

India Office, Q4 2015

Office supply at five-year high; demand levels cross 38 million sq. ft. in 2015

 Rents Up
9 Markets

 Rents Stable
45 markets

 Rents Down
No Market

 Demand (Y-O-Y)
32%

 Supply (Y-O-Y)
45%

GROWTH REMAINS UPWARDS OF 7%; FRONT LOADED MONETARY EASING, UPTICK IN DOMESTIC DEMAND AND INFRASTRUCTURE SPENDING CONTINUE TO SUPPORT RECOVERY

The year 2015 witnessed a strong growth momentum in the economy, with a positive macro-adjustment visible during the July to September period. India saw its GDP growth accelerate in the three months to September 2015 to reach 7.4% as compared to 7% in the previous review period, clearly positioning the country as the fastest growing major economy in the world. This growth was mainly spearheaded by industrial and manufacturing sectors, with services (particularly real estate), transport and communications being other growth propelling sectors. Improvement in domestic demand and an uptick in infrastructure investments by the Government further supported this growth. The Reserve Bank of India (RBI) has kept the FY2016 GDP forecast unchanged at 7.4%, against the backdrop of a gradual improvement in domestic demand, benign oil prices, and an increase in infrastructure spending by the Government.

The Central Bank reduced base rates by 125 basis points during the year as part of its monetary easing measure. After an erratic monsoon, however, consumer price inflation reached a 14-month high of 5.41% for the month of November, mainly driven by higher food prices. Consequently, the RBI maintained status quo on key lending rates in December, although it indicated that the policy stance was 'accommodative' and that there is still room

for rate cuts in the coming year. However, any further adjustments to India's monetary policy would be subject to factors such as changes in Consumer Price Inflation (CPI) and the banking system's disposition towards offering rate cuts to end-users.

The Central Government also undertook various measures to boost the real estate sector during the year, including relaxing Foreign Direct Investment (FDI) norms across major sectors such as construction development, single brand retail trading (SRBT) and e-Commerce, among others. The easing up of minimum capitalization, area, sourcing and exit restrictions are likely to boost investment flows into the sector. The housing sector—particularly the affordable housing segment—is also likely to receive more foreign capital, in line with the Government's objective of developing 'Housing for All by 2022'. The Union Cabinet also approved the amended Real Estate Regulatory Authority (RERA) Bill, incorporating the recommendations of a Rajya Sabha committee during the month of December.

Major approved changes proposed in the Bill included increasing its purview to include commercial projects, outlining more stringent adherences for developers and further protecting home buyer interests. If implemented in the right spirit, the Bill, along with regulating the real estate sector, is likely to usher in transparency and facilitate greater volumes of domestic as well as overseas investment flows into the sector. Moreover, in addition to the pass-

through status for the purpose of taxation, the Government relaxed certain investment guidelines to encourage investments through Real Estate Investment Trusts (REITs), further leading to a likely boost to structured investment flows, going forward. Increased Government focus on revitalizing urban infrastructure and creating ‘smart cities’ were other measures undertaken during the year, which might have a long-term impact on India’s realty sector.

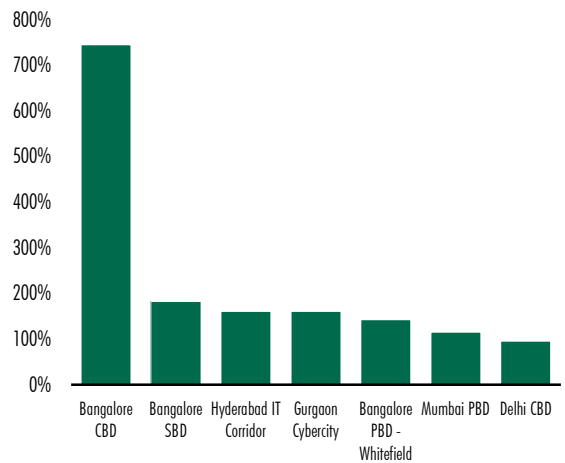
STEADY INCREASE IN OFFICE TAKE-UP IN THE LAST QUARTER OF 2015

Steady occupier interest led to growth in office space absorption across the leading cities during the October–December 2015 period. Overall office space take-up was more than 12 million sq. ft. (highest in the past nineteen quarters), garnering a growth of about 26% quarter-on-quarter (q-o-q) and 32% year-on-year (y-o-y). Bangalore continued to retain its position as the most preferred destination for corporate occupiers, accounting for about 44% of the total leasing activity in the leading cities during the quarter. The Delhi National Capital Region (NCR) was also a preferred location of corporate occupiers, garnering a share of 22%, followed by Pune, Chennai and Mumbai.

Most peripheral and suburban micro-markets across the leading cities witnessed steady occupier demand. The prominent locations were Gurgaon in Delhi NCR; Powai, Vikhroli, Kanjurmarg and Thane/Navi Mumbai in Mumbai; the Outer Ring Road (ORR) and Whitefield in Bangalore; the IT Corridor in Hyderabad; the Old Mahabalipuram Road (OMR) stretch along Perungudi, and Sholinganallur in Chennai; Viman Nagar, Baner and Yerawada in Pune; and Salt Lake Sector V and Rajarhat in Kolkata.

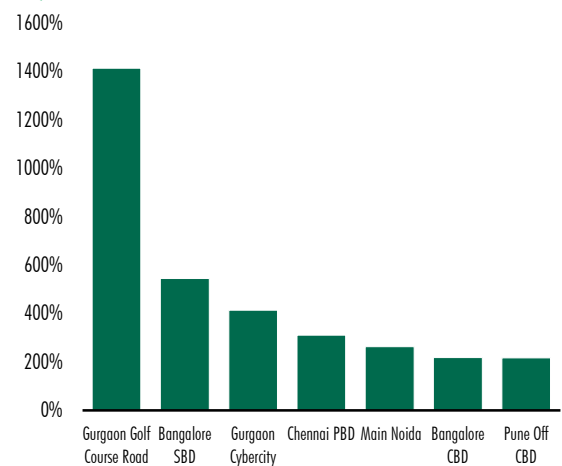
On an annual basis, office space take-up grew by 18% to reach more than 38 million sq. ft. during 2015, led by Bangalore (32%) and Delhi NCR (23%). While most cities witnessed a y-o-y increase in occupier demand, Kolkata was the

Chart 1: Growth in Transaction Activity in Prominent Micro-markets (Q-o-Q)



Source: CBRE Research, Q4 2015.

Chart 2: Growth in Transaction Activity in Prominent Micro-markets (Y-o-Y)



Source: CBRE Research, Q4 2015.

only exception. Delays in project completion, led to select corporate firms postponing their occupation decisions to the next financial year in Kolkata.

PRE-COMMITMENTS AND RENEWALS WERE ALSO A FOCUS

Occupiers continued to focus on under-construction developments nearing completion as well, particularly in the suburban and peripheral locations of cities such as Bangalore, Hyderabad and Gurgaon. Renewal

activity was also witnessed, with corporate firms preferring to cling on to prime office space in quality developments across leading cities.

SMALLER TO MEDIUM SIZED TRANSACTIONS REMAINED PREFERRED FORMAT OF OCCUPATION

In line with the past few quarters, office leasing activity remained focused towards small and medium-sized space transactions. Small-sized transactions (less than 10,000 sq. ft.) garnered a share of approximately 39%; while transactions ranging from 10,000–50,000 sq. ft. accounted for a share of about 45% of the total transaction activity reported during the quarter. Bangalore, Delhi NCR and Chennai dominated large-sized transaction closures (ranging between 100,000–400,000 sq. ft.) mainly for occupiers from the IT/ITeS, e-Commerce and engineering / manufacturing sectors.

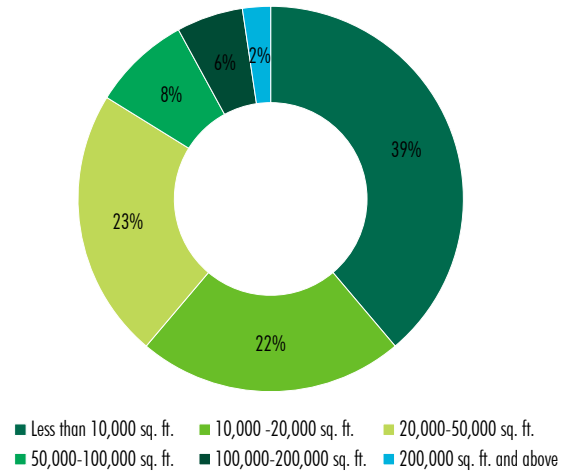
As a large proportion of the newly completed corporate real estate supply in most leading cities is from the commercial (non-IT) segment, with half of the entire transaction activity in the quarter was concentrated in this segment. This was followed by IT developments that contributed a share of 40% to the total transaction activity. Occupier demand for SEZ space was mainly concentrated in Gurgaon, Bangalore and Chennai during the fourth quarter.

IT/ITES CONTINUED TO LEAD DEMAND; FOLLOWED BY BANKING / FINANCIAL SERVICES AND RESEARCH / CONSULTING

Office transaction activity continued to be driven by IT/ITeS firms across the seven leading cities, garnering a share of about 58% of the entire transaction activity reported during Q4 2015.

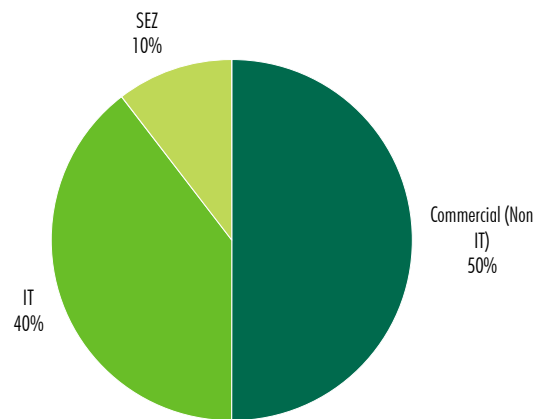
Other sectors such as engineering / manufacturing, banking / financial services, research / consulting and e-Commerce also witnessed significant traction, collectively contributing about 27% to the total transaction activity.

Chart 3: Segmentation of Transaction Activity as per Transaction Size



Source: CBRE Research, Q4 2015.

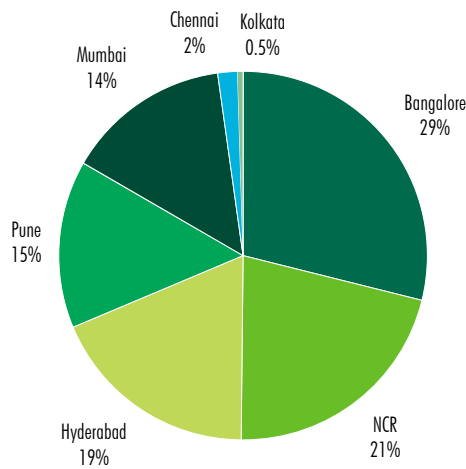
Chart 4: Segment Wise Split of Transaction Activity



Source: CBRE Research, Q4 2015.

Even on an annual basis, absorption activity was led by corporate firms from the IT/ITeS sector, followed by banking / financial services. Other leading sectors included engineering / manufacturing, e-Commerce, research / consulting, and pharmaceuticals. While demand for office space from e-Commerce companies was mainly concentrated in Bangalore and Gurgaon, demand from banking / financial services firms was prominent in Chennai, Mumbai and Bangalore.

Chart 5: City Wise Split of New Supply



Source: CBRE Research, Q4 2015.

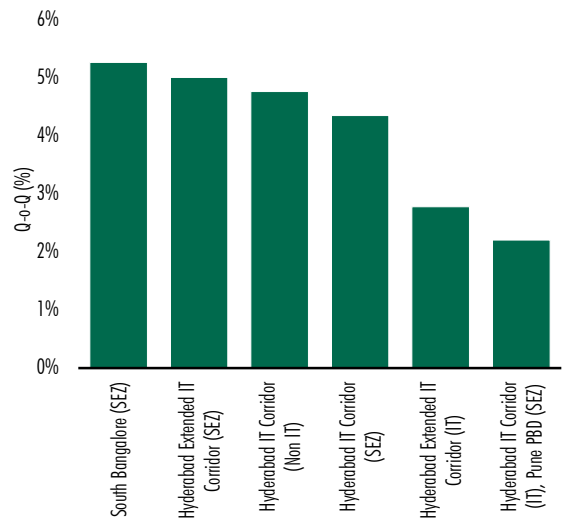
SUPPLY ADDITIONS ROSE BY AROUND 45% Y-O-Y; BANGALORE, FOLLOWED BY NCR LED DEVELOPMENT COMPLETIONS

Large-sized commercial (non-IT) and SEZ developments were completed during the quarter under review, mainly in Bangalore, NCR, Hyderabad and Mumbai. This resulted in a q-o-q growth of around 8% and a y-o-y growth of 45%, with development completions reaching a five-year high of more than 11 million sq. ft. in the fourth quarter of 2015.

Commercial (non-IT) office space supply dominated development completions during the quarter, garnering a share of about 71%, with SEZ projects accounting for a share of about 19%. Majority of the new supply was concentrated in locations such as Gurgaon and Noida in Delhi NCR, ORR and Sarjapur Road in Bangalore; IT Corridor / Extended IT Corridor in Hyderabad; Baner and Hinjewadi in Pune; and Andheri (East) in Mumbai.

In 2015, supply additions increased by nearly 40% across the leading cities, with Bangalore (33%) and Delhi NCR (23%) constituting a majority share in overall development completions reported during the year. Sustained occupier demand and pent up supply led to a

Chart 6: Strongest Office Rental Growth, Q3 2015 Vs Q4 2015



Source: CBRE Research, Q4 2015.

concentration of newly completed projects in the secondary / peripheral locations of most cities.

DEMAND FOR NEWLY COMPLETED SPACE LED TO RENTAL GROWTH IN PERIPHERAL MICRO-MARKETS

Rental values were mostly stable in the Central Business Districts (CBDs) of most leading cities, with the exception of Bangalore and Pune. A marginal rental appreciation of around 1-5% q-o-q was reported in ORR micro-market in Bangalore; DLF Cybercity in Gurgaon; Guindy, Vadapalani and Mayor Ramnathan Chettiar Nagar in Chennai; and the IT and Extended IT Corridors in Hyderabad. Rents appreciated in these micro-markets due to steady occupier demand amid low vacancy levels in select prominent developments, as well as the completion of new projects.

Steady demand for space in prominent SEZ developments resulted in a rental increment of 2-5% q-o-q in micro-markets such as South Bangalore and ORR in Bangalore; Kharadi, Hinjewadi and its surrounding areas in Pune; and the IT and Extended IT Corridors in Hyderabad.

MARKET SUMMARY

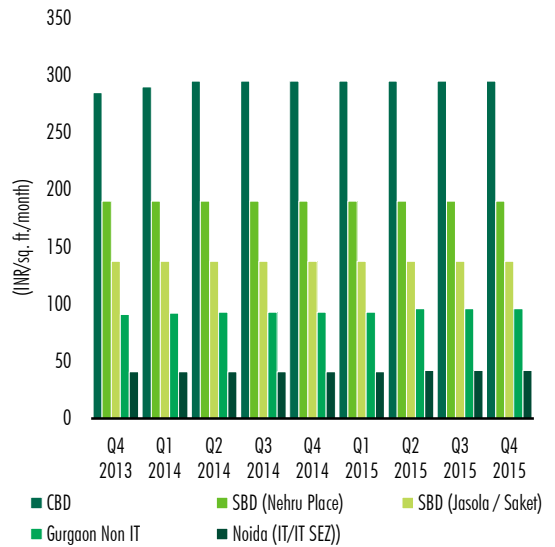
- Gurgaon led transaction activity; while Noida witnessed strong occupier demand as well
- Rental values remained largely steady across the region
- IT/ITeS, research / consulting and engineering / manufacturing were the dominant sectors driving office space take-up

The **Central Business District (CBD)** of **Connaught Place** witnessed a two-fold rise in transaction activity during the quarter. Occupiers from the banking / financial services and engineering / manufacturing sectors led office space take-up, with a clear inclination towards small-sized transactions to meet their front office requirements. Prime developments such as Red Fort Parsvnath Towers continued to garner occupier interest in the region. Rental values remained largely steady, while vacancy pressures eased marginally during the period under consideration.

The **Secondary Business District (SBD)** of **Nehru Place, Saket and Jasola** witnessed stability in office space demand with dominant occupiers belonging to the engineering / manufacturing, banking / financial services and pharmaceuticals sectors. Moreover, the lack of any new supply additions coupled with steady leasing activity led to a marginal decline in vacancy levels. The districts of Jasola and Aerocity continued to remain high on the radar of tenants seeking small to medium sized office spaces (less than 50,000 sq. ft.), propelling transaction activity. Major instances of transactions included Sika India leasing around 2,000 sq. ft. in ABW Elegance Tower at Jasola, and Seaways Shipping taking up approximately 2,000 sq. ft. at World Mark in Aerocity. Rental values remained largely stable across most micro-markets during the quarter.

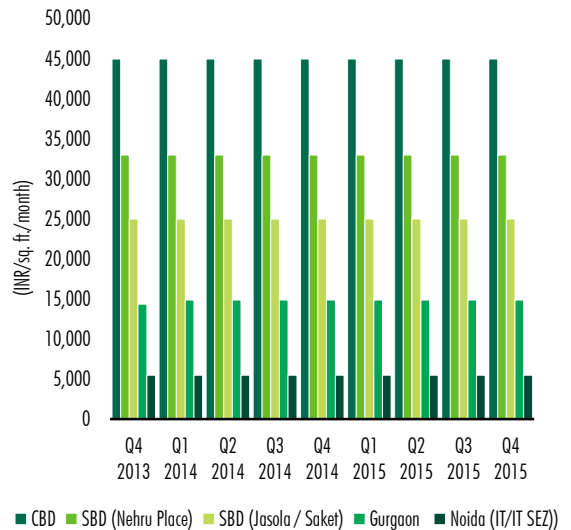
Gurgaon continued to garner strong occupier interest for medium to large sized office space formats, largely constituted by demand for space in IT and commercial (non-IT) developments.

Chart 7: Rental Value Movement



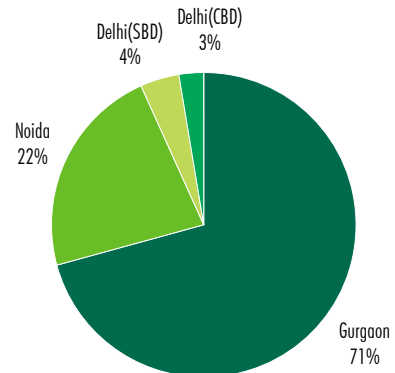
Source: CBRE Research, Q4 2015.

Chart 8: Capital Value Movement



Source: CBRE Research, Q4 2015.

Chart 9: Segmentation of Transaction Activity



Source: CBRE Research, Q4 2015.

The region continued to witness a rise in expansion/consolidation-led leasing activity, majorly dominated by occupiers from IT/ITeS, research / consulting and engineering / manufacturing sectors. Prominent instances of office transactions included Yes Bank leasing around 7,500 sq. ft. at DLF Building 8, DLF Cybercity; Sanko Shoji leasing around 2,000 sq. ft. at Centrum Plaza, Golf Course Road; and Trident leasing around 7,000 sq. ft. at Global Business Park, MG Road. Supply addition in the form of commercial (non-IT) developments on Golf Course Road and Golf Course Road Extension was noted during the quarter. Sustained occupier demand led to rental values increasing by 1-3% on a q-o-q basis in DLF Cybercity, while remaining largely stable in other micro-markets of Gurgaon during the quarter.

e-Commerce and research/ consulting sectors looking for quality office spaces at relatively lower costs. In line with the trend observed in the previous quarters, demand for space in IT developments dominated overall office space take-up with occupier inclination remaining concerted towards small to medium sized spaces (1,500–25,000 sq. ft.). Prominent instances of such transactions included ABP News leasing around 10,500 sq. ft. in Pioneer House, Sector 16; Devbha leasing around 1,000 sq. ft. at IHDP, Sector 127; and Sharp Corporation occupying approximately 7,500 sq. ft. at BITS Tower, Noida Expressway during the fourth quarter. Despite strong occupier demand, completion of a large commercial (non-IT) development resulted in a marginal uptick in vacancy levels in the micro-market. Rental values were mostly stable during the review period.

Noida experienced robust transaction activity, from IT/ITeS, banking / financial services,

Table 1: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
HT Building	Connaught Place	15,000	Hannover Re
Eros tower	Nehru Place	5,000	Nuvo ChrysCapital Advisors
Baani The Address	Golf Course Road	12,000	Mapsko Group
Sewa Corporate Park	M G Road	4,500	HollySys Automation

Source: CBRE Research, Q4 2015.

Table 2: Sub-market Key Stats

Micro-market	Average Rent in Q4 2015 (INR/sq. ft. / month)	Average Rent in Q3 2015 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Connaught Place) Grade A	295	295	0.0	0.0
CBD (Connaught Place) Grade B	160	160	0.0	0.0
Secondary Market (Nehru Place) Grade A	190	190	0.0	0.0
Secondary Market (Jasola) Grade A	115	115	0.0	0.0
Secondary Market (Saket) Grade A	160	160	0.0	0.0
Gurgaon Grade A (Non IT)	96	96	0.0	3.2
Gurgaon Grade A (IT)	75	75	0.9	10.2
NOIDA Grade A (IT/IT SEZ)	42	42	0.0	4.1

Source: CBRE Research, Q4 2015.

MARKET SUMMARY

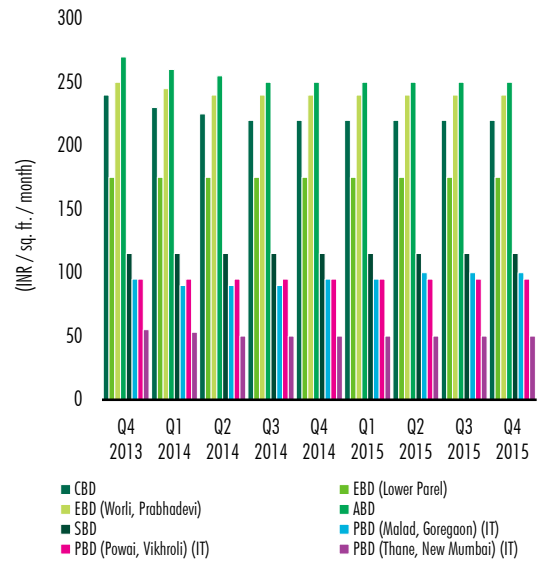
- Consolidation and expansion activity resulted in y-o-y increase in demand
- Capital values inched up across select micro-markets, driven by an increase in investment appetite
- Healthy pre-commitment activity observed across prominent under construction projects

Demand in the **Central Business District (CBD) of Nariman Point, Fort and Cuffe Parade** remained subdued over the previous quarter. Few small sized space take-ups were observed across investment-grade developments at Nariman Point. Due to subdued demand levels, rental values and vacancy rates continued to remain stable as compared to the previous quarter.

Occupier demand for front office space witnessed a decline in the **Extended Business District of Lower Parel**. Due to the limited availability of investment-grade corporate space in the micro-market, demand for large-sized front office space shifted to prominent developments in Bandra-Kurla Complex (BKC). During the fourth quarter, leasing activity remained limited with the closure of a few small to medium sized transactions, mostly from banking / financial services and research / consulting firms. In the micro-markets of **Worli and Prabhadevi**, a few small sized transactions were concluded during the quarter. Supply released consisted of a commercial (non-IT) development at Worli. Rental values remained mostly stable, while vacancy rates increased on a quarterly basis.

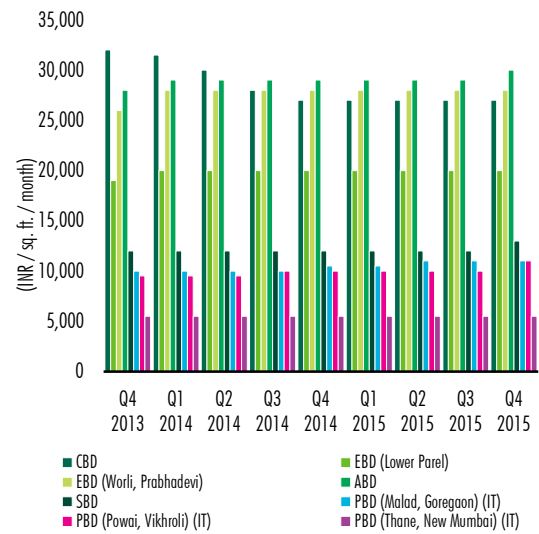
Transaction activity in the **Alternative Business District (ABD) of Bandra-Kurla Complex and Kurla (W)** declined marginally during the fourth quarter. Leasing activity mainly occurred in the form of small and medium-sized transactions in leading commercial (non-IT) developments at BKC, Kalina and Santacruz. The micro-market witnessed supply addition in the form of an IT development at Vidya Vihar. Rental values remained at the same level as the previous

Chart 10: Rental Value Movement



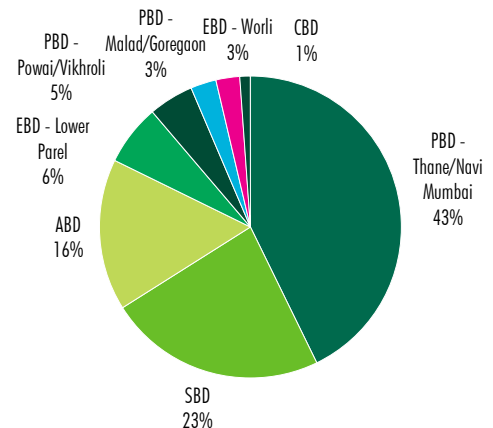
Source: CBRE Research, Q4 2015.

Chart 11: Capital Value Movement



Source: CBRE Research, Q4 2015.

Chart 12: Segmentation of Transaction Activity



Source: CBRE Research, Q4 2015.

quarter, while capital values witnessed a marginal increase due to heightened interest from end-users and investors alike.

Office leasing activity witnessed a slight decline in the **Secondary Business District (SBD) of Andheri, Vile Parle and Jogeshwari**. Leasing activity was limited to small sized space take-up by banking / finance, IT/ITeS and logistics companies. On the supply front, commercial (non-IT) space was added across three projects at Andheri (East). Due to the healthy demand-supply dynamics in the micro-market, capital values witnessed a marginal increase while

rental values continued to remain stable on a q-o-q basis.

Various mid to large sized transaction closures were observed across the peripheral micro-markets of **Thane and Navi Mumbai**. Demand for back office space was strong during the fourth quarter with IT/ITeS and pharmaceutical companies emerging as the major occupiers of office space. In the micro-markets of **Powai / Vikhroli, Malad and Goregaon**, healthy renewal activity was noted. Rental values continued to remain stable across both micro-markets.

Table 3: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
G Corp Tech Park	PBD - Thane	150,000	Quintiles
One BKC - A Wing	ABD – Bandra Kurla Complex	32,000	Amazon
The Capital	ABD – Bandra Kurla Complex	9,000	Munich Reinsurance
Birla Aurora	EBD -Worli	6,500	Spencer Stuart

Source: CBRE Research, Q4 2015.

Table 4: Sub market Key Stats

Micro-market	Average Rent in Q4 2015 (INR/sq. ft. / month)	Average Rent in Q3 2015 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Nariman Point, Fort, Cuffe Parade) Grade A	220	220	0.0	0.0
CBD (Nariman Point, Fort, Cuffe Parade) Grade B	170	170	0.0	0.0
EBD (Lower Parel) Grade A	175	175	0.0	0.0
EBD (Worli, Prabhadevi) Grade A	240	240	0.0	0.0
ABD (Bandra Kurla Complex, Kalina) Grade A	250	250	0.0	0.0
ABD (Bandra Kurla Complex, Kalina) Grade B	195	195	0.0	0.0
SBD (Andheri, Vile Parle, Jogeshwari) Grade A	115	115	0.0	0.0
SBD (Andheri, Vile Parle, Jogeshwari) Grade B	80	80	0.0	0.0
PBD (Malad, Goregaon) Grade A (IT)	100	100	0.0	5.3
PBD (Powai, Vikhroli) Grade A (IT)	95	95	0.0	0.0
PBD (Thane, New Mumbai) Grade A (IT/IT SEZ)	50	50	0.0	0.0

Source: CBRE Research, Q4 2015.

MARKET SUMMARY

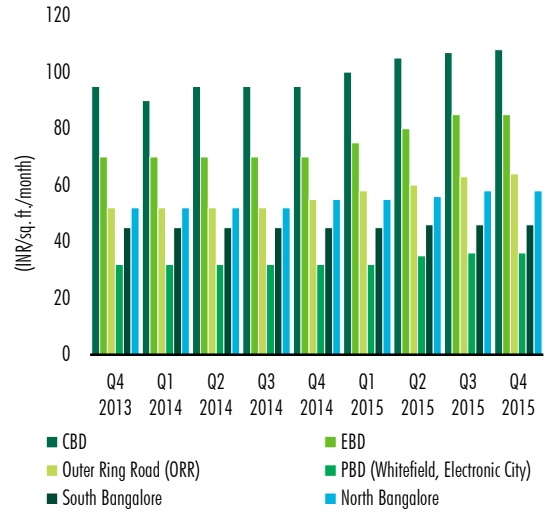
- New supply completions remained focused towards ORR and PBD during Q4 2015
- IT/ITeS enjoyed dominant share in office demand during the quarter and the year
- Sustained occupier demand and limited quality office stock led to marginal appreciation in rents across ORR and CBD

Transaction activity in the **Central Business District (CBD) of Ulsoor, Residency Road and Brunton Road** was dominated by a mix of small to medium sized transactions closed across second generation spaces during the quarter. A few large-sized office space transactions were also reported in select investment grade projects with relatively higher vacancy levels. Negligible new supply was released during the quarter and most of the transactions were realized at slightly higher rental values compared to the previous quarter. Sustained occupier demand led to a marginal rental appreciation of 1–2% q-o-q in this micro-market.

The **Extended Business District (EBD)** comprising **Indira Nagar, Koramangala, Old Madras Road and CV Raman Nagar** witnessed increased transaction activity consisting mostly of medium and large sized office transactions. Few large transactions from the IT/ITeS sector (more than 100,000 sq. ft.) were closed at CV Raman Nagar. Negligible supply addition was witnessed during the quarter. Commercial office space rents were stable across the micro-market.

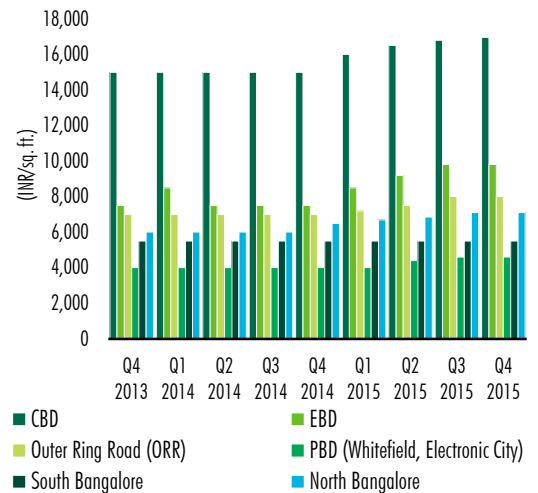
The **Peripheral Business District (PBD) of Whitefield and Electronic City** observed steady traction from corporate occupiers, leading to a surge in absorption levels during the quarter. Majority of the transactions were primarily driven by prominent IT/ITeS occupiers, and were for medium to large sized spaces. Occupier demand was driven by options for both consolidation and expansion in prominent developments across Whitefield and Electronic

Chart 13 Rental Value Movement



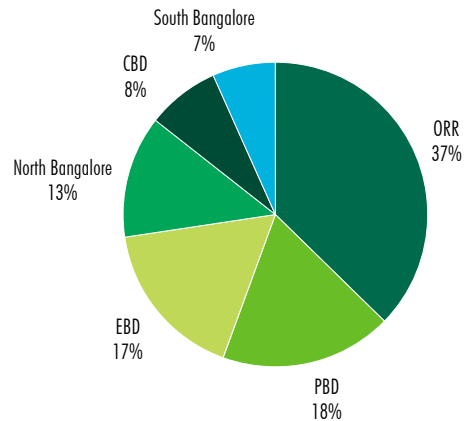
Source: CBRE Research, Q4 2015.

Chart 14: Capital Value Movement



Source: CBRE Research, Q4 2015.

Chart 15: Segmentation of Transaction Activity



Source: CBRE Research, Q4 2015.

City. On the supply front, the micro-market witnessed supply addition in the form of a commercial development during the quarter. Whitefield also observed sizeable introduction of second generation space across multiple projects. Rental values were mostly stable on a quarterly basis.

The micro-markets of South Bangalore including **Bannergatta Road, JP Nagar, Jayanagar** and **Mysore Road** witnessed increased absorption activity during the fourth quarter. Transactions were largely contributed by corporate firms looking for medium –large sized office space (above 50,000 sq. ft.). No prominent developments were completed, while rents largely remained stable over the previous review period.

The **Sarjapur–Outer Ring Road (ORR)** micro-market continued to witness significant occupier demand, particularly driven by prominent corporate firms from IT/ITeS and e-Commerce sectors, among others. Office space take-up mainly consisted of a mix of both large-sized (more than 100,000 sq. ft.) and medium sized transactions. Pre-commitment activity also remained strong, consisting of prominent corporate occupiers looking for space in projects nearing completion; mostly to address their

future consolidation and expansion requirements.

On the supply front, the ORR witnessed the completion of three prominent SEZ and commercial investment-grade projects. Sustained occupier demand and limited availability of quality space in completed developments resulted in a rental appreciation of 1–2% on a quarterly basis, across both IT and SEZ segments.

Commercial leasing activity increased marginally in **North Bangalore**, with major contribution from IT/ITeS and banking / financial services sectors. Pre-commitment activity was reported in select under construction properties across micro-market. In terms of supply, no new projects became operational during the review period. Rentals were reported to be mostly stable in comparison to the previous review period.

Table 5: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Pradhani Wilshire	ORR	226,000	Flipkart
Golden Supreme	PBD	200,000	Infosys
Divyashree Republic of Whitefield - B4	PBD	162,000	Capgemini
Bagmane Techpark	EBD	150,000	Hewlett-Packard (HP)

Source: CBRE Research, Q4 2015.

Table 6: Sub-market Key Stats

Micro-market	Average Rent in Q4 2015 (INR/sq. ft. / month)	Average Rent in Q3 2015 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (MG Road, Residency Road) Grade A	108	107	0.9	13.7
CBD (MG Road, Residency Road) Grade B	83	83	0.0	13.7
EBD (Koramangala, Indira Nagar) Grade A	85	85	0.0	16.4
Outer Ring Road Grade A	64	63	1.6	16.4
PBD (Whitefield, Electronic City) Grade A	36	36	0.0	12.5
South Bangalore Grade A	46	46	0.0	2.2
North Bangalore Grade A	58	58	0.0	5.5

Source: CBRE Research, Q4 2015.

MARKET SUMMARY

- IT Corridor constituted 92% of total absorbed space during the quarter
- Supply addition was mainly concentrated in the IT and Extended IT Corridors
- Rental values witnessed a marginal increase in the IT and Extended IT Corridors

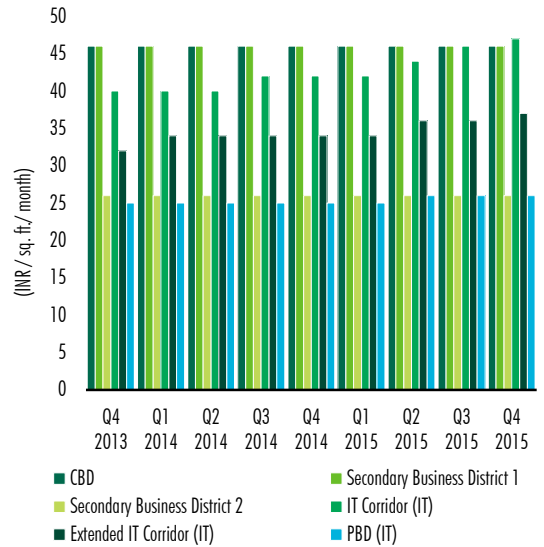
The **Central Business District (CBD)** comprising the micro-markets of **Begumpet, Punjagutta, and Somajiguda** witnessed sluggish transaction activity, with the closure of a few small scale office spaces. Corporate office space take-up was mostly driven by research / consulting and front-office requirements of occupiers during the quarter. This micro-market witnessed the completion of a small commercial (non-IT) development during the review period. Rental values during the quarter largely remained stable compared to the previous quarter.

Limited availability of quality space in the **Secondary Business District (SBD)** of **Ameerpet, Himayathnagar, parts of Banjara Hills and Jubilee Hills** led to negligible transaction activity during the review period. With no fresh supply addition, rental values and vacancy levels largely remained stagnant in this micro-market.

The **Peripheral Business District (PBD)** of **Shamshabad, Uppal and Pocharam** continued to witness interest from corporate occupiers. However, the micro-market did not observe any transaction closures during the review period. Due to negligible lease transactions, vacancy and rentals largely remained steady.

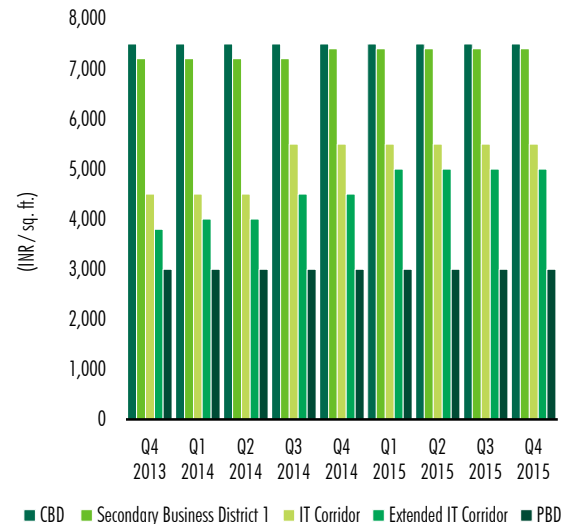
The **IT Corridor encompassing areas of Hitech City, Madhapur, Kondapur, and Raidurg** witnessed increased transaction activity and accounted for approximately 92% of overall lease transactions reported during the quarter. Majority of these transactions were closed by corporate firms from the IT/ITeS sector looking towards expansion. Limited vacancy in investment-grade developments forced

Chart 16: Rental Value Movement



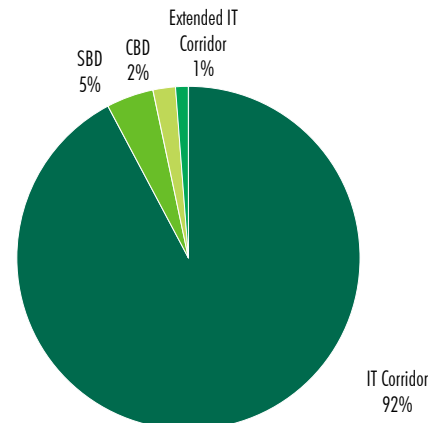
Source: CBRE Research, Q4 2015.

Chart 17: Capital Value Movement



Source: CBRE Research, Q4 2015.

Chart 18: Segmentation of Transaction Activity



Source: CBRE Research, Q4 2015.

corporates to explore space options in semi-investment developments. On the supply front, the region did not witness any fresh supply addition of investment-grade developments. However, commercial space completed during the review period in the district consisted of a few semi-investment-grade buildings. Increasing occupier demand and declining vacancy levels resulted in a rental increase of 2–5% q-o-q across various segments.

The micro-markets of **Nanakramguda**, **Manikonda** and **Kukatpally** in the **Extended IT**

Corridor witnessed sluggish transaction activity during the review period. However, the lack of investment-grade supply in the IT Corridor resulted in occupiers evaluating their relocation and expansion decisions towards the Extended IT Corridor. This region witnessed addition of fresh investment-grade supply in Kukatpally during the review period. Increased interest from corporate firms and improving market sentiments resulted in a marginal rental increment of 2–5% q-o-q in prominent IT and SEZ developments.

Table 7: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Raheja Mindspace	IT Corridor	380,000	Qualcomm
Brigade Building	Extended IT Corridor	8,000	CGC Converse
NBK Gandhi	CBD	5,000	Nektan Consulting

Source: CBRE Research, Q4 2015.

Table 8: Sub-market Key Stats

Micro-market	Average Rent in Q4 2015 (INR/sq. ft. / month)	Average Rent in Q3 2015 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Begumpet, Punjagutta, Somajiguda and parts of Banjara Hills)	46	46	0.0	0.0
Secondary Business District 1 (Parts of Banjara Hills, Jubilee Hills)	46	46	0.0	0.0
Secondary Business District 2 (Ameerpet, Himayathnagar, Kukatpally)	26	26	0.0	0.0
IT Corridor (HITEC City, Madhapur, Kondapur, Raidurg) Grade A (IT)	47	46	2.2	11.9
IT Corridor (HITEC City, Madhapur, Kondapur, Raidurg) Grade A (IT SEZ)	48	46	4.3	11.6
Extended IT Corridor (Nanakramguda,, Manikonda, Gachibowli) Grade A (IT)	37	36	2.8	8.8
Extended IT Corridor (Nanakramguda, Raidurg, Manikonda, Gachibowli) Grade A (IT SEZ)	42	40	5.0	5.0
PBD (Shamshabad, Pocharam, Uppal) Grade A (IT)	26	26	0.0	4.0
PBD (Shamshabad, Pocharam, Uppal) Grade A (IT SEZ)	29	29	0.0	3.6

Source: CBRE Research, Q4 2015.

MARKET SUMMARY

- OMR Zone I constituted 32% of total absorbed space
- Supply addition mainly led by small sized commercial (non-IT) developments
- Rental values remained largely stable compared to previous quarter

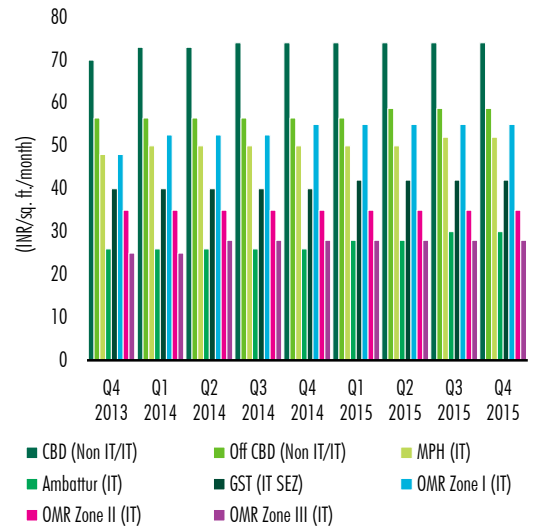
Majority of the transaction activity in the **Central Business District (CBD)** of **Anna Salai, T Nagar, RK Salai, Alwarpet** and **Nungambakkam** was confined to the take-up of smaller sized space (either second generation space or business centers). On the supply front, a commercial (non-IT) development became operational at Nungambakkam. Rental values remained largely stable during the review period.

The micro-markets of **Guindy, Vadapalani** and **MRC Nagar** witnessed steady transaction activity during the quarter. Besides a few medium sized transactions, most lease transactions were in the form of small sized transactions, and in second generation spaces. Lack of new supply infusion coupled with steady demand led to negligible vacancy levels in these micro-markets. Rental values witnessed a marginal increase in commercial (non-IT) developments and remained largely stable across the IT segment.

Mount Poonamallee High Road, consisting of a large SEZ development and few IT developments, witnessed limited transaction activity. Non-availability of fresh supply and lack of second generation space resulted in closure of small sized transactions during the quarter. Rentals in these micro-markets remained largely stable.

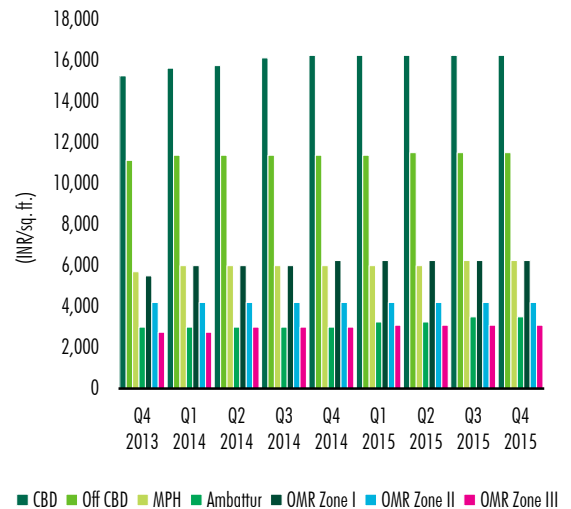
The Great Southern Trunk Road (GST Road), characterized by SEZ developments and a few IT developments primarily in the peripheral locations, witnessed a marginal increase in transaction activity over the previous quarter, led by the closure of an IT/ITeS occupier closing a large sized deal (> 100, 000 sq. ft.). With negligible fresh supply addition, however, rentals continued to maintain stability.

Chart 19: Rental Value Movement



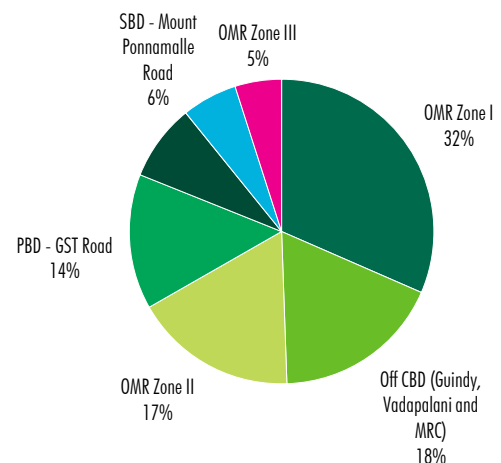
Source: CBRE Research, Q4 2015.

Chart 20: Capital Value Movement



Source: CBRE Research, Q4 2015.

Chart 21: Segmentation of Transaction Activity



Source: CBRE Research, Q4 2015.

The micro-markets of **Ambattur** and **Padi** have been witnessing significant interest from occupiers over the past year. However, leasing activity during the fourth quarter remained muted, with transactions likely to be closed in the coming quarters. Due to negligible transaction activity in the micro-market, rental values remained largely stable.

The **OMR Zone 1** stretch from **Taramani to Perungudi Toll** witnessed steady leasing activity with majority of transaction closures observed in the small to medium format office spaces. Absorption activity was primarily concentrated in IT developments, with prominent ones being SP Infocity and Tidel Park. Rental values continued to remain stable in both IT and commercial developments during the quarter.

Absorption activity in the **OMR Zone 2** encompassing areas such as **Thuraipakkam,**

Karapakkam and **Sholinganallur** was relatively lower as compared to the previous quarter. This region witnessed the closure of a large scale transaction in an SEZ development and few small sized space take-ups in prominent IT developments. With limited vacancy levels at OMR Zone I, corporate preference has been shifting towards this region in the recent past. However, high vacancy levels in this emerging micro-market led to rentals remaining largely stable.

OMR Zone 3 comprising areas such as **Navallur** and **Padur** experienced a lack of demand for office space, with sluggish transaction activity. With negligible supply addition, rental values remained stable during the fourth quarter of 2015.

Table 9: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
ASV Adarsh	CBD	18,000	Sparky Animation
AGR Platina	Guindy, Vadapalani and MRC Nagar	54,000	Poorvika Mobiles
Joyant Tech Park	Mount Poonamallee Road	25,900	Airtel
Shriram - The Gateway	GST Road	20,000	EMIS Health
SP Infocity	OMR Zone 1	62,000	Freshdesk
Chennai One	OMR Zone 2	110,000	Astra Zeneca

Source: CBRE Research, Q4 2015.

Table 10: Sub-market Key Stats

Micro-market	Average Rent in Q4 2015 (INR/sq. ft. / month)	Average Rent in Q3 2015 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Anna Salai, Nungambakkam, RK Salai, T Nagar, Egmore, Alwarpet) Grade A (Non IT/IT)	74	74	0.0	0.0
Guindy, Ekkaduthangal, Vadapalani, Santhome & MRC Nagar Grade A (NonIT/IT)	60	60	0.4	3.9
Mount Poonamallee High Road (IT SEZ)	62	62	0.0	19.2
GST Road (IT SEZ)	42	42	0.0	5.0
Ambattur, Ambattur Industrial Estate and Padi Grade A (IT)	30	30	0.0	15.4
OMR 1 - Taramani to Perungudi Toll Grade A (IT)	55	55	0.0	0.0
OMR 2 - Perungudi toll up to Sholinganallur Grade A (IT)	35	35	0.0	0.0
OMR 3 - Sholinganallur to Padur Grade A (IT)	28	28	0.0	0.0

Source: CBRE Research, Q4 2015.

MARKET SUMMARY

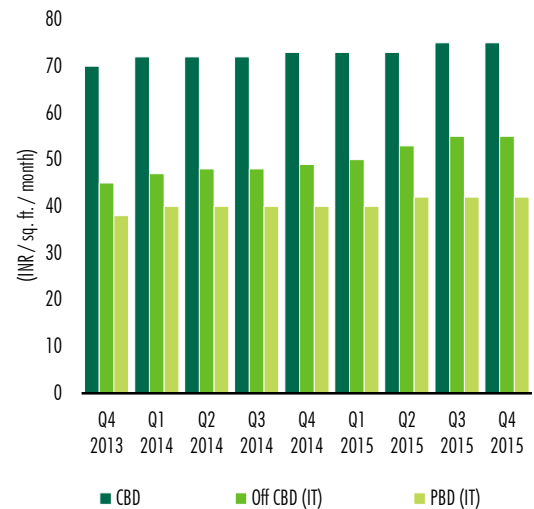
- Off-CBD micro-market constituted approximately 74% of total space take-up
- The IT/ITeS sector remained the key demand driver
- Majority of supply added across Off CBD and PBD micro-markets

The **Central Business District (CBD) of MG Road, Koregaon Park, Bund Garden, Kalyani Nagar, Dhole Patil, FC Road and JM Road** witnessed a drop in leasing activity during the fourth quarter. Few small sized transactions between 10,000–20,000 sq. ft. were concluded across investment-grade developments in the micro-market. Limited availability of IT supply in the micro-market led to rental values for IT developments increasing by 2% on a q-o-q basis, while rental values for commercial (non-IT) developments remained mostly stable. On the supply front, no new project completions were witnessed during the period.

The **Off CBD micro-market of Viman Nagar, Magarpatta, Aundh, Baner, Shanker Seth Road and Nagar Road** continued to remain the preferred micro-market for office space take-up. Leasing activity was observed mainly in the form of medium to large sized transactions across prominent IT developments. On the supply front, IT and commercial (non-IT) developments were completed at Baner, Wadgaon Sheri and Lullanagar. Due to healthy demand–supply dynamics, rental values remained stable on a q-o-q basis.

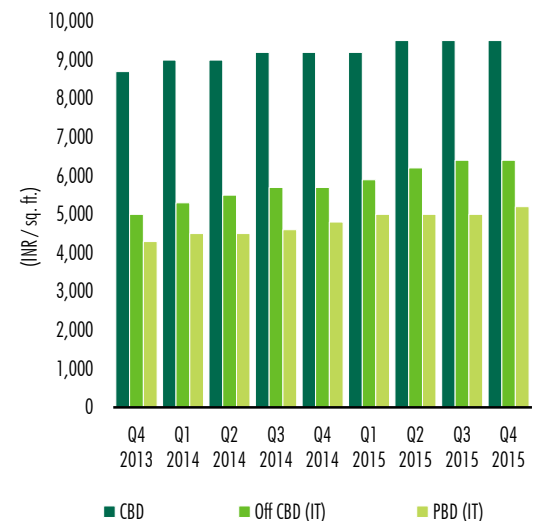
Leasing activity remained largely stable in the **Peripheral Business District (PBD) of Hinjewadi, Kharadi, Hadapsar and Talawade**. Demand was concentrated across projects such as EON SEZ, SP Infocity and Blue Ridge SEZ. On the supply front, a SEZ project at Hinjewadi and another commercial (non-IT) project at Kharadi were completed. Due to strong demand from existing / new corporate space occupiers, rental values in the IT SEZ segment increased by 2–3% q-o-q, while remaining largely stable across other segments.

Chart 22: Rental Value Movement



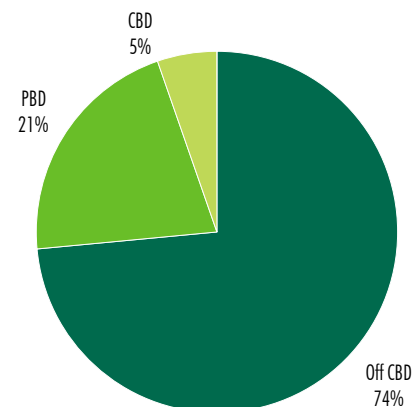
Source: CBRE Research, Q4 2015.

Chart 23: Capital Value Movement



Source: CBRE Research, Q4 2015.

Chart 24: Segmentation of Transaction Activity



Source: CBRE Research, Q4 2015.

Table 11: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Panchshil Balewadi IT Park	Off CBD	350,000	Siemens
Tech Park One	Off CBD	80,000	Concentrix
ICC Devi Gaurav	PBD	47,000	Johnson Controls

Source: CBRE Research, Q4 2015.

Table 12: Sub-market Key Stats

Micro-market	Average Rent in Q4 2015 (INR/sq. ft. / month)	Average Rent in Q3 2015 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Shivaji Nagar, Bund Garden Road, Koregaon Park, MG Road, Dhole Patil) Grade A	75	75	0.0	2.7
CBD (Shivaji Nagar, Bund Garden Road, Koregaon Park, MG Road, Dhole Patil) Grade B	58	58	0.0	0.0
Off CBD (Magarpatta, Aundh, Baner, Shankar Seth Road, Viman Nagar, Nagar Road) Grade A (Non IT)	58	58	0.0	3.6
Off CBD (Magarpatta, Aundh, Baner, Shankar Seth Road, Viman Nagar, Nagar Road) Grade A (IT)	55	55	0.0	12.2
Off CBD (Magarpatta, Aundh, Baner, Shankar Seth Road, Viman Nagar, Nagar Road) Grade A (IT SEZ)	62	62	0.0	3.3
PBD (Hinjewadi, Kharadi, Hadapsar, Talawade, Kharadi) Grade A (IT)	42	42	0.0	5.0
PBD (Hinjewadi, Kharadi, Hadapsar, Talawade, Kharadi) Grade A (IT SEZ)	46	45	2.2	9.5

Source: CBRE Research, Q4 2015.

MARKET SUMMARY

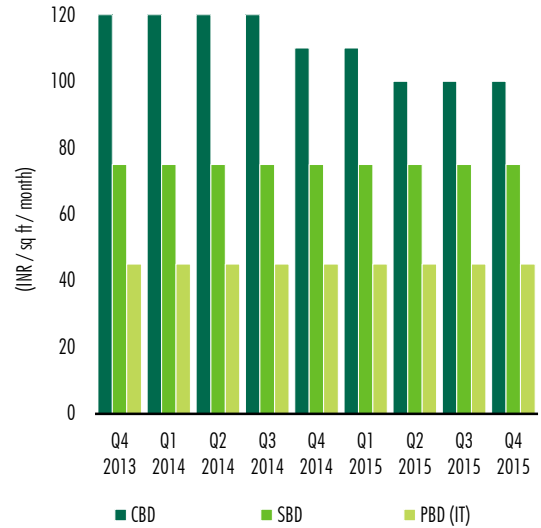
- Demand was mostly concentrated in the PBD during the quarter
- IT/ITeS remained the major contributor to overall transaction activity followed by engineering / manufacturing sectors
- Marginal change in vacancy levels was witnessed in CBD and PBD

Transaction activity in the **Central Business District (CBD) of Chowringhee, BBD Bagh, Park Street and Camac Street** declined during the quarter under review. During Q4 2015, the micro-market witnessed supply addition in the form of a commercial (non-IT) property, resulting in a marginal increase in vacancy levels. Few small sized transactions by local business groups were witnessed in select semi-investment-grade developments. The newly launched project in the micro-market is likely to witness traction in the coming months. Rental values maintained stability during the fourth quarter.

The **Secondary** micro-markets of **EM Bypass, Kasba-Gariahat, Topsia and Sarat Bose Road** witnessed occupier interest in both completed as well as upcoming developments. Due to limited availability of quality office space in the micro-market, most transactions were closed in semi-investment-grade developments. Furthermore, corporate occupiers were observed to be delaying absorption plans in order to occupy space in projects lined up for completion in the coming quarters. In terms of supply, the micro-market did not witness any new supply during the quarter, resulting in stable vacancy levels. Rental values remained largely stable in the micro-market.

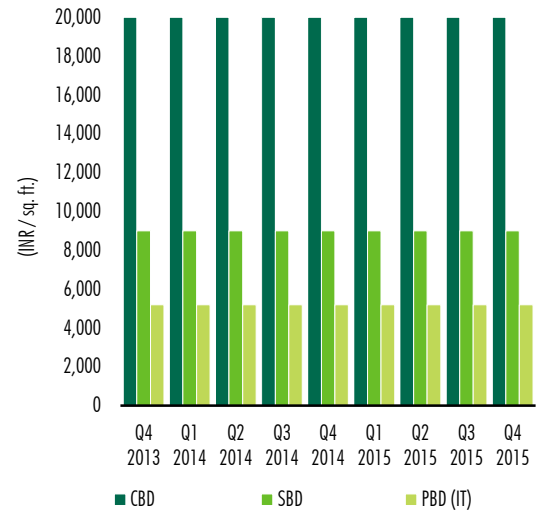
Transaction activity in the peripheral micro-markets of **Salt Lake and Rajarhat** declined during the quarter. Various projects, which were expected to be completed in the last quarter of 2015 witnessed delays, and are likely to be completed during early 2016. Vacancy levels marginally declined amid low absorption levels and negligible supply addition. Rental values remained largely stable across the micro-market.

Chart 25: Rental Value Movement



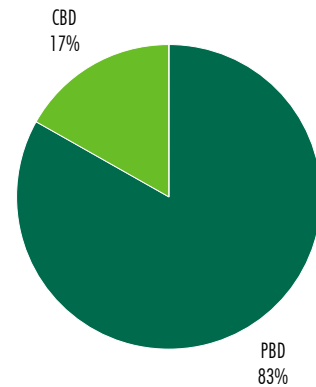
Source: CBRE Research, Q4 2015.

Chart 26: Capital Value Movement



Source: CBRE Research, Q4 2015.

Chart 27: Segmentation of Transaction Activity



Source: CBRE Research, Q4 2015.

Table 13: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Arcadia Central	CBD	10,000	Regus
Godrej Waterside	PBD	26,000	Serco
Godrej Waterside	PBD	23,800	Tractors India Pvt Ltd

Source: CBRE Research, Q4 2015.

Table 14: Sub-market Key Stats

Micro-market	Average Rent in Q4 2015 (INR/sq. ft. / month)	Average Rent in Q3 2015 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Park Street, Camac Street, Theatre Road) Grade A	100	100	0.0	-9.1
Secondary Business District Grade A	75	75	0.0	0.0
Peripheral Business District (Salt Lake, Rajarhat) (IT) Grade A	45	45	0.0	0.0
Peripheral Business District (Salt Lake, Rajarhat) (IT SEZ) Grade A	34	34	0.0	0.0

Source: CBRE Research, Q4 2015.

LEASING ACTIVITY TO REMAIN UPBEAT IN CORE / PERIPHERAL MICRO-MARKETS ACROSS LEADING CITIES

Positive market sentiments and a steady macro-economic recovery continued to support India's commercial real estate segment in 2015. The overall market sentiment remained optimistic over the year, which encouraged occupier demand in Q4 2015. Office leasing demand is expected to remain steady in the coming months, backed by new as well as expansionary activities from technology firms and financial institutions, along with culmination of pre-leased space in newly completed developments. Similar to previous review periods, occupier focus is likely to be concentrated towards prime micro-markets of leading cities. However, we will also continue to witness the inclination of occupiers for being located in supply laden peripheral districts offering cost effective investment-grade space with large floor plates. A number of occupier enquiries for medium to large sized office spaces are expected to conclude in forthcoming quarters, adding to the overall transaction activity.

Industry sectors such as the IT/ITeS and banking / financial services are likely to remain the dominant demand drivers for office space, with engineering / manufacturing, research / consulting, e-Commerce, and pharmaceuticals being the other active sectors likely to provide an impetus to demand for commercial space. Tech start-ups are also expected to contribute to leasing activity in 2016.

LIMITED QUALITY SUPPLY MIGHT INDUCE RENTAL GROWTH IN PRIME LOCATIONS

On the supply front, a significant quantum of corporate real estate space is expected to be released in the decentralized locations of leading cities over the next few quarters. Although the latter half of 2015 witnessed a strong infusion of new supply, a significant portion of the pipeline that had been lined up for completion in Q4 2015 was pushed further into 2016. Most of this supply is concentrated in peripheral locations of leading cities. It is expected that reduced availability of quality office space in established locations is likely to attract occupier interest and strong pre-commitment activity in these under construction projects in forthcoming months. Nonetheless, developers are expected to remain realistic about their construction timelines, which means that slippages might continue albeit at a slower rate than witnessed in the past.

In line with trends observed in the preceding quarters, strong occupier demand and restricted quality supply addition are expected to result in rental growth in most prime office locations in the short to medium term. However, owing to a sustained increment witnessed in 2015, it is expected that the rate of rental growth in most of these prime locations might eventually taper in the coming few months. Rental values in select peripheral and emerging micro-markets are also expected to witness a northward trend owing to higher occupancy rates in quality buildings, and the introduction of quality new supply at relatively higher rentals.

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