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BENGALURU DOMINATES OFFICE LEASING ACTIVITY

Summary & Recommendations

2018's office market performance reaffirms Bengaluru's pivotal position in office demand among the seven major cities in India, accounting for the highest proportion of leasing volume. Despite leasing activity picking up in other southern cities, we advise occupiers to retain confidence in Bengaluru as it is one of the fastest growing cities in Asia and offers the requisite pool of talent for tech occupiers.

- > We continue to recommend that developers adhere to completion timelines to cater to strong occupier demand.
- > In our opinion, occupiers should consider pre-leasing space as we expect rents to rise.

		Q4 2018	Full Year 2019	2018-21 Annual Average
 <p>Demand</p>	> We expect robust demand of around 14 million sq ft (1.3 million sq m) in 2019, similar to 2018.	2.6 mn sq ft	14.0 mn sq ft	14.1 mn sq ft
 <p>Supply</p>	> In light of buoyant office demand, developers are launching new projects. We forecast a robust supply pipeline of 36.8 million sq ft (3.4 million sq m) over 2019-2021.	2.8 mn sq ft	16.0 mn sq ft	11.2 mn sq ft
		QOQ / End Q4	YOY / End 2019	Annual Average Growth 2018-21 / End 2021
 <p>Rent</p>	> We project rents to increase by 4.5% compounded annually over 2018-2021.	0.0% INR78.7	4.0% INR81.8	4.5% INR89.8
 <p>Vacancy</p>	> We expect healthy demand in preferred locations to lower the vacancy level to 7.0% by 2021 from the current 8.8%	0.0pp 8.8%	0.5pp 8.5%	-0.6pp 7.0%

Source: Colliers International

Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR69.55 as on 31 December 2018

HEALTHY LEASING MOMENTUM TO CONTINUE IN 2019

Bengaluru retained its leading position in office leasing among the seven major cities in India, representing 28% of pan-India leasing volume, despite 2018 witnessing 14 million sq feet (1.3 million sq metres) of gross absorption, a decline of 9% yoy. The last quarter of 2018 witnessed 2.6 million sq feet (241,635 sq metres) of gross leasing, which is a 30% decline from the previous quarter. However, we expect Bengaluru to continue with an average annual leasing momentum of 14.1 million sq feet (1.3 million sq metres) over 2018-2021.

Demand for Grade A office space in Q4 2018 was driven by expansion and relocation by technology occupiers, accounting for 56% of total leasing volume. Other sectors driving demand were the banking sector with 11%, engineering and manufacturing with 9% and flexible workspace operators with 7%. Other sectors* accounted for 17% of leasing activity.

Despite a decline in the number of deals in 2018 compared to the previous year, the average lease increased from 48,000 sq feet (4,460 sq metres) in 2017 to 55,340 sq feet (5,143 sq metres) in 2018. Large deals over 100,000 sq feet (9,293 sq metres) constituted around 70% of the total gross leasing in 2018, implying an increase in business confidence.

Outer Ring Road (ORR) continued to garner occupier interest resulting in 48% of the total gross leasing in 2018. Other micromarkets that saw notable transaction activity were the Secondary Business District (SBD) with 15%, and the Central Business District (CBD) with 12%. The CBD is gaining traction mainly from flexible workspace operators. Other micromarkets such as Whitefield and North Bengaluru recorded 7% and 6% of gross leasing, respectively.

We expect infrastructure upgrades such as the six elevated corridors, the steel flyover, the Peripheral Ring Road, a suburban rail network and the ongoing Namma Metro project to ease mobility of commuters at an inter- and intra-city level, thus improving regional connectivity and preparing the city for a further expansion of development .

Bengaluru, gross effective rental values, Q4 2018

	Q4 2018 (INR psf pm)	Q4 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
CBD ¹	120- 200	1.7 – 2.9	0.0	6.7
SBD (Indiranagr- Koramangala)	90 - 150	1.3– 2.1	0.0	4.3
Outer Ring Road (Sarjapur - Marathahalli)	83 - 92	1.2 – 1.3	0.0	2.9
Outer Ring Road (K.R. Puram - Hebbal)	78 - 88	1.1 – 1.3	0.0	7.1
Bannerghatta Road	70 - 95	1.0 – 1.4	0.0	13.8
Hosur Road	35 - 45	0.5 – 0.6	0.0	8.1
EPIP Zone/Whitefield	38 - 55	0.6 – 0.8	0.0	16.3
Electronic City	38 - 48	0.6 – 0.7	0.0	7.5
North (Hebbal - Yelahanka)	45 - 78	0.7 – 1.1	0.0	5.1
Others ²	55 - 70	0.8 – 1.0	0.0	0.0

Source: Colliers International

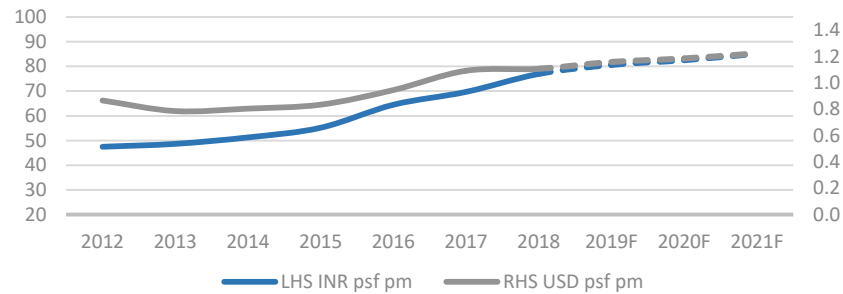
Note: Indicative Grade A rentals, includes both Non IT and IT-ITeS buildings; excludes Special Economic Zones (SEZs).

¹CBD includes MG Road and, Richmond Road, Infantry Road, Cunningham Road, Sankey Road, Palace Road, Vittal Mallaya Road and others

²Others includes Sarjapur Road, Mysore Road

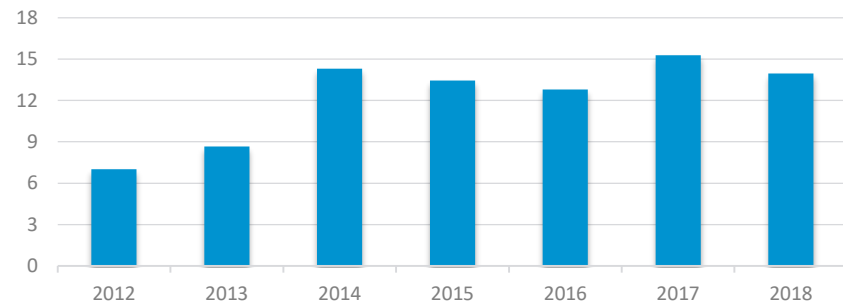
*Other sectors include ecommerce, human resources and healthcare.

Bengaluru, rental trend 2012-2021F



Source: Colliers International

Bengaluru, gross office absorption (million sq ft)



Source: Colliers International

Bengaluru, major leasing transactions, Q4 2018

Client	Building Name	Area (sq ft)	Location
Nvidia Graphics Private Limited	Bagmane Constellation Business Park	500,000	ORR
Reliance Jio	Avana @One	300,000	Sarjapur Road
Accenture	RGA Tech Park	296,770	Sarjapur Road
Honeywell	Kalyani Tech Park	151,731	ORR
Sapient	Prestige Cessna Business Park	150,000	ORR

Source: Colliers International

Note: All figures are based on market information as of 31 December 2018

NEW LAUNCHES INFLATE SUPPLY FORECAST

The fourth quarter of 2018 witnessed notable supply of 2.86 million sq feet (265,800 sq metres), a threefold increase from the previous quarter. However, 2018 overall witnessed a decline of 37% compared to the previous year, with only 8.0 million sq feet (743,494 sq metre) of Grade A supply. Developers are optimistic for Bengaluru's increasing demand for Grade A office space and have launched a further round of new projects. Thus, we have revised our forecast to 36.8 million sq feet (3.4 million sq metres) of Grade A supply over 2019-2021.

ORR continues to be the most active micromarket, hosting 37% of the upcoming supply. This is followed by Whitefield with 27%, North Bengaluru with 15%, SBD with 8% and the remaining in locations such as CBD, Electronic City and others accounting for 13% of the total upcoming supply over 2019-2021.

Despite notable supply, we expect rental values to rise at a compounded annual rate of 3.5% due to heightened demand. 2018 witnessed a 4.8% rental increase led by micromarkets such as Whitefield, Electronic City and Bannerghatta Road. The dedicated efforts by the government to improve infrastructure is likely to boost the commercial development in the city.

Based on the current trends of continued leasing by the technology sector, we foresee an impending supply crunch in the coming years, that is expected to result in strong rental growth. However, strong fundamentals such as higher economic growth of around 9.6% over the next five years and the availability of a vast talent pool should give Bengaluru an edge over other major southern cities. We recommend developers adhere to completion timelines so as to retain occupier interest in Bengaluru.

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