading cities, which is likely to attract enhanced enquiries and strong pre-commitment activity in the coming months. Also, in case of Bangalore and Delhi NCR, the upcoming developments in 2017 would consist of pent-up supply scheduled for completion in the earlier quarters. On a positive note, we also expect a rise in intrinsic supply - in the form of well-connected/located projects, with several states revising their current Transit Oriented Development (TOD) policies in 2016. Under the new policies, developers would be able to increase the space offered in projects located within a certain distance of existing/planned metro corridors, thereby offering quality options to occupiers for future operations.

The upcoming supply in certain cities may be strata-sold/positioned in far-flung locations, resulting in limited demand for space in such developments. This might force landlords to become more flexible and open while negotiating rentals, thereby, ensuring that the tenants have an advantage in these locations. Additionally, tenants willing to pre-let space in under-construction developments would see a definite rental advantage as compared to those taking up space for immediate occupation.

We expect commercial projects to be high on the radar for investors, with a rising number of developments across cities likely to be backed by institutional investment in the coming quarters. However, while we expect a rise in this investment-backed supply, these projects are likely to hit the market only in the medium to long term.

RENTAL DIVERGENCE BETWEEN CORE AND PERIPHERAL MICRO-MARKETS LIKELY TO CONTINUE

With majority of the upcoming supply expected to be concentrated in peripheral rather than core micro-markets of cities, vacancy levels are expected to be higher in the peripherals. This is likely to result in rental values remaining stable due to the availability of new and varied space options. They can also witness an upward momentum, in cases where quality supply options are available.

On the other hand, occupier preference towards locating in core micro-markets resulted in sustained rental growth in the past quarters, however, an already high base along with depleting space options led to this growth tapering on a quarterly basis. We expect this trend of divergence in rental growth to continue – with a rising rental growth likely to occur in peripheral micro-markets and a slower growth expected in core micro-markets.

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