

India Office, Q2 2019

# A HISTORIC HIGH - LEASING CROSSES 30 MN SQ. FT. IN H1 2019; 17 MILLION SQ. FT. IN Q2 2019 ITSELF

 Rents Up  
19 Markets

 Rents Stable  
47 Markets

 Rents Down  
0 Markets

 Demand (Y-O-Y)  
40%

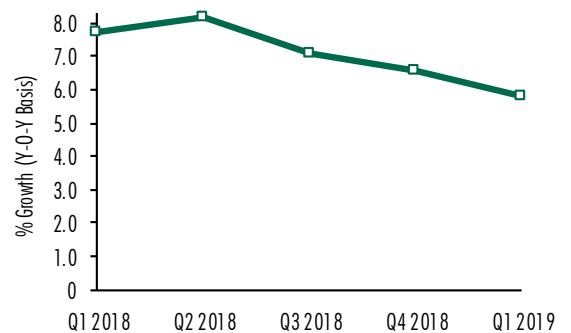
 Supply (Y-O-Y)  
70%

## A GLIMPSE OF THE ECONOMY

Global economy continues to face headwinds, causing the International Monetary Fund (IMF) to further lower its growth forecast for 2019 to 3.3%, down 20 bps from its Jan 2019 estimates. Global economic growth is expected to revive in H2 2019 and is projected to be at 3.6% for next year. Despite robust annualized growth in Q1 2019, the growth projection for the US economy has also been lowered by 20 bps at 2.3%. According to the recent forecast, China's growth has also bottomed out. As a result, central banks of advanced economies have eased their monetary policy stance, which will provide some relief to emerging markets such as India as well. And while adverse geopolitical developments and trade tensions are gradually but predictably taking a toll on business and consumer confidence, a 2020 US election may motivate US politicians to reach trade agreements with major markets such as China and India.

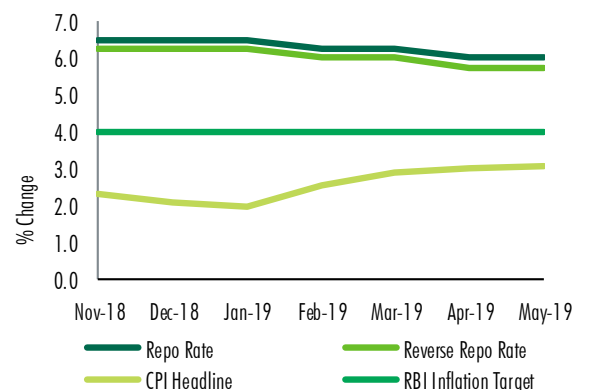
Meanwhile, the global headwinds have resulted in a period of moderation for the Indian economy as well. Indian economic growth slowed further in the quarter ending March, down from 6.6% during the previous quarter to 5.8% in the present quarter. This dip in growth was also a result of the recent liquidity crisis in the Non-Banking Financial Services (NBFC) sector, which hit consumption demand across various industry sectors.

Chart 1: GDP Growth Rate



Source: MOSPI, Q2 2019.

Chart 2: Key Interest Rates



Source: MOSPI, RBI, Q2 2019.

Economic growth achieved in quarter ending March was largely attributed to sectors such as public administration, defense and other services (8.6%), construction (8.7%); electricity, gas, water supply & other utility services (7%). Real estate services (along with financial and professional services) improved slightly, from 6.2% in the previous year to 7.4% during the review period.

Retail inflation (measured by consumer price inflation or CPI) inched up to 2.9% in March 2019 and increased slightly to remain almost stable at 3.0 and 3.1% in April and May 2019 respectively. The rise was mainly due to a slight uptick in food and fuel prices. The low levels of inflation led the central bank to further reduce the repo rate by 25 bps from 6.0% to 5.75% in June 2019. The bank also decided to change its monetary policy stance from 'neutral' to 'accommodative' due to broadly stable inflation levels.

Looking ahead, the Indian market remains exposed to risks of a widening current account fiscal deficit as well as a subdued investment pipeline owing to the slowing growth. The key challenge would be reviving private investments and remaining vigilant about exposure to global headwinds.

In a bid to encourage investments, the government announced several new measures while presenting its budget for 2019-20. Some of the key provisions include:

- **Easing sectoral gaps** - 100% FDI in insurance intermediaries, FDI in media and aviation has been proposed. Easing of local sourcing norms for single brand retail trade has been announced.
- **Foreign Portfolio Investments (FPIs)** - FPIs have been allowed to subscribe to listed debt securities of Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs).
- **Increase in statutory limit for FPIs** – Proposed to be increased from 24% in a company to sectoral foreign investment limit, with an option given to the concerned

corporates to limit it to a lower threshold.

- **Deepening bond markets** - An action plan to deepen the market for long-term bonds (including corporate bond repos, credit default swaps etc.), with specific focus on the infrastructure sector, will be put in place.
- **Incentives for established corporates and start-ups** - While almost 99.3% of the corporates in India have been brought under the 25% corporate tax rate, relaxations have also been announced for start-ups on tax scrutiny and period of exemption of capital gains.
- **Easing liquidity and scrutiny of the NBFC sector** – credit guarantees for banks' lending to NBFCs and increased authority of the central bank over NBFCs / HFCs were also announced.

#### **TRANSACTION VOLUME CROSSED 30 MN SQ. FT. IN H1 2019; BANGALORE, FOLLOWED BY HYDERABAD, LED LEASING ACTIVITY**

Leasing activity rose by almost 40% as compared to H1 2018, crossing 30 million sq. ft. during the first half of 2019; a historic high, indicative of the fact that leasing activity in 2019 could surpass the previous peak of 2018. Bangalore, followed by Hyderabad, NCR and Mumbai, accounted for about 80% of leasing during the first six months of the year. As compared to the first half of 2018, all other cities witnessed a marginal rise in space take-up during H1 2019. The share of SEZ spaces in overall space take-up rose from 26% to 29% during the same review period – mainly led by Bangalore, Hyderabad and Pune.

Leasing activity achieved a significant high of 17 million sq. ft. during Q2 2019, rising by more than 14% as compared to the previous quarter. Bangalore, Hyderabad and NCR accounted for almost 70% of leasing during the quarter. On a quarterly basis, with the exception of Mumbai,, Hyderabad, Chennai, Ahmedabad, Kochi and Kolkata, all other cities witnessed a marginal rise in space take-up. It is important to recognize that a significant amount of the leasing activity has been culmination of pre-leases, wherein transactions commenced in the previous years,

however the occupancy taking place and recorded in 2019.

**SMALL- TO MEDIUM-SIZED TRANSACTIONS DOMINATED QUARTERLY SPACE TAKE-UP**

As in the previous quarters, office space take-up was dominated by small- to medium-sized (less than 50,000 sq. ft.) transactions. Small-sized transactions (less than 10,000 sq. ft.) accounted for about 31% of the transaction activity in the quarter, while medium-sized transactions (ranging between 10,000 sq. ft. and 50,000 sq. ft.) held a 47% share. The share of large-sized deals (greater than 100,000 sq. ft.) rose from 11% to 12% in the present quarter.

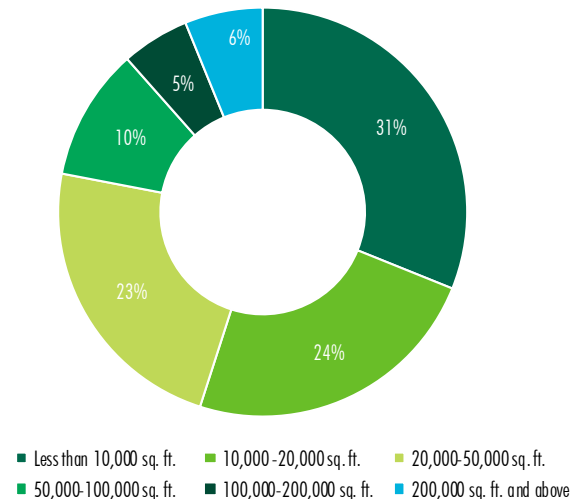
Bangalore followed by Hyderabad dominated large-sized deal closures, while a few large deals were also reported in Hyderabad, NCR, Mumbai, Chennai, Pune and Ahmedabad. Large-scale deal closures were mostly dominated by tech firms and flexible space operators. Firms belonging to sectors such as banking, financial services and insurance (BFSI), and e-commerce also closed large-sized deals. Key transactions included space take-up by corporates / operators such as Barclays, Service Now, TCS and 91 Springboard.

**TECH FIRMS RE-ESTABLISHED THEIR DOMINANCE OVER INDIA'S OFFICE LEASING MARKET; BFSI FIRMS WERE ACTIVE AS WELL**

Tech corporates, accounting for about half of leasing activity, drove office space take-up in the country during Q2 2019, followed by BFSI companies (11%) and flexible space operators (10%). Continued expansion and consolidation by tech firms in almost every major city in the country resulted in a rise in the share of this sector from 32% in Q1 2019.

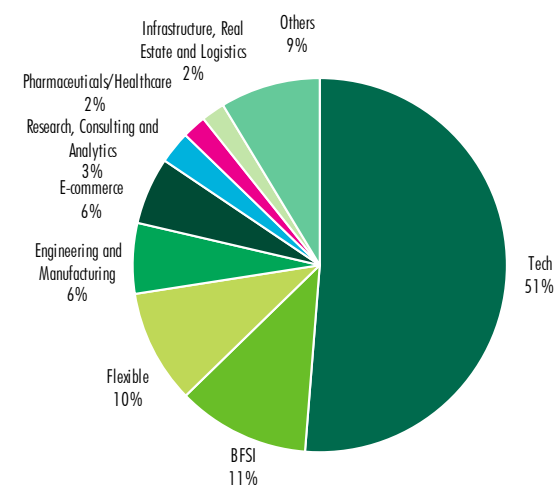
These firms took up both primary and secondary spaces in mostly core locations across cities. Other sectors such as e-commerce (6%) and engineering & manufacturing (6%) also contributed to the increase in leasing activity. A similar picture came to fore while comparing

Chart 3: Segmentation of Transaction Activity as per Transaction Size



Source: CBRE Research, Q2 2019.

Chart 4: Segmentation of Transaction Activity as per Industry



Source: CBRE Research, Q2 2019.

H1 2019 with H1 2018. The share of the tech sector rose from 25% to 43%.

This is clearly indicative of the fact that rise in technology alternatives, anti-outsourcing rhetoric in the US and a global slowdown have not had any current impact on India's position as a preferred outsourcing destination for both high-skilled and low-skilled tech services, research and development.

**RISE IN PRE-LEASING ACTIVITY**

Occupiers continued to future-proof their portfolios and hedge against future rental

escalations by pre-leasing space across various cities.

Pre-leasing activity almost doubled in the second quarter, crossing 6 million sq. ft. largely in Bangalore; followed by Hyderabad, Gurgaon, Chennai and Pune. Tech firms and flexible space operators primarily drove quarterly pre-commitment activity.

Further, pre-leasing activity rose from more than 6 million sq. ft in H1 2018 to cross 9 million sq. ft in H1 2019. Tech firms and flexible space operators drove this pre-commitment activity. Pre-commitments were also undertaken by BFSI, automobile, research, consulting & analytics and engineering & manufacturing firms.

**ALMOST 29 MILLION SQ. FT. OF NEW OFFICE SUPPLY ADDED IN H1 2019; ADDITIONS LED BY HYDERABAD, FOLLOWED BY BANGALORE, MUMBAI AND NCR**

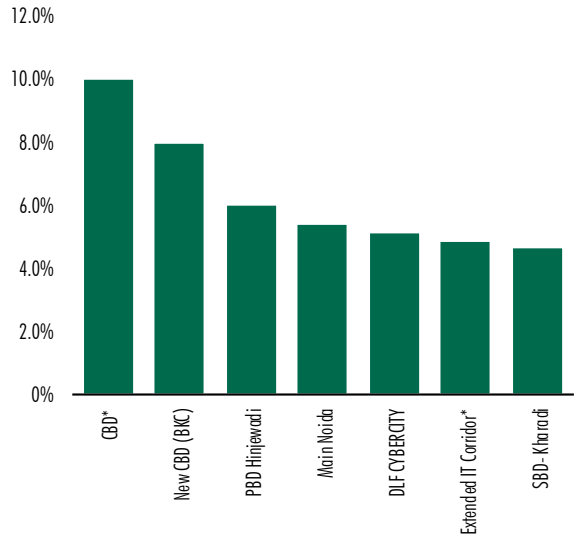
Supply addition rose by nearly 70% in H1 2019, with about 28.9 million sq. ft. of development completions reported, as compared to H1 2018. Four cities – Hyderabad, Bangalore, Chennai and NCR – accounted for more than 80% of this supply addition. As compared to H1 2018, the share of SEZs in supply dipped from 32% to 24% during H1 2019. SEZ development completions during H1 2019 were mainly in Hyderabad and Noida, followed by Pune and Mumbai.

Supply addition in Q2 2019, on the other hand, dipped marginally by about 1%, touching about 14.1 million sq. ft. More than 70% of this supply was driven by Bangalore, followed by Hyderabad and Mumbai. Apart from Mumbai, Bangalore and Pune, all cities reported a dip in development completions on a quarterly basis.

**QUARTERLY RENTAL GROWTH REPORTED ACROSS MOST KEY CITIES**

Sustained occupier interest resulted in rental values rising between 1-10% on a quarterly basis across several micro-markets in Bangalore,

Chart 5: Strongest Office Rental Growth, Q1 2019 vs Q2 2019



\*CBD: Begumpet/Rajbhavan Road, Banjara Hills (Road No. 1,2,10,12); Extended IT Corridor: Nanakramguda, Manikonda, Kukatpally  
Source: CBRE Research, Q2 2019.

Chennai and Pune. Sustained occupier interest towards locating in quality developments also resulted in rental growth in select locations in NCR and Mumbai during the second quarter, a trend not visible in the previous few quarters.

**A STRONG GROWTH IN OFFICE DEMAND AND SUSTAINED RENTAL MOMENTUM CONTINUES TO STOKE INVESTOR INTEREST**

With the office market looking at another strong year in terms of space take-up, rental growth is expected to sustain across most relevant micro-markets for the next few quarters. This continues to attract both institutional investors and developers, as more than USD 1.5 bn worth of capital was deployed in this sector in H1 2019, both in core built-up assets as well as land parcels. While investments in core built-up assets was mostly led by private equity and other institutional investors, investments in land was driven by developers aiming at strengthening their commercial pipeline in cities such as NCR, Bangalore, Chennai and Pune. Developers focusing on increasing their footprint to other key markets across India has seen momentum.

**MARKET SUMMARY**

- Quarterly increase in space take-up
- Gurgaon dominated leasing activity
- Rents increased across several micro-markets in Gurgaon and Noida

**NEW COMPLETIONS**

The region witnessed supply addition in the form of two medium-sized non-IT developments on NH-8 and Extended Golf Course Road, two medium-sized IT developments in Udyog Vihar and Noida Expressway, and one small-sized non-IT project on NH-8.

**SPACE TAKE-UP**

Sustained occupier interest resulted in Noida Expressway, Extended Golf Course Road and DLF Cybercity dominating the region’s leasing activity. A majority of the deals were closed in secondary spaces in IT developments.

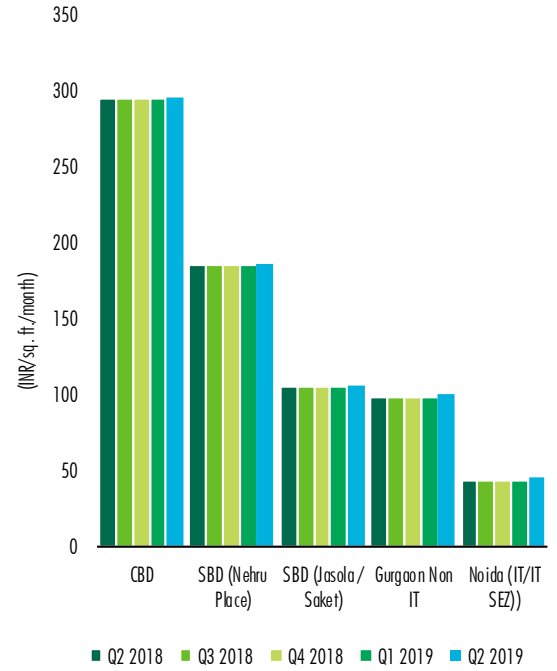
**OCCUPIER TRENDS**

Tech companies dominated leasing activity, followed by research firms, consulting & analytics companies and flexible space operators. Leasing activity continued to be driven by small- to medium-sized transactions (less than 50,000 sq. ft.), with a few large-sized deals (greater than 200,000 sq. ft.) also closing in Gurgaon and Noida.

**PRICING TRENDS**

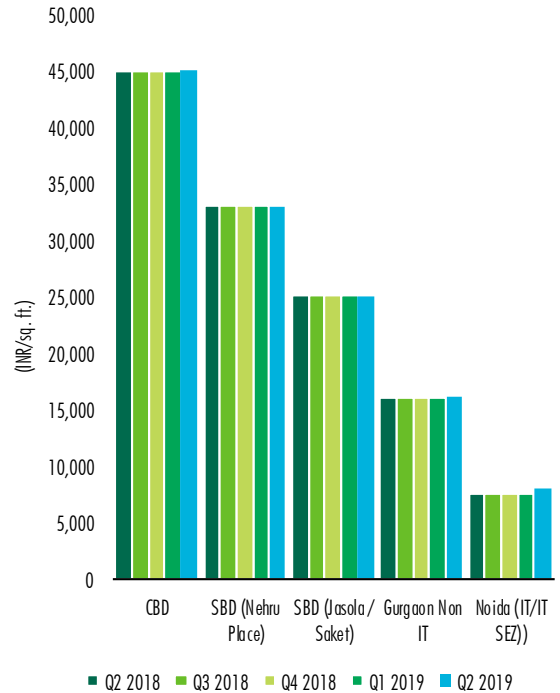
Quarterly rental appreciation of 2-6% was witnessed across SEZ developments in DLF Cybercity, Golf Course Extension and NH-8, around 2-4% across non-IT developments in NH-8, Golf Course Extension and Main Noida and around 1-6% across IT segment in Noida Expressway and main Noida, NH-8, Sohna Road, Golf Course Extension road and DLF Cybercity.

Chart 6: Rental Value Movement



Source: CBRE Research, Q2 2019.

Chart 7: Capital Value Movement



Source: CBRE Research, Q2 2019.

Micro-market	Key Highlights	Demand Q-o-q	Supply Q-o-q	Rent Q-o-q
Delhi	Leasing activity increased on a quarterly basis and was mainly led by engineering & manufacturing firms, BFSI companies and flexible space operators, with most of the transactions closed in SBD and CBD.	▲	▶	▶
Gurgaon	Quarterly leasing rose, primarily driven by research, consulting & analytics, and tech companies. Quarterly rental growth of 2-6% was witnessed across SEZ, Non-IT and IT developments.	▲	▲	▲
Noida	Leasing activity rose on a quarterly basis primarily led by tech companies and flexible space operators, with most of the transactions being closed in Expressway and Peripheral Noida. Rentals increased by 2-6% across IT and Non-IT developments.	▲	▼	▲

Source: CBRE Research, Q2 2019.

Table 1: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Oxygen Boulevard SEZ - Tower 3 (Phase 2)	Expressway	330,000	Global Logic
Cyberscape I	Extended Golf Course Road	210,000	Oyo
Candor Techspace (SEZ) Phase 3 - Tower 6	Expressway	58,900	Qualcomm

Source: CBRE Research, Q2 2019.

Table 2: Sub-market Key Statistics

Micro-market	Average Rent in Q2 2019 (INR/sq. ft. / month)	Average Rent in Q1 2019 (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	185	185	0.0	0.0
Secondary market (Jasola) Grade A	105	105	0.0	0.0
Secondary market (Saket) Grade A	160	160	0.0	0.0
Gurgaon Grade A (Commercial)	100	99	1.0	0.0
Gurgaon Grade A (IT)	84	82	2.8	3.7
NOIDA Grade A (IT/ SEZ)	48	47	2.1	2.7

Source: CBRE Research, Q2 2019.

**MARKET SUMMARY**

- Leasing activity decreased marginally on a quarterly basis
- Supply addition in Navi Mumbai, Thane and Western Suburbs 2
- Rental values increased in BKC, Navi Mumbai, Eastern Suburbs and Western Suburbs 1 & 2

**NEW COMPLETIONS**

Supply addition was witnessed in the form of a medium-sized SEZ and a small-sized non-IT development in Navi Mumbai, a large-sized IT development in Western Suburbs 2 and three small- to medium-sized IT developments in Thane.

**SPACE TAKE-UP**

Primary space take-up continued to dominate leasing activity, owing to the availability of space in recently completed investment-grade developments in Navi Mumbai and Western Suburbs 1. IT developments in Navi Mumbai and Western Suburbs 1 dominated leasing activity.

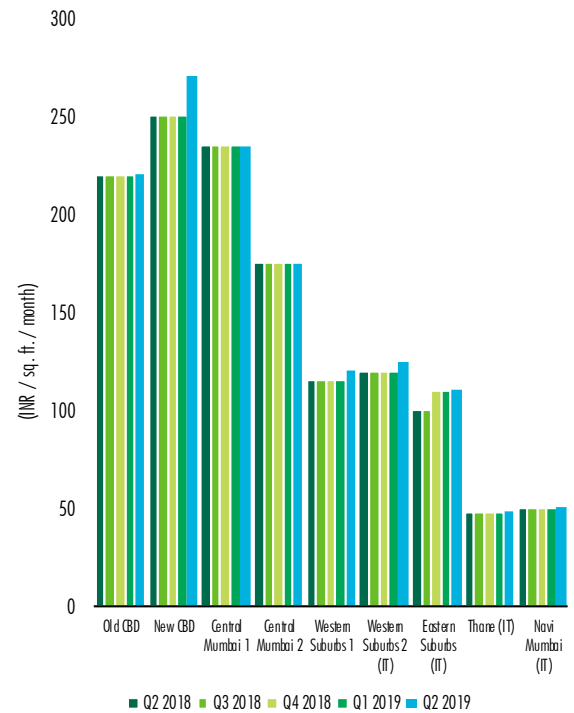
**OCCUPIER TRENDS**

Small- to medium-sized deals continued to dominate leasing activity, with a few large-sized deals (greater than 100,000 sq. ft.) also recorded across several micro-markets. Leasing activity was primarily driven by tech companies, closely followed by BFSI firms, and flexible space operators.

**PRICING TRENDS**

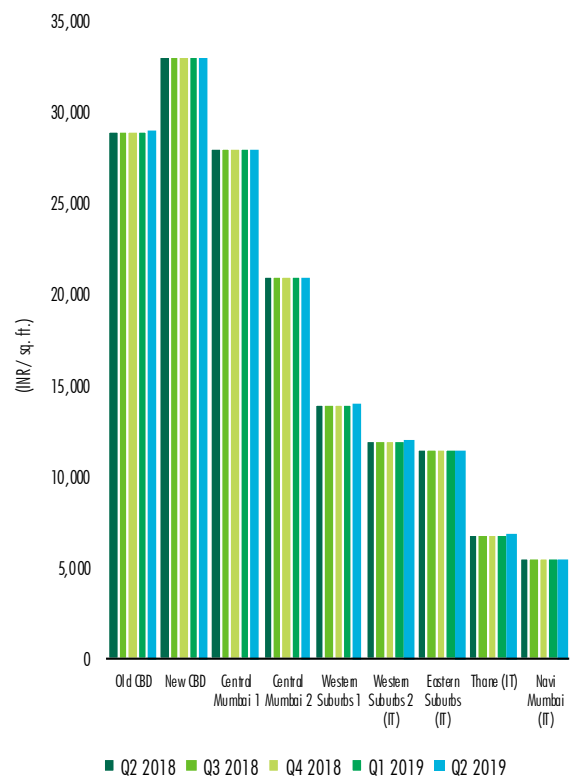
Sustained occupiers interest resulted in an increase in rental values by 4-9% across prominent non-IT developments in BKC, Western Suburbs 1 and 2 along with Eastern Suburbs. In addition, marginal rental appreciation of 3-5% was witnessed across IT and SEZ developments in Western Suburbs 2 and Navi Mumbai respectively.

**Chart 8: Rental Value Movement**



Source: CBRE Research, Q2 2019.

**Chart 9: Capital Value Movement**



Source: CBRE Research, Q2 2019.

Micro-market	Key Highlights	Demand q-o-q	Supply q-o-q	Rent q-o-q
Western Suburbs 2	Leasing activity increased on a quarterly basis primarily driven by tech followed by BFSI firms. Sustained occupier interest resulted in an increase in rental values by 3-5%	▲	▲	▲
Navi Mumbai	Leasing activity was driven by a healthy mix of primary and secondary leasing. BFSI firms led the leasing activity closely followed by tech companies	▲	▼	▲
Western Suburbs 1	Leasing activity was primarily driven by flexible space operators, followed BFSI firms	▼	▶	▲

Source: CBRE Research, Q2 2019.

Table 3: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Empire Tower (Reliable Tech Park - Ph II)	Navi Mumbai	230,000	Yes Bank
MindSPACE (East) Building 8	Navi Mumbai	94,000	L&T Infotech
Nesco – Building No. 4	Western Suburbs 2	54,000	India First Life Insurance

Source: CBRE Research, Q2 2019.

Table 4: Sub market Key Statistics

Micro-market	Average Rent in Q2 2019 (INR/sq. ft. / month)	Average Rent in Q1 2019 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
Old CBD (Fort, Nariman Point, Churchgate, Ballard Estate, Cuffe Parade, Fort, Colaba) Grade A	220	220	0.0	0.0
Central Mumbai 1 (Worli, Mahalakshmi, Prabhadevi) Grade A (non-IT)	235	235	0.0	0.0
Central Mumbai 2 (Parel, Lower Parel, Dadar, Elphinstone Road, Byculla) Grade A (non-IT)	175	175	0.0	0.0
New CBD (BKC all blocks) Grade A	270	250	8.0	8.0
BKC Periphery (Kurla, Kalina, Kalanagar, Santacruz East, Bandra East and Bandra West) Grade A	150	150	0.0	0.0
Western Suburbs 1 (Vile Parle, Andheri East & West) Grade A (non-IT)	120	115	4.3	4.3
Western Suburbs 2 (Jogeshwari, Goregaon, Malad, Kandivali, Borivali) Grade A (IT)	130	125	4.0	4.0
Eastern Suburbs (Sion, Chembur, Ghatkopar, Vidyavihar, Vikhroli, Powai, Kanjurmarg, Bhandup, Mulund, Wadala) Grade A (IT)	110	110	0.0	10.0
Navi Mumbai Grade A (non-IT)	100	100	0.0	0.0
Navi Mumbai Grade A (IT)	50	50	0.0	0.0
Thane (Thane City) Grade A (IT)	48	48	0.0	0.0

Source: CBRE Research, Q2 2019.



**MARKET SUMMARY**

- Bangalore continued to drive demand in the country
- Supply addition witnessed across all micro-markets
- Marginal increase in rental values in CBD, SBD, ORR and PBD on a quarterly basis

**NEW COMPLETIONS**

Supply addition was witnessed in the form of three small-sized, six medium-sized and four large-sized non-SEZ developments across all micro-markets and one medium-sized SEZ development in PBD.

**SPACE TAKE-UP**

ORR and PBD dominated leasing activity, followed by NBD. Space take-up was chiefly witnessed in primary spaces in both non-SEZ and SEZ developments. Quarterly SEZ absorption increased due to primary and secondary leasing in ORR and PBD.

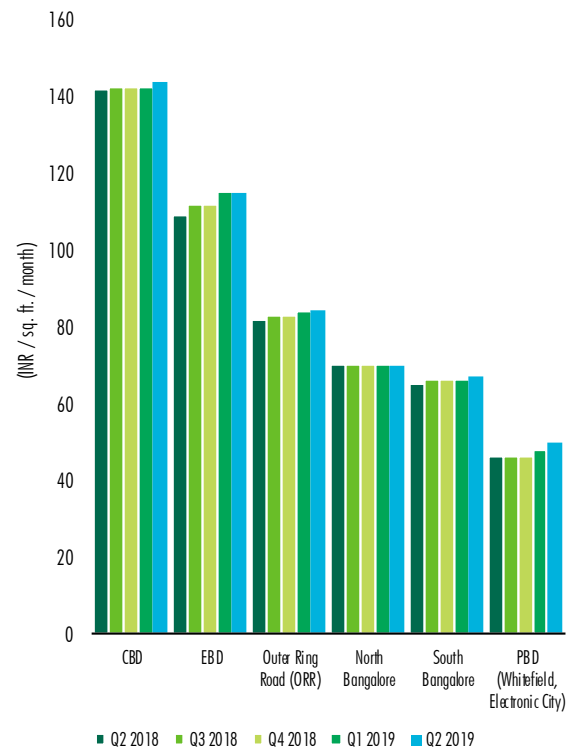
**OCCUPIER TRENDS**

Tech operators dominated leasing activity, followed by e-commerce and engineering & manufacturing firms. Large-sized deals (greater than 200,000 sq. ft.) in ORR and PBD dominated leasing activity, followed by small- to medium-sized (less than 50,000 sq. ft.) deal closures across all micro-markets.

**PRICING TRENDS**

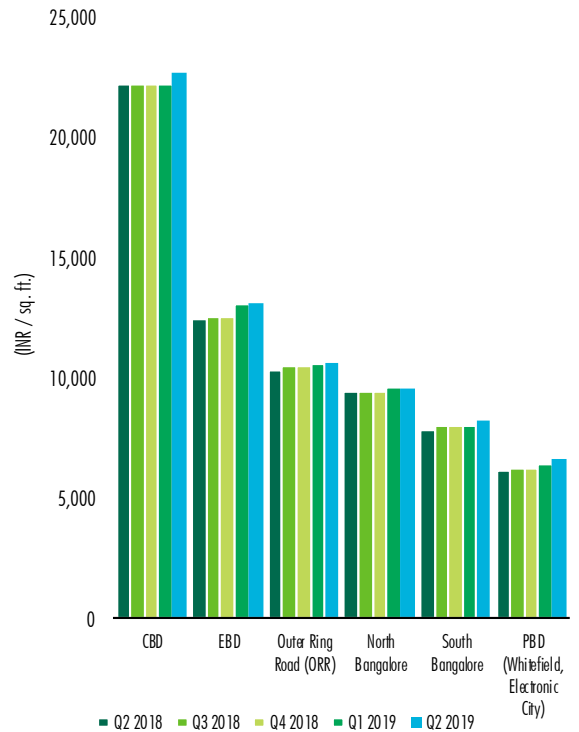
Limited availability of quality space led to an increase in rental values on a quarterly basis across non-SEZ developments in CBD, SBD and PBD and across SEZ developments in ORR and SBD.

Chart 10: Rental Value Movement



Source: CBRE Research, Q2 2019.

Chart 11: Capital Value Movement



Source: CBRE Research, Q2 2019.

Micro-market	Key Highlights	Demand Q-o-q	Supply Q-o-q	Rent Q-o-q
ORR	Leasing activity was primarily driven by tech and e-commerce operators on a quarterly basis. Due to lack of quality supply and sustained absorption, rentals increased in SEZ developments.	▲	▲	▲
PBD	Demand increased on a quarterly basis, primarily led by tech firms. Increased absorption along with a quarterly drop in supply addition led to marginal rental growth in non SEZ development	▲	▼	▲
NBD	Leasing activity was primarily driven by engineering & manufacturing firms in non-SEZ developments and infrastructure, real estate & logistics companies in SEZ developments.	▼	▲	▶

Source: CBRE Research, Q2 2019.

Table 5: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Bagmane Solarium City (Neon Block)	PBD	480,000	Cognizant
RGA Tech Park - Block 4	PBD	250,000	Accenture
Prestige Technology Park, Mercury	ORR	230,000	Nutanix

Source: CBRE Research, Q2 2019.

Table 6: Sub-market Key Statistics

Micro-market	Average Rent in Q2 2019 (INR/sq. ft. / month)	Average Rent in Q1 2019 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (MG Road, Residency Road) Grade A	144	142	1.3	1.3
CBD (MG Road, Residency Road) Grade B	98	97	1.0	3.2
EBD (Koramangala, Indira Nagar) Grade A	115	115	0.0	5.5
EBD Koramangala, Indira Nagar) Grade B	83	82	1.2	2.5
Outer Ring Road Grade A (Non-SEZ)	84	84	0.0	2.4
Outer Ring Road Grade A (SEZ)	82	80	2.5	2.5
PBD (Whitefield, Electronic City) Grade A (Non-SEZ)	50	48	4.2	8.9
PBD (Whitefield, Electronic City) Grade A (SEZ)	50	50	0.0	0.0
South Bangalore Grade A (Non-SEZ)	67	66	1.5	3.1
South Bangalore Grade A (SEZ)	46	45	2.2	2.2
North Bangalore Grade A (Non-SEZ)	73	73	0.0	1.4
North Bangalore Grade A (SEZ)	70	70	0.0	0.0

Source: CBRE Research, Q2 2019.

**MARKET SUMMARY**

- Broadly stable leasing activity on a quarterly basis
- Supply addition in IT Corridor II
- Rental values increased in CBD, IT Corridor I and II and Extended IT Corridor

**NEW COMPLETIONS**

Supply addition was witnessed in the form of three large-sized IT developments in Raidurg and one medium-sized non-IT development in Kondapur in IT Corridor II.

**SPACE TAKE-UP**

Space take-up was concentrated in IT developments along IT Corridor II. Leasing activity continued to be driven by culmination of pre-commitments in the newly completed developments in IT Corridor II. Both primary and secondary leasing were witnessed during the review period.

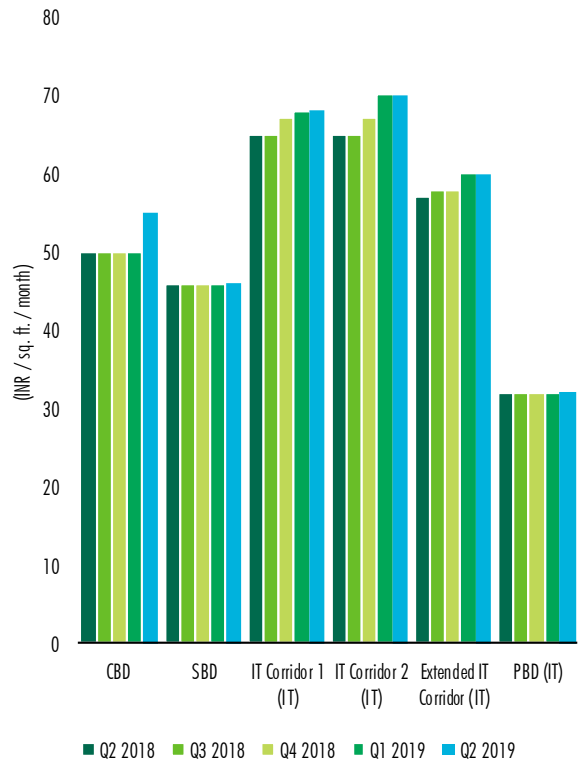
**OCCUPIER TRENDS**

Tech corporates continued to dominate space take-up, followed by flexible space operators and BFSI firms. Medium- to large-sized deals dominated leasing activity. American tech firms remained active as they closed several large-sized deals.

**PRICING TRENDS**

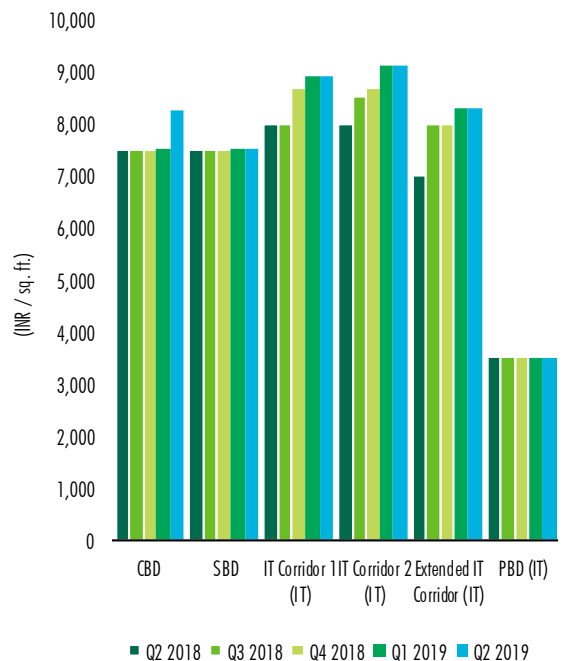
Sustained occupier interest coupled with limited space availability in SEZs led to a 2-4% q-o-q rental appreciation in IT Corridor I and II and Extended IT Corridor.

Chart 12: Rental Value Movement



Source: CBRE Research, Q2 2019.

Chart 13: Capital Value Movement



Source: CBRE Research, Q2 2019.

Micro-market	Key Highlights	Demand Q-o-q	Supply Q-o-q	Rent Q-o-q
IT Corridor I (HITEC City, Madhapur)	Leasing activity increased on a quarterly basis and was led by tech firms and flexible space operators.	▲	▶	▲
IT Corridor II (Kondapur, Gachibowli)	Large-sized space take-ups by tech firms in primary spaces continued to dominate leasing activity.	▲	▼	▲
Extended IT Corridor (Nanakramguda, Raidurg, Manikonda, Kukatpally)	Leasing activity declined on a quarterly basis and was concentrated in secondary spaces across segments.	▼	▼	▲

Source: CBRE Research, Q2 2019.

Table 7: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Salarpuria Knowledge City Parcel II (Argus)	IT Corridor II	750,000	Service Now
The Skyview - Block 10 - Non SEZ	IT Corridor II	110,000	L&T Infotech
Salarpuria Knowledge City Phase IV - Octave 2A, 2B	IT Corridor II	87,000	MathWorks

Source: CBRE Research, Q2 2019.

Table 8: Sub-market Key Statistics

Micro-market	Average Rent in Q2 2019 (INR/sq. ft. / month)	Average Rent in Q1 2019 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Begumpet, Somajiuda, Punjagutta) (Grade A Non-IT)	55	50	10.0	10.0
SBD (Banjara Hills, Jubilee Hills, Ameerpet, Himayath Nagar) (Grade A Non-IT)	46	46	0.0	0.0
IT Corridor I (HITEC City, Madhapur) Grade A (IT)	68	68	0.0	4.6
IT Corridor I (HITEC City, Madhapur) Grade A (SEZ)	70	68	2.9	7.7
IT Corridor II (Kondapur, Gachibowli and Raidurg) Grade A (IT)	70	70	0.0	7.7
IT Corridor II (Kondapur, Gachibowli and Raidurg) Grade A (SEZ)	70	68	2.9	7.7
Extended IT Corridor (Nanakramguda, Manikonda, Kukatpally) Grade A (IT)	60	60	0.0	5.3
PBD (Shamshabad, Pocharam, Uppal) Grade A (IT)	32	32	0.0	0.0

Source: CBRE Research, Q2 2019.

**MARKET SUMMARY**

- Quarterly absorption increased on an annual basis
- Supply addition witnessed in CBD and Off CBD
- Rental growth reported in OMR Zone 1 and Mount Poonamallee Road on a quarterly basis

**NEW COMPLETIONS**

Supply addition in the city was in the form of a medium-sized IT development in CBD and a small-sized non-IT development in Guindy in Off CBD.

**SPACE TAKE-UP**

Leasing activity was concentrated in OMR Zone 3 and Ambattur due to sustained occupier interest. In line with the previous quarter, most deals were closed in primary spaces leading to a drop in vacancy levels. Leasing activity was concentrated primarily in IT developments.

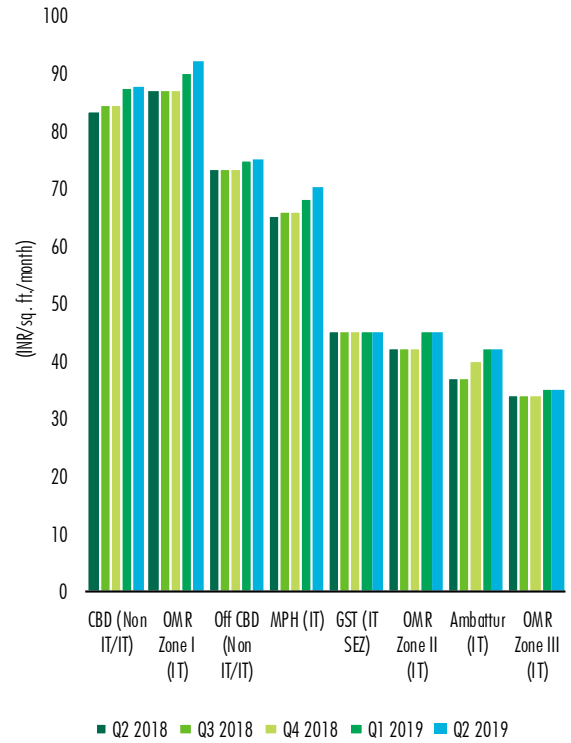
**OCCUPIER TRENDS**

The market witnessed closure of a few medium-to large-sized deals by prominent tech corporates mainly for expanding operations. In addition, the city also witnessed closure of several small- to medium-sized (less than 50,000 sq. ft.) deals. Other sectors which drove demand included telecommunications along with engineering & manufacturing firms.

**PRICING TRENDS**

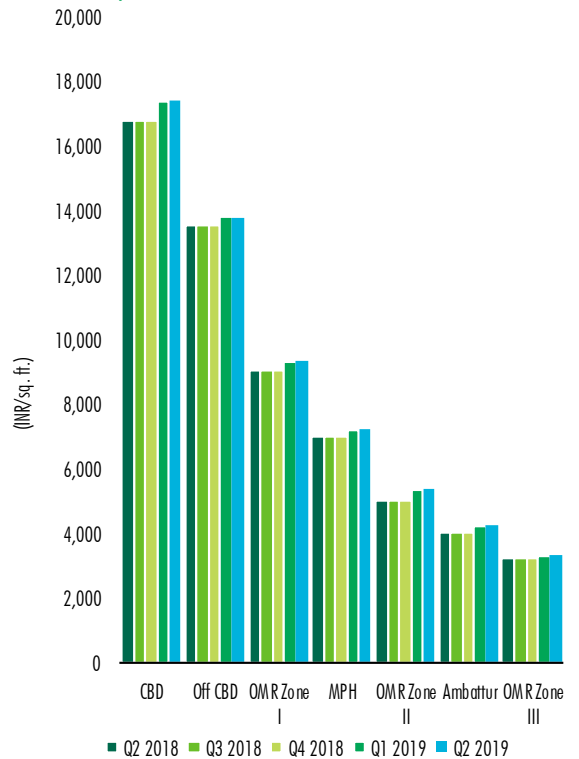
Rents increased by about 2-4% q-o-q along Mount Poonamalle Road and OMR Zone 2 in IT developments. Rental growth was witnessed owing to a continued gap between demand and supply in the last few quarters.

Chart 14: Rental Value Movement



Source: CBRE Research, Q2 2019.

Chart 15: Capital Value Movement



Source: CBRE Research, Q2 2019.

Micro-market	Key Highlights	Demand q-o-q	Supply q-o-q	Rent q-o-q
OMR Zone I	Leasing activity decreased due to limited space availability; tech firms led leasing activity followed by telecommunications and media segments.	▼	▼	▲
OMR Zone II	Leasing activity was dominated by tech companies, followed by flexible space operators and infrastructure, real estate & logistics firms.	▼	▶	▶
MPH Road	Tech firms drove leasing activity.	▼	▶	▲

Source: CBRE Research, Q2 2019.

Table 9: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Pacifica Tech Park	Chennai	196,000	Infosys
Karuna Conquest	Chennai	132,000	Tata Telecommunications
KG 360 degrees	Chennai	66,000	Temenos

Source: CBRE Research, Q2 2019.

Table 10: Sub-market Key Statistics

Micro-market	Average Rent in Q2 2019 (INR/sq. ft. / month)	Average Rent in Q1 2019 (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)	88	88	0.0	5.4
Guindy, Ekkaduthangal, Vadapalani, Santhome & MRC Nagar Grade A (Non-IT/IT)	75	75	0.0	2.0
Mount Poonamallee High Road (IT)	70	68	2.9	7.7
Mount Poonamallee High Road (SEZ)	75	75	0.0	0.0
Ambattur, Ambattur Industrial Estate and Padi Grade A (IT)	42	42	0.0	13.5
GST Road (SEZ)	45	45	0.0	0.0
OMR 1 - Taramani to Perungudi Toll Grade A (IT)	92	90	2.2	5.7
OMR 1 - Taramani to Perungudi Toll Grade A (SEZ)	100	100	0.0	5.3
OMR 2 - Perungudi toll up to Sholinganallur Grade A (IT)	45	45	0.0	7.1
OMR 2 - Perungudi toll up to Sholinganallur Grade A (SEZ)	58	58	0.0	5.5
OMR 3 - Sholinganallur to Padur Grade A (IT)	35	35	0.0	2.9
OMR 3 - Sholinganallur to Padur Grade A (SEZ)	45	45	0.0	12.5

Source: CBRE Research, Q2 2019.

**MARKET SUMMARY**

- Significant increase in leasing activity on a quarterly basis
- Supply addition witnessed in SBD East and SBD Kharadi
- Quarterly increase in rental values across most micro-markets

**NEW COMPLETIONS**

The city witnessed an increase in development completions on a quarterly basis in the form of a medium-sized non-IT development in Hadapsar in SBD East, along with a medium-sized SEZ development in SBD Kharadi.

**SPACE TAKE-UP**

Owing to supply influx and culmination of pre-commitments in SBD Kharadi, space take-up rose on a quarterly basis and was driven by a healthy mix of primary and secondary leasing. Transaction activity was mainly concentrated across SEZ developments in SBD Kharadi and PBD Hinjewadi.

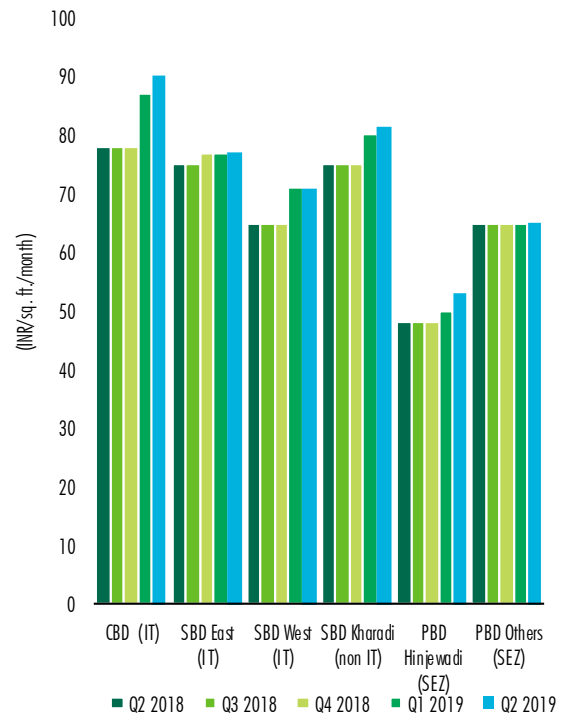
**OCCUPIER TRENDS**

Tech firms continued to dominate space take-up, followed by BFSI companies and flexible space operators. Small- to medium-sized (less than 50,000 sq. ft.) transactions drove leasing activity. The city also witnessed the closure of a few large-sized deals (greater than 100,000 sq. ft.) in non-IT and SEZ developments.

**PRICING TRENDS**

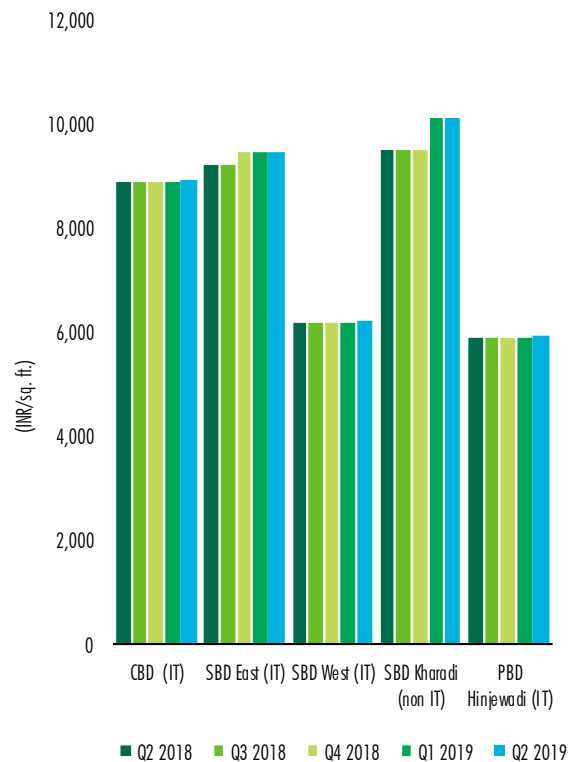
Due to limited availability of space and sustained leasing momentum, rental values increased by about 1-8% q-o-q across non-IT developments in SBD West and Kharadi and by about 3-6% q-o-q across IT developments in CBD, SBD Kharadi and PBD-Others.

Chart 16: Rental Value Movement



Source: CBRE Research, Q2 2019.

Chart 17: Capital Value Movement



Source: CBRE Research, Q2 2019.

Micro-market	Key Highlights	Demand q-o-q	Supply q-o-q	Rent q-o-q
SBD Kharadi	Leasing activity increased on a quarterly basis, owing to culmination of pre-committments led by BFSI firms. Rental appreciation of 1-6% was witnessed across both IT and non-IT developments. However, rental decline of 11-13% was reported across the SEZ segment despite positive occupier sentiment due to the release of a more cost effective option.	▲	▲	▲
SBD East	Leasing activity was driven by flexible space operators, followed by engineering & manufacturing firms. Rental values remained largely stable.	▶	▲	▶
PBD Hinjewadi	Tech firms drove leasing activity, primarily in secondary SEZ spaces. Quarterly rental growth of nearly 5-7% was witnessed across SEZ developments.	▲	▶	▲

Source: CBRE Research, Q2 2019.

Table 11: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Gera Commerzone SEZ - Phase I (G2)	SBD Kharadi	600,000	Barclays
Embassy Techzone - Rhine	Peripheral Business District (PBD) - Hinjewadi	150,000	Infosys
Marisoft III	Central Business District (CBD)	36,800	EFC Business Centre

Source: CBRE Research, Q2 2019.

Table 12: Sub-market Key Statistics

Micro-market	Average Rent in Q2 2019 (INR/sq. ft. / month)	Average Rent in Q1 2019 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Bund Garden, Boat Club Road, Koregaon Park, Koregaon Park Extn., Shivaji Nagar, Erandwane, Law college road, Dhole Patil Road, Wakdevadi, Camp, Keneddy Road, Naylor Road, Sangamwadi; Kalyani Nagar, Senapati Bapat Road, FC Road, Ganeshkhind/ University Road, Salisury Park, Satara Road, Yerwada, Old Airport Road, Shastri Nagar, Nagar Road (till Shastri Nagar), Swargate)	88	86	1.7	7.4
SBD - West (Aundh, Baner, Bavdhan, Pashan, Karve Road, Paud Road, Balewadi, Sinhagad Road, Baner-Pashan, Bangalore-Mumbai Highway (Till Sus Road), Baner Phata)	71	71	0.0	9.2
SBD East (Hadapsar, Mundhwa, Viman Nagar, Keshav Nagar, New Airport Road, Nagar Road, NIBM, Mohammadwadi, Wanowrie)	79	79	0.0	2.6
SBD Kharadi	80	84	-4.0	2.6
PBD Hinjewadi	54	53	2.9	10.2
PBD Others (Phursungi, Wagholi, Charoli, Nanded, Wakad, Tathawade, Mahalunge, Pimpri Chinchwad, Talawade)	61	60	1.4	1.4

Source: CBRE Research, Q2 2019.



**MARKET SUMMARY**

- Leasing activity dipped on a quarterly basis
- Negligible supply addition, rental stability observed

**NEW COMPLETIONS**

The city witnessed negligible supply addition during the quarter.

**SPACE TAKE-UP**

Leasing activity was concentrated on Park Street in CBD and in Salt Lake V and Rajarhat in PBD during the quarter. Primary space take-up dominated leasing activity, mostly closed across small- to medium-sized space formats.

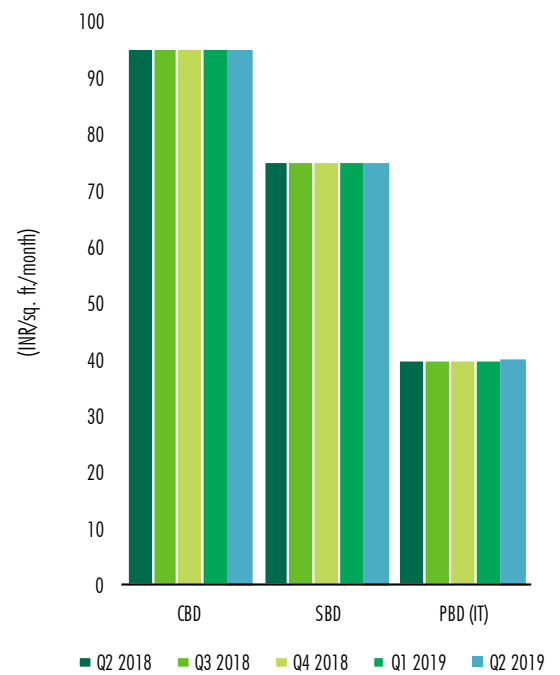
**OCCUPIER TRENDS**

Demand was largely driven by occupiers from the tech and BFSI sectors. A flexible space operator also leased a small-sized space (10,000 – 20,000 sq. ft.) in a development in PBD. Primary space take-up dominated leasing activity, mostly in small- to medium-sized (less than 50,000 sq. ft.) space formats.

**PRICING TRENDS**

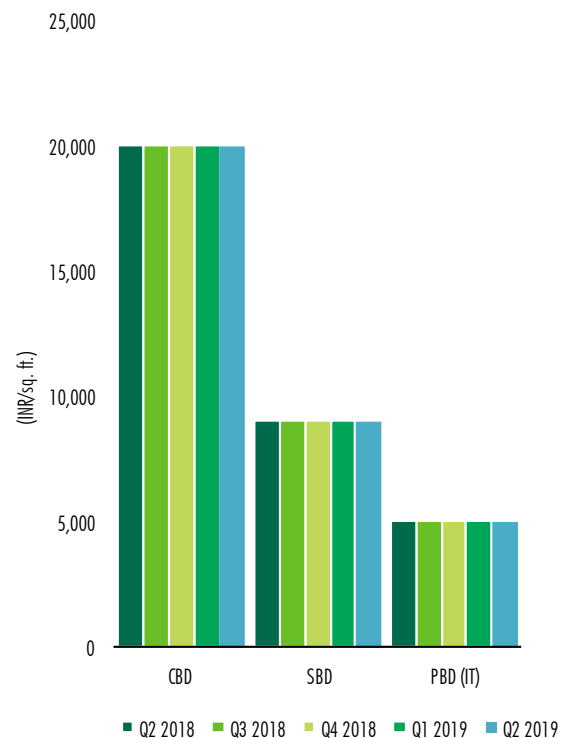
Rental values remained stable during the review period across all micro-markets.

Chart 18: Rental Value Movement



Source: CBRE Research, Q2 2019.

Chart 19: Capital Value Movement



Source: CBRE Research, Q2 2019.

Micro-market	Key Highlights	Demand Q-o-q	Supply Q-o-q	Rent Q-o-q
CBD	Leasing activity rose on a quarterly basis; mainly driven by medium-sized space take-up by a prominent BFSI operator.	▲	▶	▶
SBD	Leasing activity dipped on a quarterly basis due to decisions deferred by occupiers.	▼	▶	▶
PBD	Leasing activity declined on a quarterly basis, and was concentrated mainly in investment-grade developments.	▼	▼	▶

Source: CBRE Research, Q2 2019.

Table 13: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Godrej Waterside	PBD	27,000	Teleperformance
DLF IT Park	PBD	22,000	Concentrix
DLF IT Park	PBD	10,000	Edifixio

Source: CBRE Research, Q2 2019.

Table 14: Sub-market Key Statistics

Micro-market	Average Rent in Q2 2019 (INR/sq. ft. / month)	Average Rent in Q1 2019 (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	0.0
Secondary Business District Grade A	75	75	0.0	0.0
Peripheral Business District (Salt Lake, Rajarhat) (IT) Grade A	40	40	0.0	0.0

Source: CBRE Research, Q2 2019.

**MARKET SUMMARY**

- Leasing activity was concentrated in SBD
- Stable rental values

**NEW COMPLETIONS**

The city did not witness fresh supply addition during the review period.

**SPACE TAKE-UP**

Space take-up was primarily concentrated in Kakkanad in SBD. Absorption was mainly driven by the closure of small- to medium-sized (less than 50,000 sq. ft.) deals in recently completed SEZs.

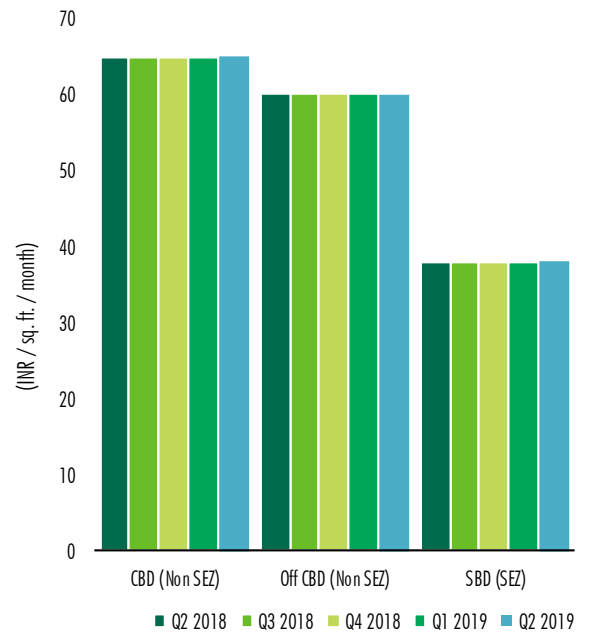
**OCCUPIER TRENDS**

Pharmaceutical / healthcare companies dominated leasing activity, followed by tech firms.

**PRICING TRENDS**

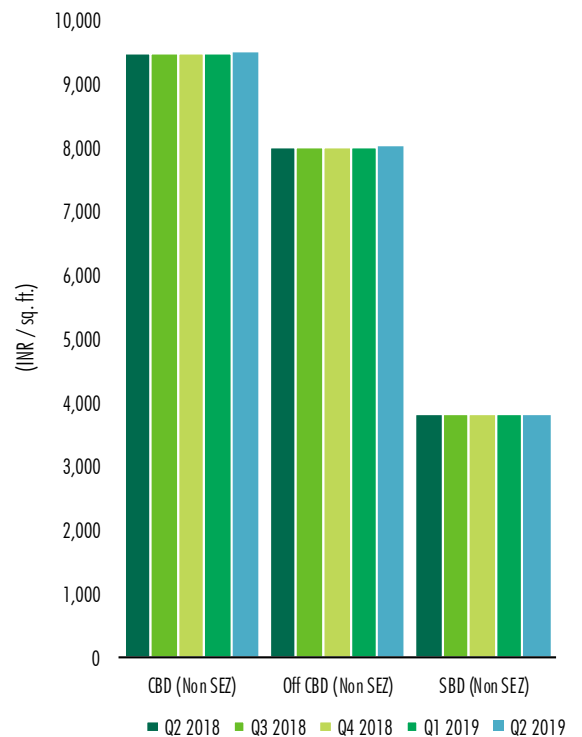
Rental values remained stable across all micro-markets during the review period.

Chart 20: Rental Value Movement



Source: CBRE Research, Q2 2019.

Chart 21: Capital Value Movement



Source: CBRE Research, Q2 2019.

Micro-market	Key Highlights	Demand q-o-q	Supply q-o-q	Rent q-o-q
CBD	Limited demand for space led to stability in rental growth.	▼	▶	▶
SBD	Ample availability of investment-grade space, coupled with increased interest from pharmaceutical / healthcare and tech firms, drove leasing activity.	▲	▶	▶

Source: CBRE Research, Q2 2019.

Table 15: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Brigade WTC	SBD	10,000	Receipt Bank
Brigade WTC	SBD	6,300	Noa Info Solutions

Source: CBRE Research, Q2 2019.

Table 16: Sub-market Key Statistics

Micro-market	Average Rent in Q2 2019 (INR/sq. ft. / month)	Average Rent in Q1 2019 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD & Ext CBD (MG Road, Kaloor, Kadavanthara, Marine Drive) Grade A (Non SEZ)	65	65	0.0	0.0
Off CBD (Vyrilla, Pallarivattam, Edapally) Grade A (Non SEZ)	60	60	0.0	0.0
SBD (Kakkanad) (SEZ)	38	38	0.0	0.0

Source: CBRE Research, Q2 2019.

**MARKET SUMMARY**

- Quarterly decrease in space take-up
- Significant supply addition in SBD
- Rental values remained stable

**NEW COMPLETIONS**

Supply addition was witnessed in the form of eight small- to medium-sized non-IT and mixed-use developments primarily in Vastrapur and off S. G. Highway in SBD.

**SPACE TAKE-UP**

Space take-up was primarily driven by developments in SBD, followed by Mithalkali in CBD. Primary leasing dominated space take-up, owing to substantial availability of space in the recently completed investment-grade developments.

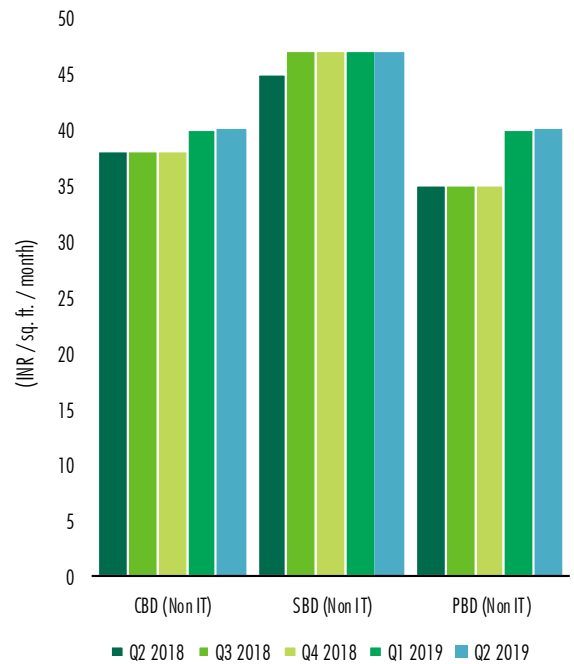
**OCCUPIER TRENDS**

Leasing activity was mainly driven by pharmaceutical / healthcare firms followed by tech corporates, and flexible space operators. Although, small- to medium-sized deals (less than 50,000 sq. ft.) continued to dominate leasing activity, the quarter also witnessed a large-sized deal by a pharmaceutical company (greater than 100,000 sq. ft.).

**PRICING TRENDS**

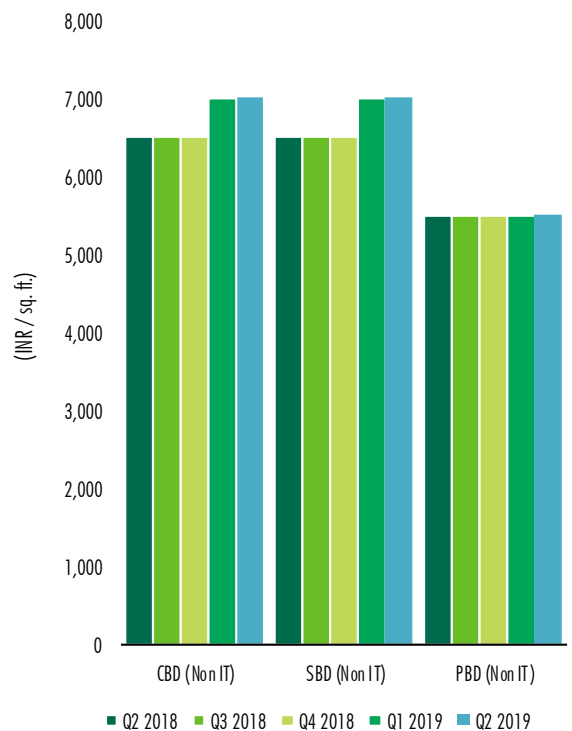
Rental values remained stable across micro-markets.

Chart 22: Rental Value Movement



Source: CBRE Research, Q2 2019.

Chart 23: Capital Value Movement



Source: CBRE Research, Q2 2019.

Micro-market	Key Highlights	Demand q-o-q	Supply q-o-q	Rent q-o-q
CBD	Leasing activity increased on a quarterly basis, primarily driven by firms belonging to the tech sector.	▲	▶	▶
SBD	Significant supply addition in the micro-market. A large-sized deal was concluded during the review period.	▼	▼	▶
PBD	Limited space take-up resulted in largely stable rental values.	▼	▶	▶

Source: CBRE Research, Q2 2019.

Table 17: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Lakshaya	SBD	125,000	Kashiv Biosciences
The First	SBD	34,000	DevX
Zodiac Square	SBD	30,000	Ascendum KPS

Source: CBRE Research, Q2 2019.

Table 18: Sub-market Key Statistics

Micro-market	Average Rent in Q2 2019 (INR/sq. ft. / month)	Average Rent in Q1 2019 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD	40	40	0.0	5.3
SBD	47	47	0.0	4.4
PBD	40	40	0.0	14.3

Source: CBRE Research, Q2 2019.

**INDIA OFFICE OUTLOOK 2019**

Several structural changes have been underway in the office segment in the country since the past few years, the most important ones being the disruptive impact of technology and the evolving relationship between occupiers and developers. In our opinion, over the short to medium term the impact of these disruptive changes would be clearly visible. This could mark a shift in the way the segment could function going forward – change would move from the ‘experimentation’ to ‘transformation’ stage.

- Office leasing activity is expected to strengthen in the short term, backed by corporates looking to expand or consolidate their operations. While interest from American corporates is expected to sustain, we anticipate that India’s position as a preferred outsourcing destination would continue to attract corporates from other geographies such as EMEA and APAC.
- Moreover, policy initiatives such as Make in India, Digital India etc., along with the emphasis on smart cities and industrial corridors, are likely to boost operations of both Indian and multinational corporates. Increasingly, a larger number of global and domestic firms are positioning India as the destination for higher skilled requirements, either for their global operations (through Global Inhouse Centers - GICs) or for tech-driven services; rather than low-end processes.
- As a result, we anticipate that the share of tech corporates in overall office space take-up would remain strong in 2019, a trend already visible in the first half of the year. Further, BFSI, engineering & manufacturing, research and consulting, and flexible space corporates are also likely to account for a larger share in leasing activity on a yearly basis. Occupiers continue to assess agility in their real estate portfolios – finding the right mix of flexibility and collaborative / incubation spaces within their core workplaces along with adding external flexible options.

Other sectors, such as pharmaceuticals, telecommunications and e-commerce, are also likely to report higher occupier demand, potentially giving impetus to the demand for commercial space. Given the strong leasing activity already witnessed in H1 2019, we expect that by 2019 end, leasing quantum can potentially surpass the previous peak of 2018 by about 5-10% on an annual basis.

- New lease accounting standards IND AS 116 has been notified in March 2019 in India. According to these new standards, all leases by a company would now be treated as equal assets and liabilities on their balance sheets. While individual real estate decisions may be revisited, we anticipate changes in the new standards will have a limited direct impact on real estate leasing decisions in India.
- We are also expecting that if the draft recommendations (by a committee headed by Baba Kalyani) of a shift from SEZs to a 3E (Employment and Economic Enclaves) framework are approved, occupier interest is expected to be sustained for leasing space in this segment. The 3E framework proposes that benefits would be calculated on the basis of employment, investment, etc. instead of exports.

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

- We anticipate that the pipeline for H2 2019 is expected to be marginally lower compared to the first half of 2019 and would be dominated by Bangalore and Hyderabad, where supply anticipated to be released would outstrip NCR and Mumbai. Chennai and Pune, after witnessing minimal levels of development completions in the past two years, are also likely to see the completion of large-scale tech parks / corporate developments by leading players. Similar to leasing activity, we also expect that the supply of 2019 would surpass 2018 levels.
- Developers are also likely to continue to move towards providing ‘smarter’ space solutions,

- mainly by incorporating technology into all aspects of a development – from workplace patterns to facility management solutions. We also anticipate that landlord priorities would shift from just LEED certifications to delivery of International WELL Building Institute's (IWBI) WELL Building Standard™ (WELL) certifications.
- We expect Hyderabad, Bangalore and NCR to account for a substantial share of the SEZ pipeline in the upcoming quarters. Given the approaching sunset date, we anticipate an increase in demand for SEZ space, across cities in India.

#### RENTAL GROWTH EXPECTED TO CONTINUE

- Similar to the previous year, we expect that rental growth would taper in Bangalore, Chennai and Pune. In Bangalore, sustained absorption in quality developments would lead to marginal rental growth to occur.

As a large quantum of supply would finally be released in Chennai and Pune, residual spaces along with higher quality of new space is likely to drive rental growth.

- In case of Hyderabad, however, even with rising absorption, the quantum of supply lined up for release is likely to limit rental growth in the medium term; over the short term the supply demand paucity is likely to support rental growth.
- We also anticipate that strong demand for space in quality developments is likely to result in a marginal growth in select locations in NCR and Mumbai in H2 2019. This would be driven by demand for space in newly constructed developments or space in core locations. We also expect SEZ and non-SEZ rental values to converge within the same micro-markets across cities. Overall, rentals are likely to remain firm with an upward bias in active locations.



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**CONTACTS****Abhinav Joshi***Head of Research, India*

+91 124 465 9700

abhinav.joshi@cbre.co.in

**Sachi Goel***Senior General Manager, India*

+91 80 4074 0000

sachi.goel@cbre.co.in

**Pradeep Nair***Assistant General Manager*

+91 80 4074 0000

Pradeep.nair@cbre.co.in

**Uttara Nillawar***Deputy General Manager*

+91 2240690100

Uttara.Nilawar@cbre.com

**Mohamed Atif Khan***Senior Analyst, India*

+91 22 4069 0100

mohamedatif.khan@cbre.co.in

**Please visit the Global Research Gateway at****<http://www.cbre.com/research-and-reports>****Ram Chandnani***Managing Director, Advisory and Transaction Services, India*

+91 80 4074 0000

ram.chandnani@cbre.co.in