India Office Property Market Overview

Trends to watch for in 2018

15 January 2018
Robust occupier demand driving office market

Surabhi Arora | Sr. Associate Director | India

We expect the Indian economy to grow at above 7% over the next three years and recover fully from the adverse repercussions of demonetisation and implementation of Goods and Services Tax (GST). We expect the commercial real estate market to remain on track with sustained demand from occupiers in coming years. Flexibility, collaboration, workspace efficiency, employee retention and cost effectiveness should be the key focus areas of Corporate Real Estate (CRE) heads in 2018. We advise developers to reformulate their workplace designs to cater to the changing dynamics of the workplace environment.

Forecast at a glance

Demand
Primarily dominated by technology, engineering and banking sectors; coworking operators and warehousing to gain traction.

Supply
About 90 million sq ft (0.8 million sq m) is under various stages of construction which we expect to push up total stock by 17-18% by 2020.

Vacancy rate
We expect, vacancy to remain stable in most cities with upcoming supply likely to complement the demand in the next 3 years.

Rent
Premium building rents will continue in the upward growth trajectory across markets; we expect an average annual increase of 4-5% over the next three years.

Price
Should increase by 2-3% over the next three years as investor activity is set to rise.

Leasing momentum to be sustained over 2018

Notwithstanding the macroeconomic disruptions, the commercial real estate market remained robust in 2017. We recorded pan-Indian leasing volume of about 42.8 million sq ft (3.9 million sq m) excluding pre-commitments which is marginally up from 2016 numbers. The demand was well supported by net supply of about 34 million sq ft (3.1 million sq m) across India. Bengaluru grabbed the lion’s share of overall office demand and remained the frontrunner in office leasing with record-breaking leasing of above 15 million sq ft (1.4 million sq m), giving Bengaluru (Bangalore) a 36% share followed by the NCR on 18%, Hyderabad on 13%, Mumbai on 12%, Chennai on 11%, Pune on 8% and Kolkata on 2%. Looking ahead, we expect demand to be driven by the technology, engineering, manufacturing and finance sectors. and by coworking operators.

Although GDP growth weakened in the middle of 2017, positive projections by most economic forecasters have left companies confident that real GDP growth will exceed about 7% annually over the next few years. Taking cues from the positive policy reforms most large occupiers have been reviewing long pending CRE decisions. Tenants in expansion mode have started finalising their relocation and consolidation strategies and locked in large office spaces at favourable lease terms. The trend of pre-committing large spaces has picked up in 2017 with more than 4 million sq ft (0.3 million sq m) of space office pre-committed in projects under construction. Furthermore, as we predicted, operators of coworking or flexible working space have made their entry into the market in a big way, representing about 8% of total absorption in 2017 compared to last year’s share of 3%.

According to Oxford Economics’ Asia City Outlook report June 2017, Indian cities should continue their rapid pace of growth. We expect that the office leasing market will remain robust in 2018 and over the subsequent few years, reflecting strong employment growth and economic reforms. However, we do not expect the absorption level to grow further since despite strong demand other factors such as the quest for workspace efficiency and the advent of flexible office space may hold down overall absorption volumes. Other concerns such as automation and artificial intelligence also have the potential to disrupt the Indian property market significantly. However, we expect the impact to be felt over the medium to long term.
Key trends to watch in 2018

In our opinion flexibility, collaborative workspaces, workspace efficiency, employee retention and cost effectiveness will be the key focus area of CRE heads in 2018. We expect the following key trends to dominate the commercial real estate in coming years.

1. Flexibility to remain key focus in work space strategies

One of the biggest shifts in workplace strategies in India is likely to be the improvement in the degree of flexibility offered to occupiers by developers. Global leaders in flexible office space, including WeWork and Regus have led the charge in coworking space and leased substantial office space (above 100,000 sq ft or 9,290 sq metres in 2017). We expect these large players to compete against traditional offices to target major corporates besides focusing on small and medium enterprises.

We recommend that landlords recognise the benefits of flexible workspace and redesign their office spaces across their portfolios. We advise landlords and developers to maximise opportunities by utilising underused spaces. Landlords can also redesign their existing space to create collaborative workspaces to meet the needs of smaller tenants – from which we are currently seeing strong demand. Landlords should look to offer quality and more efficient office space through subdividing floors into multiple office suites. Most recently, Coworks supported by RMZ developers has rolled out flexible work-space in their portfolio and opened several coworking spaces in their own buildings by investing in modern technologies for tenants hire out across India. Developers such as DLF, Vatika, Supertech and Ascendas alike are also exploring this new emerging work.

Thus, we expect flexible office space to continue flourishing in coming years further given its convenience and cost-effectiveness. In the last two years (2016 and 2017) the flexible office operators leased more than 4.6 million sq ft (0.4 million sq m). We reaffirm our prediction of leasing of 8 to 9 million sq ft (0.7-0.8 million sq metres) by coworking operators till 2020 as forecasted in our earlier report "Coworking space - The New Kid on the Block" (20 March 2017).

2. Pre-commitments and BTS (Built to Suit) to remain popular

Given the single- digit vacancy rates in the main Information Technology and Information Technology Enabled Services (IT-ITeS) locations such as Bengaluru, Hyderabad, Pune and Chennai, occupiers continued to prefer built to suit and pre-commit large office spaces in 2017. Even in the high-vacancy markets such as Gurugram we witnessed the trend of pre-commitments picking up.

Several large occupiers whose leases are coming up for expiry are looking to consolidate in newer locations to hedge against the increase in rents. In 2017, the preferred locations witnessed rental growth of 10-15% in most cities; the average rents increased by 3-4% in technology driven cities while traditional cities such as Delhi, Mumbai and Kolkata witnessed 1-2% decrease in rents. On the supply side, in keeping with the macro economic scenario, developers are cautious about building speculatively and look for pre-commitments in their upcoming office spaces. We expect this trend to continue in coming years. We advise the following classes of occupier to pre-commit office spaces in forthcoming grade A buildings and Special Economic Zones (SEZs).

> Occupiers requiring large office spaces in the near future with clear visibility over future expansion visibility

> Occupiers enjoying low rents in prime locations whose leases will expire in one to two years should also explore the newer emerging locations

3. Occupiers to explore Tier-II & III cities for back-office requirements

We observe that technology and e-commerce companies are exploring expansion in Tier II and III Indian cities. The companies are exploring these cities in search of cheaper resources as Tier I cities are increasingly becoming expensive and subsequently the manpower cost is also increasing. Cities such as Coimbatore, Chandigarh, Ahmedabad, Bhopal and Vishakhapatnam are a few of the cities being explored by the companies.

Given the government's push for smart cities development, we believe that firms should consider expanding in the cities where the state governments intend to spur growth by offering more fiscal and non-fiscal incentives and building crucial infrastructure projects such as airports and railways. However, we advise occupiers to consider the talent pool in each city before making such decisions since due to increased urbanisation young talent is migrating towards Tier I cities, and talent acquisition and retention is a major challenge in smaller cities. Our Tech Trends in Asia Report (dated 05 December 2017) showed that technology companies still see Bangalore as the greatest source of talent within India and indeed as the third greatest in Asia after Beijing and Shanghai.
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**OVERALL ABSORPTION**

<table>
<thead>
<tr>
<th>City</th>
<th>2017</th>
<th>2018 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>NCR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bengaluru</td>
<td>15.3</td>
<td>14.0</td>
</tr>
<tr>
<td>Mumbai</td>
<td>7.9</td>
<td>8.1</td>
</tr>
<tr>
<td>Pune</td>
<td>5.5</td>
<td>4.9</td>
</tr>
<tr>
<td>Chennai</td>
<td>3.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Kolkata</td>
<td>4.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>15.3</td>
<td>14.0</td>
</tr>
</tbody>
</table>

*Overall absorption is gross absorption excluding pre-commitments*

- 42.8 mn sq ft (3.9 mn sq metre) was absorbed in 2017 in 7 major metros, almost at par with 2016.
- Bengaluru tops the chart with 36% share followed by Delhi NCR with 18%.
- 56% of the total absorption was contributed by the Technology Sector, 12% by Banking, Financial Services & Insurance sector.

**NEW SUPPLY - 2017 & PIPELINE 2018**

- Deloitte: Meenakshi Tech Park, 14,00,000 sq ft
- Siemens: Goldhill Supreme Tech Park, 600,000 sq ft
- Microsoft: Prestige Fern Galaxy, 589,000 sq ft
- Qualcomm: Bagmane Constellation Business Park, 560,000 sq ft
- Lowe’s Services: Manyata Business Park, 489,000 sq ft
- Anthem Inc: Manyata Business Park, 477,000 sq ft
- Amazon: Ramanujan IT SEZ, 472,000 sq ft
- TCS: Godrej Factory Campus, 250,000 sq ft
- Qualcomm: Raheja Mindspace Building No 7, 200,000 sq ft
- Valeo: Cee Dee Yes IT Park, 200,000 sq ft

**VACANCY TRENDS**

- 2017
  - NCR: 4.2%
  - Bengaluru: 5.1%
  - Mumbai: 3.3%
  - Pune: 4.2%
  - Chennai: 4.3%
  - Kolkata: 4.9%
  - Hyderabad: 6.2%

- 2018 Forecast
  - NCR: 5.6%
  - Bengaluru: 5.5%
  - Mumbai: 3.5%
  - Pune: 4.5%
  - Chennai: 5.1%
  - Kolkata: 5.7%
  - Hyderabad: 6.5%

**GRADE A - AVERAGE RENTAL GROWTH**

- 2017
  - NCR: 3.2%
  - Bengaluru: 4.1%
  - Mumbai: 3.4%
  - Pune: 4.4%
  - Chennai: 4.4%
  - Kolkata: 4.4%
  - Hyderabad: 4.5%

- 2018 Forecast
  - NCR: 3.9%
  - Bengaluru: 4.8%
  - Mumbai: 3.7%
  - Pune: 5.0%
  - Chennai: 4.7%
  - Kolkata: 4.7%
  - Hyderabad: 5.0%

**TOP 10 LEASE TRANSACTIONS IN 2017**

1. Deloitte: Meenakshi Tech Park, 11,00,000 sq ft
2. Siemens: Goldhill Supreme Tech Park, 600,000 sq ft
3. Microsoft: Prestige Fern Galaxy, 589,000 sq ft
4. Qualcomm: Bagmane Constellation Business Park, 560,000 sq ft
5. Lowe’s Services: Manyata Business Park, 489,000 sq ft
6. Anthem Inc: Manyata Business Park, 477,000 sq ft
7. Amazon: Ramanujan IT SEZ, 472,000 sq ft
8. TCS: Godrej Factory Campus, 250,000 sq ft
9. Qualcomm: Raheja Mindspace Building No 7, 200,000 sq ft
10. Valeo: Cee Dee Yes IT Park, 200,000 sq ft

**MAJOR OFFICE SALE TRANSACTIONS**

- Gurgaon: Cyber City SEZ, Buyer: GIC, Seller: DLF CyberCity developers, INR 11,900 Cr (USD 1.85 bn)
- Chennai: Shriram Gateway SEZ, Buyer: Xander Finance, Seller: Shriram Gateway SEZ, INR 1220 Cr (USD 190 mn)
- Noida: Express Trade Tower, Buyer: Xander Finance, Seller: IL&FS, INR 300 Cr (USD 44.8 mn)
- Mumbai: Parinee Crescendo, Buyer: Bharti Axa, Seller: Parinee Group, INR 169 Cr (USD 26.6 mn)
- Pune: E-park, Buyer: Milestone, Seller: E-park Kharadi, INR 165 Cr (USD 24.9 mn)

**INDIA OFFICE TRENDS TO WATCH IN 2018**

1. One of the biggest shifts in workplace strategies in India is likely to be the improvement in flexibility offering to occupiers by developers. We expect the large players to compete against traditional offices to target major corporates beside focusing on small and medium enterprises.

2. With the single digit vacancies in the major IT-ITeS locations such as Bengaluru, Hyderabad, Pune and Chennai, occupiers continued to pre-commit large office spaces. We expect the trend of high pre-commitment rate in large office spaces and SEZs to follow in the upcoming years.

3. Technology and e-commerce companies are exploring expansion in Tier II and III Indian cities in search of cheaper resource as tier I cities are increasingly becoming expensive and subsequently the manpower cost is also increasing. It is expected that this trend will increase further.
Flexible space likely to dominate office market

Surabhi Arora | Sr. Associate Director | India

With limited new supply pipeline, we anticipate that the availability of Grade A buildings at affordable rents will remain a concern in Mumbai for the next several years. Thus, flexible workspaces located at strategic locations should increase in popularity. In view of the shortage of quality supply and high rents in Mumbai at strategic locations, we recommend occupiers to consider taking the advantage of flexible office spaces instead of focusing purely on spatial requirements.

Forecast at a glance

Demand
Demand likely to remain tilted towards quality Grade A office space; alternative workspace solutions to gain momentum

Supply
We project new supply of 9-10 million sq ft (0.8-0.9 million sq m) in the next three years resulting in the total stock of the Mumbai market growing by under 10%

Vacancy rate
Average vacancy set to decline gradually at 12% in next three years; Grade A vacancies may go below 10% level by 2020

Rent
Average 3-5% upward movement expected in rents YOY in 2018 due to restricted new supply and lower vacancy levels.

Price
Capital values likely to strengthen further due to high appetite of investors for outright purchases in Grade A properties.

Muted leasing amid limited supply; Coworking set to flourish

The Mumbai office market recorded a decline of 12% YOY in leasing volume with about 4.9 million sq ft (0.47 million sq m) of gross absorption in 2017. Andheri, Navi Mumbai and Bandra Kurla Complex (BKC) remained the most active micromarkets in terms of leasing volume with 25%, 20% and 16% shares of total leasing, respectively. While affordable rents drove the demand for Navi Mumbai and Andheri, BKC remained popular among occupiers looking for premium Grade A offices. We expect the bulk of the demand to stay concentrated in western suburbs and peripheral locations such as Andheri and Navi Mumbai over the next three years. However, BKC should remain the most sought-after office destination among occupiers looking for premium office space.

We witnessed several outright purchases of office space in 2017 indicating keen interest from investors in the Mumbai commercial property market. Notable transactions include the purchase of 80,000 sq ft (7,400 sq m) office space in Goregaon by Zydus Healthcare and 65,000 sq ft (6,000 sq m) by Bharti AXA. We expect that investors’ interest will remain high for Grade A buildings in the land-starved city in the long-term.

Rental Value Trends

<table>
<thead>
<tr>
<th>Micromarkets</th>
<th>Rental Values(^1)</th>
<th>QOQ Change</th>
<th>YOY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD</td>
<td>200-250</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Andheri East</td>
<td>90-130</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>BKC</td>
<td>225-330</td>
<td>0.0%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Lower Parel</td>
<td>140-195</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Malad</td>
<td>80-100</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Navi Mumbai</td>
<td>70-100</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Powai/Prabhadevi</td>
<td>110-130</td>
<td>0.0%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Goregaon / JVLR</td>
<td>170-210</td>
<td>0.0%</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Kalina</td>
<td>150-180</td>
<td>0.0%</td>
<td>-10.8%</td>
</tr>
<tr>
<td>Thane</td>
<td>70-80</td>
<td>0.0%</td>
<td>-6.3%</td>
</tr>
<tr>
<td>LBS</td>
<td>95-125</td>
<td>0.0%</td>
<td>-8.3%</td>
</tr>
</tbody>
</table>

Source Colliers International India Research
\(^1\)Indicative Grade A rentals in INR per sq ft per month
In line with our forecast, flexible space providers gained momentum and accounted for about 12% of total leasing volume in 2017. We expect demand for flexible workspaces to remain high in coming years bearing in mind the restricted supply in key markets in Mumbai.

Limited supply to keep market landlord friendly

We project new supply of about 9-10 million sq ft (0.8-0.9 million sq m) over the next three years resulting in the total stock of the Mumbai market growing by under 10%. Most of the new supply will remain concentrated at Thane-Belapur Road in Navi Mumbai and western suburbs such as Andheri, Kurla, Malad and Goregaon. Micromarkets such as Central suburbs and south markets are likely to have negligible supply addition over the next three years.

Limited supply to keep upward pressure on rents in Grade A buildings while rents in Grade B expected to remain under downward pressure. We expect 3-5% YOY increase in average city rents in next 3 years.

Colliers’ Forecast

The long-awaited Mumbai Draft Development Plan (DP) 2014-2034 has been cleared by the Brihanmumbai Municipal Corporation (BMC) in August 2017, and the state government’s clearance is likely to be given in 2018. We believe that the upcoming DP will not only decide the spatial framework of the city but also enhance plot potential with updated Floor Space Index (FSI) and Transfer of Development Rights’ (TDR) norms in the island city.

Furthermore, in order to address the infrastructure issues the Mumbai Metropolitan Region Development Authority (MMRDA) has allocated almost 84% of the total state budget of INR 68 billion (USD 1 billion) for 2017-18 to infrastructure projects. These initiatives should benefit the Mumbai commercial market over the next three to five years.

Major Lease Transactions in 2017

<table>
<thead>
<tr>
<th>Client</th>
<th>Building Name</th>
<th>Area (sq ft)</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCS</td>
<td>Godrej Factory Campus</td>
<td>250,000</td>
<td>Vikroli</td>
</tr>
<tr>
<td>Teva Pharma</td>
<td>Seawoods</td>
<td>125,000</td>
<td>Navi Mumbai</td>
</tr>
<tr>
<td>CoWorks</td>
<td>Birla Centuriun</td>
<td>95,000</td>
<td>Worli</td>
</tr>
<tr>
<td>Rosneft</td>
<td>Godrej BKC</td>
<td>70,000</td>
<td>BKC</td>
</tr>
<tr>
<td>Ajanta Pharma Ltd.</td>
<td>Satellite Gazebo</td>
<td>22,000</td>
<td>Andheri East</td>
</tr>
</tbody>
</table>

Source: Colliers International Research
Note: All figures are based on market information as on 25 Dec 2017

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India
Rents in Grade A properties to rise

Saif Lari | Assistant Manager | Delhi

Delhi’s office market has experienced high leasing momentum and the property owners of grade A projects in high demand have swiftly increased asking prices. In our view, developers have an enticing opportunity to redevelop and redesign sub-standard old projects, in order to unlock the potential premium rentals in the undersupplied market. However, this approach will be challenging for strata-titled buildings.

Forecast at a glance

Demand
Demand for office leasing to remain sturdy. Major contribution to be from Banking and Manufacturing sectors

Supply
Limited supply pipeline in commercial office space except for 3.3 million sq ft (0.3 million sq m) of Grade A office space by NBCC over next three years which is primarily available for strata sale.

Vacancy rate
Average vacancy rates likely to stay flattened at around 9-10% in the next 3 years. Higher vacancies expected in Grade B properties due to occupiers' preference for Grade A buildings.

Rental Value Trends

Leasing remains active with Aerocity gaining momentum

Leasing activity in the national capital remained very active in 2017, as evidenced by robust gross absorption of 1.3 million sq ft (0.1 million sq m) representing a jump of 31% YOY. Aerocity emerged as the torchbearer in the leasing activity with a share of about 28% closely followed by Connaught Place (CBD) at 21%, Jasola at 8%, and Okhla at 7%. Other Secondary Business Districts (SBD) micromarkets such as Nehru Place, Saket, Bikaji Kama Place contributed lesser transactions. In 2017, as a direct outcome of preference among occupiers, Aerocity recorded a 17% YOY increase in rents. Other traditional SBD micromarkets such as Saket and Nehru Place were impacted negatively and recorded 3-9% decreases in rent in 2017.

We expect Aerocity to remain a favourite among occupiers' due to its locational advantages and ready Grade A stock. DIAL (Delhi International Airport Limited) has started allocating land parcels in phase II of Aerocity for mixed-use development. However, it will take at least three to five years for new building to materialise. Hence, we expect that rents will rise by a further 8-10% in 2018 due to the lack of a visible supply pipeline over the next three years.

In contrast to the trend of 2016, Delhi witnessed a lower volume of new leasing by flexible workspace operators. In our view, Delhi's market is gradually maturing in this area; hence, the number of deals was smaller than in 2016.

Rental Value Trends

<table>
<thead>
<tr>
<th>Micromarkets</th>
<th>Rental Values 1</th>
<th>QOQ Change</th>
<th>YOY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD</td>
<td>140 - 425</td>
<td>0.0%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Nehru place</td>
<td>150 - 200</td>
<td>0.0%</td>
<td>-9.1%</td>
</tr>
<tr>
<td>Saket</td>
<td>110 - 180</td>
<td>0.0%</td>
<td>-9.4%</td>
</tr>
<tr>
<td>Jasola</td>
<td>80 - 115</td>
<td>0.0%</td>
<td>-2.5%</td>
</tr>
<tr>
<td>Aerocity</td>
<td>180 - 200</td>
<td>0.0%</td>
<td>16.9%</td>
</tr>
<tr>
<td>Okhla</td>
<td>45 - 85</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source Colliers International India Research
1Indicative Grade A rentals in INR per sq ft per month
Most of the flexible workspace operators have in fact started moving towards the neighbouring cities such as Gurugram and Noida in order to optimise the cost per desk. We assume a similar pattern will prevail in 2018.

Delays in the completion of some prime projects in the CBD have meant that there has been no new major supply in Delhi’s office market in 2017. We expect supply to remain restricted in coming years, with reduced supply creating a scarcity of space in popular areas. For 2018, we project new supply of roughly 300,000 sq ft (27,900 sq m), with all the supply concentrated in the CBD zone.

Besides, the state-owned developer NBCC is executing a major project at Nauroji Nagar. With 3.3 million sq ft (0.3 million sq m), this will be the first World Trade Center in the national capital. Being located at a prime location in South Delhi, the first e-auction witnessed considerable success with public sector units such as Power Finance Corporation, Hindustan Petroleum Corporation Ltd. and Small Industry Development Bank of India cumulatively buying about 0.28 million sq ft (26,000 sq m) of office space at an average price of INR 38,000 (USD 587) per sq ft, that is 8-10% higher than the CBD capital values. We expect the second tranche of e-auctions in early 2018. In view of its prime location and connectivity, investors looking for prime office space may invest for their own office usage.

Colliers’ Forecast

In line with our previous forecast, the Delhi office market is likely to stay stable. We expect vacancy in the new Grade A buildings to decline with an average vacancy rate of about 9%, compared to the 2016-17’s 10% vacancy. We predict the vacancy levels to remain around 9-10% till 2020. We see a clear appetite among occupiers for Grade A and re-designed open-plan office space. We recommend landlords and developers in CBD areas to re-design their existing space and create collaborative workspaces to meet the strong demands of smaller tenants.

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**Fig 1: Rental Forecast (INR per sq ft per month)**

**Fig 2: Supply, Absorption & Vacancy Forecast**

**Major Lease Transactions in 2017**

<table>
<thead>
<tr>
<th>Client</th>
<th>Building Name</th>
<th>Area (sq ft)</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitsui</td>
<td>Worldmark</td>
<td>60,000</td>
<td>Aerocity</td>
</tr>
<tr>
<td>NSDC</td>
<td>Worldmark</td>
<td>60,000</td>
<td>Aerocity</td>
</tr>
<tr>
<td>WHO</td>
<td>Parsvnath Redfort</td>
<td>52,000</td>
<td>CBD</td>
</tr>
<tr>
<td></td>
<td>Capital Tower</td>
<td></td>
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<tr>
<td>Cistera</td>
<td>Vatika Mindspace</td>
<td>34,000</td>
<td>Okhla</td>
</tr>
<tr>
<td>Chegg India</td>
<td>Bani Corporate One</td>
<td>32,000</td>
<td>Jasola</td>
</tr>
</tbody>
</table>

Source: Colliers International Research
Note: All figures are based on market information as on 25 Dec 2017

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Demand set to improve

Surabhi Arora | Sr. Associate Director | India

Occupier preference is likely to remain tilted towards premium, well-located developments. Thus, we expect Grade A developments to continue commanding a premium over market rents. Peripheral locations will experience an increase in vacancy rates with a large upcoming supply over the period 2018-2020. Tenants should consider decentralised options with good connectivity to hedge against increasing rents in centralised locations.

Forecast at a glance

Demand
Demand for office leasing to remain sturdy as several occupiers are looking for new space

Supply
We project 11.0 million sq ft (1.0 million sq m) of new supply addition by 2020, resulting in a 16% increase in total stock. Most of the new supply is concentrated on NH8 and Golf Course Extension Road.

Vacancy rate
Average vacancy rate is likely to remain at high level above 30% due to significant supply in peripheral locations. Centralised locations have below 10% vacancy rate over the next three years

Rent
Rents likely to remain stable with an upward bias for Grade A buildings in preffered micromarkets.

Price
Due to limited transaction volumes, capital values likely to remain stable in 2018 while we can expect 5-10% increase over the next 3 years.

Occupiers expansion plan to keep momentum

Gurugram remained the preferred office destination in the National Capital Region (NCR) with about a 57% share of overall leasing. In 2017, we recorded nearly 4.5 million sq ft (0.4 million sq m) of leasing volume excluding pre-commitments and renewals which represents an increase of 5% YOY. The demand for Grade A office space was driven by technology companies which contributed 41% of overall demand, followed by 18% for Banking, Financial Services and Insurance (BFSI) sector and 12% for Engineering & Manufacturing. Apart from Media and Entertainment, Fast Moving Capital Goods (FMCG) and coworking operators leased smaller office spaces that formed the rest of leasing volume.

In line with our expectations, Golf Course Road and its Extension Road remained the occupier preference with a 36% share of overall leasing, followed by 16% for Cyber City, 12% for Sohna Road and 7% for National Highway 8 (NH8) respectively. With significant new supply scheduled for completion along Golf Course Extension Road by 2020, we expect this corridor to gain traction in coming years. However, premium occupiers will probably continue to prefer Cyber City, Golf Course Road and NH8 owing to their enhanced connectivity after completion of rapid metro and various underpasses.

Rental Value Trends

<table>
<thead>
<tr>
<th>Micromarkets</th>
<th>Rental Values¹</th>
<th>QOQ Change</th>
<th>YOY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>MG Road</td>
<td>105 - 135</td>
<td>0.0%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Golf Course Road</td>
<td>110 - 220</td>
<td>0.0%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Institutional Sectors (Sec 44, 32, 18)</td>
<td>60 - 90</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Golf Course Road Ext./Sohna Road</td>
<td>55 - 80</td>
<td>1.0%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>National Highway 8</td>
<td>50 - 130</td>
<td>-6.0%</td>
<td>-6.0%</td>
</tr>
<tr>
<td>Udyog Vihar &amp; Industrial Sectors</td>
<td>50 - 70</td>
<td>0.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Manesar</td>
<td>35 - 45</td>
<td>1.0%</td>
<td>-8.0%</td>
</tr>
<tr>
<td>DLF Cyber City (IT)</td>
<td>115 - 120</td>
<td>0.0%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Source Colliers International India Research

¹Indicative Grade A rentals in INR per sq ft per month
High vacancy and strong supply pipeline in peripheral locations to keep rents in check

In 2017, Gurugram witnessed the addition of only about 2.5 million sq ft (0.2 million sq m) of new office supply in the city's Grade A inventory. Although Colliers' database suggests nearly 11.0 million sq ft (1.0 million sq m) of new supply to be completed by 2020, we may expect some deferment in project completion looking at the overall high vacancy levels of above 30%.

The overall average rents declined by 1% YOY in 2017 due to pressure on rents in peripheral markets. Premium buildings in preferred micro markets such as Golf Course Road and Cybercity continued to command a premium over the market average. Keeping the view of high vacancy level and supply pipeline, we expect average rent to remain stable. However, tenant appetite for higher quality office would stay in favour of Grade A developments, and they would be able to get premium over market rents.

Colliers' Forecast

We observed that the large occupiers are reviewing their long pending CRE decisions taking cues from the positive policy reforms. In 2017, several occupiers with leases expiring in the next couple of years formulated their relocation and consolidation strategies and pre-committed large office spaces in under construction projects in order to hedge against the rent increasing in the premium sub-markets in the future.

We expect a similar trend to persist in coming years and peripheral locations such as Golf Course Extension Road, Southern Peripheral Road should gain traction among occupiers looking for affordable rents. Meanwhile Cybercity, NH8 and Golf Course Road should remain popular due to their location advantages and improved public transport system.

Major Lease Transactions in 2017

<table>
<thead>
<tr>
<th>Client</th>
<th>Building Name</th>
<th>Area (sq ft)</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pepsi</td>
<td>Poineer Square</td>
<td>160,000</td>
<td>Golf Course Ext. Road</td>
</tr>
<tr>
<td>Google</td>
<td>Rolta Tower</td>
<td>140,000</td>
<td>Udyog Vihar</td>
</tr>
<tr>
<td>Samsung</td>
<td>Two Horizon Center</td>
<td>100,000</td>
<td>Golf Course Road</td>
</tr>
<tr>
<td>Wework</td>
<td>Salcon Platina</td>
<td>80,000</td>
<td>MG Road</td>
</tr>
<tr>
<td>KPMG</td>
<td>Building 10 B&amp;C</td>
<td>71,000</td>
<td>Cyber city</td>
</tr>
</tbody>
</table>

Source: Colliers International Research
Note: All figures are based on market information as on 25 Dec 2017

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Grade A supply to drive demand

Surabhi Arora | Sr. Associate Director | India

The addition of Grade A office supply supported by infrastructure developments should drive occupiers’ interest in NOIDA market in coming years. The market is likely to remain dominated by back-end Information Technology occupiers, however, upcoming Grade A supply is likely to attract corporate occupiers in NOIDA market. We advise developers to focus on improving the building quality and property management to attract large multinational occupiers.

Forecast at a glance

- **Demand**: Demand set to improve with a few completions of Grade A developments in NOIDA market.
- **Supply**: Total stock to be increased by about 45% in next 3 to 5 years, with approximately 13 million sq ft (1.2 million sq m) of new supply pipeline.
- **Vacancy rate**: Vacancy rate set to remain high above 30% with new supply expected to add at already over supplied avenues.
- **Rent**: Stable rents expected; slow moving inventory to keep a check on the rental values.
- **Price**: Likely to stay subdued owing to lesser amount of strata-sale transaction activity.

Soft leasing trends leads to 22% dip YOY in gross absorption

After witnessing a record year in 2016, NOIDA’s commercial office market observed softening of leasing activities in 2017. Colliers’ database suggests that only about 2.1 million sq ft (0.1 million sq m) was newly leased in 2017 excluding pre-commitments and renewals which represents a 22% dip YOY.

Our deal analysis shows that back-end Technology Services and Banking, Financial Services and Insurance (BFSI) continued to be the two major industries dominating the overall leasing with 51% and 13% share followed by 10% for Engineering and Manufacturing and 9% for Media & Entertainment. Although we expect that back-end Technology Services should remain the key demand driver in the city, there should be increased traction from corporate occupiers as well in the next three years. The upcoming Grade A commercial supply is likely to attract corporate occupiers in NOIDA market.

About 44% of the total absorption was recorded in Sector 62-65 micromarket followed by 26% for NOIDA Expressway and the rest in the smaller micromarkets such as Sector 16A and 18. Improved road connectivity and expected metro completion in 2018 should derive the occupier interest in Industrial and Institutional areas of Sector 62-65 and NOIDA Expressway. However, technology occupiers looking for large floor plates may have limited grade A options in Sector 62-65, thus leasing activities are likely to remain concentrated in NOIDA Expressway in the coming years.

**Rental Value Trends**

<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>75 - 105</td>
<td>-2.7%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Institutional Sectors (Non IT)</td>
<td>75 - 95</td>
<td>0.0%</td>
<td>-5.6%</td>
</tr>
<tr>
<td>Institutional Sectors (IT)</td>
<td>45 - 80</td>
<td>0.0%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Industrial Area (IT)</td>
<td>35 - 45</td>
<td>-1.2%</td>
<td>-1.2%</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

1 Indicative Grade A rentals in INR per sq ft per month
The investor interest remained tilted towards residential market in NOIDA in 2017 and investors such as Altico Capital, Dalmia Group and Piramal showed keen interest in projects looking for last-mile funding. We have not witnessed any major commercial transaction except for INR200 crore (USD 31.3 million) investment by ASK property investment advisors in a mix-use project by ATS infrastructure.

Ample supply to keep vacancy levels high

We assess that NOIDA’s Grade A office market is currently in the period of modest supply addition, with about 2.2 million sq ft (0.2 million sq m) of office space is in an advanced stage of development. In 2017, NOIDA witnessed completion of only 1.59 million sq ft (0.15 million sq m) of office space. We anticipate the total stock of NOIDA market to increase by about 45% in next 3 to 5 years with approximately 13 million sq ft (1.2 million sq m) of supply pipeline.

Colliers’ Forecast

Recently, the state government revived the plan to build an international airport in Jewar which should boost the attractiveness of micromarkets such as Expressway & Greater NOIDA. The travel time between NOIDA and the business districts of South Delhi will reduce significantly due to operation of Delhi Metro Magenta line which operates from Botanical Garden to Kalkaji Mandir.

The lack of elite Grade A building and substandard building management is one of the reason why corporates shying away from this city despite lower rentals. Upcoming commercial buildings in Expressway set to change the market perception from IT dependent to a multi-faceted tenant mix commercial destination. However, in our opinion, developers in NOIDA needs to focus on improving the quality of buildings and property management to attract the corporate occupiers.

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Supply to complement demand in 2018

Teni Alice Abraham | Analyst | Bengaluru

In 2017, Bengaluru retained its dominant position in office sector among all the Indian cities and accounted for the highest percentage of overall leasing volume. While the state government is inclined to improve infrastructure and revise the development policy, we expect Bengaluru to remain the preferred city for technology occupiers. Given a robust supply pipeline, we expect healthy leasing activity to continue in 2018 and subsequent years. Since tenants are focusing more on workplace strategies to create a more collaborative working environment and save on rents, demand for flexible workspace is set to improve.

Forecast at a glance

**Demand**
New technology and software development companies should drive demand momentum in coming years

**Supply**
Demand likely to outstrip supply despite estimated new supply of 26 million sq ft (2.4 million sq m) over next 3 years, representing 20% increase in total stock

**Vacancy rate**
Vacancy to remain under pressure and should gradually decrease to 7% by the end of 2020 from current 9%

**Rent**
Rents to increase by 5-8% per annum over next 3 years with demand outstripping supply in preferred micromarkets

**Price**
Capital values are set to increase in proportion to rental values.

Strong office demand to persist in 2018

Notwithstanding the speculation about the competition from emerging neighbour, Hyderabad and the swelling concerns of automation and its impact on office market, Bengaluru maintained its Silicon Valley status and recorded the highest gross absorption of 15.3 million sq ft (1.4 million sq m) in 2017, representing 36% share of the all India absorption. Out of this 1.3 million sq ft are pre-commitments which got finalised in 2017. A significant increase of 20% from the 2016 number of 12.8 million sq ft (1.18 million sq m).

We attribute the increase in absorption to steady expansion by technology occupiers who contributed about 56% of the total demand. Banking, Financial Services & Insurance (BFSI) and Engineering & Manufacturing followed with 11% and 9% share respectively. As forecasted, Coworking operators with 7% share of overall office leasing continued to expand in 2017 and leased almost twice as much office space as in 2016. We anticipate that many more flexible workspace operators will launch coworking spaces in 2018, not only because Bengaluru houses the highest number of start-ups but also in order to target large occupiers looking for additional flexible office space. We anticipate the office market will remain robust, with average gross absorption of 14 million sq ft (1.3 million sq m) absorption YOY in the next 3 years.

**Rental Value Trends**

<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>110 - 190</td>
<td>7.1%</td>
<td>25.0%</td>
</tr>
<tr>
<td>Outer Ring Road (Sarjapur - Marathahalli)</td>
<td>80 - 90</td>
<td>6.3%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Outer Ring Road (K.R. Puram - Hebbal)</td>
<td>70 - 85</td>
<td>3.3%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Bannerghatta Road</td>
<td>60 - 85</td>
<td>16.0%</td>
<td>17.9%</td>
</tr>
<tr>
<td>Hosur Road</td>
<td>32 - 42</td>
<td>5.7%</td>
<td>5.7%</td>
</tr>
<tr>
<td>EPIP Zone/Whitefield</td>
<td>35 - 45*</td>
<td>0.0%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Electronic City</td>
<td>35 - 45</td>
<td>14.3%</td>
<td>17.6%</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

1 Indicative Grade A rentals in INR per sq ft per month

* Excluding ITPL rent of Rs. 52 per sq ft per month
In 2017, Outer Ring Road (ORR) seized 46% share of the total leasing volume followed by the Central Business District (CBD) 9%, the Secondary Business District (SBD) 13%, Whitefield (7%) and Electronic City (6%) and, North (5%) and others (12%).

Supply to complement upcoming demand in 2018

Collier's database suggests new supply of 12.7 million sq ft (1.1 million sq m) was added to the city inventory in 2017, recording a 30% increase from 2016. About 26 million sq ft (2.4 million sq m) of grade A office space is scheduled for completion in Bengaluru between now and 2020. More than 60% of the total upcoming space is concentrated in ORR and Whitefield, while rest of the space is distributed among various micromarkets such as North (10%), SBD (7%) and other micromarkets (14%). We expect micromarkets such as ORR and Whitefiled along with emerging market such as North Bengaluru to complement the increasing demand.

We recorded an average rental increase of 13.7% YOY in Bengaluru in 2017, the highest in India against a background of demand outstripping the supply. While sizable supply is under construction, we cannot rule out about 8-10% YOY increase in grade A rents due to high demand in preferred micromarkets.

Colliers’ Forecast

We expect, demand to remain robust in Bengaluru. Policy initiatives such as Revision of Master Plan (RMP) 2031 and Transit Oriented Development (TOD) should further boost the supply situation. The upcoming infrastructure such as Namma Metro Phase 2 (Bayapanahalli to Whitefield), metro connectivity to Karnataka International Airport (KIA) and signal-free 17 km road extension of the ORR (Silk Road to Mysore Road) is likely to address the infrastructure issues.

Fig 1: Rental Forecast (INR per sq ft per month)

Fig 2: Supply, Absorption & Vacancy Forecast

Major Lease Transactions in 2017

<table>
<thead>
<tr>
<th>Client</th>
<th>Building Name</th>
<th>Area (sq ft)</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Siemens</td>
<td>Gold hill Supreme Tech Park</td>
<td>600,000</td>
<td>Electronic City</td>
</tr>
<tr>
<td>Microsoft</td>
<td>Prestige Fern Galaxy</td>
<td>589,000</td>
<td>ORR</td>
</tr>
<tr>
<td>Qualcomm</td>
<td>Bagmane Constellation Business Park</td>
<td>560,000</td>
<td>ORR</td>
</tr>
<tr>
<td>Lowe’s Services</td>
<td>Manyata Business Park</td>
<td>489,000</td>
<td>ORR</td>
</tr>
<tr>
<td>Anthem Inc.</td>
<td>Manyata Business Park</td>
<td>477,000</td>
<td>ORR</td>
</tr>
</tbody>
</table>

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As the market demand continuing to be driven by Information Technology and Information Technology enabled Service (IT-ITeS) sector, the occupier preference remained concentrated in preferred micromarkets like Old Mahabalipuram Road (OMR) pre-toll and Mount Poonamallee High (MPH) Road. Considering the low vacancy in above mentioned micromarkets, we advise occupiers to be strategic in choosing their office locations and be proactive in taking up the available supply.

Forecast at a glance

**Demand**
Demand to gain momentum in MPH Road and Off CBD in 2018; Pallavaram Thoraipakkam Road (PTR) likely to be the next growth centre in south Chennai

**Supply**
Total Grade A office stock to increase about 20% by 2020; Supply likely to be stable over next three years with average annual addition of about 4.0 million sq ft (0.4 million sq m)

**Vacancy rate**
Vacancy should remain at 10-11% as the upcoming supply is likely to offset demand

**Rent**
Steady increase in rents foreseen in preferred micromarkets pushing overall rents to increase by 8-9% by 2020

**Price**
Capital Values set to increase in line with raising rents and steady demand

**MPH Road and Off CBD to drive demand in 2018**

The leasing segment and enquiries remained consistent throughout 2017; however, larger size deals were less than in 2016. We recorded about 4.8 million sq ft (0.46 million sq m) of overall leasing excluding pre-committments and renewals in 2017 representing a 10% dip in absorption volumes YOY.

Regardless of high rents, OMR pre-toll micromarket continued to garner maximum occupier interest representing 32% of total transaction volume in the city. With 17% and 16% share of overall leasing volume respectively, MPH Road and Off Central Business District (Off CBD) remained the second most active market. The increasing demand resulted in almost double absorption than 2016 in aforementioned micromarkets. The shares of other micromarkets in the gross office take up in 2017 is as follows:

- OMR post-toll (16%)
- CBD (13%)
- GST Road (3%)
- Ambattur (3%)

Considering the shrinking vacancy rates coupled with rising rents in OMR pre-toll, occupiers’ focus is likely to shift towards OMR post-toll over next 3 years due to the significant supply pipeline. In the medium term, occupiers’ interest likely to remain tilted towards active business districts such as MPH Road and Off CBD due to the availability of new Grade A supply.

**Rental Value Trends**

<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>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Off-CBD</td>
<td>60 - 75</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>GST Road</td>
<td>35 - 45</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>MPH Road</td>
<td>50 - 65</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>OMR Pre-Toll</td>
<td>55 - 78</td>
<td>0.0%</td>
<td>10.8%</td>
</tr>
<tr>
<td>OMR Post-Toll</td>
<td>30 - 40</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Ambattur</td>
<td>30 - 45</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source: Colliers International India Research

1Indicative Grade A (non SEZ) rentals in INR per sq ft per month
Supply pipeline to improve over next three years

Due to delay in project completions, 2017 witnessed new supply of only 1.8 million sq ft (0.2 million sq m) compared to our forecast of 4.15 million sq ft (0.38 million sq m). We expect, these deferred projects to see completion in 2018. We also forecast Chennai market to see an average 4 million sq ft of new supply for next 3 years resulting in 20% increase in total stock by 2020. About 80% of the total upcoming supply is concentrated in the southern part of the city followed by MPH Road (16%) and Off-CBD (4%). Out of all locations in the south, the PTR in OMR post-toll micromarket likely to get maximum supply, with about 6.7 million sq ft (0.61 million sq m) of office space under various stages of construction. In contrast, scheduled completion in the OMR pre-toll district amounts to only 2.2 million sq ft (0.2 million sq m) in next three years.

We expect the upcoming supply should ease the overall vacancy rates and hold down rents in micromarkets like Off CBD and OMR post-toll. However, rising demand should push rents higher up to 10-15% in OMR pre-toll and MPH Road over the next three years.

Colliers' Forecast

Various flexible workspace players made their debut in Chennai market in 2017. We expect, flexible workspace operators to increase footprint in the city as existing players like Cowrks have planned their expansions and new entrants like Awfis are already in action to set up their office space in Chennai.

About INR 9850 crore (USD 1.54 billion) investment announcements by companies like PSA, CEAT, Xuzhou and Yamaha Musicals should increase the contribution of automobile and manufacturing in office demand. Special Economic Zones (SEZs) should continue to drive sustained demand with increasing pre-commitments in upcoming projects.

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Slower take-up amid low vacancy

Surabhi Arora | Sr. Associate Director | India

Chronically short stock of Grade A commercial assets is making commercial leasing harder in the Pune market. The market for existing commercial office assets has been a developer market for nearly two years with less than 5% vacancy on hand. While the completion of a handful of Grade A commercial properties may ease some of the pressure, we do not expect the situation to reverse any time soon. This will limit the upside to the leasing market’s contribution to overall commercial market growth in 2018. In view of the restricted supply, we advise tenants to look for pre-commitments in upcoming projects to support their expansion plans.

Forecast at a glance

**Demand**
Likely to remain concentrated in micro markets such as Hinjewadi and Kharadi; technology companies continue to drive demand

**Supply**
Supply likely to remain restricted; about 11 million sq ft (1.02 million sq m) is schedule for completion between now and 2020 but completions may be deferred

**Vacancy rate**
Inventory pressure unlike to ease soon; vacancy set to remain below 5% in Grade A developments

**Rent**
We expect an average 5-6% upward movement in rents YOY in 2018 due to restricted new supply and lower vacancy levels

**Price**
 Likely to witness upward pressure with increasing activity by investors

Inventory pressure unlikely to reverse anytime soon

In line with our forecast, the overall leasing volumes have dwindled further in 2017 due to the scarcity of quality supply. The total gross absorption excluding renewals and pre-commitments amounted to only 3.5 million sq ft (0.3 million sq m) in 2017, i.e. about 11% lower than in 2016 and almost 30% below the level of 2015. Notwithstanding the supply issues, the availability of a large talent pool has helped to sustain occupier interest in the Pune market, and so far we have not witnessed any significant relocation from the city.

However, in our view, the ongoing leasing squeeze in Pune is structural in nature, and any further delay in completion of current under-construction projects will hamper occupiers’ sentiment. Considering the limited new supply pipeline and low vacancy rate, we expect the absorption level in 2018 to remain at par with 2017. Technology firms are likely to remain the leading demand driver; they contributed about 72% of the overall transaction volumes in 2017. We expect more traction in coming years from flexible workspace operators which made their debut in the Pune market in 2017 with a 1.1% share of overall leasing transactions.

2017 witnessed the vacancy level drop to 5.0% from 9.8% in 2016. Despite sustained demand, new supply totalled only 2.0 million sq ft (0.18 million sq m) in 2017. Most of this supply was pre-committed by the existing tenants.

Rental Value Trends

<table>
<thead>
<tr>
<th>Micromarkets</th>
<th>Rental Values¹</th>
<th>QOQ Change</th>
<th>YOY Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baner</td>
<td>57-65</td>
<td>0.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td>Bund Garden</td>
<td>55-70</td>
<td>0.0%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Airport Rd/Pune Station</td>
<td>65-90</td>
<td>3.3%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Aundh</td>
<td>60-65</td>
<td>4.2%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Senapati Bapat Road</td>
<td>65-125</td>
<td>2.7%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Bavdhan</td>
<td>45-50</td>
<td>0.0%</td>
<td>6.7%</td>
</tr>
<tr>
<td>Kalyani Nagar</td>
<td>55-65</td>
<td>2.6%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Nagar Road</td>
<td>55-65</td>
<td>0.0%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Hinjewadi</td>
<td>45-55</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Hadapsar/Fursungi</td>
<td>68-75</td>
<td>2.1%</td>
<td>12.6%</td>
</tr>
<tr>
<td>Kharadi</td>
<td>55-110</td>
<td>8.6%</td>
<td>14.6%</td>
</tr>
</tbody>
</table>

Source Colliers International India Research

¹Indicative Grade A rentals in INR per sq ft per month
occupiers for their expansion purposes such as Northern Trust (Operating Services Pvt Ltd) pre-committed about 450,000 sq ft (41,800 sq m) in EON SEZ in 2017. In 2018, we expect about 2.9 million sq ft (0.27 million sq m) of Grade A office space to be completed towards the end of the year. About 80% of new supply is concentrated in Hinjewadi, Kharadi and Nanded City. We expect demand to follow supply, so the above locations should remain the most active in 2018. Although Colliers’ research database suggests a supply pipeline of about 11.0 million sq ft (1.02 million sq m) between now and 2021, we are sceptical about the completion of projects on time because several projects have not even broken ground and work has stalled in a couple of them. Thus, we do not expect inventory pressure to reverse any time soon in Pune.

Lower vacancy to push rents upward

Rents remained on an upward path in 2017, rising by 6% from 2016. This was a smaller YOY increase than 13% in 2016. We expect upward pressure on rents to persist in 2018 and beyond due to restricted supply. However, in our opinion, the rent increase should remain relatively low, at 5-6% YOY. This is because the rents in most micromarkets in Pune are in the range of INR 45 to INR 65 per sq ft per month which is almost the same as in the other IT-ITeS cities. Any significant increase in rents may lead to a trend where occupiers will start looking into other competing cities. Thus, we advise developers to expedite the completion of the existing under construction projects and launch new projects.

Colliers’ Forecast

Amid lower vacancy and rising rents, investors have remained positive about the Pune market. Investors such as Ascendas-Singbridge, CPPIB (Canada Pension Plan Investment Board) and Milestone Capital Advisors made strategic investments in Pune in 2017. We expect investors to remain active in the Pune market in coming years. Flexible working operators are likely to expand; and due to the supply crunch the space that they offer is likely to remain in high demand.

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India
Office supply to surge in 2018

Karthiga Ravindran | Analyst | Chennai

Hyderabad’s office leasing demand continues to be notably progressive since 2015 after the bifurcation of the states (Andhra Pradesh and Telangana). With respect to our viewpoint on strong fundamentals of this market, we expect, Hyderabad to witness consistent traction in 2018 as well. However, looking at the excessive supply pipeline of about 32.6 million sq ft (3.0 million sq m) scheduled for completions over next 3 years, we advise developers to be strategic in their plans and avoid too much of speculative construction to maintain the demand-supply balance in coming years.

Forecast at a glance

Demand
Steady demand likely with expansion plans of technology and e-commerce players; Coworking to gain momentum

Supply
Robust supply pipeline of about 12.0 million sq ft (1.1 million sq m) in 2018. Over next 3 years, office stock likely to reach oversupply with an increase of about 70% in total stock if all the under-construction buildings follow scheduled completions.

Vacancy rate
Vacancy to rise and remain in 13-15% range in next three years due to huge upcoming supply

Rent
Keeping in view the upcoming supply, we expect rents to stabilize in 2018

Price
Steady increase in capital values likely to continue in Secondary Business District (SBD) micromarket

4% rise in demand in 2017; 2018 outlook remains steady

Followed by a record year in the city’s office leasing market in 2016, Hyderabad witnessed another remarkable year in 2017 with about 4% raise in leasing volume at 5.8 million sq ft (0.4 million sq m). In line with our earlier forecast, the demand was driven by the expansion of large scale technology companies like Deloitte, Qualcomm, Microsoft etc. The city also witnessed an additional 0.8 million sq ft (0.07 million sq m) of pre-commitments. In our opinion, Hyderabad market is poised to grow steadily in coming years and to be complemented by huge Grade A supply.

In 2017, the city’s SBD remained the preferred destination for technology occupiers and the micromarket accounted for a 91% share in total leasing. Other micromarkets such as Central Business District (CBD), Off CBD and Peripheral Business District (PBD) accounted each 3% share of total leasing. Being a well-established technology hub with increasing quality Grade A office developments, the SBD micromarket should remain as the choice of occupiers eyeing for vast talent pool in upcoming years.

With only 22% of deals signed in Special Economic Zones (SEZs), the occupier preference in Hyderabad stayed tilted towards non-SEZ spaces in 2017. In our opinion, as occupiers focus remains on quality and amenities irrespective of SEZ or non SEZ spaces, we foresee that the trend will continue in upcoming years as well.

Rent Value Trends

<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>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Off-CBD</td>
<td>45 - 50</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>SBD</td>
<td>55 - 65</td>
<td>0.0%</td>
<td>4.3%</td>
</tr>
<tr>
<td>PBD</td>
<td>25 - 30</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source Colliers International India Research

1Indicative Grade A rentals in INR per sq ft per month
Vacancy rate set to rise over next 3 years with upcoming supply

About 32.6 million sq ft (3.0 million sq m) of new supply is at various stages of construction in Hyderabad. Assuming, scheduled construction completion, we expect new supply in 2018 to nearly triple in comparison to 2017 with the addition of about 12.0 million sq ft (1.1 million sq m) of Grade A office space.

In our opinion, the demand side initiatives by the state government such as recently held Global Entrepreneurship Summit (GES 2017), the operation of metro rail coupled with a supply-side push by clearance of land litigation issues, and the auction of huge land parcels for developments are likely to further drive the market. However, we advise developers to keep a close eye on demand and plan the construction timelines over next 3 years to avoid oversupply by 2020.

Colliers’ Forecast

According to Oxford Economics forecast released in September 2017, Hyderabad should achieve 7.2% average annual GDP growth over the period 2017 to 2021 driven by Pharmaceutical, biotech and IT-ITeS sector. We expect the economic expansion driven by these sectors should help boost the office demand further in coming years.

Regardless of the concerns about automation and layoffs, the technology and e-commerce players like Google, Deloitte, Accenture, Amazon and alike are likely to continue expanding their footprint in the city. With coworking / shared spaces gaining thrust in Hyderabad among start-ups, small companies and even with large companies for specific project needs, the city likely to become the next target city for shared office spaces.

### Major Lease Transactions in 2017

<table>
<thead>
<tr>
<th>Client</th>
<th>Building Name</th>
<th>Area (sq ft)</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deloitte</td>
<td>Meenakshi Tech</td>
<td>1,400,000</td>
<td>Hitech City</td>
</tr>
<tr>
<td>Qualcomm</td>
<td>Mindspace Building No.7</td>
<td>200,000</td>
<td>Hitech City</td>
</tr>
<tr>
<td>Microsoft</td>
<td>Knowledge City</td>
<td>166,000</td>
<td>Hitech City</td>
</tr>
<tr>
<td>Redbricks</td>
<td>Phoenix Primea</td>
<td>140,000</td>
<td>Hitech City</td>
</tr>
<tr>
<td>Service Now</td>
<td>Knowledge City</td>
<td>136,300</td>
<td>Hitech City</td>
</tr>
</tbody>
</table>

Source: Colliers International Research

Note: All figures are based on market information as on 25 Dec 2017