India Office, Q1 2018

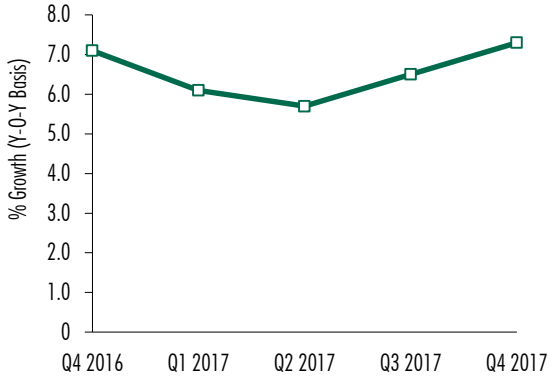
STRONGEST FIRST QUARTER; TRANSACTION ACTIVITY CROSSED 10 MILLION SQ. FT.

Rents Up 17 Markets | **Rents Stable** 46 Markets | **Rents Down** 0 Markets | **Demand (Y-O-Y)** 25% | **Supply (Y-O-Y)** 212%

The Indian economy's growth rate reached a five-quarter high of 7.2% during the quarter ended December 2017, compared with 6.5% in the previous quarter. The upward momentum was largely attributed to the continued recovery of the manufacturing sector, which grew by 8.1%. In addition, sectors such as trade, hotels and transport (9%), and public administration, defence and other services (7.2%) also contributed to this strong momentum. The construction sector's performance improved sharply as it grew by 6.8%, compared with 2.8% in the previous quarter. Moreover, the growth of real estate services (along with financial, insurance and professional services) sector increased from 6.4% to 6.7% during the review period. However, despite the visible recovery in quarterly GDP, the Reserve Bank of India (RBI) continued to project 2017-18 growth rate at 6.6%.

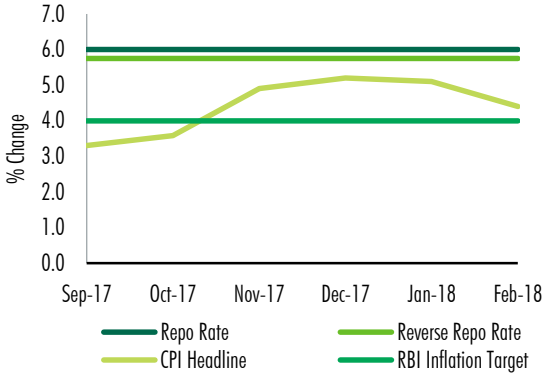
After rising to 5.2% in December 2017, retail inflation (measured by consumer price inflation or CPI) continued on its downward curve, declining to 4.4% in February 2018. In February 2018, the Monetary Policy Committee (MPC) also estimated inflation at 4.3-4.7% during H2 2017 and 5.1-5.6% in H1 2018. Due to the constant fluctuation in inflation, the central bank has decided to keep lending rates stable for now at 6.0%. However, if inflation continues to pose a challenge, the bank might become inclined towards adopting monetary tightening measures in 2018.

Chart 1: GDP Growth Rates



Source: MOSPI, Q1 2018.

Chart 2: Key Interest Rates



Source: MOSPI, RBI, Q1 2018.

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TRANSACTION VOLUME STRENGTHENED FURTHER; BANGALORE REMAINED A PREFERRED OFFICE DESTINATION, FOLLOWED BY DELHI-NCR AND MUMBAI

Due to sustained occupier interest, leasing activity rose by about 25% on a yearly basis and crossed 10 million sq. ft. during Q1 2018. Bangalore remained a key driver of office leasing in India, accounting for more than the combined share of other markets such as Delhi-NCR, Mumbai and Hyderabad. Except Bangalore, Mumbai and Kochi, all other cities witnessed a marginal dip in space take-up on a quarterly basis.

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

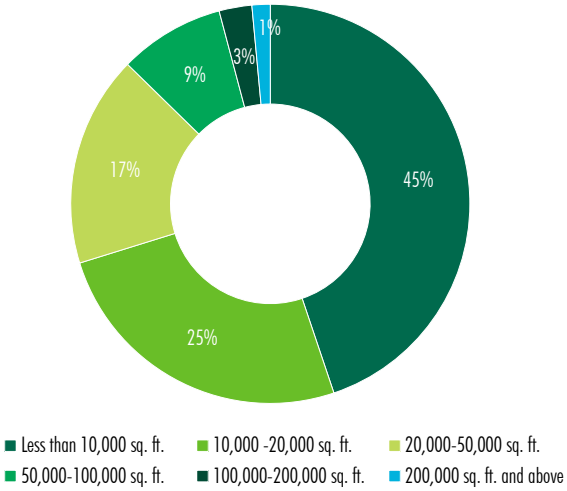
As in the previous quarters, office space take-up was dominated by small- and medium-sized transactions. Small-sized transactions (less than 10,000 sq. ft.) accounted for about 45% of the transaction activity in the quarter, while mid-sized transactions (ranging between 10,000 sq. ft. and 50,000 sq. ft.) held a 42% share. The share of large-sized deals (greater than 100,000 sq. ft.) marginally dipped from 5% in the previous quarter to about 4% in Q1 2018.

Bangalore dominated large-sized deal closures, while a few deals were reported in Mumbai, Delhi-NCR, Chennai and Hyderabad. Sectors such as technology, e-commerce, banking/financial services and insurance (BFSI), and engineering and manufacturing dominated large-scale deal closures. Key transactions included space take-up by corporates such as Flipkart, Accenture, Covance and Bosch.

DESPITE A DROP IN ITS SHARE IN SPACE TAKE-UP, TECH REMAINED THE BIGGEST DEMAND DRIVER

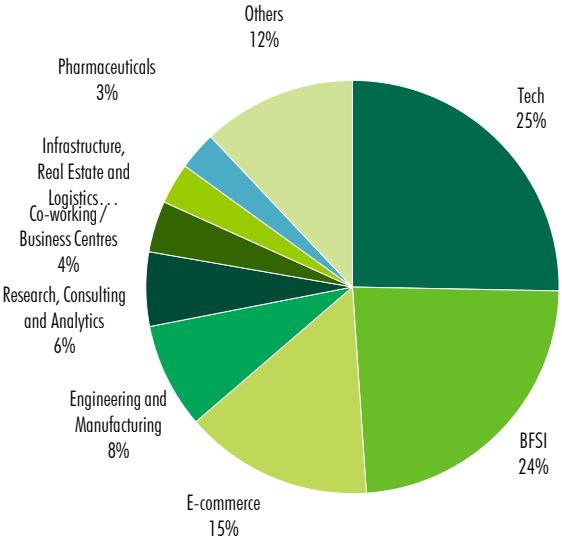
Tech corporates (with a share of 25%) drove office space take-up in the country during Q1 2018, followed by the BFSI sector (24%). The share of e-commerce firms rose to 15% due to the closure of a few large-sized deals by leading

Chart 3: Segmentation of Transaction Activity as per Transaction Size



Source: CBRE Research, Q1 2018.

Chart 4: Segmentation of Transaction Activity as per Industry



Source: CBRE Research, Q1 2018.

global/domestic players. Other sectors such as engineering and manufacturing (8%), and research, consulting and analytics (6%) also contributed to the increase in leasing activity. Co-working/business centre operators remained active (4% share), with both global and domestic players expanding their operations across most cities.

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In conclusion, recent disruptions in the technology sector does not seem to have significantly affected the overall leasing activity in the country. Moreover, growth in other sectors appears to have helped plug the gap created by reduced leasing by most Indian tech firms. However, this upheaval in the tech sector is likely to continue for some time as firms focus extensively on re-skilling and re-arranging their hiring plans in the current dynamic environment.

DIP IN PRE-LEASING ACTIVITY

Occupiers continued to future-proof their portfolios and hedge against future rental escalations by pre-leasing space across various cities. However, pre-leasing activity dropped marginally in the first quarter, largely in Delhi-NCR, Chennai and Hyderabad. Tech, and engineering and manufacturing firms primarily drove this pre-commitment activity.

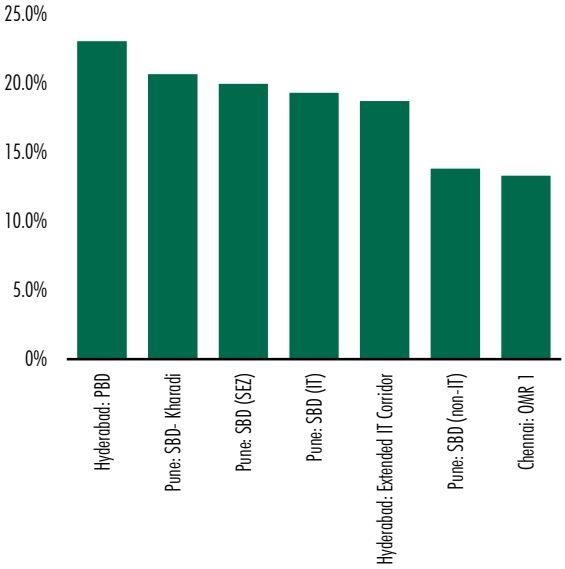
ALMOST 10 MILLION SQ. FT. ADDED IN Q1 2018; ADDITION LED BY BANGALORE, FOLLOWED BY MUMBAI, CHENNAI AND DELHI-NCR.

Supply addition more than tripled on an annual basis, with about 9.7 million sq. ft. of development completions being reported during Q1 2018. Four cities – Bangalore, Mumbai, Chennai and Delhi-NCR – accounted for more than 80% of the quarterly supply addition, followed by Pune. Strong supply addition was a key driver of the increase in transaction volumes in the current quarter.

SUSTAINED RENTAL MOMENTUM WITNESSED ACROSS BANGALORE, HYDERABAD AND PUNE

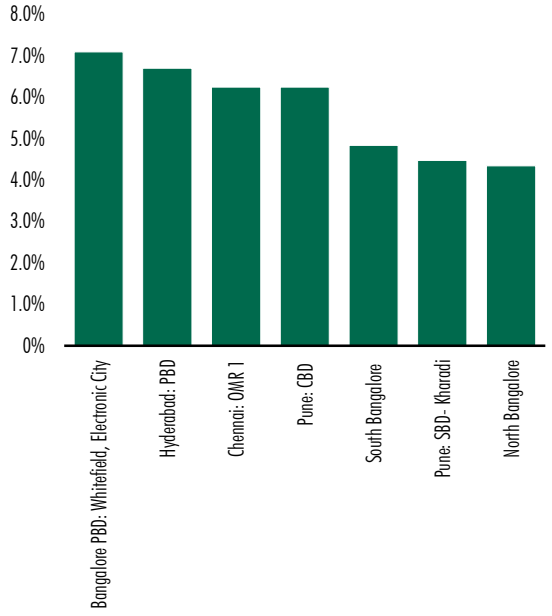
Sustained occupier interest resulted in rental values rising by about 1-7% on a quarterly basis across several micro-markets in Bangalore, Hyderabad and Pune. Rental growth remained limited to core locations in Delhi-NCR and Chennai during the first quarter.

Chart 5: Strongest Office Rental Growth, Q1 2017 vs Q1 2018



Source: CBRE Research, Q1 2018.

Chart 6: Strongest Office Rental Growth, Q4 2017 vs Q1 2018



Source: CBRE Research, Q1 2018.

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MARKET SUMMARY

- Q-o-q decline in space take-up; Gurgaon dominated activity
- Rental growth limited to select IT buildings in Gurgaon and SEZ developments in Noida

NEW COMPLETIONS

The region witnessed supply addition in the form of three medium-sized non-IT developments on Sohna Road, NH-8 and Extended Golf Course Road in Gurgaon, along with a medium-sized SEZ development along the Expressway in Noida.

SPACE TAKE-UP

Sustained occupier interest resulted in the Noida Expressway, NH-8 and DLF Cybercity accounting for almost half of the region's leasing activity. A majority of the deals were closed in secondary spaces.

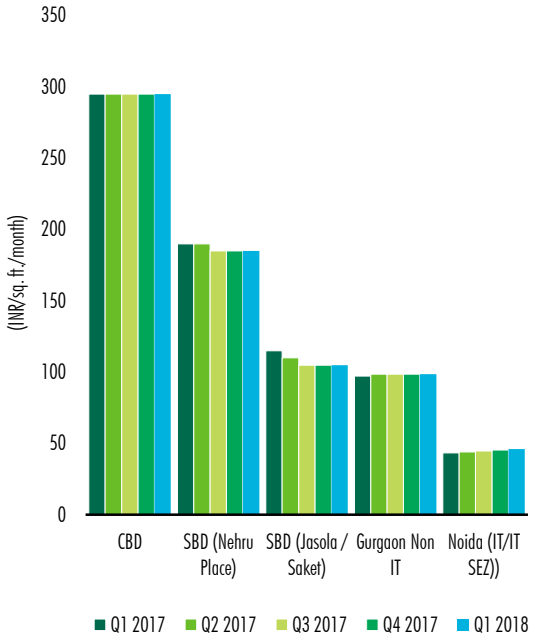
OCCUPIER TRENDS

Leasing activity was primarily driven by the tech sector, followed by corporates from the research, consulting and analytics, and BFSI corporates. Although small to medium-sized transactions continued to drive leasing activity, the quarter also witnessed a few large-sized deals (greater than 100,000 sq. ft.) in Noida.

PRICING TRENDS

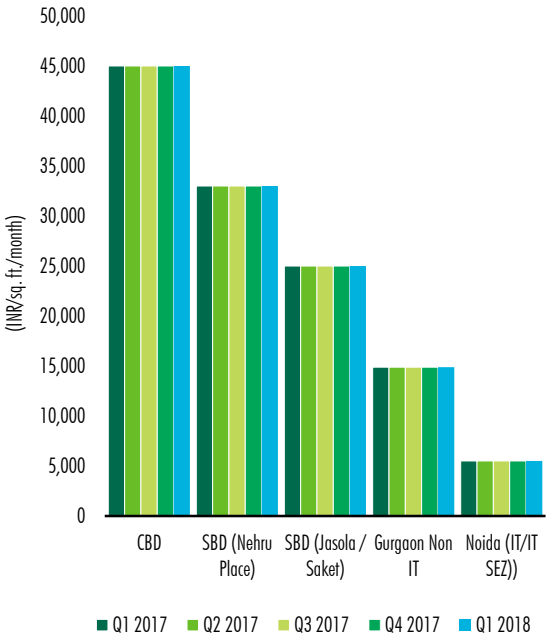
Sustained occupier interest resulted in rental values rising by about 1-2% on a quarterly basis in select IT buildings in Gurgaon, and by about 3-5% (quarterly) in SEZ developments along the Noida Expressway.

Chart 7: Rental Value Movement



Source: CBRE Research, Q1 2018.

Chart 8: Capital Value Movement



Source: CBRE Research, Q1 2018.

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Micro-market	Key Highlights	Demand Q-o-q	Supply Q-o-q	Rent Q-o-q
CBD	Small- and medium-sized transactions led to stability in rental growth	▼	▶	▶
Gurgaon	Leasing activity mainly limited to core micro-markets in the city	▼	▼	▲
Noida	Increased demand resulted in a 3-5% rise in rental values on a quarterly basis across SEZ developments	▲	▲	▲

Source: CBRE Research, Q1 2018.

Table 1: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Candor Techspace	Noida Expressway	110,000	Accenture
Candor Techspace	Noida Expressway	90,000	Genpact
Candor Techspace Tikri	Sohna Road	75,000	Xceedance Infotech

Source: CBRE Research, Q1 2018.

Table 2: Sub-market Key Statistics

Micro-market	Average Rent in Q1 2018 (INR/sq. ft. / month)	Average Rent in Q4 2017 (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	-2.6
Secondary Market (Jasola) Grade A	105	105	0.0	-8.7
Secondary Market (Saket) Grade A	160	160	0.0	0.0
Gurgaon Grade A (Non IT)	99	99	0.0	1.3
Gurgaon Grade A (IT)	81	80	0.4	0.4
NOIDA Grade A (IT/IT SEZ)	47	46	2.2	4.4

Source: CBRE Research, Q1 2018.

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MARKET SUMMARY

- Q-o-q increase in leasing activity
- Supply addition in SBD and PBD (Powai, Vikhroli)
- Stable rental values across all micro-markets

NEW COMPLETIONS

New supply was concentrated in the micro-markets of SBD and PBD. It comprised one large-sized and two medium-sized non-IT developments in SBD and three medium-sized IT developments in PBD (Powai, Vikhroli).

SPACE TAKE-UP

Sustained interest from occupiers accounted for more than half of the city's overall leasing activity in SBD and PBD (Powai, Vikhroli). Primary space take-up dominated leasing activity, owing to the availability of space in recently completed investment-grade developments.

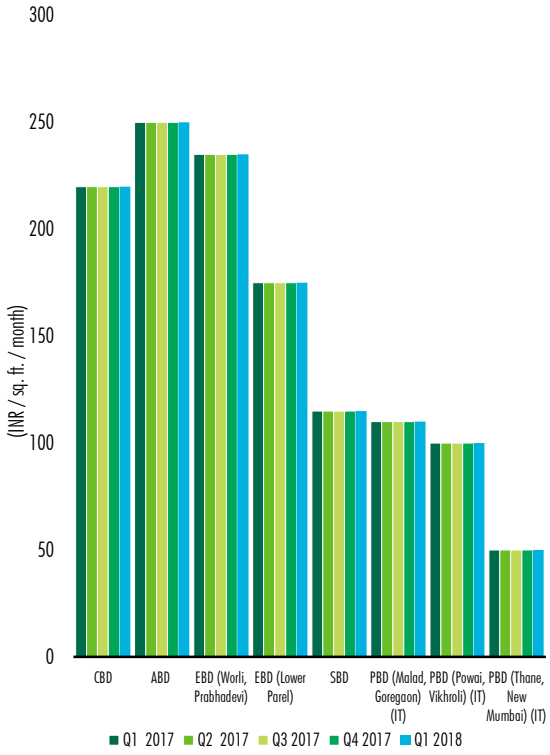
OCCUPIER TRENDS

Demand was primarily driven by BFSI firms which took up small- and medium-sized spaces across micro-markets. Although small-to-medium-sized deals continued to dominate leasing activity, the quarter also witnessed a large-sized deal (greater than 100,000 sq. ft.) involving a leading co-working operator in Goregaon PBD. Co-working operators also took up space in Andheri SBD. In addition, a few medium-sized transactions (70,000 – 80,000 sq. ft.) involving firms from sectors such as infrastructure, real estate and logistics were also reported.

PRICING TRENDS

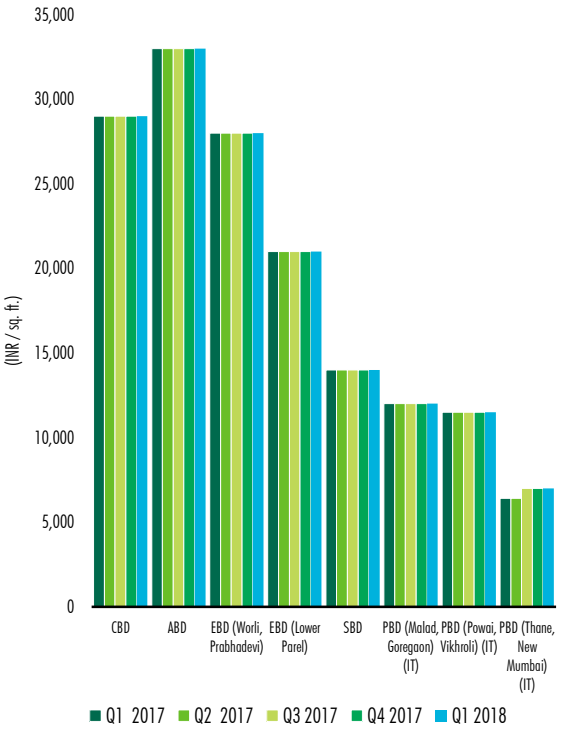
Rental values remained stable during the review period across all micro-markets.

Chart 9: Rental Value Movement



Source: CBRE Research, Q1 2018.

Chart 10: Capital Value Movement



Source: CBRE Research, Q1 2018.

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Micro-market	Key Highlights	Demand q-o-q	Supply q-o-q	Rent q-o-q
SBD	Small- and medium-sized transactions were recorded, and rental growth was stable	▲	▲	▶
PBD – Powai, Vikhroli	Leasing activity increased on a quarterly basis, primarily driven by infrastructure, real estate and logistics companies, followed by e-commerce firms	▲	▲	▶
PBD – Thane, Navi Mumbai	Driven by IT developments, leasing activity increased on a quarterly basis	▲	▶	▶

Source: CBRE Research, Q1 2018.

Table 3: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Empire Tower (Reliable Tech Park - Ph. II)	PBD Thane, Navi Mumbai	80,000	Maersk Global Services
Empresa (DHFL House)	SBD (from Andheri East to Goregaon East)	74,200	Dewan Housing Finance Corporation
Mindspace (West) Building 2	PBD Thane, Navi Mumbai	65,000	UBS

Source: CBRE Research, Q1 2018.

Table 4: Sub market Key Statistics

Micro-market	Average Rent in Q1 2018 (INR/sq. ft. / month)	Average Rent in Q4 2017 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Nariman Point, Fort, Cuffe Parade) Grade A	220	220	0.0	0.0
CBD (Nariman Point, Fort, Cuffe Parade) Grade B	170	170	0.0	0.0
EBD (Lower Parel) Grade A	175	175	0.0	0.0
EBD (Worli, Prabhadevi) Grade A	235	235	0.0	0.0
ABD (Bandra Kurla Complex, Kalina) Grade A	250	250	0.0	0.0
ABD (Bandra Kurla Complex, Kalina) Grade B	195	195	0.0	0.0
SBD (Andheri, Vile Parle, Jogeshwari) Grade A	115	115	0.0	0.0
SBD (Andheri, Vile Parle, Jogeshwari) Grade B	80	80	0.0	0.0
PBD (Malad, Goregaon) Grade A (IT)	110	110	0.0	0.0
PBD (Powai, Vikhroli) Grade A (IT)	100	100	0.0	0.0
PBD (Thane, New Mumbai) Grade A (IT/IT SEZ)	50	50	0.0	0.0

Source: CBRE Research, Q1 2018.

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MARKET SUMMARY

- Q-o-q increase in leasing activity
- Supply addition in ORR and PBD

NEW COMPLETIONS

Supply addition increased on a quarterly basis, with the completion of a few medium-to-large-sized non-SEZ developments in ORR and a large-sized SEZ development in PBD.

SPACE TAKE-UP

Office space take-up remained concentrated in non-SEZ developments, with ORR and CBD dominating leasing activity, followed by EBD. Transaction activity mostly consisted of space take-up (and culmination of pre-commitments) in recently completed developments in PBD and ORR.

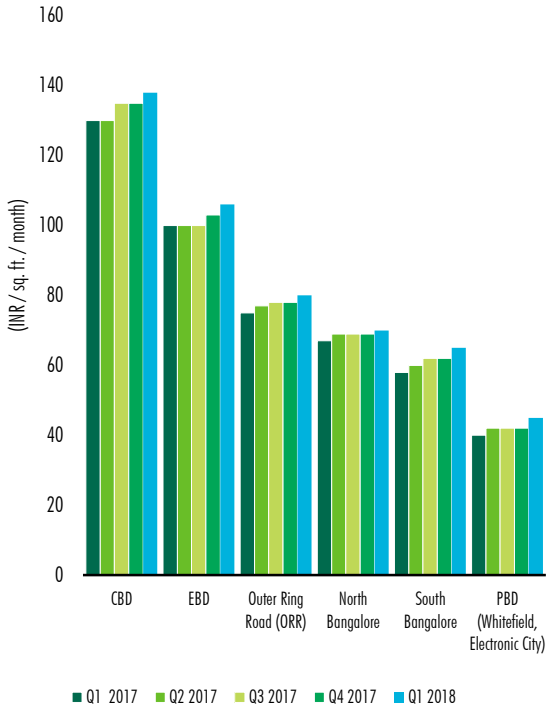
OCCUPIER TRENDS

Leasing activity was primarily driven by BFSI corporates followed by E-commerce, research, consulting and analytics and Tech firms. Co-working / business centre operators continued to be active in the city. Small-to-medium-sized deals dominated leasing activity, with a few large-sized deals being closed in ORR.

PRICING TRENDS

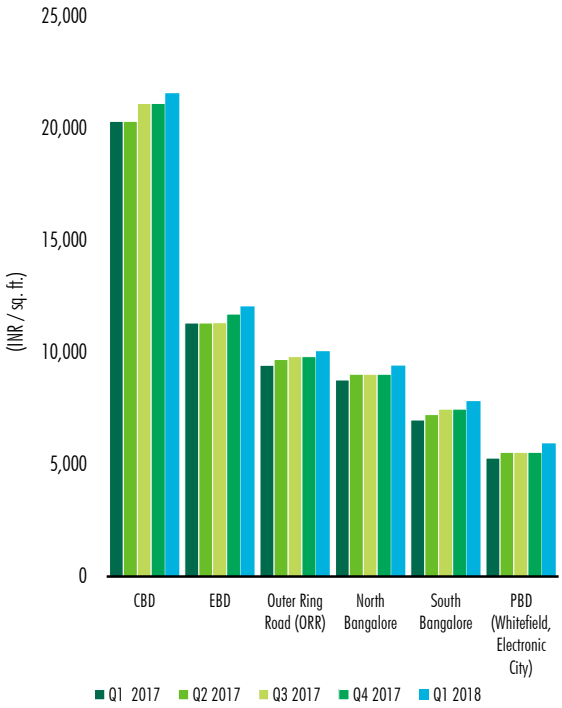
Sustained occupier interest led to a 2-7% quarterly rental appreciation across non-SEZ buildings in all micro-markets. Due to lack of available space, rentals of SEZ developments in ORR and NBD increased by about 1-3% on a quarterly basis.

Chart 11: Rental Value Movement



Source: CBRE Research, Q1 2018.

Chart 12: Capital Value Movement



Source: CBRE Research, Q1 2018.

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Micro-market	Key Highlights	Demand Q-o-q	Supply Q-o-q	Rent Q-o-q
ORR	Leasing activity during the review period increased, leading to a 2-4% rental appreciation on a quarterly basis	▲	▲	▲
PBD	Leasing activity during the review period declined. However, sustained occupier interest resulted in a 6-8% rental increase on a quarterly basis	▼	▼	▲
NBD	Occupier demand decreased, but rents increased by 3-5% on a quarterly basis	▼	▼	▲

Source: CBRE Research, Q1 2018.

Table 5: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Embassy Tech Village (Block A-C)	ORR	836,000	Flipkart
Divyashree Technopark - A4	ORR	485,000	Accenture
SatishChandra Building	EBD	160,000	Bosch

Source: CBRE Research, Q1 2018.

Table 6: Sub-market Key Statistics

Micro-market	Average Rent in Q1 2018 (INR/sq. ft. / month)	Average Rent in Q4 2017 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (MG Road, Residency Road) Grade A	138	135	2.2	6.2
CBD (MG Road, Residency Road) Grade B	95	87	9.2	18.8
EBD (Koramangala, Indira Nagar) Grade A	106	103	2.9	6.0
EBD Koramangala, Indira Nagar) Grade B	83	82	1.2	10.7
Outer Ring Road Grade A	80	78	2.6	6.7
PBD (Whitefield, Electronic City) Grade A	45	42	7.1	12.5
South Bangalore Grade A	65	62	4.8	12.1
North Bangalore Grade A	72	69	4.3	7.5

Source: CBRE Research, Q1 2018.

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MARKET SUMMARY

- Q-o-q decline in leasing activity
- Supply addition in Extended IT Corridor

NEW COMPLETIONS

A medium-sized SEZ development in Kokapet, Extended IT corridor, was the sole supply addition during the quarter.

SPACE TAKE-UP

Due to sustained occupier interest, a majority of leasing activity was concentrated in the IT Corridor. Limited supply addition and sustained leasing activity resulted in second-generation space accounting for most of the deals.

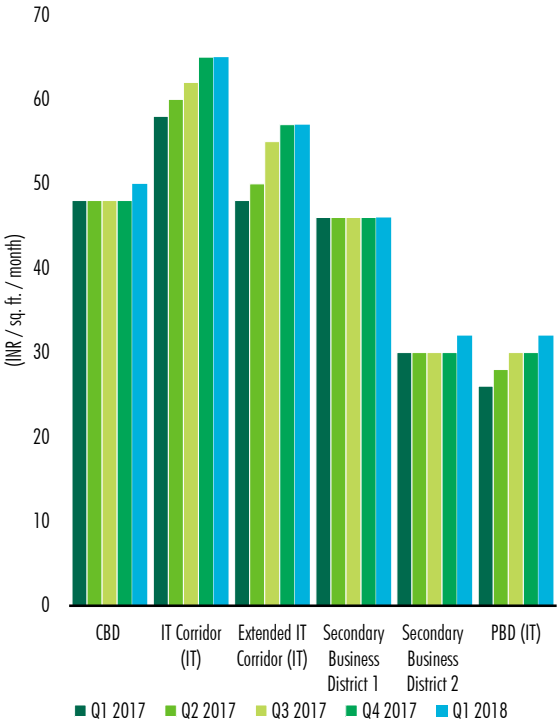
OCCUPIER TRENDS

Companies operating in the tech sector led leasing activity, followed by engineering and manufacturing and healthcare corporates. Although leasing activity was largely driven by small-to-medium-sized deals, the city also reported a few large-sized deals (greater than 100,000 sq. ft.).

PRICING TRENDS

Sustained occupier interest led to an increase in rental values across all micro-markets during the review period. Limited availability of small-sized spaces in the central locations of CBD and SBD resulted in a 4-7% rental increase on a quarterly basis in non-IT buildings. In addition, increased enquires for space in PBD led to rental appreciation of about 6-7% on a quarterly basis in both IT and SEZ buildings.

Chart 13: Rental Value Movement



Source: CBRE Research, Q1 2018.

Chart 14: Capital Value Movement

Source: CBRE Research, Q1 2018.

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Micro-market	Key Highlights	Demand Q-o-q	Supply Q-o-q	Rent Q-o-q
CBD (Begumpet/Rajbhavan Road, Banjara Hills (Road No. 1,2,10,12)	Sustained leasing activity led to a 3-5% rise in rents on a quarterly basis	▲	▶	▲
IT Corridor (HITEC City, Madhapur, Kondapur, Gachibowli)	Limited availability of space resulted in a rental appreciation of 8-12% on a yearly basis	▼	▼	▶
Extended IT Corridor (Nanakramguda, Raidurg, Manikonda, Kukatpally)	Corporate interest led to rental increase of 6-18% on a yearly basis in this micro-market	▼	▲	▶

Source: CBRE Research, Q1 2018.

Table 7: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Purva Summit	IT Corridor	42,000	HGS
Laxmi Infobhan Phase 1	Extended IT Corridor	40,000	Altruista Health
Mantri Cosmos	Extended IT Corridor	30,000	AXSYS Health Care

Source: CBRE Research, Q1 2018.

Table 8: Sub-market Key Statistics

Micro-market	Average Rent in Q1 2018 (INR/sq. ft. / month)	Average Rent in Q4 2017 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Begumpet, Punjagutta, Somajiguda and parts of Banjara Hills)	50	48	4.2	4.2
Secondary Business District 1 (Parts of Banjara Hills, Jubilee Hills)	46	46	0.0	0.0
Secondary Business District 2 (Ameerpet, Himayathnagar)	32	30	6.7	6.7
IT Corridor (HITEC City, Madhapur, Kondapur, Raidurg) Grade A (IT)	65	65	0.0	12.1
IT Corridor (HITEC City, Madhapur, Kondapur, Raidurg) Grade A (SEZ)	65	65	0.0	8.3
Extended IT Corridor (Nanakramguda,, Manikonda, Gachibowli) Grade A (IT)	57	57	0.0	18.8
PBD (Shamshabad, Pocharam, Uppal) Grade A (IT)	32	30	6.7	23.1

Source: CBRE Research, Q1 2018.

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MARKET SUMMARY

- Supply addition limited to PBD
- Leasing activity mainly on GST Road and MPH Road.

NEW COMPLETIONS

Supply addition in the city was witnessed in the form of a SEZ development on GST Road in PBD.

SPACE TAKE-UP

The city witnessed several medium to large-sized deals driven by corporate interest towards expansion and consolidation. Most of the leasing activity was related to second-generation space. GST Road accounted for a majority of the leasing, followed by Mount Poonamallee High Road and Off-CBD.

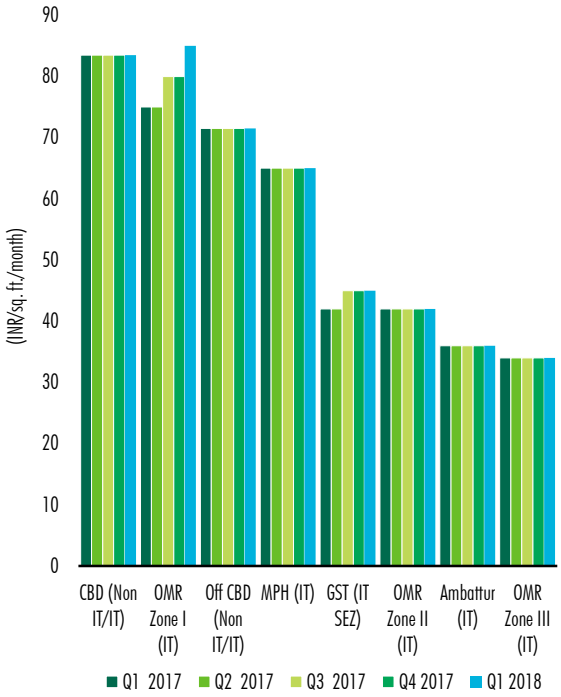
OCCUPIER TRENDS

Tech corporates continued to lead demand, followed by BFSI firms. Several medium-to-large-sized deals by IT and logistics firms were reported in this quarter in OMR Zone II & III and GST Road. Most of the leasing activity was concentrated in SEZ developments on GST Road and OMR Zone II & III, owing to availability of space. Additionally, prominent Global Inhouse Center (GIC) firms continued to close small-to-medium-sized space take-up deals in the city.

PRICING TRENDS

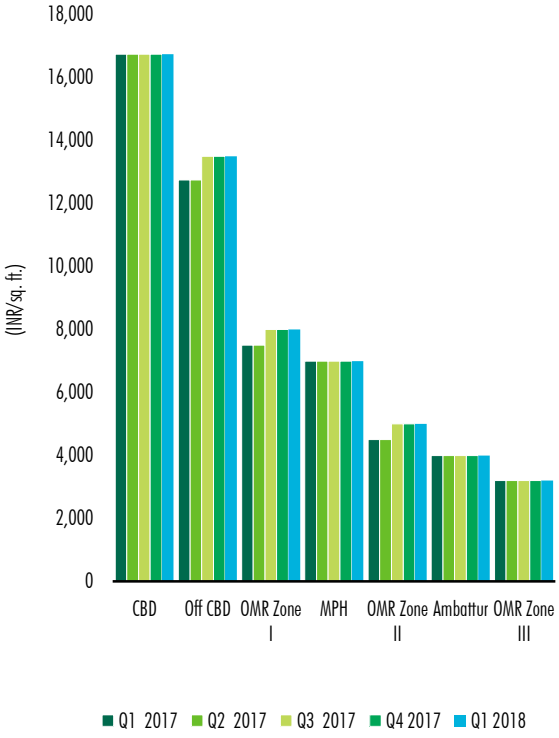
Rents increased by about 5-7% in OMR Zone I in IT buildings due to low vacancies and sustained corporate interest.

Chart 15: Rental Value Movement



Source: CBRE Research, Q1 2018.

Chart 16: Capital Value Movement



Source: CBRE Research, Q1 2018.

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Micro-market	Key Highlights	Demand q-o-q	Supply q-o-q	Rent q-o-q
OMR Zone II	Leasing activity rose during the review period	▲	▲	▶
OMR Zone I	Low vacancy levels led to a decline in quarterly leasing activity. However, sustained occupier interest resulted in an increase in rents across all segments on a yearly basis	▼	▶	▲
MPH Road	Occupier demand increased during the current quarter	▲	▶	▶

Source: CBRE Research, Q1 2018.

Table 9: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Gateway IT Park	GST Road	180,000	Accenture
Chennai One	OMR Zone II	91,000	DHL
ETA Techno Park	OMR Zone III	69,000	Fujitsu

Source: CBRE Research, Q1 2018.

Table 10: Sub-market Key Statistics

Micro-market	Average Rent in Q1 2018 (INR/sq. ft. / month)	Average Rent in Q4 2017 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Anna Salai, Nungambakkam, RK Salai, T Nagar, Egmore, Alwarpet) Grade A (Non IT/IT)	84	84	0.0	0.0
Guindy, Ekkaduthangal, Vadapalani, Santhome & MRC Nagar Grade A (NonIT/IT)	72	72	0.0	0.0
Mount Poonamallee High Road (IT)	65	65	0.0	0.0
GST Road (SEZ)	45	45	0.0	7.1
Ambattur, Ambattur Industrial Estate and Padi Grade A (IT)	36	36	0.0	0.0
OMR 1 - Taramani to Perungudi Toll Grade A (IT)	85	80	6.3	13.3
OMR 2 - Perungudi toll up to Sholinganallur Grade A (IT)	42	42	0.0	0.0
OMR 3 - Sholinganallur to Padur Grade A (IT)	34	34	0.0	0.0

Source: CBRE Research, Q1 2018.

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MARKET SUMMARY

- Supply addition in SBD and PBD
- Q-o-q rental growth in select micro-markets

NEW COMPLETIONS

Supply addition increased on a quarterly basis in the city, with the completion of a large-sized SEZ development in Hinjewadi in PBD and a medium-sized non-IT development in Viman Nagar in SBD.

SPACE TAKE-UP

Availability of space in investment-grade developments in Hinjewadi ensured sustained occupier interest in PBD. Consequently, PBD accounted for more than half of the city's leasing activity. Primary space take-up continued to dominate absorption, especially in PBD. Secondary leasing was more prevalent in PBD, followed by CBD.

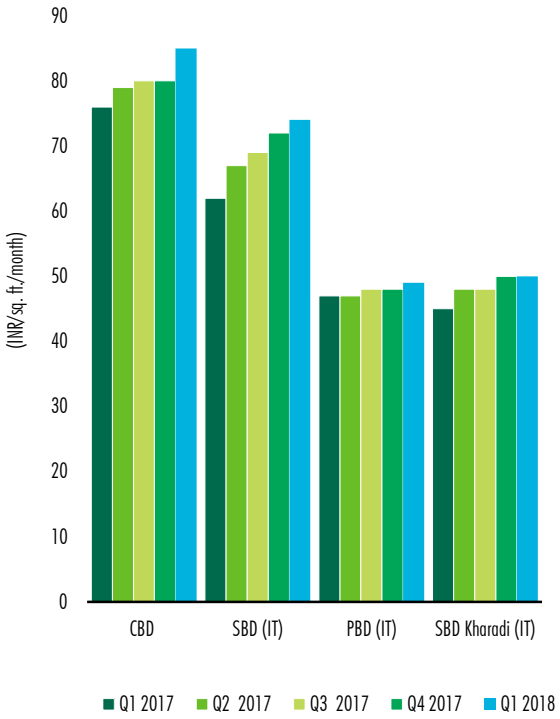
OCCUPIER TRENDS

Tech firms continued to dominate space take-up, followed by engineering and manufacturing companies. Although small-to-medium-sized transactions drove leasing activity in the current review period, a large-sized deal (greater than 100,000 sq. ft.) was reported in PBD. In addition, co-working operators continued to expand in the region by closing small-to-medium-sized transactions.

PRICING TRENDS

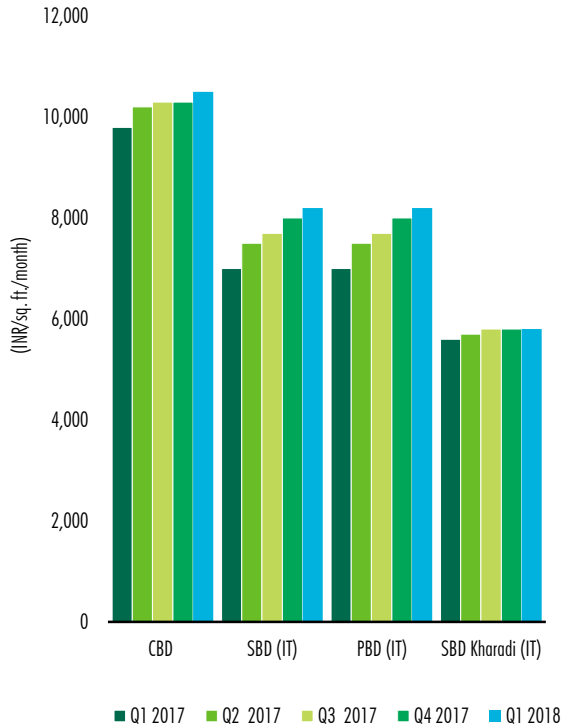
Due to limited space availability and sustained occupier interest, rents increased by about 3–5% on a quarterly basis across non-IT developments in the city. On the other hand, low vacancies across IT developments resulted in a 1-4% rise in rental values in SBD and CBD on a quarterly basis.

Chart 17: Rental Value Movement



Source: CBRE Research, Q1 2018.

Chart 18: Capital Value Movement



Source: CBRE Research, Q1 2018.

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Micro-market	Key Highlights	Demand q-o-q	Supply q-o-q	Rent q-o-q
PBD	Leasing activity declined on a quarterly basis, but sustained occupier interest resulted in a 3-4% yearly increase in rent	▼	▲	▲
CBD	Small-to-medium-sized transactions drove leasing activity. Limited availability of space across investment-grade developments resulted in a 5-7% rental appreciation on a quarterly basis	▼	▶	▲
SBD	Leasing activity declined on a quarterly basis due to limited space availability. However, rents increased by 2-4% across non-IT and IT segments	▼	▲	▲

Source: CBRE Research, Q1 2018.

Table 11: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Ascendas Tech Park 3	PBD	180,000	TCS
WTC Tower 2	SBD Kharadi	45,000	Vanderland Software
Blue Ridge – IT 9	PBD	45,000	e-Zest Solutions

Source: CBRE Reserch, Q1 2018.

Table 12: Sub-market Key Statistics

Micro-market	Average Rent in Q1 2018 (INR/sq. ft. / month)	Average Rent in Q4 2017 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Koregaon Park, Kalyani Nagar, Camp, Wakdewadi, Shivajinagar, Yerwada) Grade A	85	80	6.3	11.8
SBD (Aundh, Baner (till Sadanand), Pashan, Karve Nagar, Kothrud, Balewadi, Pune B'lore Highway (till SUS Road), Viman Nagar, Nagar Road (from Agakhan Junction), Mundhwa, Magarpatta City, Hadapsar (till Mundwa Bridge) Wanowrie.) (IT)	74	72	2.8	19.4
PBD (Talawade, Pimpiri- Chinchwad, Wakad, Hinjewadi, Bavdhan,Pashan, Narhe, Undri, Phursungi, Wagholi, Charoli) (IT)	49	48	2.1	4.3
SBD Kharadi (From Mundhwa Bridge to Nagar Road Junction)	70	67	4.5	20.7

Source: CBRE Research, Q1 2018.

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MARKET SUMMARY

- Q-o-q decline in leasing activity; SBD & PBD led demand
- Supply addition in SBD; rental stability across all micro-markets

NEW COMPLETIONS

The city witnessed supply addition in the form of a medium-sized non-IT development in Ruby Connector SBD.

SPACE TAKE-UP

Leasing activity was primarily concentrated in EM Bypass and Ruby Connector in SBD and Salt Lake V and Rajarhat in PBD. Primary space take-up in medium-sized spaces dominated leasing activity.

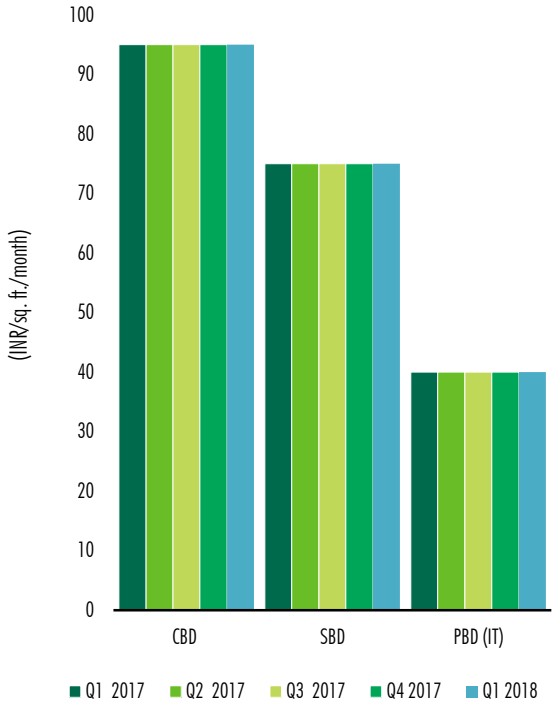
OCCUPIER TRENDS

Demand was largely driven by occupiers from the engineering & manufacturing, and telecommunication sectors, followed by BFSI and co-working firms. Both IT and non-IT developments reported space absorption, owing to sufficient availability of space in recently completed, quality developments.

PRICING TRENDS

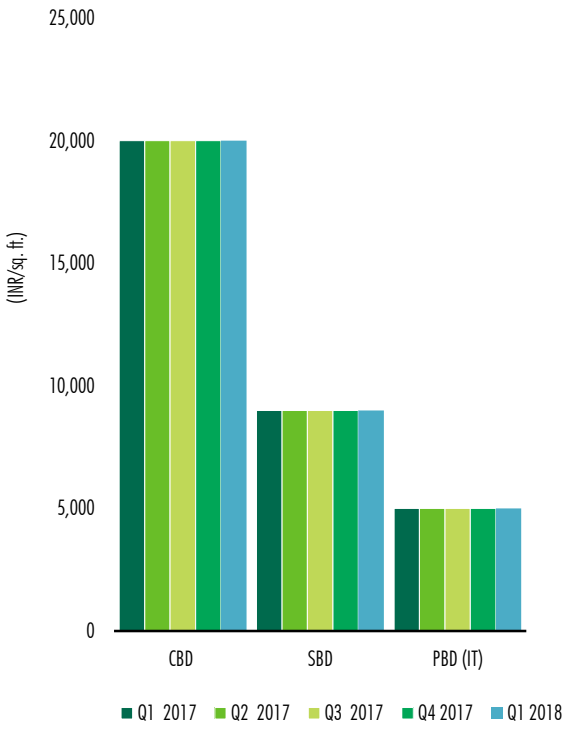
Rental values remained stable across all micro-markets during the quarter.

Chart 19: Rental Value Movement



Source: CBRE Research, Q1 2018.

Chart 20: Capital Value Movement



Source: CBRE Research, Q1 2018.

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Micro-market	Key Highlights	Demand Q-o-q	Supply Q-o-q	Rent Q-o-q
CBD	Leasing activity dipped on a quarterly basis	▼	▼	▶
SBD	Leasing activity increased significantly on a quarterly basis, primarily due to the culmination of pre-leased space commitments in newly completed developments	▲	▲	▶
PBD	Leasing activity declined on a quarterly basis; space take-up was primarily limited to investment-grade developments	▼	▼	▶

Source: CBRE Research, Q1 2018.

Table 13: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Ecocenter	PBD	16,000	Bluestar
Millennium City	PBD	12,600	ZTE Technologies
Bio Wonder	SBD	12,000	Idea Cellular
Bio Wonder	SBD	12,000	Supreme Industries

Source: CBRE Research, Q1 2018.

Table 14: Sub-market Key Statistics

Micro-market	Average Rent in Q1 2018 (INR/sq. ft. / month)	Average Rent in Q4 2017 (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
Peripheral Business District (Salt Lake, Rajarhat) (SEZ) Grade A	38	38	0.0	0.0

Source: CBRE Research, Q1 2018.

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MARKET SUMMARY

- Marginal q-o-q increase in leasing activity, primarily in SBD
- Continued stability in rental values

NEW COMPLETIONS

The city witnessed negligible supply addition during the quarter.

SPACE TAKE-UP

Leasing activity was primarily driven by small-to-medium-sized deals in a leading SEZ development in SBD.

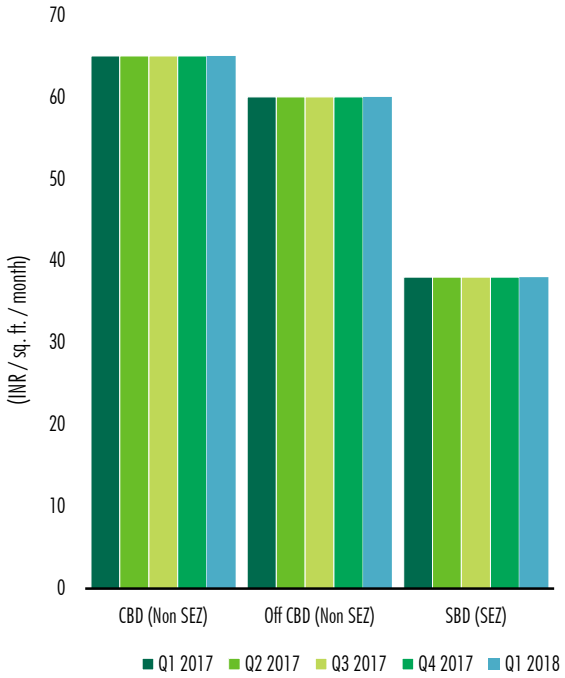
OCCUPIER TRENDS

IT companies primarily drove leasing activity, followed by engineering and manufacturing corporates.

PRICING TRENDS

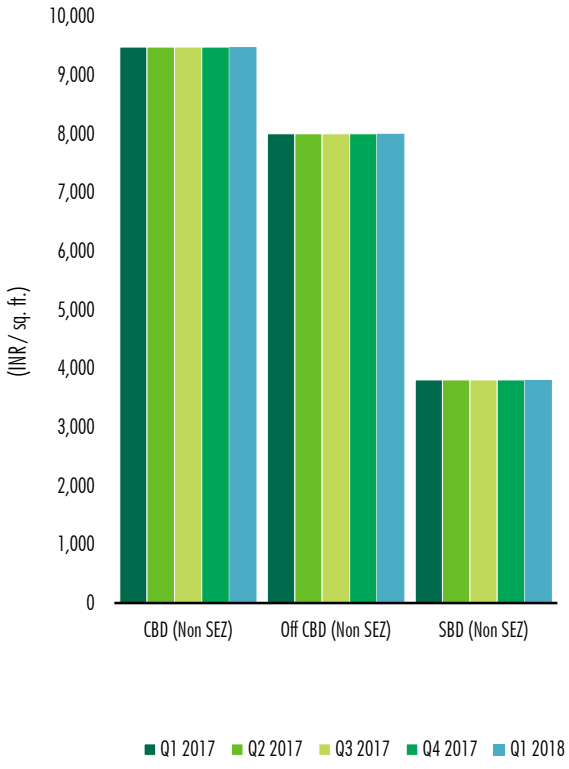
Rental values remained stable during the review period across all micro-markets.

Chart 21: Rental Value Movement



Source: CBRE Research, Q1 2018.

Chart 22: Capital Value Movement



Source: CBRE Research, Q1 2018.

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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 led to stable rental values on a yearly basis	▲	▶	▶

Source: CBRE Research, Q1 2018.

Table 15: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Brigade WTC	SBD	21,000	Mind Curve
Jyothirmaya	SBD	10,000	Armia Systems

Source: CBRE Research, Q1 2018.

Table 16: Sub-market Key Statistics

Micro-market	Average Rent in Q1 2018 (INR/sq. ft. / month)	Average Rent in Q4 2017 (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	4.0
Off CBD (Vytilla, Pallarivattam, Edapally) Grade A (Non SEZ)	60	60	0.0	0.0
SBD (Kakkanad) (SEZ)	38	38	0.0	5.6

Source: CBRE Research, Q1 2018.

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POLICY REFORMS TO IMPACT THE SECTOR

Disruptions in the IT sector, led by rising automation, may lead to a slowdown in headcount growth, which is expected to affect the office sector adversely. However, we anticipate that other prominent sectors, such as BFSI, engineering and manufacturing, and research and consulting, are likely to account for a larger share in leasing activity on a yearly basis. 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.

The implementation of RERA (which also covers the commercial segment) in 2017 and the country's first REIT listing, which is expected in the coming quarters, herald positive developments for the real estate sector. Indian real estate is expected to undergo a much-awaited transition and emerge as a more formalised/organised industry segment. This is likely to help create a conducive environment for organisations looking to enter or expand their footprint in leading cities.

MULTIPLE THEMES LIKELY TO DRIVE LEASING ACTIVITY

Office leasing activity is expected to remain stable in the short term, backed by corporates looking to expand or consolidate their operations. However, we expect leasing activity to marginally decline in the medium to long term as occupiers increasingly shift to cost-effective investment-grade developments in peripheral locations largely due to the paucity of space in core micro-markets. With all cities at various stages of development, rising traffic congestion has become an important factor impacting the location strategies of various occupiers.

We expect infrastructure initiatives (such as completion of highways and introduction of Mass Rapid Transport System (MRTS) services, etc.) to influence occupier preferences and decision-making in the coming quarters.

We also expect occupiers to keep strong checks on space utilisation ratios and innovation in workplace strategies while expanding their footprint across the country and implementing their expansion plans. The use of 'co-working spaces' is expected to rise, with the concept being adopted not only by start-ups and individuals but also by well-established corporates with fluid expansion/occupation plans. This is expected to push up the share of co-working spaces in overall space leasing.

We have also observed increased occupier interest in leasing office space in several tier II cities including Nasik, Jaipur, Mangalore, Trivandrum and Indore. We expect this trend to continue in the coming quarters, with tenant activity expected to percolate to tier II cities that offer quality support infrastructure.

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

A significant amount of space is expected to be released in the decentralised locations of leading cities over the next few quarters.

In case of Bangalore and Delhi-NCR, upcoming developments in 2018 would consist of withheld supply, which was scheduled for completion in the previous quarters.

RENTAL GROWTH EXPECTED TO CONTINUE

Although rents are likely to increase in most peripheral and sub-urban micro-markets across cities, we expect rental growth to slow in the coming quarters. Among cities, growth is expected to be relatively stronger in Hyderabad, Pune, Bangalore and Chennai as compared with Delhi-NCR and Mumbai.

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CONTACTS

Abhinav Joshi
Head of Research, India
+91 124 465 9700
abhinav.joshi@cbre.co.in

Sachi Goel
General Manager, India
+91 11 4239 0200
sachi.goel@cbre.co.in

Mohamed Atif Khan
Analyst, India
+91 22 4069 0100
mohamedatif.khan@cbre.co.in

Ram Chandnani
Managing Director, Advisory and Transaction Services, India
+91 80 4074 0000
ram.chandnani@cbre.co.in

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