India Office Property Market Overview

Trends to watch for in 2017

16 January 2017
Office demand set to stay strong

Surabhi Arora | Senior Associate Director | India

Despite the fact that many forecasters have revised down their 2017 estimates for India’s GDP to 6.8-7.0% due to short-term adverse repercussions of demonetization, we believe the outlook for the office sector remains positive this year. In our view, the policy changes that the government is implementing should help improve business confidence in India resulting in robust office leasing demand in coming years. Occupiers looking for large, quality space should consider making pre-commitments to new office buildings, especially in the technology-driven markets like Bengaluru, Hyderabad and Pune.

Forecast at a glance

Demand
Expansion and relocation in the technology, financial services and manufacturing sectors should drive leasing demand.

Supply
15-20% of the new upcoming supply is likely to be deferred in view of the recent liquidity crunch faced by developers.

Vacancy rate
Firm demand should absorb new supply in technology-driven markets, keeping vacancy low.

Rent
The average rent should face moderate upward pressure in 2017. We predict an average annual rental growth of 4.6%.

Price
Capital values look set to remain largely stable as retail investors have become less active following recent demonetisation.

Increasing demand-supply gap in technology-driven markets

India recorded 41.6 million sq ft (3.9 million sq metres) of gross office leasing transactions in 2016. With a modest increase of 3.5% over 2015, the data indicates a robust occupier market. The technology sector continued to drive the market with a 58% share of total leasing volume. Bengaluru (Bangalore) remained on a high growth trajectory and maintained its leading status among the key cities by retaining a 31% share followed by Delhi-NCR, which represented 18% of the total occupier demand. Hyderabad and Chennai stood on 13% each while Mumbai, Pune and Kolkata accounted for 14%, 9% and 2% respectively of the overall leasing volume. In 2016, 27.2 million sq ft (2.53 million sq metres) of new supply was released into the market. This was insufficient to cope with the very strong demand especially in markets such as Bengaluru, Hyderabad, and Pune and resulted in a significant fall in vacancy levels and an increase in office rents in most of the micromarkets in these cities.

In the technology-driven markets like Hyderabad, Bengaluru, Pune and Chennai, we anticipate that the demand-supply gap will remain a concern in coming quarters. While a few Grade A office buildings are likely to see completion towards the end of 2017, we expect upward pressure on rents at least over the first half in these markets. Tenant appetite for higher quality offices has been reflected in new leases being executed at above-market rates in select Grade A buildings in all the cities. Expecting a similar trend in 2017 as well, we think there will be a slight shift in demand to cities such as Gurgaon and Noida due to the availability of quality supply.

As more and more companies realise the importance of adopting a flexible working strategy at the core of their business plans, use of co-working space is gaining popularity in India as well. This trend was pioneered by start-ups, entrepreneurs and freelancers to fulfil their need to work in a suitable cost-effective environment. Now large occupiers have also started exploring this option for their transitional office requirements. We believe this trend will pick up further in 2017.
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New Delhi/NCR - 41.6 mn sq ft (3.9 mn sq metre) was absorbed in 2016 in 7 major metros, 3.5% increase since 2015
- Bengaluru tops the chart with 31% share followed by Delhi NCR with 18%
- 58% of the total absorption was contributed by Technology Sector, 12% by Banking, Financial Services & Insurance sector

NEW SUPPLY - 2016 & PIPELINE 2017

- 416 mn sq ft (3.9 mn sq metre) was absorbed in 2016 in 7 major metros, 3.5% increase since 2015
- Bengaluru tops the chart with 31% share followed by Delhi NCR with 18%
- 58% of the total absorption was contributed by Technology Sector, 12% by Banking, Financial Services & Insurance sector

MAJOR OFFICE SALE TRANSACTIONS *

1. Hiranandani Business Park
   - Buyer: Brookfield Asset Management
   - Seller: Hiranandani Group
   - INR 6,700 Cr (USD 1 billion)
2. Equinox Business Park
   - Buyer: BLACKSTONE ADVISORS INDIA PVT LTD
   - Seller: Equinox Realty & Infrastructure Ltd.
   - INR 4,400 Cr (USD 633 million)
3. Red Fort Capital Parsvnath Towers
   - Buyer: Blackstone Advisors India Pvt Ltd
   - Seller: Parsvnath Developers
   - INR 3,550 Cr (USD 511 million)
4. Alexandria Knowledge Park
   - Buyer: CERESTRA ADVISORS LTD
   - Seller: Alexandria Real Estate Equities
   - INR 1,400 Cr (USD 209 million)
5. L&T Infocity
   - Buyer: L&T Infocity Ltd
   - Seller: Ace Urban Developers Pvt Ltd
   - INR 1,920 Cr (USD 28 million)

INDIA OFFICE TRENDS TO WATCH IN 2017

1. The policy changes that the government is implementing should help improve business confidence in India resulting in robust office leasing demand in the coming years
2. Occupiers looking for quality assets shall find their options limited in 2017 given that most of the new supply is likely to enjoy high pre-commitment rates from existing occupiers; especially in the Technology sector driven markets
3. As more and more companies are realising the importance of adopting flexible workplace strategy, demand for co-working/ shared spaces is expected to increase further
2017: stable rents scenario probable

Uttara Nilawar | Manager | Mumbai

Although rents are likely to remain stable across most micromarkets, we believe availability of Grade A buildings at affordable rent will remain a concern for the next several years. Thus instead of focusing purely on spatial requirements, companies should consider taking advantage of flexible office spaces and formulate a forward-looking workplace strategy.

Forecast at a glance

**Demand**
Demand remained tilted towards quality Grade A office spaces; alternative workspace solutions to gain momentum

**Supply**
New office supply in decentralised areas offers opportunities for relocation or split back-office functions for larger companies

**Vacancy rate**
Peripheral locations should see rising vacancy while premium markets should see shrinking vacancy

**Rent**
We expect rents to remain stable with the exception of a few premium establishments

**Price**
Capital values may increase marginally, around 1-2% in H1 2017 as sales transactions gain momentum

Muted leasing volume due to subdued demand and short supply

Although leasing activity was relatively restrained in H1 2016, it accelerated in H2 2016 with several large deal closures. The overall leasing volume for 2016 was 5.6 million sq ft (520,257 sq meters), a 15% percent decrease from 2015. Affordability remained the key factor driving occupier demand, with the consequence that the greatest share of new leasing (55%) was seen in Andheri in the Western suburbs and Navi Mumbai where there is a high availability of affordable office space. With a 16% and a 12% share of total leasing respectively, Central suburbs and Bandra-Kurla Complex (BKC) gained second and third position with several multinationals such as Apple and Google insisting on global standards continued to prefer these premium office locations despite high rents. Central Mumbai, CBD and Thane comprised a 17% share in leasing.

The trend towards use of co-working / shared space is also gaining momentum not only among start-ups and small companies, but also among large companies. Snapdeal has been the first mover in this regard, taking up substantial office space in a co-working hub. We expect this trend to continue in coming years.

Rental values

<table>
<thead>
<tr>
<th>Micro Markets</th>
<th>Rental Values*</th>
<th>QoQ Changes</th>
<th>YoY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD**</td>
<td>200 - 250</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Andheri East</td>
<td>90 - 130</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>BKC</td>
<td>225 - 320</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Lower Parel</td>
<td>145 - 190</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Malad</td>
<td>80 - 100</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Navi Mumbai</td>
<td>70 - 100</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Powai</td>
<td>120 - 130</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Worli/Prabhadevi</td>
<td>180 - 210</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Goregaon / JVLR</td>
<td>120 - 140</td>
<td>0%</td>
<td>24%</td>
</tr>
<tr>
<td>Kalina</td>
<td>150 - 220</td>
<td>0%</td>
<td>6%</td>
</tr>
<tr>
<td>Thane</td>
<td>70 - 90</td>
<td>0%</td>
<td>19%</td>
</tr>
<tr>
<td>LBS</td>
<td>130 - 150</td>
<td>0%</td>
<td>-</td>
</tr>
</tbody>
</table>

Source Colliers International India Research
* Indicative Grade A rentals in INR per sq ft per month
** Nariman Point, Ballard Estate and Fort
The banking, financial services and insurance sector (BFSI), the traditional driver of demand in Mumbai, again dominated the leasing market, accounting for 24% of total new leased space in 2016. This sector was followed by engineering and manufacturing (22%), other industries (19%), technology (17%), health and pharmaceuticals (10%) and consulting (8%).

In 2016, institutional investors remained active and Mumbai recorded its largest institutional sale deal in which Brookfield Asset Management purchased Hiranandani Group’s commercial portfolio at Powai for USD 1.0 billion. Similarly, Essar Group sold its commercial project Equinox Business Park in BKC to RMZ Corp for INR 2,400 crore (USD 0.35 billion).

The city also witnessed a few large land deals in 2016. Housing Development & Infrastructure Ltd. (HDIL) group sold its land assets in Virar and Palghar to the Shapoorji Pallonji group for INR 775 crore (USD 100 million). K Raheja also bought Standard Industries’ 62 acre plot in Navi Mumbai for INR 355 crore (USD 51 million).

In our opinion, the Mumbai office leasing is likely to rebound in 2017. This is because several large transactions are in the pipeline and a few new occupiers are eyeing the Mumbai market.

**Gross Office Absorption in million sq ft**

![Graph showing gross office absorption in million sq ft from 2010 to 2016]

Source: Colliers International India Research

**New office supply in decentralised areas; opportunity for relocation**

This year, only 5.1 million sq ft (473,806 sq meters) of new supply was added to the office inventory. Some major completions included Adani Inspire at BKC and Art Guild House at Kurla each of which covered 800,000 sq ft (74,322 sq meters). The available stock was concentrated in BKC, Andheri, Lower Parel and Navi Mumbai. Consequently, leasing activity remain focused in these micromarkets.

We anticipate about 3.7 million sq ft (344,000 sq meters) of new supply in 2017. We expect this supply to be concentrated in Andheri, Navi Mumbai, Lower Parel and Central suburbs. New office supply in decentralised areas offers opportunities for relocation or split back-office functions for larger companies.

**Stable rents across most markets; trend likely to continue**

Rental values remained stable throughout the year in most micromarkets facilitating lease renewals and expansion in existing locations. However, a few micro markets such as Goregaon/JVLR, Thane and Kalina witnessed significant increase in asking rents in a few premium buildings due to a dearth of quality supply.

We expect average rent in Mumbai to remain stable over 2017; however Grade A buildings should continue to enjoy premium rents depending on the demand and supply balance in the micromarkets where they are situated.

**Rental and Capital Values (INR)**

![Graph showing rental and capital values from 2008 to 2019]

Source: Colliers International India Research

Note. The above graph represents average Grade A rents per sq ft per month and average capital values on per sq ft basis

In addition, the leasing market looks set to be supported by several new initiatives by the Maharashtra government this year. These include The Integrated Township Policy, the draft Real Estate (Regulation and Development) Act and the proposed increase in floor space index (FSI) in accordance with the new Mumbai Development Plan which will be finalised by early 2017.
Colliers View

As the upcoming supply is concentrated in Andheri, Navi Mumbai, Lower Parel, Central suburbs; leasing activity should remain focused at these locations in 2017 as well. Traditionally, Mumbai leasing has been dominated by financial services, but other sectors such as technology, engineering and manufacturing are also gaining prominence in locations such as Thane, Navi Mumbai, Andheri and Eastern suburbs. This trend is likely to continue in 2017.

Although we believe that rents will remain stable across most micro markets, availability of Grade A buildings at an affordable rent will remain a concern for the next several years. Thus instead of focusing purely on spatial requirements companies should consider taking advantage of flexible office spaces and formulate a forward-looking workplace strategy.

<table>
<thead>
<tr>
<th>MAJOR TRANSACTIONS IN 2016</th>
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<tbody>
<tr>
<td><strong>CLIENT</strong></td>
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<tr>
<td>-----------------</td>
</tr>
<tr>
<td>UBS</td>
</tr>
<tr>
<td>Teva Pharmaceutical</td>
</tr>
<tr>
<td>Tata Communications</td>
</tr>
<tr>
<td>DBS</td>
</tr>
<tr>
<td>NCR Corporation</td>
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</tbody>
</table>

Source: Colliers International India Research

<table>
<thead>
<tr>
<th>KEY UNDER CONSTRUCTION PROJECTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BUILDING NAME</strong></td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>Seawoods Grand Central Tower I &amp; II</td>
</tr>
<tr>
<td>Smash Hit</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

Notes:
1. Office Market: The major business locations in Mumbai are the CBD (Nariman Point, Fort and Ballard Estate), Central Mumbai (Worli, Lower Parel and Parel), Bandra Kurla Complex (BKC) and Andheri Kurla stretch. Powai, Malad and Vashi are the preferred IT/ITES destinations, while Airoli at Navi Mumbai and Lal Bahadur Shastri Marg are emerging as new office and IT-ITES submarkets.
2. Rents/Capital Value: Market average of indicative asking price for Grade A office space.
3. Available Supply: Total Grade A office space being marketed for sale or lease in surveyed quarter
4. All the figures are based on market information as on 25th December 2016

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Firm new demand offsets tenant loss

Parul Bhargava | Senior Analyst | Delhi

Leasing remained healthy in 2016 despite the flight of cost-conscious tenants to Delhi's satellite cities. Demand continued to be driven by the financial services and manufacturing companies. We expect 0.3 million sq ft (27,870 sq meters) of Grade A office supply to be delivered in Q1 2017 mainly in the CBD. We expect a correction in rents especially in grade B buildings due to tenants' preference for premium buildings.

Forecast at a glance

**Demand**
Demand for office space in most of the micromarkets should remain firm, driven mainly by financial services and manufacturing.

**Supply**
New supply in the next two quarters will meet demand for Grade A office space.

**Vacancy rate**
Should remain stable in most of the micromarkets as an upsurge in vacancy due to tenant outflow is being offset by healthy uptake of office space.

**Rent**
We expect a correction in rents for older and strata-titled buildings resulting in average rents registering a dip of 5% in 2017.

**Price**
We do not foresee any significant change in capital values due to lack of investment sales.

Financial services, manufacturing drive new leasing demand

New corporate leasing activity strengthened in 2016 with gross absorption of 1.0 million sq ft (94,758 sq metres), up by 14% YOY. Financial Services, Manufacturing and Information Technology firms emerged as the leading drivers of demand in the year with 38%, 25% and 16% share in the overall leasing volume, respectively. In 2016, the average deal size has gone up to 21,220 sq ft (1971 sq meters) from 9500 square feet (882 sq meters) reported in 2015.

Over 2016, some tenants continued their expansion in existing buildings while some took up spaces in individual small buildings in industrial areas for expansion. Co-working space / shared workspace providers expanded their footprint in several key micromarkets absorbing smaller vacant offices.

Industrial areas of Okhla and Mohan Cooperative Area grabbed about 35% share of gross leasing volume due to relatively affordable rents. Tenants preferred to lease entire floor plate or buildings as both the above-mentioned locations are characterised by plotted development with small individual buildings. Connaught Place accounted for 21% share followed by Aero City at 15% and Netaji Subhash Place at 12%. Jasola and Saket each contributed 4% to the total absorption.

Rental values

<table>
<thead>
<tr>
<th>Micromarkets</th>
<th>Rental Values*</th>
<th>QOO Changes</th>
<th>YoY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD**</td>
<td>140 - 400</td>
<td>-8%</td>
<td>-14%</td>
</tr>
<tr>
<td>Nehru Place</td>
<td>160 - 225</td>
<td>0%</td>
<td>-10%</td>
</tr>
<tr>
<td>Saket</td>
<td>120 - 200</td>
<td>7%</td>
<td>-10%</td>
</tr>
<tr>
<td>Jasola</td>
<td>80 - 120</td>
<td>-3%</td>
<td>5%</td>
</tr>
<tr>
<td>NSP***</td>
<td>60 - 115</td>
<td>-3%</td>
<td>8%</td>
</tr>
<tr>
<td>Okhla</td>
<td>40 - 85</td>
<td>-4%</td>
<td>-7%</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research
* Indicative Grade A rentals in INR per sq ft per month

** Connaught Place
*** Netaji Subhash Place
Tenant outflow from older premises in CBD and Nehru Place micromarkets tempered net absorption volume, but healthy leasing activity counterbalanced the rise in vacant stock due to numerous relocations and tenant outflow to more affordable locations in NCR. Major relocations include Oil and Natural Gas Corporation (ONGC) vacating its office in CBD, financial services firm Kotak Mahindra moving to Aerocity and Bosch relocating to Noida from its Jasola office. On a YOY basis, the total vacant stock in Delhi declined by about 8.5% and now stands at 1.6 million sq ft (148,645 sq meters). High rents coupled with lack of availability of large floor plates in prime locations should continue to drive the occupiers to other preferable micromarkets in NCR but due to inherent location advantage and prestigious status of being the capital of India, Delhi should maintain the similar level of absorption volume in 2017.

**Price correction in older buildings in CBD and other micromarkets**

Average rents have registered a negative growth of about 10% in 2016 on YOY basis as landlords reduced rents to retain existing tenants in the light of competition from decentralised locations and satellite towns of Gurgaon and Noida. However, newly completed buildings continued to derive a premium over the average rents. We expect rents to remain stable for well-located grade A as well as Grade B buildings in most of the micromarkets. In contrast ageing buildings may see further correction in rental values in the range of 5% to 10%.

**Gross Office Absorption in million sq ft**

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Q1</td>
<td>0.10</td>
<td>0.80</td>
<td>0.60</td>
<td>0.80</td>
<td>1.00</td>
<td>1.20</td>
<td>1.40</td>
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<tr>
<td>Q2</td>
<td>0.40</td>
<td>0.40</td>
<td>0.40</td>
<td>0.40</td>
<td>0.40</td>
<td>0.40</td>
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<tr>
<td>Q3</td>
<td>0.40</td>
<td>0.40</td>
<td>0.40</td>
<td>0.40</td>
<td>0.40</td>
<td>0.40</td>
<td>0.40</td>
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<tr>
<td>Q4</td>
<td>0.40</td>
<td>0.40</td>
<td>0.40</td>
<td>0.40</td>
<td>0.40</td>
<td>0.40</td>
<td>0.40</td>
</tr>
</tbody>
</table>

**New supply remains concentrated in CBD**

On the supply front about 0.5 million sq ft (48,309 sq meters) area was added to the total stock in 2016. The new supply was concentrated in CBD area and Shivaji Marg in West Delhi. Most of the new supply was grade A and witnessed strong commitment rates.

We expect about 0.3 million sq ft (27,870 sq meters) grade A supply infusion in CBD zone in the next six months. Major projects scheduled for completion in CBD area are Parsvanath One on KG Marg and Skipper House on Barakhamba Road with a total built-up area of 0.3 million sq ft (23,225 sq meters). A government project for Unique Identification Authority is also scheduled to see completion by the end of Q2 2017 in CBD area.

On the infrastructure front, Delhi government gave formal approval to the Phase IV of Delhi Metro with scheduled completion in 2020. The Phase IV project has six corridors connecting industrial areas of Narela and Bawana as well as Old Delhi areas like Sadar Bazar. It is also routed through Lajpat Nagar and Saket G Block in South Delhi, Janakpuri and Rohini, Inderlok and RK Ashram in Central Delhi. Trade in Old Delhi areas like Sadar Bazar should benefit immensely as connectivity to industrial areas of Delhi is augmented.

In a significant boost to connectivity, road alignment of a small section of the Ring Road project which had been delayed for years got approval from the Delhi government. The stretch connects NH10 to NH8 and NH1 and touches Dwarka, Narela and Rohini.
Colliers View

We anticipate a decline of about 5% in rents in CBD and Nehru Place area as occupiers may upgrade to newly completed buildings in other preferred micromarkets. Upcoming supply in CBD area is likely to get a premium over the average rents. We expect demand to remain healthy driven by Banking, Financial Services and Insurance (BFSI), Manufacturing, Information Technology, Media and Entertainment companies which prefer being located in Delhi as it is a hub of all

**MAJOR TRANSACTIONS IN 2016**

<table>
<thead>
<tr>
<th>CLIENT</th>
<th>BUILDING NAME</th>
<th>AREA (SQ FT)</th>
<th>LOCATION</th>
<th>LEASE/SALE</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDFC Bank</td>
<td>Ambience Corporate Tower</td>
<td>100,000</td>
<td>Rohini</td>
<td>Lease</td>
</tr>
<tr>
<td>Sony</td>
<td>Plot No. A18</td>
<td>100,000</td>
<td>Mohan Cooperative Area</td>
<td>Lease</td>
</tr>
<tr>
<td>Amazon</td>
<td>Plot No. A33</td>
<td>100,000</td>
<td>Mohan Cooperative Area</td>
<td>Lease</td>
</tr>
<tr>
<td>National Skill Council</td>
<td>Bharti Worldmark</td>
<td>60,000</td>
<td>Aero city</td>
<td>Lease</td>
</tr>
<tr>
<td>Zee Network</td>
<td>Plot No. A26/3</td>
<td>25,000</td>
<td>Mohan Cooperative Area</td>
<td>Lease</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

**KEY UNDER CONSTRUCTION PROJECTS**

<table>
<thead>
<tr>
<th>BUILDING NAME</th>
<th>DEVELOPER</th>
<th>AREA (SQ FT)</th>
<th>LOCATION</th>
<th>POSSESSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parasvnath One</td>
<td>Parasvnath Developers</td>
<td>150,000</td>
<td>KG Marg</td>
<td>2017</td>
</tr>
<tr>
<td>Skipper House</td>
<td>Govt Trust</td>
<td>100,000</td>
<td>Barakhama Road</td>
<td>2017</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

Notes:
1. Office Market: The commercial areas in New Delhi can be broadly classified into CBD (Connaught Place), SBD Nehru Place, Bhikaji Cama Place, Netaji Subhash Place, Jasola and Saket.
2. Rents/Capital Value: Market average of indicative asking price for Grade A office space.
3. Available Supply: Total Grade A office space being marketed for sale or lease in surveyed quarter.
4. All the figures in the report is based on market information as on 25th December 2016.

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India
Demand likely to improve in 2017

Parul Bhargava | Senior Analyst | Gurgaon

Tenant appetite for higher quality offices has been reflected in new leases being executed at above-market rates in select Grade A buildings. We expect a similar trend in 2017. Due to a dearth of quality office space in other technology-driven markets like Pune and Bengaluru, we may see supply-led demand in coming quarters resulting in increased absorption volumes.

Forecast at a glance

**Demand**
Demand likely to remain skewed towards Grade A buildings in preferred locations

**Supply**
Golf Course Extension Road likely to see significant completions but no major new supply in preferred micromarkets such as Cyber City and Golf Course Road

**Vacancy rate**
Overall vacancy likely to remain stable; MG Road and Cyber City may see a further drop in vacancy due to lack of upcoming supply in the near term

**Rent**
Overall rents should remain stable. Select Grade A developments should continue to command a premium over the market rates.

**Price**
Capital values set to remain stable in the short term as retail investment has come to a halt after demonetisation

Soft leasing trend leads to a 30% dip in gross absorption YOY

Gross absorption in the year 2016 was recorded at 3.87 million sq ft (359,534 sq meters). Despite an increase in average deal size which rose from 31,300 sq ft (2,910 sq metres) to 40,000 sq ft (3,715 sq metres), overall absorption declined by about 30% during the year. While the technology sector remained the key driver of office leasing activity with a 32% share, the share reduced significantly from the last year's number of 64%. The share of financial services and manufacturing increased to 20% and 11% respectively.

Absorption remained concentrated mainly on Sohna Road, National Highway 8, Udyog Vihar due to their high affordability. Cyber City and Golf Course Road gained primarily due to their preferred status and accessibility benefits.

Despite short-term tempered growth expectations in the technology sector, growth plans were actively drawn up by occupiers in 2016. Large IT occupier showed interest in available Special Economic Zone (SEZ) projects as well as upcoming corridors like the Golf Course Extension due to a dearth of supply in other technology-driven markets such as Pune and Bengaluru.

**Rental values**

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</thead>
<tbody>
<tr>
<td>MG Road</td>
<td>110 - 140</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Golf Course Road</td>
<td>110 - 175</td>
<td>5.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Institutional Sectors (Sector 44,32,18)</td>
<td>60 - 90</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Golf Course Road/ Sohna Road</td>
<td>60 - 80</td>
<td>3.7%</td>
<td>3.7%</td>
</tr>
<tr>
<td>National Highway 8</td>
<td>50 - 130</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Udyog Vihar &amp; Industrial Areas</td>
<td>30 - 45</td>
<td>0%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Manesar</td>
<td>38 - 45</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>DLF Cyber City (IT)</td>
<td>110 - 115</td>
<td>7.1%</td>
<td>13.6%</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

* Indicative Grade A rentals in INR per sq ft per month
In 2016, the institutional investors remained active in Gurgaon and we witnessed a few investment transactions including Burman GSC’s purchase of a 51% stake in Ascendas’ Onehub project. Tata Realty bought IT SEZ land from M3M group with a developable area of 3.0 million sq ft (278,709 sq metres) on Golf Course Extension Road.

In a new trend, we witnessed the broadening of co-working / shared office space portfolio in 2016. Players such as Awfis, Regus and Smartworks expanded their footprints on Golf Course Road in view of the upcoming metro connectivity.

### Gross Office Absorption in million sq ft

![Gross Office Absorption in million sq ft](image)

Source: Colliers International India Research

**About 2.4 million sq ft (222,967 sq meters) of new supply scheduled for completion in 2017**

In 2016, new supply came on stream mainly on Golf Course Extension Road and Golf Course Road. Major completions include DLF Horizon Centre 2 on Golf Course Road adding over 1.02 million sq ft (94,761 sq metres) of Grade A supply. Besides this, a couple of small office towers were completed on Golf Course Extension Road and Dwarka Expressway, together adding about 1.6 million sq ft (148,644 sq metres) to the total stock. Significant completions are scheduled in 2017 on Golf Course Extension Road including two more towers in GYS Vision project and Spectrum One Towers B&C admeasuring 1.2 million sq ft (111,483 sq metres) area. Besides, about 1.2 million sq ft of IT SEZ supply is also scheduled for completion in 2017 by developers such as Ireo and Ascendas Singbridge. However, we expect some deferment in the new supply on Golf Course Extension as the vacancy levels are already high.

About 9.0 million sq ft (836,127 sq meters) of office space was available for lease in Gurgaon at end-2016 compared to 10.2 million sq ft (947,611 sq meters) available at end-2015. Nearly 30% of this available stock was located in the Udyog Vihar and Industrial Areas followed by 22% on National Highway 8. Golf Course Extension Road and Sohna Road together comprise 18% of the vacant stock while Manesar accounts for 11%. Golf Course Road, MG Road and Institutional Sectors (Sector 44, 32 and 18) are left with limited stock equating to 8%, 5% and 3% of vacant stock respectively.

### Average rents inched up due to rise in select Grade A buildings

Average rent for the overall market rose by around 3% on a YOY basis in 2016. The strongest rent growth of 13% was observed in DLF Cyber City owing to dwindling vacancy levels. Golf Course Road also registered a 2% upsurge in rents as a new rapid metro system is set to become operational by the end of the next quarter. Newly completed buildings like GYS Vision and Pioneer Urban Square Tower A & B on Golf Course Extension attracted more attention from occupiers who were seeking large floor plates for space efficiency and affordable rents entailing a 3.7% increase in rents in the micromarket on a YOY basis. Tenant appetite for higher quality offices has been reflected in new leases being executed at above market rates in select Grade A buildings. We expect a similar trend in 2017.

### Rental and Capital Values (INR)

![Rental and Capital Values (INR)](image)

Source: Colliers International India Research

Note. The above graph represents average Grade A rents per sq ft per month and average capital values on per sq ft basis

On the infrastructure front, a detailed project report on a metro link from Dwarka Sector 21 to IFFCO Chowk connecting Bijwasan and Palam Vihar was approved this year. In addition, the district planning committee introduced the Transit Oriented Development (TOD) Policy, which aims to bring extra FAR (Floor Area Ratio) up to 3.5 along the metro corridor. Projects along the Southern Peripheral Road (SPR), Northern Peripheral Road (NPR) and Golf Course Road stand to benefit from the TOD Policy in long run. In 2016, the Haryana government slashed the circle rate (minimum value at
which commercial property can be registered) by 15% considering the overall reduction in market values.

**Colliers View**

As almost 2.4 million sq ft (222,967 sq meters) of Grade A supply is expected in the next six to eight months, supply pressures should become more evident and push vacancy upwards, keeping rents more or less stable in the short term. Prime office buildings, barring a few recent completions should command a premium over the average rent.

We expect demand to remain healthy in the coming quarters. Upgrading and expansion activities of occupiers should continue to underpin demand in the short term. Emerging players in the co-working space will continue to expand their footprint taking up small to mid-sized in vacant office premises in key micromarkets like Golf Course Road, Cyber City, Udyog Vihar and Sohna Road.

### MAJOR TRANSACTIONS IN 2016

<table>
<thead>
<tr>
<th>CLIENT</th>
<th>BUILDING NAME</th>
<th>AREA (SQ FT)</th>
<th>LOCATION</th>
<th>LEASE/SALE</th>
</tr>
</thead>
<tbody>
<tr>
<td>MakeMyTrip Inc.</td>
<td>Cyber City</td>
<td>150,000</td>
<td>Cyber City</td>
<td>Lease</td>
</tr>
<tr>
<td>Amazon</td>
<td>Ambience Corporate</td>
<td>150,000</td>
<td>NH-8</td>
<td>Lease</td>
</tr>
<tr>
<td>Home Credit</td>
<td>Sewa Corporate Tower</td>
<td>150,000</td>
<td>Udyog Vihar</td>
<td>Lease</td>
</tr>
<tr>
<td>Adidas</td>
<td>Plot No 53, Sector 32</td>
<td>150,000</td>
<td>Sector 32</td>
<td>Lease</td>
</tr>
<tr>
<td>XL Catlin</td>
<td>DLF Silokhera</td>
<td>150,000</td>
<td>Sohna Road</td>
<td>Lease</td>
</tr>
</tbody>
</table>

Source: Colliers International

### KEY UNDER CONSTRUCTION PROJECTS

<table>
<thead>
<tr>
<th>BUILDING NAME</th>
<th>DEVELOPER</th>
<th>AREA (SQ FT)</th>
<th>LOCATION</th>
<th>POSSESSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>IREO City Phase 1</td>
<td>IREO</td>
<td>750,000</td>
<td>Golf Course Extension</td>
<td>2017</td>
</tr>
<tr>
<td>GYS Vision Tower B &amp; C</td>
<td>GYS</td>
<td>800,000</td>
<td>Golf Course Extension</td>
<td>2017</td>
</tr>
</tbody>
</table>

Source: Colliers International

Notes:
1. Office Market: The prime business locations in Gurgaon are MG Road, Golf Course Road, Cyber City and Udyog Vihar. Manesar on the outskirts of Gurgaon is also emerging as the city’s new office destination.
2. Rents/Capital Value: Market average of indicative asking price for Grade A office space.
3. Available Supply: Total Grade A office space being marketed for sale or lease in surveyed quarter.
4. All figures in the report are based on market information as on 25th December 2016.

For more information:

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Director  
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Leasing market recovery solidifies

Parul Bhargava | Senior Analyst | Noida

Noida recorded overall leasing volume of 2.7 million sq ft (251,770 sq meters) in 2016, the highest since 2012. Tenants from technology sector capitalised on the availability of Grade A large floor plates and affordable rents. Underpinned by demand from technology and manufacturing firms, we expect leasing to remain strong in coming quarters. We expect the market to remain tilted in favour of occupiers with rents projected to remain stable amid significant supply pipeline.

Forecast at a glance

**Demand**
- We expect office leasing volumes to remain healthy due to availability of large floor plates in Grade A buildings at affordable rents.

**Supply**
- Supply should see an uptick as many new projects are scheduled for completion in the next three quarters.

**Vacancy rate**
- Micromarkets like Noida Expressway should see a further rise over the next three years owing to a large supply pipeline.

**Rent**
- Newly completed Grade A buildings should continue to command a premium over the average asking rents. However, average rents should remain stable.

**Price**
- Owing to the recent demonetisation drive, retail investors will probably stay away resulting in stagnant capital values in the short term.

Absorption stays consistent with new deliveries

The Noida office market sustained leasing momentum in 2016 with overall leasing volume of 2.7 million sq ft (251,770 sq metres), 3.4% higher on a YOY basis. It is also the highest gross absorption level recorded since 2012.

Technology firms and manufacturing companies drove the overall demand in 2016. Most of the large size transactions were concentrated in existing Special Economic Zones (SEZs). Technology firms constituted 60% of the absorption volume while manufacturing comprised a 29% share. Logistics, pharmaceuticals, and banking, financial services and insurance (BFSI) companies together accounted for about 11% of the total absorption. Noida Expressway remained the most preferred micromarket among Grade A occupiers and around 48% of the transaction volume was concluded here. Apart from this, Institutional sectors** such as Sector 62 and 16 constituted 25% and 13% of leasing volume respectively while industrial zones*** constituted 9%. Commercial sectors* saw a dip in overall leasing volume and accounted for only 3% of absorption.

### Rental values

<table>
<thead>
<tr>
<th>Micromarkets</th>
<th>Rental Values†</th>
<th>QOQ Change</th>
<th>YOY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Sectors†</td>
<td>70 - 110</td>
<td>0%</td>
<td>-5%</td>
</tr>
<tr>
<td>Institutional Sectors (Non IT)†</td>
<td>80 - 100</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Institutional Sectors (IT)‡</td>
<td>40 - 75</td>
<td>15%</td>
<td>9%</td>
</tr>
<tr>
<td>Industrial Sector (IT)***</td>
<td>35 - 50</td>
<td>-6%</td>
<td>-6%</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research
* Indicative Grade A rentals in INR per sq ft per month
* Sector 18 (hotels, shopping centres, banks, cinemas)
**Sector 16 A,62, 125,126,127,132,135,136,142,143,144,153,154 (Educational & healthcare facilities, Information technology services & Government offices)
***Sector 1-9,57-60, 63-65 (factories, warehouses and IT services)
In 2016, the asset manager Apollo Global management invested INR 4,000 million (USD 59 million) in the Logix Group through a structured debt transaction. The proceeds will be used to provide funding to complete construction of a commercial office project in Noida along with four other ongoing residential developments. Also, TAIB bank exited its eight year old investment in Logix’s Techno Park in Sector 127.

**Gross Office Absorption in million sq ft**

![Gross Office Absorption Graph](image)

Source: Colliers International India Research

**Significant new supply scheduled for completion**

Due to high vacancy level only about 0.8 million sq ft (73,420 sq metres) of new supply was added to the city inventory in 2016. Major completions include Brookfield Candor Tech Space Tower III in Sector 62, ATS Towers and Assotech Business Cresterra on the Greater Noida Expressway. A small building by New Track developers on Plot No. A9 in Sector 136 on Greater Noida Expressway also witnessed completion in 2016. A few projects in advance stages of construction were postponed in 2016 due to high vacancy levels and are likely to see completion in 2017.

We anticipate that around 2.8 million sq ft (260,220 sq metres) of new supply will be added to the total stock in 2017. Major buildings scheduled for completion include Wave One in Sector 18 with an area of over 1.0 million sq ft (92,903 sq meters), Assotech Business Cresterra Tower B & C and Brookfield Tower on Greater Noida Expressway, 3C Delhi One in Film City and I Thum Tower B in Sector 62.

**Average rents stable, increase in Institutional areas countered by a dip in Industrial Sectors**

In 2016, IT buildings in Institutional Sectors posted a 9% YOY rise in rents as significant lettings were done in this micromarket and the forthcoming metro is providing a boost to the area. The rise in rents in the Institutional Sectors was offset by a dip in rental values in the Commercial and Industrial Sectors. The Commercial and Industrial Sectors saw a plunge in rental values equating to 5% as property owners tried to retain existing occupiers ahead of the high supply scheduled for completion in the next three quarters.

In 2016, the Greater Noida Development Authority launched an open-ended scheme for allotment of industrial plots in Greater Noida. The rates of these plots range from INR 3,900 - 10,790 per sq metre (USD 57.3 - 158). Noida market has seen renewed interest from manufacturing majors like Samsung, Intex, Oppo, Vivo, Micromax in establishing their manufacturing units in the area due to the availability of large land parcels at affordable rates. Apart from this, Oppo is planning to invest INR 216 million (USD 3 million) to establish an industrial park in Greater Noida.

**Rental and Capital Values (INR)**

![Rental and Capital Values Graph](image)

*Source: Colliers International India Research*

*Note. The above graph represents average Grade A rents per sq ft per month and average capital values on per sq ft basis*

On the infrastructure front, the state government has given a formal approval for construction of a metro link from Noida Sector 71 to Knowledge Park V in Greater Noida West with scheduled completion in 2021. The second metro route to Greater Noida, which connects Sector 71 to Pari Chowk, is expected to become operational by the end of Q1 2018.
Colliers View

We expect leasing activity to remain concentrated in Institutional Sectors and existing SEZs in Noida. Against a backdrop of high vacancy and a large supply pipeline, we expect rents to remain stable in most of the micromarkets in 2017. We expect the market to remain tilted in favour of occupiers with high vacancy levels and rents projected to remain stable amid significant supply slated for completion in the next year.

MAJOR TRANSACTIONS IN 2016

<table>
<thead>
<tr>
<th>CLIENT</th>
<th>BUILDING NAME</th>
<th>AREA (SQ FT)</th>
<th>LOCATION</th>
<th>LEASE/SALE</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCS</td>
<td>Okaya Tower</td>
<td>400,000</td>
<td>Sector 62</td>
<td>Lease</td>
</tr>
<tr>
<td>IBM</td>
<td>Wegmans Trustone SEZ</td>
<td>300,000</td>
<td>Greater Noida</td>
<td>Lease</td>
</tr>
<tr>
<td>Amazon</td>
<td>World Trade Tower</td>
<td>300,000</td>
<td>Sector 16</td>
<td>Lease</td>
</tr>
<tr>
<td>Global Logistics</td>
<td>3C Oxygen Boulevard SEZ</td>
<td>260,000</td>
<td>Noida Expressway</td>
<td>Lease</td>
</tr>
<tr>
<td>Vivo Mobile</td>
<td>World Trade Centre</td>
<td>250,000</td>
<td>Greater Noida</td>
<td>Lease</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

KEY UNDER CONSTRUCTION PROJECTS

<table>
<thead>
<tr>
<th>BUILDING NAME</th>
<th>DEVELOPER</th>
<th>AREA (SQ FT)</th>
<th>LOCATION</th>
<th>POSSESSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wave One</td>
<td>Wave Infratech Pvt Ltd</td>
<td>1,000,000</td>
<td>Sector 18</td>
<td>2017</td>
</tr>
<tr>
<td>Assotech Business Cresterra-Tower B &amp; C</td>
<td>Assotech</td>
<td>400,000</td>
<td>Greater Noida Expressway</td>
<td>2017</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

Notes:
1. Office Market: Institutional sectors include Sec 16 A, 62, 125,126,127,132,135,136,142,143,144,153 and 154, Industrial Sectors include Sector 1-9, 57-60 and 63-65 while Sector 18 is the most developed commercial sector.
2. Rents/Capital Value: Market average of indicative asking price for Grade A office space.
3. Available Supply: Total Grade A office space being marketed for sale or lease in surveyed quarter.
4. All the figures are based on market information as on 25th December 2016
Steadfast demand for office sector to persist in 2017

Divya Grover | Senior Manager | Bengaluru

2016 reaffirms Bengaluru’s pivotal position in office sector demand across the top nine cities accounting for highest percentage of overall leasing volume. In our opinion, technology giants should continue to strengthen office demand along with small and mid-sized companies. Despite significant supply pipeline, low vacancy in select micromarkets should exert upward pressure on rents.

Forecast at a glance

**Demand**
New age technology and software development companies will drive demand momentum in 2017

**Supply**
2017 should surpass 2016 supply as prime micromarkets in South Bengaluru gear up for completion of large IT Parks and Special Economic Zones (SEZs)

**Vacancy rate**
Despite huge new supply, likely demand upswing and absorption of pre-committed spaces should curtail vacancy

**Rent**
Should continue moderate uptrend in low vacancy IT hubs in southern and eastern belts by 8-10% in 2017

**Price**
Should hold steady across micromarkets in medium term

IT-ITeS companies on expansion spree; vigorous leasing to continue in 2017

During 2016, office sector demand remained healthy recording 12.8 million sq ft (1,188,300 sq meters) gross absorption, the highest leasing across top nine Indian cities. Albeit marginal, Bengaluru’s annual gross absorption reflected an anticipated dip of 5% over 2015’s 13.4 million sq ft (1,247,700 sq meters) levels. This is primarily because occupier interest remained skewed in favour of completed Grade A projects in the desired locations along Outer Ring Road (ORR), the lack of which forced many to pre-commit spaces in upcoming projects. In 2016, total pre-commitments stood at 1.8 million sq ft (165,100 sq meters). Compared to 2015, this is a significant rise and a clear indication of occupiers trying to counterbalance limited availability in operational Grade A projects with under construction office spaces of desired quality.

Outer Ring Road continued to dominate the gross leasing comprising of nearly one-third share of total office sector demand in 2016. Defying previous forecasts, occupier preference to maintain operations in ORR precedes preference for other micromarkets due to its attractive tenant profile and availability of talent pool.

**Rental values**

<table>
<thead>
<tr>
<th>Micromarkets</th>
<th>Rental Values*</th>
<th>QOQ Change</th>
<th>YOY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD</td>
<td>90 - 150</td>
<td>0%</td>
<td>9%</td>
</tr>
<tr>
<td>Outer Ring Road (Marathahalli)</td>
<td>73 - 82</td>
<td>-3%</td>
<td>16%</td>
</tr>
<tr>
<td>Outer Ring Road (K.R. Puram - Hebbal)</td>
<td>66 - 76</td>
<td>1%</td>
<td>11%</td>
</tr>
<tr>
<td>Bannerghatta Road</td>
<td>55 - 68</td>
<td>0%</td>
<td>3%</td>
</tr>
<tr>
<td>Hosur Road</td>
<td>30 - 40</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>EPIP Zone/Whitefield</td>
<td>33 - 39</td>
<td>-4%</td>
<td>13%</td>
</tr>
<tr>
<td>Electronic City</td>
<td>30 - 38</td>
<td>0%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

* Indicative Grade A rentals in INR per sq ft per month
While IT-ITeS sector remained the key demand driver with 70% of overall office leasing, we noted that the deal count for large ticket size transactions, above 100,000 sq ft (9,290 sq meters) was particularly higher than in 2015. This is primarily due to rampant expansion by IT giants such as Tata Consultancy Services and Wipro. A few sales transactions from IT-ITeS companies such as Netmagic and Infosys were also noted in 2016.

For the start-up ecosystem of the city, 2016 was a noteworthy year as many players such as CoWrks, BHive, WeWork and Colife began marketing affordable plug and play office solutions primarily targeted at this segment. Though these co-working spaces currently form a very small percentage of overall leasing, their suitability and likeness for freelancers, consultants, small and medium enterprises (SMEs) and millennials cannot be undermined. Many international giants and regional developers are already firming up plans to expand in 2017.

Gross Office Absorption in million sq ft

Source: Colliers International India Research

Marked supply infusion expected in 2017

During 2016, 9.7 million sq ft (902,400 sq meters) of new supply was infused in the market; an annual decrease of 25% over 2015. Of the total new supply, Outer Ring Road (ORR) garnered the maximum share. However, on a city level, limited availability of ready new supply also gave a boost to the pre-commitments this year.

In 2017, nearly 11.1 million sq ft (1,031,100 sq meters) is expected to be released, 49% of which is going to be concentrated in the ORR belt and rest of the new supply is scattered in areas such as Whitefield, North Bengaluru and Electronic City. While a chunk of future supply may get deferred, these massive percentage of upcoming completions in ORR clearly indicate that it has not lost its sheen as developers remain focused to augment supply of office assets in this low vacancy micromarket.

Moderate rental growth in most micromarkets to continue

ORR (Sarjapur-Marathahalli) witnessed high demand momentum causing rents to appreciate by 16% annually. EPIP Zone/Whitefield witnessed annual rental growth of 13% as existing occupiers expanded within this micromarket due to availability of contiguous large floor plates to accommodate their workforce.

Looking forward, we expect rents to rise moderately by 8-10% in southern and eastern peripherals as strong expected demand will continue to put pressure on existing vacant buildings causing property owners to quote higher for available quality spaces. Since most of the future supply is already pre-committed, rental increase cannot be ruled out in these micromarkets.

New supply to boost investor confidence

While Embassy Office Parks, a joint venture between Embassy Group and private equity giant Blackstone has already filed an application with the market regulator Securities and Exchange Board of India (SEBI) for a Real Estate Investment Trust (REIT) listing, several others are scaling up investments in residential, mixed-use and land to increase their exposure in the city. However, investments in hard core commercial assets has been limited in 2016, mainly due to non-availability of large office portfolios. With a huge supply pipeline of investment-grade commercial assets on the cards, investors should channel funds in the office sector.
Colliers View

Overall, strong demand fundamentals coupled with evolving transparency in the real estate sector should stimulate investors’ interest and provide further support to the already firm office leasing market in Bengaluru. Although the future supply pipeline looks substantial in most micromarkets, steady occupier demand and absorption of pre-committed spaces should keep vacancy levels low. Consequently, rents in ORR, Whitefield and Sarjapur Road should continue to rise steadily by 8-10% in next one year as they have witnessed low vacancy levels in 2016. Government initiatives to expedite metro construction in ORR and Whitefield should also reinstate occupier confidence in these micromarkets. Additionally, emerging players in business centres and co-working / shared spaces should continue to establish footprint in Bengaluru to tap the unmet demand from entrepreneurs, freelancers and start-ups. We expect the spread of co-working / shared spaces to emerge as a key theme in the next 2-3 years to follow.

MAJOR TRANSACTIONS IN 2016

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</tr>
</thead>
<tbody>
<tr>
<td>TCS</td>
<td>International Tech Park</td>
<td>550,000</td>
<td>Outer Ring Road</td>
<td>Lease</td>
</tr>
<tr>
<td>Hewlett Packard</td>
<td>Maruthi Concorde Towers</td>
<td>500,000</td>
<td>Electronic City</td>
<td>Lease</td>
</tr>
<tr>
<td>Uber</td>
<td>RGA Tech Park</td>
<td>471,000</td>
<td>Sarjapur Road</td>
<td>Lease</td>
</tr>
<tr>
<td>Unisys</td>
<td>RGA Tech Park</td>
<td>400,000</td>
<td>Sarjapur Road</td>
<td>Lease</td>
</tr>
<tr>
<td>Google</td>
<td>Bagmane Constellation Business Park</td>
<td>300,000</td>
<td>Outer Ring Road</td>
<td>Lease</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

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<thead>
<tr>
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<th>DEVELOPER</th>
<th>AREA (SQ FT)</th>
<th>LOCATION</th>
<th>POSSESSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Divyasree Technopark</td>
<td>Divyasree Group</td>
<td>4,415,000</td>
<td>Whitefield</td>
<td>2019</td>
</tr>
<tr>
<td>Embassy Tech Village</td>
<td>Embassy Group</td>
<td>4,000,000</td>
<td>Outer Ring Road</td>
<td>2018</td>
</tr>
<tr>
<td>Prestige Technostar</td>
<td>Prestige Group</td>
<td>1,050,000</td>
<td>Whitefield</td>
<td>2018</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

Notes:
1. Office Market: Prime office properties in Bengaluru can be divided into three principal sub-market—CBD/Off CBD (MG Road, Millers Road, Vittal Mallya Road etc.) the SBD (Banerghatta Road & Outer Ring Road (ORR) and PBD (Hosur Road, EPIP Zone, Electronic City and Whitefield).
2. Rents/Capital Value: Market average of indicative asking price for Grade A office space.
3. Available Supply: Total Grade A office space being marketed for sale or lease in surveyed.
4. All figures in the report are based on market information as on 25th December 2016.
Steady demand to continue in 2017

Divya Grover | Senior Manager | Chennai

Steady decline in headline vacancy rates coupled with an increase in rents in CBD and Off-CBD has pushed the occupiers to peripheral areas. In our opinion, peripheral micromarkets should continue to gain occupier preference as most of the new supply is concentrated in this belt, mainly comprising Old Mahabalipuram Road (OMR).

Forecast at a glance

**Demand**
Resilient expansion plans of occupiers should strengthen demand in 2017. Demand is likely to follow supply with preference for Grade A stock

**Supply**
Likely infusion of nearly 2.8 million sq ft (258,300 sq meters) of new office space in 2017 should further stimulate occupier demand in OMR-Post Toll belt

**Vacancy rate**
Vacancy reached another record low this year; upcoming supply in peripheral areas should help in keeping overall vacancy levels stable

**Rent**
Continued demand in micromarkets such as OMR-Pre Toll, CBD and Off-CBD may lead to rental uptrend of 5-10% in 2017

**Price**
Should hold steady across micromarkets in medium term

Occupier preference for OMR continues with OMR-Post Toll belt gaining substantial traction

During 2016, office sector demand in Chennai remained levelled with the previous year with total gross leasing volume recorded at nearly 5.3 million sq ft (493,700 sq meters). In fact, closure of a few large transactions in Q4 2016 helped Chennai to achieve a gross absorption level of 4% above that of 2015. Additionally, almost 0.8 million sq ft (74,300 sq meters) of pre-commitments were also noted in 2016, most of which were in upcoming IT projects in OMR-Post Toll and Manapakkam.

OMR-Pre Toll garnered maximum occupier interest and represented 36% of total transaction volume of 2016 due to sustained expansion by existing Information Technology and Information Technology enabled Services (IT-ITeS) occupiers. OMR-Post Toll that had witnessed only limited occupier interest until recently, picked up leasing momentum accounting for a 30% share in the total absorption pie. CBD (13%), Mount Poonamallee Road (8%) and other locations (13%) shared the rest of the total demand respectively.

**Rental values**

<table>
<thead>
<tr>
<th>Micromarkets</th>
<th>Rental Values*</th>
<th>QOQ Change (%)</th>
<th>YOY Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD</td>
<td>70 - 90</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>Off-CBD</td>
<td>60 - 75</td>
<td>4%</td>
<td>23%</td>
</tr>
<tr>
<td>Ambattur</td>
<td>30 - 45</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>OMR-Pre Toll</td>
<td>55 - 65</td>
<td>0%</td>
<td>9%</td>
</tr>
<tr>
<td>OMR-Post Toll</td>
<td>30 - 40</td>
<td>5%</td>
<td>8%</td>
</tr>
<tr>
<td>Mount Poonamallee Road</td>
<td>50 - 65</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>GST Road</td>
<td>35 - 45</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

* Indicative Grade A rentals in INR per sq ft per month
In line with 2015, IT-ITeS sector remained the prime occupier segment in 2016 representing the highest share of total leasing volume. While this sector accounted for a 72% share of total leasing in 2015, its contribution to gross leasing rose to 81% in 2016. This is mainly on account of the entry of many new players and large space requirements of existing tenants such as TCS, Amazon, Accenture, IVTL and Fidelity.

Other sectors such as the banking, financial services and insurance sector (BFSI), consulting and healthcare accounted for the remaining share. While the total deal count increased over 2015, the average deal size reduced to 24,800 sq ft this year from 30,000 sq ft noted in 2015.

**Gross Office Absorption in million sq ft**

![Bar chart showing gross office absorption from 2010 to 2016]

Source: Colliers International India Research

Huge new supply in store for some micromarkets in 2017

The overall new supply in 2016 reduced by 26% YOY despite the fact that a sound absorption level pushed vacancy to a single digit level in preferred micromarkets. In fact, after three quarters of sparse new supply concentrated in smaller buildings, Q4 2016 finally witnessed some premium projects being completed. With new supply infusion of 1.4 million sq ft (131,300 sq meters) in Q4, Chennai added 1.9 million sq ft (173,300 sq meters) to city inventory in 2016. OMR-Pre Toll alone accounted for 83% of new supply, followed by CBD at 10%. Other micromarkets such as Mount Poonamallee Road and Off-CBD accounted for the remaining 7%.

Interestingly, of the total supply in 2016, IT Special Economic Zones (IT SEZs) accounted for 71%, all of which became operational in Q4 2016 as a result of the completion of two blocks in Ramanujan IT City.

We anticipate completion of about 2.8 million sq ft (258,300 sq meters) in 2017. Most of this new supply will be concentrated in new blocks of existing IT SEZs in locations such as Thoraipakkam-Pallavaram Road, Manapakkam and Perungalathur.

**Rental uptrend of 5-10% in most micromarkets in 2017**

High demand for the limited available space in Grade A office developments in CBD and Ambattur led to a 10% annual rental appreciation in these micromarkets. The OMR-Pre Toll and OMR-Post Toll also noted a 7-9% YOY rental increase as occupier demand outpaced available supply. Looking forward, we expect upward rental pressure in certain micromarkets such as the OMR-Pre Toll, CBD and Off-CBD. However, sizeable new supply in the OMR-Post Toll should keep rents in check in this micromarket.

**Urban infrastructure to get a boost in medium to long term**

In 2016, the road infrastructure in Chennai received a significant boost as three flyovers were opened to vehicular traffic, which eased congestion in off central and suburban areas such as Vadapalani, Anna Nagar, Poonamallee High Road and Retteri. The State government is also planning to collaborate with the Japanese Investment Co-operation Agency (JICA) in the funding of multiple urban infrastructure projects including Phase II of the Chennai Metro for which a detailed project report has already been submitted to the Chennai Metro Rail Corporation Limited (CMRL).
Colliers View

For a long time now, large occupiers have demanded greater availability of contiguous Grade A office space, especially located within IT SEZs. This is a clear indication of high occupier interest in premium quality supply in Chennai’s office sector. With new avenues for expansion available owing to the upcoming supply, we foresee steady occupier interest in 2017. In particular, we expect players from the IT-ITeS and financial services sectors to continue increasing their demand for back office spaces. We believe that new supply will hold down rents in certain micromarkets, e.g. the OMR-Post Toll belt. However, we expect continued demand to push rents higher by 5-10% in other micromarkets, especially the OMR-Pre Toll, CBD and Off-CBD in 2017.

<table>
<thead>
<tr>
<th>CLIENT</th>
<th>BUILDING NAME</th>
<th>AREA (SQ FT)</th>
<th>LOCATION</th>
<th>LEASE/SALE</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCS</td>
<td>Chennai One Magnum</td>
<td>300,000</td>
<td>Thorapakkam</td>
<td>Lease</td>
</tr>
<tr>
<td>IVTL Infview</td>
<td>Prince Techno Park</td>
<td>180,000</td>
<td>Okkiyam-Thorapakkam</td>
<td>Lease</td>
</tr>
<tr>
<td>RNTBCI</td>
<td>Mahindra World City</td>
<td>180,000</td>
<td>Kandanchavadi</td>
<td>Lease</td>
</tr>
<tr>
<td>GE</td>
<td>Ramanujan IT City</td>
<td>170,000</td>
<td>Taramani</td>
<td>Lease</td>
</tr>
<tr>
<td>Astra Zeneca</td>
<td>Ramanujan IT City</td>
<td>157,000</td>
<td>Taramani</td>
<td>Lease</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

<table>
<thead>
<tr>
<th>BUILDING NAME</th>
<th>DEVELOPER</th>
<th>AREA (SQ FT)</th>
<th>LOCATION</th>
<th>POSSESSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chennai One SEZ - South Block</td>
<td>IG3 Infra Ltd.</td>
<td>1,200,000</td>
<td>Thorapakkam- Pallavaram Road</td>
<td>2017</td>
</tr>
<tr>
<td>DLF IT SEZ - Block 2</td>
<td>DLF</td>
<td>481,000</td>
<td>Manapakkam</td>
<td>2017</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

Notes:
1. Office Market: Prime office properties in Chennai are located in seven principal sub markets such as CBD, Off CBD, Ambattur, OMR-Pre Toll, OMR-Post Toll, Mount Poonamalle Road and GST Road.
2. Rents/Capital Value: Market average of indicative asking price for Grade A office space.
3. Available Supply: Total Grade A office space being marketed for sale or lease in surveyed.
4. All figures in the report are based on market information as on 25th December 2016.

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India
Restricted supply likely to push rents upwards

Uttara Nilawar | Manager | Pune

Demand-supply gap is likely to remain a concern in coming quarters. While a few grade A office buildings are likely to see completion towards the end of 2017, we expect upward pressure on rents at least in H1 2017. Tenants looking for quality assets should find their options limited this year given that most of the new supply is likely to enjoy high pre-commitment rates from existing occupiers.

Forecast at a glance

**Demand**
Absorption likely to spiral downwards in H1 2017 due to a shortage of large floorplates

**Supply**
Restricted supply is likely to limit options for tenants seeking Grade A office space through to mid 2017

**Vacancy rate**
We expect a further decline in vacancy rates owing to limited completions in subsequent quarters

**Rent**
Rents should gain from a low supply environment with an average increase of 7% in 2017; incentives are likely to decline gradually

**Price**
Intense demand for quality assets is likely to spur solid growth in capital values

Narrow supply pipeline likely to tighten the leasing market

In the leasing segment, conversion and inquiries remained consistent throughout 2016; however, large sized deals significantly declined due to the scarcity of quality supply. Absorption dwindled from 3.9 million sq ft (3,66,038 sq metres) for the year 2016, a 22% decrease since 2015. Average deal size came down to 14,000 sq ft in 2016 from 24,000 sq ft in 2015 as small plate sizes dominated office leasing.

The technology sector dominated the city of Information Technology parks in 2016 with a 60% share of total absorption. Apart from the technology sector, Pune has also become a favourable ground for new-age industries such as start-ups, fin-tech and e-commerce companies. The engineering and manufacturing sectors also witnessed considerable absorption of 18% followed by banking, financial services and insurance (12%), consulting (4%), other industries (5%) and healthcare and pharmaceuticals (1%). We expect rental activity to be dominated by small transactions in H1 2017 until the quality Grade A supply increases in Q3 2017.

**Rental values**

<table>
<thead>
<tr>
<th>Micro Markets</th>
<th>Rental Values*</th>
<th>QOQ Changes</th>
<th>YOY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baner</td>
<td>52 - 61</td>
<td>3%</td>
<td>8%</td>
</tr>
<tr>
<td>Bund Garden</td>
<td>55 - 69</td>
<td>3%</td>
<td>8%</td>
</tr>
<tr>
<td>Airport Road/Pune Station</td>
<td>60 - 90</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Aundh</td>
<td>50 - 64</td>
<td>0%</td>
<td>9%</td>
</tr>
<tr>
<td>Senapati Bapat Road</td>
<td>65 - 110</td>
<td>0%</td>
<td>13%</td>
</tr>
<tr>
<td>Bavdhan</td>
<td>39 - 50</td>
<td>0%</td>
<td>11%</td>
</tr>
<tr>
<td>Kalyani Nagar</td>
<td>52 - 65</td>
<td>0%</td>
<td>9%</td>
</tr>
<tr>
<td>Nagar Road</td>
<td>52 - 65</td>
<td>0%</td>
<td>11%</td>
</tr>
<tr>
<td>Hinjewadi</td>
<td>44 - 55</td>
<td>2%</td>
<td>11%</td>
</tr>
<tr>
<td>Hadapsar/Fursungi</td>
<td>55 - 72</td>
<td>0%</td>
<td>19%</td>
</tr>
<tr>
<td>Kharadi</td>
<td>52 - 92</td>
<td>4%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

* Indicative Grade A rentals in INR per sq ft per month
In 2016, office deals were primarily observed at the technology village, Hinjewadi (32%) along with some scattered absorption at other locations like Airport Road/Pune Station (16%), Kharadi (13%), CBD (13%), Hadapsar/Fursungi (9%), Baner (6%), Bavdhan (5%), Kalyani Nagar (3%), Nagar Road (2%) and Aundh (1%).

Although no major private equity deals took place in the commercial market in 2016, we expect Pune to be one of the most favourable markets for Real Estate Investment Trusts (REITs). As REITs pick up in upcoming quarters thanks to reforms and incentives from the government, we think investments will pour into the Pune market.

### Gross Office Absorption in million sq ft

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.00</td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.00</td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.00</td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
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<td>0.00</td>
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<tr>
<td>2014</td>
<td></td>
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<td>0.00</td>
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<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.00</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

### Pune micromarkets continue to experience low vacancy rates

2016 witnessed the vacancy levels drop to 10% from 17% in 2015. A few preferred micromarkets witnessed vacancy to the tune of 4-5%. Despite sustained demand, we could not see any significant completions in 2016. A few small projects together contributed about 951,500 sq ft (88,400 sq metres) of new supply. Most of the new supply in 2016 was concentrated in the Baner and Wakad micromarkets and comprised small buildings.

Occupiers with large floor plate size requirement continued to struggle for Grade A office space. A few of them with immediate requirements also chose to be in Grade B developments. In 2017, we expect about 2.5 million sq ft (234,200 sq metres) of Grade A office space to be completed towards the end of the year. Most of this future supply is concentrated in Hinjewadi, Kharadi, Hadapsar/Fursungi and Airport Road/Pune station. Since we expect demand to follow supply, the locations mentioned above are likely to remain the most active markets in 2017. Sector-wise, IT-ITeS is likely to remain the primary demand driver along with the construction and automobile manufacturing sector.

### Lower vacancy pushed rents upward; the trend likely to continue in 2017

Rents followed an upward trend throughout 2016 as property owners capitalised on the supply crunch issue in the city. Most micromarkets experienced an average YOY increase of 11% while the YOY rental increases in Hadapsar/Fursungi and Kharadi were 19% and 18%, respectively.

In our opinion, the increasing rents are a concern as this may lead to a trend whereby some companies choose competing cities for their expansion.

### Rental and Capital Values (INR)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Rental Values</th>
<th>Capital Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 2008</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Q2 2009</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Q2 2010</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Q2 2011</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Q2 2012</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Q2 2013</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Q2 2014</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>Q2 2015</td>
<td>140</td>
<td>140</td>
</tr>
<tr>
<td>Q2 2016</td>
<td>160</td>
<td>160</td>
</tr>
<tr>
<td>Q2 2017F</td>
<td>180</td>
<td>180</td>
</tr>
<tr>
<td>Q2 2018F</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Q2 2019F</td>
<td>220</td>
<td>220</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

Note. The above graph represents average Grade A rents per sq ft per month and average capital values on per sq ft basis.

Along with the rents, capital values also surged with a YOY average increase of 11% and around 14% in both Kalyani Nagar and Hadapsar/Fursungi.

On the infrastructure front, some significant new advances took place in 2016; namely Pune’s inclusion in the ‘Smart Cities’ initiative, the announcement of the new airport at Purandar, the approval of the Pune Metro and the commencement of the ring road construction.
Colliers View

In 2016, Pune experienced a continued escalation in rental values with an average YOY increase of around 11% due to high demand and low vacancy rates. A further increase in these values could be detrimental to the growth of the city. However, we expect an influx of new supply in H2 2017 that should lead to increasing demand and stabilise rental values. In the meantime, occupiers can opt for pre-commitments or built-to-suit (BTS) developments for large office space requirements. They can also look at transitional areas such as co-working hubs to fulfil their immediate space requirements. The winds of demonetisation have not yet affected the Pune commercial market. Current leasing momentum ought to be maintained with the aid of small transactions, but the market is set to improve considerably in H2 2017 with some significant closures.

### MAJOR TRANSACTIONS IN 2016

<table>
<thead>
<tr>
<th>CLIENT</th>
<th>BUILDING NAME</th>
<th>AREA (SQ FT)</th>
<th>LOCATION</th>
<th>LEASE/SALE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infosys</td>
<td>Ascendas Phase II (ITPP) - Juniper</td>
<td>620,750</td>
<td>Hinjewadi</td>
<td>Lease</td>
</tr>
<tr>
<td>Siemens India</td>
<td>Panchshil Business Park - Tower-C</td>
<td>342,079</td>
<td>Balewadi</td>
<td>Lease</td>
</tr>
<tr>
<td>ZS Associates</td>
<td>World Trade Centre - C</td>
<td>240,000</td>
<td>Kharadi</td>
<td>Lease</td>
</tr>
<tr>
<td>Northern Trust Bank</td>
<td>Tech Park One Tower-D</td>
<td>120,000</td>
<td>Yerwada</td>
<td>Lease</td>
</tr>
<tr>
<td>Amdocs</td>
<td>Magarpatta Tower 3</td>
<td>88,000</td>
<td>Hadapsar</td>
<td>Lease</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

### KEY UNDER CONSTRUCTION PROJECTS

<table>
<thead>
<tr>
<th>BUILDING NAME</th>
<th>DEVELOPER</th>
<th>AREA (SQ FT)</th>
<th>LOCATION</th>
<th>POSSESSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLF IT SEZ Block 5</td>
<td>DLF</td>
<td>600,000</td>
<td>Hinjewadi</td>
<td>2017</td>
</tr>
<tr>
<td>ICC Corporate Tower</td>
<td>Panchshil</td>
<td>374,000</td>
<td>Senapati Bapat Road</td>
<td>2017</td>
</tr>
<tr>
<td>Marvel Edge - D</td>
<td>Marvel Realtors</td>
<td>300,000</td>
<td>Viman Nagar</td>
<td>2017</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

Notes:

1. Office Market: The major business locations in Pune include CBD Deccan Gymkhana, Bund Garden Road, Senapati Bapat Road and Camp). Off CBD (Aundh, Airport Road and Kalyani Nagar) and the eastern corridor, along with Nagar Road and Kharadi, which has emerged as preferred location for BFSI and IT-ITeS sector.
2. Rents/Capital Value: Market average of indicative asking price for Grade A office space.
3. Available Supply: Total Grade A office space being marketed for sale or lease in surveyed quarter.
4. All the figures in the report are based on market information as on 25th December 2016.

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Expansions to strengthen office demand in 2017

Divya Grover | Senior Manager | Hyderabad

Hyderabad’s office market is in transition, and property owners have aggressively increased rents in 2016 as available office space diminished with massive expansion by IT occupiers. In the short term, supply should complement demand, maintaining vacancy at the same level. In our opinion, tenants looking for large office space for expansion should consider pre-commitments in upcoming IT Parks for their future expansion requirements.

Forecast at a glance

**Demand**
To remain upbeat as demand from IT-ITES sector is expected to further solidify

**Supply**
Given past trends, a part of the huge upcoming supply of about 8.3 million sq ft (772,500 sq meters) in 2017 is likely to get deferred to next year

**Vacancy rate**
Vacancy should remain stable at 8-9% as we anticipate strong demand for forthcoming completions

**Rent**
Overall rents are likely to rise by 7-8% in 2017

**Price**
Should remain stable in the long term though the Secondary Business District (SBD) may witness moderate appreciation

Demand outpaces supply in 2016; likely to remain strong in 2017

In terms of occupier demand, 2016 was a record year for Hyderabad with the highest leasing volume since 2011. Recording a 37% YOY increase in gross leasing, nearly 5.6 million sq ft (521,250 sq meters) was leased in the city outstripping the new supply addition of about 2.3 million sq ft (216,900 sq meters). The surge in leasing volume was primarily attributed to execution of expansion strategies by leading Information Technology and Information Technology enabled Services (IT-ITeS) players and technology driven companies such as Google. In addition, nearly 0.9 million sq ft (82,160 sq meters) was noted in pre-commitments.

Of all the micromarkets, nearly 92% of gross leasing was concentrated in SBD that has established itself as an IT hub in Hyderabad over the last few years owing to the large-scale development of Grade A IT Parks. Other micro markets such as CBD (5%) and Off-CBD (2%) garnered the remaining share in gross leasing volume. IT-ITeS (83%) and Banking, Financial Services and Insurance (BFSI) (8%) were the two prime sectors contributing to a significant proportion of overall leasing.

State level policy support in the form of attractive incentives for information technology companies, affordable rents and the availability of huge talent pool are some of the factors that favoured the city. Prospects for 2017 also looks bright as several companies such as State Street, Mercer and Alliance Global pre-committed spaces in 2016 which are likely to get absorbed in 2017.

**Rental values**

<table>
<thead>
<tr>
<th>Micromarkets</th>
<th>Rental Values</th>
<th>QOQ Change</th>
<th>YOY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD</td>
<td>45 - 50</td>
<td>0%</td>
<td>-5%</td>
</tr>
<tr>
<td>Off-CBD</td>
<td>45 - 55</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>SBD</td>
<td>55 - 60</td>
<td>4%</td>
<td>21%</td>
</tr>
<tr>
<td>PBD</td>
<td>25 - 30</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research
* Indicative Grade A rentals in INR per sq ft per month
Vacancy decreases to single digit; robust supply pipeline for 2017

In 2016, new supply doubled over the previous year. Although, nearly 2.3 million sq ft (216,900 sq meters) became operational, most of it was concentrated in SBD locations such as HITEC City, Nanakramguda and Kondapur Road. Only a handful of small sized non-IT buildings were located in Off-CBD areas such as Banjara Hills. IT Special Economic Zones (IT SEZs) comprised of nearly 88% new supply as some prominent projects such as NSL Divyasree Orion, and Phoenix Avance (Block H4 and H6A) were completed in 2016.

While the new supply in 2016 was more than double the level of 2015, it still falls short in comparison to the surge witnessed in leasing volume creating an acute shortage of Grade A spaces, notably in SBD. There is a massive supply pipeline of about 8.3 million sq ft (772,500 sq meters) scheduled for completions in 2017, although part of this total may be deferred to later periods. We anticipate that the incremental supply will help to meet the high occupier demand. Slowly, the market should move towards a balanced demand-supply situation in the long term.

Overall rents likely to appreciate moderately by 7-8%

Occupiers predominantly preferred SBD locations such as HITEC City, Madhapur, Gachibowli and Nanakramguda in 2016. With 21% YOY upsurge in rents in 2016, the SBD micromarket recorded the highest rental appreciation across the country. In contrast to SBD, other micromarkets in the city such as CBD recorded a 5% YOY rental decline as available second generation spaces were not on the radar of IT occupiers due to small floor plate size and lack of quality space. Going forward, we expect rents in SBD to rise slightly despite a massive future supply pipeline. This is primarily because some supply may get deferred. Also, landlords are likely to quote higher in the short term for the upcoming Grade A supply in this micromarket due to continual occupier interest.

Overall, Hyderabad may only note 7-8% rent appreciation in 2017. Besides, any further rent increase than this may decrease the city’s attractiveness as an affordable location for cost-conscious occupiers.

Metro Phase I corridors likely to become partly operational in 2017

With Hyderabad Metro Rail Limited (HMRCL) getting ready to launch two stretches on various corridors, an 8 km stretch between Nagole and Mettuguda and a 12 km stretch between Miyapur and Sanjeeva Reddy Nagar will soon become operational. Enhanced public transport connectivity in these eastern and western belts should not only reduce vehicular traffic but also reduce travel time for the populace working in prime commercial hubs of CBD, Off-CBD and SBD.
Colliers View

We expect occupier demand to remain healthy in Hyderabad in 2017. We foresee some large IT-ITeS occupiers to continue expanding their real estate footprint. Also, new age research and development centres and small sized enterprises will continue gaining ground in the city. We also expect some large scale pre-commitments to be absorbed in 2017. A huge expected supply pipeline of nearly 8.3 million sq ft (772,500 sq meters) in the offing looks huge but should only complement the heightened leasing that we anticipate in 2017. In any case, we think some project completions will be deferred, and hence we expect the vacancy level to remain stable at 8-9% this year. The SBD should remain dominant in terms of both demand and supply concentration. This may cause a further increase in quoted rentals in this micromarket in the short term, but over the medium term rents should start to stabilize.

<table>
<thead>
<tr>
<th>MAJOR TRANSACTIONS IN 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>CLIENT</td>
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<tr>
<td>--------</td>
</tr>
<tr>
<td>Google</td>
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<tr>
<td>Cognizant</td>
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<tr>
<td>Amazon</td>
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<td>Value Labs</td>
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<td>Capgemini</td>
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</tbody>
</table>

Source: Colliers International India Research

<table>
<thead>
<tr>
<th>KEY UNDER CONSTRUCTION PROJECTS</th>
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<tbody>
<tr>
<td>BUILDING NAME</td>
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<tr>
<td>----------------</td>
</tr>
<tr>
<td>My Home Divija</td>
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<tr>
<td>Knowledge City</td>
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<tr>
<td>Salarpuria Sattva SEZ</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

Notes:
1. Office Market: The major business locations in Hyderabad are the CBD (Banjara Hills Road No.1, 2, 10 and 12), Off CBD (Begumpet, Somajiguda), SBD (Madhapur including HITEC City, Gachibowli, Nanakramguda, Manikonda and Raidurg, Kondapur) PBD (Pocharam, Uppal, Shamshabad)
2. Rents/Capital Value: Market average of indicative asking price for Grade A office space.
3. Available Supply: Total Grade A office space being marketed for sale or lease in surveyed.
4. All figures in the report are based on market information as on 25th December 2016.

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Relocations to drive demand in 2017

Parul Bhargava | Senior Analyst | Kolkata

The Kolkata office market remained subdued in 2016. Amid high vacancy and affordable rents in Sector V and the peripheral districts of Rajarhat and New Town, occupiers will probably continue to opt for Grade A office space in these micromarkets for expansion and upgradation. However, we advise developers to refrain from launching new projects until a major improvement in demand is registered.

Forecast at a glance

Demand
Demand is likely to remain concentrated in Sector V and Rajarhat; driven mainly by quality Grade A supply available at lower rents

Supply
A supply infusion of 1.2 million sq ft likely in 2017 due to completion of one major project

Vacancy rate
Micromarkets like Rajarhat and Sector V will probably continue to experience high vacancy in existing buildings due to subdued demand. City level vacancy will hover around 25% in the short term.

Rent
Muted demand coupled with high vacancy should continue to weigh on rents in suburban and peripheral micromarkets.

Price
We expect capital values to remain largely stagnant

Rents remain stable as occupier favourable conditions persist

Leasing activity was relatively subdued during the year as only 0.9 million sq ft (79,896 sq metres) of gross absorption was recorded marking a 13% decline from 2015 level. Most of the deals were small with an average size of 8,000 sq ft (743 sq metres). Lease activity was driven by an assortment of industries including technology firms, which contributed 44% of absorption, and the education sector and banking and financial services, which represented 15% and 12% of transaction volume.

The bulk of the leasing volume, equating to 70%, was concluded in Sector V due to the availability of large floorplates at affordable rents. Newly completed buildings like Srijan Corporate Park continued to attract occupiers' attention and demanded a premium over average market rents. Despite the overall softer leasing progress demand held up well at newly completed quality grade A buildings, about 36% of the transaction volume was expansion activity, mainly in the peripheral areas of Sector V and Rajarhat. Relocation, new entry and consolidation accounted for 21%, 21% and 13% of leasing volume respectively. Notable transactions in 2016 included the lease of 35,000 sq ft (3,250 sq metres) by PwC in Srijan Corporate Park in Sector V. Other prominent transactions included ICFAI Business School's leasing of 26,000 sq ft (2,415 sq metres) in Sector V.

Rental Values

<table>
<thead>
<tr>
<th>Micromarkets</th>
<th>Rental Values1</th>
<th>QOQ Changes</th>
<th>YOY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD2</td>
<td>85 - 115</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>SBD3</td>
<td>60 - 70</td>
<td>0%</td>
<td>-7%</td>
</tr>
<tr>
<td>Sector V</td>
<td>40 - 45</td>
<td>0%</td>
<td>-3%</td>
</tr>
<tr>
<td>PBD4</td>
<td>34 - 35</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source Colliers International India Research

1 Indicative Grade A rentals in INR per sq ft per month
2 Park Street, Camac Street, Chowranghee Road, AJC Bose Road
3 EM Bypass, Topsia, Ruby
4 Salt Lake, New Town, Rajarhat
The overall vacancy level in peripheral micromarkets such as Sector V, New Town and Rajarhat remained high at 35%, whereas the city level vacancy hovered at about 25%. More than 95% of vacant stock is concentrated in the peripheral micromarkets, while the CBD is left with a limited available stock of only 2% of the total.

Investment sales also remained bleak in 2016. Major sale transactions included that of Fosma Meritime in Godrej Waterside with an area of 30,349 sq ft (2,820 sq metres).

Gross Office Absorption in million sq ft

Source: Colliers International India Research

Peripheral districts saw supply infusion of 3.2 million sq ft in 2016

Despite high vacancy, in 2016 the total stock was boosted by 3.2 million sq ft (297,290 sq metres) of new supply located mainly in Sector V and New Town. In Sector V major completions included Bengal Eco Intelligent Park, Srijan Corporate Park 2 and Megatherm. In New Town, two buildings, Mani Casadona and Astra Tower, were completed.

Also, in 2016, the IT major, Cognizant Technology Solutions was allocated 15 acres of plot area in New Town to set up its third campus.

We expect Technopolis 2 with an area of 1.2 million sq ft (111,484 sq metres) in the Bantala region be delivered in 2017. Due to subdued demand and addition of this new supply the vacancy levels are expected to increase further in 2017.

Subdued demand coupled with double-digit vacancy rates to keep landlords wary of raising rents

On a YOY basis, rents in Secondary Business District (SBD) and Sector V registered declines of 7% and 3% respectively in 2016. This was largely due to discounts offered by property owners on lease renewals, reflecting high vacancy levels in these micromarkets. Capital values remained largely stagnant.

It is worthwhile to note that rents have primarily decreased in old and strata titled office blocks due to the lesser preference of occupiers, whereas buildings owned by developers have maintained stable rents. A few newly completed Grade A buildings in Sector V also showed healthy commitment rates and commanded a premium over the average market rents.

Rental and Capital Values [INR]

Source: Colliers International India Research

Note: The above graph represents average Grade A rents per sq ft per month and average capital values on per sq ft basis

On the infrastructure front, work on the East West Metro Corridor from Howrah Maidan to Santragachi bus terminus is finally expected to commence in early 2017. Currently 50% of the work on the Phase 1 of East West Metro Corridor is complete, and this may get ready for trials by June 2018. The East West Metro will provide significant benefits to the commuters in the CBD district, New Town, Salt Lake and Rajarhat in the east.

Also this year, the Maa Flyover connecting Park Circus to Parama became operational for two-way traffic. This flyover addresses the traffic woes of commuters travelling from the CBD area to the peripheral locations of Rajarhat and New Town, and will ease traffic snarls at Park Circus which is a confluence of seven busy roads.
Colliers View

We anticipate that office absorption will pick up in the coming quarters, as the number of enquiries has increased in the past few months. Sector V and the peripheral districts of Rajarhat and New Town should continue to draw enquiries. Relocation and expansion activities by occupiers will probably form the bulk of transaction volume. Limited projects will be launched in the short term and the status quo ought to persist until an increase in gross absorption is registered.

In our opinion, developers should refrain from adding any speculative new supply in the coming year in view of high vacancy levels and subdued demand.

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<td>PwC</td>
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<td>ICFAI Business School</td>
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<td>GE Alstom</td>
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<td>Senrysa Technologies</td>
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<tr>
<td>BUILDING NAME</td>
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<tr>
<td>Technopolis 2</td>
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Source: Colliers International

Notes:
1. Office Market: The major business locations in Kolkata are CBD (Park Street, Camac Street, Chowranghee Rd, AJC Bose Road), East Kolkata (EM Bypass, Topia, Ruby), Salt Lake/Sector V and New Town/ Rajarhat.
2. Rents/Capital Value: Market average of indicative asking price for Grade A office space.
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