

India Office, Q2 2017

TRANSACTION ACTIVITY REMAINS STRONG DURING THE SECOND QUARTER

 Rents Up
21 Markets

 Rents Stable
69 Markets

 Rents Down
1 Market

 Demand (Y-O-Y)
4%

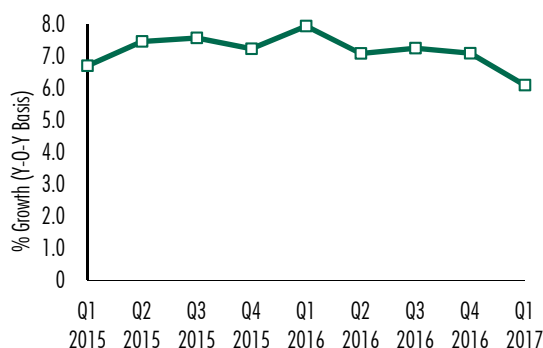
 Supply (Y-O-Y)
21%

GDP growth during the quarter ending March 2017 witnessed a dip, touching 6.1% as compared to 7% in the previous quarter. Growth was mainly driven by sectors such as trade, hotels and transport (14.8%) and manufacturing (11.3%). Real estate services (along with financial and professional services) grew by 2.3%, as compared to the construction sector, which witnessed a dip of about 4%, against a 5% growth in the previous quarter. This slowdown in growth in the construction sector can be largely attributed to the demonetization move announced in November 2016. The latest advance growth estimates by the government have forecasted a GDP growth of 7.1% for 2016-17, as compared to 8% in the previous year.

Retail inflation (measured by consumer price inflation - CPI), continued to drop, touching 2.99% in April 2017, as compared to 3.89% in March 2017. Retail inflation fell mainly due to lower growth in food prices, remaining well within the Central Bank's target of 5% for 2017. Even with inflation rates dipping, the Central Bank continued to maintain a neutral stance in its monetary policy in Q2 2017, with lending rates unchanged in its last policy review.

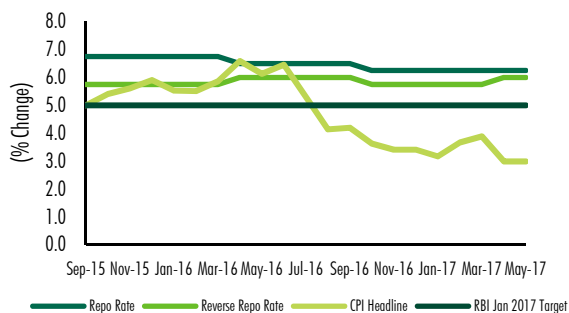
On the policy front, one of the most notable initiatives likely to impact the commercial segment is the state level implementation of the Real Estate Regulation and Development Act (RERA). As on 30th June, 2017, several states are still in the process of releasing gazetted guidelines and establishing authorities. With developers now expected to register new projects,

Chart 1: GDP Growth Rates



Source: MOPSI, Q2 2017.

Chart 2: Key Interest Rates



Source: MOPSI, RBI, Q2 2017.

the Act is likely to result in the formalization and regulation of the sector.

While the quarter remained positive from a legislative perspective, the National Association of Software and Services Companies (NASSCOM) recently cut growth projections for the IT sector for the year 2017, amidst ongoing global uncertainties. The policies of the new US government may prove to be a deterrent to emerging nations, as these measures are widely anticipated to be protectionist in nature. Any

such new regulations are likely to play a critical role in determining the growth trajectory of the IT sector, as well as the commercial real estate segment in India.

BANGALORE, HYDERABAD AND DELHI NCR LED QUARTERLY LEASING ACTIVITY, WITH A SHARE OF MORE THAN 70%

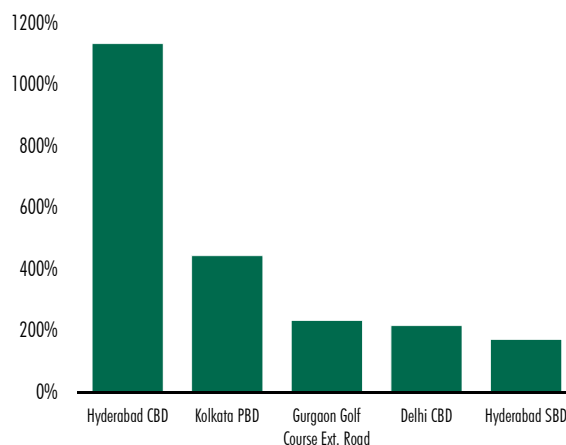
Leasing activity remained strong during the quarter, with office space take-up rising by 28% q-o-q to touch 10 million sq. ft. While Bangalore and Delhi NCR continued to remain the key drivers, Hyderabad also saw significant activity and overtook Mumbai in terms of office leasing. These top three cities, along with Kolkata, witnessed a rise in space take-up on a q-o-q basis. Apart from the usual focus on consolidation/expansion efforts, achieving flexibility as part of workplace solutions continued to be high on the radar of occupiers. Leasing activity continued to be strong, with the first half of the year marginally higher (2%) as compared to the same period last year.

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

Similar to previous quarters, the office space take-up was dominated by small and medium-sized transactions. Small-sized transactions (less than 10,000 sq. ft.) comprised of almost 44% of all the transactions reported during the quarter; with a 46% share garnered by deals ranging between 10,000 – 50,000 sq. ft. The share of large-sized deals (greater than 1,00,000 sq. ft.) dipped marginally, from 6% in the previous quarter to 5% in the present quarter.

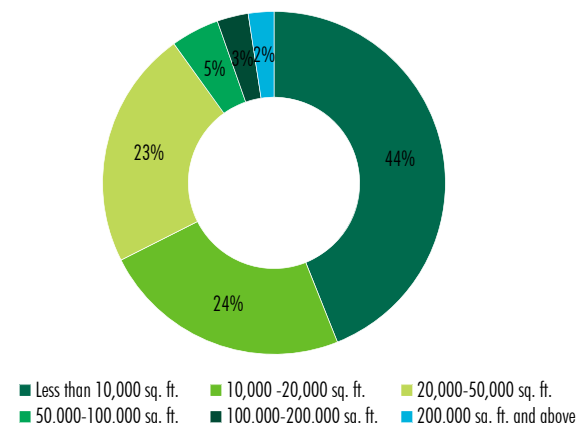
Bangalore and Hyderabad dominated the large-sized deal closures mainly from occupiers belonging to engineering and manufacturing, IT/ITeS and Banking Financial Services Insurance (BFSI) sectors. Key large-scale transactions included space take-up by leading organizations such as Qualcomm, Wells Fargo, Cognizant and Microsoft.

Chart 3: Growth in Transaction Activity in Prominent Micro-markets (Y-o-Y)



Source: CBRE Research, Q2 2017.

Chart 4: Segmentation of Transaction Activity as per Transaction Size in Q2 2017



Source: CBRE Research, Q2 2017.

IT/ITES CONTINUED TO DRIVE TRANSACTION ACTIVITY

Similar to the previous quarter, the office space take-up continued to be driven by IT/ITES corporates, with a share of about 36% in the overall space leased. The share of other sectors such as engineering and manufacturing (19%) and BFSI (20%) also remained broadly similar to the previous quarter.

RISE IN PRE-LEASING ACTIVITY

Occupiers continued to future proof their portfolios and hedge against future rental escalations by pre-leasing space across various

cities. Pre-leasing activity picked up during the quarter, mainly reported in Bangalore and Delhi NCR (Gurgaon); followed by Mumbai, Hyderabad and Chennai. These pre-commitments were driven by a mix of BFSI, engineering and manufacturing, research and consulting and IT/ITeS firms.

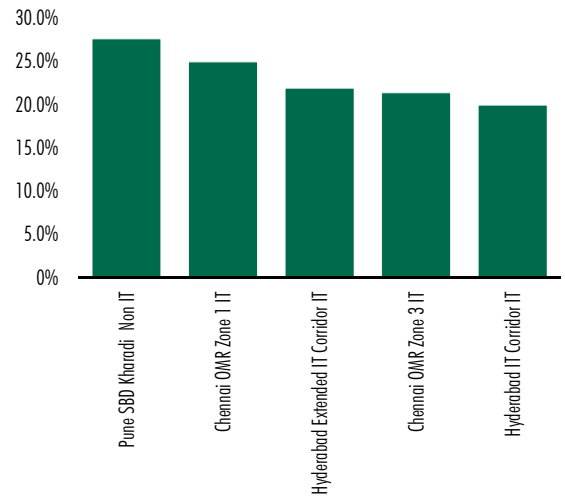
QUARTERLY SUPPLY ADDITION OF ABOUT 8.2 MILLION SQ. FT.; BANGALORE FOLLOWED BY HYDERABAD LED DEVELOPMENT COMPLETIONS

Supply addition more than doubled on a q-o-q basis during Q2 2017, with about 8.2 million sq. ft. of development completions reported during the quarter. Bangalore and Hyderabad accounted for more than 60% of the supply addition; followed by Pune and Mumbai. Regulatory delays in cities such as Delhi NCR and Chennai resulted in supply slippages in mostly the peripheral locations of these cities. Similar to the previous quarter, negligible supply addition was recorded in Kolkata and Kochi. Supply slippages continued, with development completions marginally falling during the first half of the year, dipping by about 21% as compared to the same period last year.

SUSTAINED RENTAL MOMENTUM WITNESSED ACROSS BANGALORE, HYDERABAD AND PUNE

Sustained occupier interest resulted in rental values rising by about 2 – 8% q-o-q across most micro-markets in the cities of Bangalore, Hyderabad and Pune. Rental values remained broadly stable in the cities of Mumbai, Chennai, Kolkata and Kochi, with rental growth restricted to the core locations in Delhi NCR during the quarter.

Chart 5: Strongest Office Rental Growth, Q2 2016 vs Q2 2017



Source: CBRE Research, Q2 2017.

MARKET SUMMARY

- Gurgaon dominated leasing activity, absorption grew on a q-o-q basis in Noida and Delhi
- Rental growth witnessed in Golf Course Road and Noida Expressway (SEZ)

NEW COMPLETIONS

The region witnessed increased supply addition in the form of two small-sized IT developments on Noida Expressway, a medium sized non-IT development on Southern Peripheral Road, Gurgaon and a medium-sized IT development on NH-8.

SPACE TAKE-UP

Sustained occupier interest resulted in Golf Course Road, DLF Cybercity and NH-8 contributing almost half of the leasing activity in the region. Due to the dominance of these core micro-markets, majority of the deals were closed in secondary spaces. Additionally, IT and SEZ space continued to be preferred by occupiers, dominating leasing activity during the quarter.

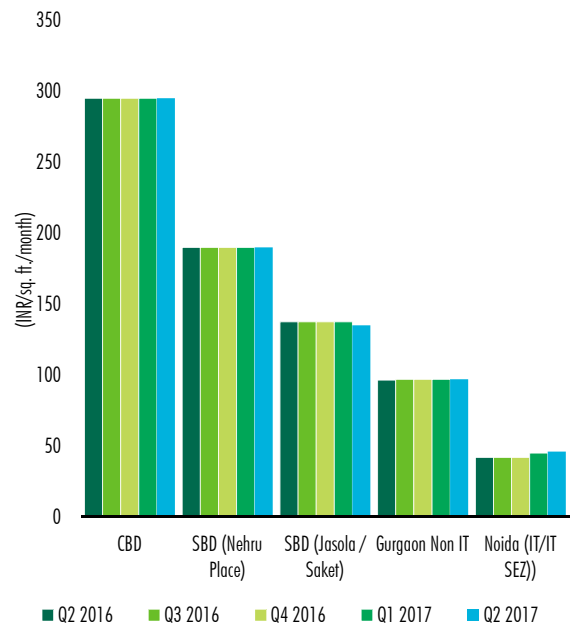
OCCUPIER TRENDS

Engineering and manufacturing corporates dominated the leasing activity with a share of about 25%, followed by IT/ITeS and e-commerce firms. Leasing activity continued to be driven by small to medium-sized transactions, however, the quarter also witnessed a couple of large-sized deals (greater than 1,00,000 sq. ft.) in prime developments in Gurgaon and Noida. Additionally, co-working operators also continued to expand in the region, actively leasing small to medium-sized spaces in both Gurgaon and Noida.

PRICING TRENDS

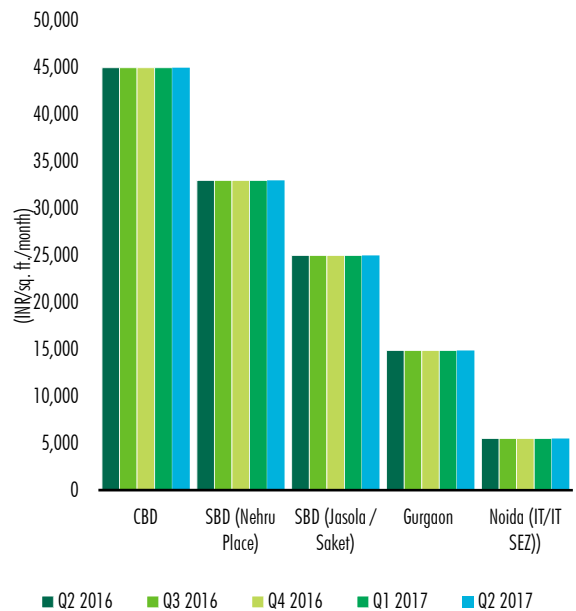
Rental growth of about 3 – 6 % q-o-q was witnessed on Golf Course Road and Noida Expressway (SEZ), driven primarily by sustained

Chart 6: Rental Value Movement



Source: CBRE Research, Q2 2017.

Chart 7: Capital Value Movement



Source: CBRE Research, Q2 2017.

occupier interest in select quality developments. Rising vacancy levels in select developments resulted in a marginal rental dip of about 3-5% q-o-q in SBD-Jasola, Delhi.

Micro-market	Key Highlights	Demand Q-o-q	Supply Q-o-q	Rent Q-o-q
CBD	Small and medium-sized transactions were noted with stability in rental growth	▲	▶	▶
Gurgaon	Leasing activity remained broadly steady, occupier focus continued to be on core micro-markets	▶	▲	▶
Noida	Leasing activity mainly in primary spaces of quality developments completed in the recent quarters	▲	▲	▶

Table 1: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
World Trade Tower	Main Noida	25,000	JC Penny
Worldmark 3	Aerocity	17,000	Accenture
One Horizon Centre	Golf Course Road	11,000	Country Garden

Source: CBRE Research, Q2 2017.

Table 2: Sub-market Key Stats

Micro-market	Average Rent in Q2 2017 (INR/sq. ft. / month)	Average Rent in Q1 2017 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Connaught Place) Grade A	295	295	0.0	0.0
CBD (Connaught Place) Grade B	160	160	0.0	0.0
Secondary Market (Nehru Place) Grade A	190	190	0.0	0.0
Secondary Market (Jasola) Grade A	110	115	-4.3	-4.3
Secondary Market (Saket) Grade A	160	160	0.0	0.0
Gurgaon Grade A (Non IT)	97	97	0.0	1.3
Gurgaon Grade A (IT)	80	80	0.0	4.3
NOIDA Grade A (IT/IT SEZ)	46	45	2.2	9.5

Source: CBRE Research, Q2 2017.

MARKET SUMMARY

- Leasing activity declined marginally on a q-o-q basis
- New supply added in PBD- Thane/Navi Mumbai and SBD - Andheri E
- Rental values remained stable

NEW COMPLETIONS

Supply addition marginally rose on a quarterly basis. New project completions were in the form of two medium to large-sized IT developments in Turbhe, Navi Mumbai and two small to medium-sized non-IT developments in Belapur, Navi Mumbai and Andheri East, SBD.

SPACE TAKE-UP

Office space take-up was driven by both front and back-office requirements. While primary leasing was mainly concentrated in ABD and PBD Thane/Navi Mumbai, secondary leasing mainly occurred in the PBD micro-markets of Malad/Goregaon and Powai, Vikhroli and Kanjurmarg.

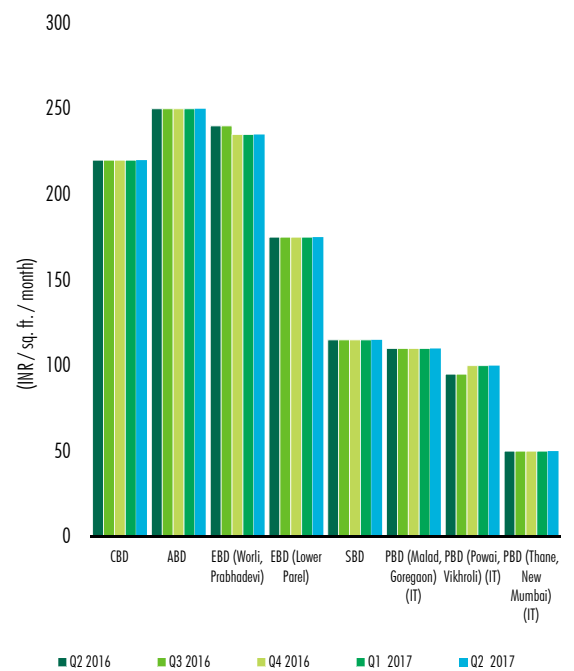
OCCUPIER TRENDS

Occupiers from the BFSI sector were the biggest driver of space take-up, followed by infrastructure, real estate and logistics companies. Space take-up from these companies were observed for a combination of their front and back-office operations.

PRICING TRENDS

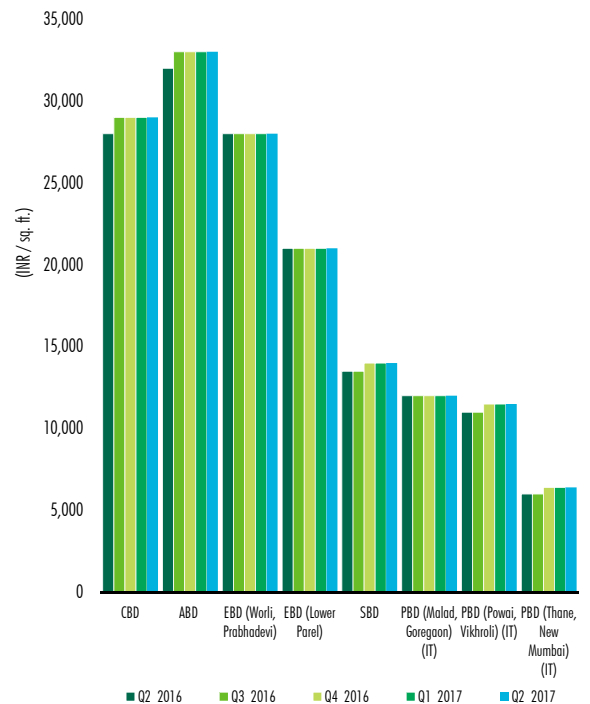
Rental values were stable across all segments in all micro-markets of the city.

Chart 8: Rental Value Movement



Source: CBRE Research, Q2 2017.

Chart 9: Capital Value Movement



Source: CBRE Research, Q2 2017.

Micro-market	Key Highlights	Demand q-o-q	Supply q-o-q	Rent q-o-q
ABD	Leasing activity declined on a quarterly basis; mainly driven by BFSI and infrastructure, real estate and logistics firms taking up small to medium-sized spaces	▼	▼	▶
PBD - Powai, Vikhroli	Various small to medium-sized deals by BFSI and pharmaceutical firms led to a rise in quarterly leasing activity	▲	▼	▶
PBD - Thane / Navi Mumbai	Leasing activity declined on a quarterly basis; mainly small-sized deals closed in this micro-market during the quarter	▼	▲	▶

Table 3: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Godrej IT Park, Block A	PBD - Powai, Vikhroli and Kanjurmarg.	50,000	Apotex Research
Jolly Board Tower (Wing D)	PBD - Powai, Vikhroli and Kanjurmarg.	30,000	ShareKhan
One BKC - A Wing	ABD	25,900	JLL
The Ruby - Phase I	EBD - Worli/Prabhadevi	23,100	Ernst & Young

Table 4: Sub market Key Stats

Micro-market	Average Rent in Q2 2017 (INR/sq. ft. / month)	Average Rent in Q1 2017 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Nariman Point, Fort, Cuffe Parade) Grade A	220	220	0.0	0.0
CBD (Nariman Point, Fort, Cuffe Parade) Grade B	170	170	0.0	0.0
EBD (Lower Parel) Grade A	175	175	0.0	0.0
EBD (Worli, Prabhadevi) Grade A	235	235	0.0	-2.1
ABD (Bandra Kurla Complex, Kalina) Grade A	250	250	0.0	0.0
ABD (Bandra Kurla Complex, Kalina) Grade B	195	195	0.0	0.0
SBD (Andheri, Vile Parle, Jogeshwari) Grade A	115	115	0.0	0.0
SBD (Andheri, Vile Parle, Jogeshwari) Grade B	80	80	0.0	0.0
PBD (Malad, Goregaon) Grade A (IT)	110	110	0.0	0.0
PBD (Powai, Vikhroli) Grade A (IT)	100	100	0.0	5.3
PBD (Thane, New Mumbai) Grade A (IT/IT SEZ)	50	50	0.0	10.0

Source: CBRE Research, Q2 2017.

MARKET SUMMARY

- Leasing activity grew on a quarterly basis
- Supply completions witnessed across several micro-markets

NEW COMPLETIONS

Supply completions rose on a quarterly basis and consisted of one large-sized SEZ and several medium to large-sized non-SEZ developments. While the SEZ was on Outer Ring Road, the latter were spread across several locations including Palace Road, CBD; Old Madras Road, EBD; Outer Ring Road; Whitefield and Electronic City.

SPACE TAKE-UP

Office space take-up remained largely concentrated in non-SEZ developments; with more than half of leasing activity witnessed in Sarjapur-Outer Ring Road (ORR), followed by PBD and EBD. Primary leasing dominated transaction activity, driven by the culmination of several large-sized pre-commitments in newly completed developments.

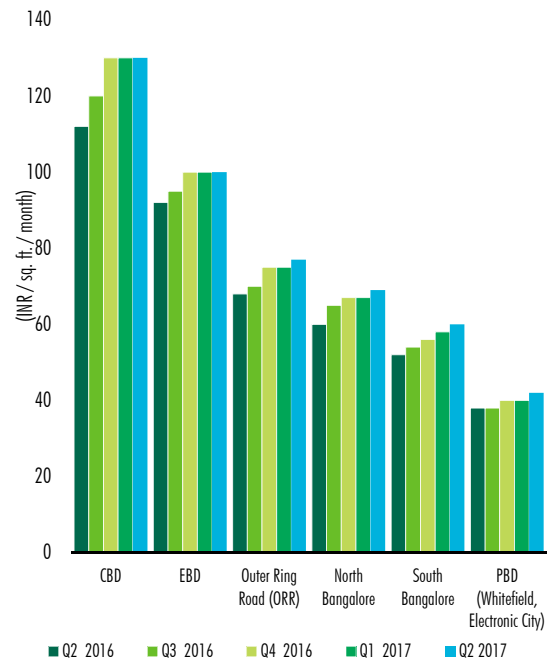
OCCUPIER TRENDS

Office space demand was mainly driven by IT/ITeS, BFSI and engineering and manufacturing firms which took up several large-sized spaces (greater than 1,00,000 sq. ft.). Prominent instances of large-sized deals included space take-ups by an American BFSI firm in ORR, a German research and consulting firm in Electronic City and a domestic IT firm in Whitefield.

PRICING TRENDS

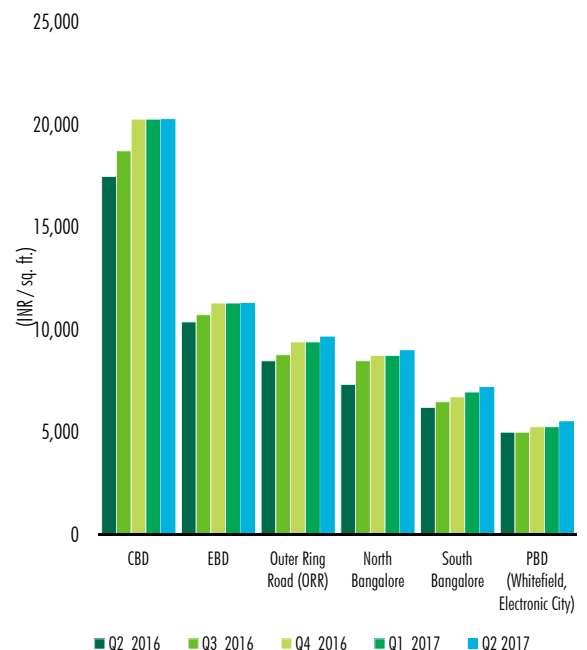
Limited space availability coupled with sustained occupier interest resulted in rental values rising by about 2 – 6% q-o-q across ORR, PBD, SBD and NBD (North Bangalore).

Chart 10: Rental Value Movement



Source: CBRE Research, Q2 2017.

Chart 11: Capital Value Movement



Source: CBRE Research, Q2 2017.

Micro-market	Key Highlights	Demand Q-o-q	Supply Q-o-q	Rent Q-o-q
ORR	Sustained occupier interest coupled with low vacancy levels resulted in an increase in rentals by about 2-3% q-o-q	▲	▲	▲
PBD	Leasing activity rose on a quarterly basis; rentals in the non-SEZ segment grew by 4-6% q-o-q	▲	▲	▲
NBD	Sustained occupier demand for large-sized spaces resulted in a rental growth of about 2-4% q-o-q	▼	▶	▲

Table 5: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Salarpuria Hallmark	ORR	192,000	Sandisk
Salarpuria Nova	EBD	162,000	Analog Devices Inc
RGA Tech Park	PBD	150,000	DXC Technologies
Prestige Trade Towers	CBD	140,000	Deloitte

Source: CBRE Research, Q2 2017.

Table 6: Sub-market Key Stats

Micro-market	Average Rent in Q2 2017 (INR/sq. ft. / month)	Average Rent in Q1 2017 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (MG Road, Residency Road) Grade A	130	130	0.0	16.1
CBD (MG Road, Residency Road) Grade B	87	87	0.0	2.4
EBD (Koramangala, Indira Nagar) Grade A	100	100	0.0	8.7
EBD Koramangala, Indira Nagar) Grade B	80	80	0.0	6.7
Outer Ring Road Grade A	77	75	2.7	13.2
PBD (Whitefield, Electronic City) Grade A	42	40	5.0	10.5
South Bangalore Grade A	60	58	3.4	15.4
North Bangalore Grade A	69	67	3.0	15.0

Source: CBRE Research, Q2 2017.

MARKET SUMMARY

- Leasing activity rose on a q-o-q basis, majorly concentrated in IT Corridor
- Supply addition witnessed in CBD and IT Corridor
- Rental values continued to grow in IT and Extended IT Corridor

NEW COMPLETIONS

The city witnessed supply addition in the form of a large-sized IT development in Raidurg, IT Corridor and a medium-sized non-IT development in Erramanzil, CBD.

SPACE TAKE-UP

Leasing activity mainly consisted of culmination of pre-leased spaces in a recently completed IT development along with the closure of several large-sized deals in IT Corridor. More than two thirds of the leasing activity was thus, witnessed in IT developments (mainly in the IT Corridor). Deals in non-IT/SEZ space were also observed in micro-markets of CBD, SBD and PBD.

OCCUPIER TRENDS

Similar to the previous quarter, IT/ ITeS corporates dominated the leasing activity with a share of about 40%, followed by BFSI and research, consulting and analytics corporates. While leasing by IT/ ITeS and BFSI firms was primarily in medium to large-sized space formats; research, consulting and analytics deals were mostly in the form of medium-sized deals.

PRICING TRENDS

Sustained occupier demand in the IT Corridor, coupled with limited space availability, resulted in a rental appreciation of about 3-5% q-o-q across both IT and non-IT segments.

Low vacancies in IT Corridor coupled with sustained occupier interest led to rental appreciation in the Extended IT Corridor, with

Chart 12: Rental Value Movement



Source: CBRE Research, Q2 2017.

Chart 13: Capital Value Movement



Source: CBRE Research, Q2 2017.

the IT and non-IT segments recording a rental appreciation of 4 – 5% q-o-q.

Micro-market	Key Highlights	Demand Q-o-q	Supply Q-o-q	Rent Q-o-q
CBD (Begumpet/Rajbhavan Road, Banjara Hills (Road No. 1,2,10,12))	Increase in quarterly leasing activity led to rentals rising by about 1-3% on a y-o-y basis	▲	▲	▶
IT Corridor (HITEC City, Madhapur, Kondapur, Gachibowli)	Sustained occupier demand resulted in a rental appreciation of 3-5% q-o-q and 20-25% y-o-y	▲	▼	▲
Extended IT Corridor (Nanakramguda, Raidurg, Manikonda, Kukatpally)	Space take up witnessed a decline, however, low vacancies in IT Corridor resulted in rental values rising by 4-5% q-o-q and 20 – 25% y-o-y in this micro-market	▼	▼	▲

Table 7: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Salarpuria Knowledge City Phase II	IT Corridor	100,000	Mathworks
Waverock 2.2	Extended IT Corridor	84,000	GAP International
L&T Building	CBD	50,000	Amity Global Business School

Source: CBRE Research, Q2 2017.

Table 8: Sub-market Key Stats

Micro-market	Average Rent in Q2 2017 (INR/sq. ft. / month)	Average Rent in Q1 2017 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Begumpet, Punjagutta, Somajiguda and parts of Banjara Hills)	48	48	0.0	2.1
Secondary Business District 1 (Parts of Banjara Hills, Jubilee Hills)	46	46	0.0	0.0
Secondary Business District 2 (Ameerpet, Himayathnagar, Kukatpally)	30	30	0.0	15.4
IT Corridor (HITEC City, Madhapur, Kondapur, Raidurg) Grade A (IT)	60	58	3.4	20.0
IT Corridor (HITEC City, Madhapur, Kondapur, Raidurg) Grade A (SEZ)	60	60	0.0	20.0
Extended IT Corridor (Nanakramguda,, Manikonda, Gachibowli) Grade A (IT)	50	48	4.2	22.0
PBD (Shamshabad, Pocharam, Uppal) Grade A (IT)	28	26	7.7	7.7

Source: CBRE Research, Q2 2017.

MARKET SUMMARY

- Leasing activity remained broadly stable on a q-o-q basis; mainly concentrated in OMR zones and CBD
- Upcoming supply witnessed sizeable pre-commitments; rentals remained stable

NEW COMPLETIONS

Supply addition rose marginally in the city on a q-o-q basis, with the completion of a small-sized non-IT development in CBD.

SPACE TAKE-UP

Small to medium-sized deals continued to dominate leasing activity, mainly driven by corporates looking to consolidate/ relocate operations.

With limited new supply addition, half of the deals were closed in secondary spaces.

OCCUPIER TRENDS

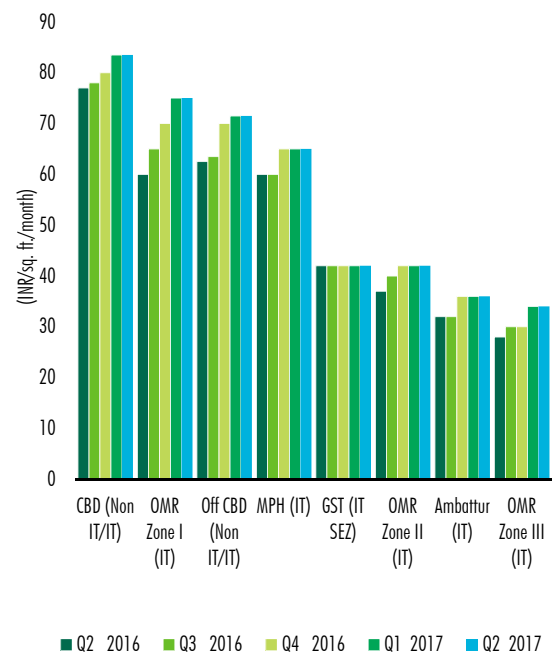
IT/ITeS corporates continued to lead demand, constituting more than half of leasing activity; followed by BFSI and e-commerce firms.

The quarter also witnessed a couple of medium-sized deals (between 40,000 – 60,000 sq. ft.) by leading e-commerce companies in IT developments in OMR Zone I. Bulk of the demand was concentrated in IT developments, owing to limited availability of space in SEZ developments.

PRICING TRENDS

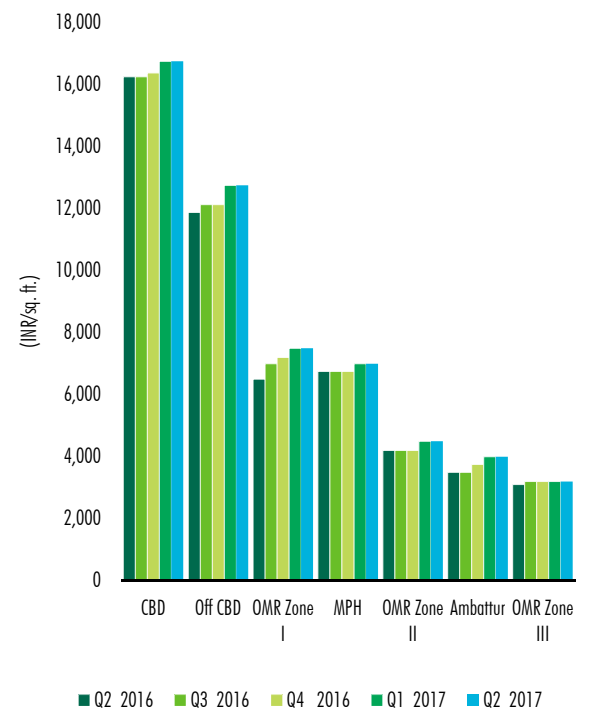
Rental values largely remained stable across micro markets during the review period.

Chart 14: Rental Value Movement



Source: CBRE Research, Q2 2017.

Chart 15: Capital Value Movement



Source: CBRE Research, Q2 2017.

Micro-market	Key Highlights	Demand q-o-q	Supply q-o-q	Rent q-o-q
OMR Zone II	Sustained occupier interest resulted in an increase in leasing activity by 50% on a q-o-q basis	▲	▶	▶
OMR Zone I	Low vacancy levels led to a decline in quarterly leasing activity. Nevertheless, sustained occupier interest resulted in an increase in rents across all segments on a y-o-y basis	▲	▶	▶
Off CBD	Occupier demand remained strong on a quarterly basis, with rents increasing by about 15-16% y-o-y	▲	▶	▶

Table 9: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Krishna Nelson Tower	CBD	55,000	HDFC
One Indiabulls Park	Ambattur	49,000	Kone Elevator
Ramanujan IT SEZ	OMR Zone I	35,000	Viasat
Pacifica Tech Park	OMR Zone III	34,000	Nokia

Source: CBRE Research, Q2 2017.

Table 10: Sub-market Key Stats

Micro-market	Average Rent in Q2 2017 (INR/sq. ft. / month)	Average Rent in Q1 2017 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Anna Salai, Nungambakkam, RK Salai, T Nagar, Egmore, Alwarpet) Grade A (Non IT/IT)	84	84	0.0	8.4
Guindy, Ekkaduthangal, Vadapalani, Santhome & MRC Nagar Grade A (NonIT/IT)	72	72	0.0	14.4
Mount Poonamallee High Road (IT SEZ)	65	65	0.0	8.3
GST Road (SEZ)	42	42	0.0	12.5
Ambattur, Ambattur Industrial Estate and Padi Grade A (IT)	36	36	0.0	0.0
OMR 1 - Taramani to Perungudi Toll Grade A (IT)	75	75	0.0	25.0
OMR 2 - Perungudi toll up to Sholinganallur Grade A (IT)	42	42	0.0	13.5
OMR 3 - Sholinganallur to Padur Grade A (IT)	34	34	0.0	21.4

Source: CBRE Research, Q2 2017.

MARKET SUMMARY

- Leasing activity declined on a quarterly basis; concentrated in CBD and SBD
- Quarterly supply addition increased; witnessed in SBD and PBD
- Sustained enquiry levels led to rental values increasing across most micro-markets

NEW COMPLETIONS

The city witnessed fresh supply addition in both SBD and PBD - in the form of one medium-sized SEZ in Phursungi, a small-sized non-IT development in Pimpri – Chinchwad in PBD and three small to medium-sized non-IT developments in Kharadi, Baner Road and Mahalunge in SBD.

SPACE TAKE-UP

Leasing activity was mainly concentrated in locations of SBD, followed by developments in CBD. Occupier preference towards locating in new developments continued with primary leasing dominating transaction activity during the quarter.

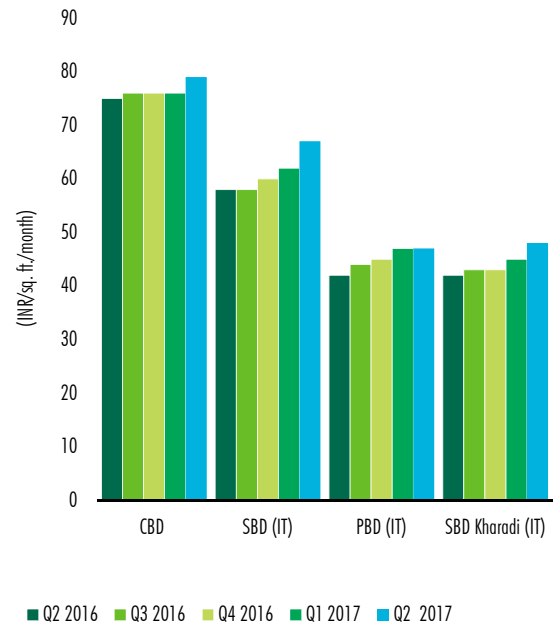
OCCUPIER TRENDS

Occupiers from the IT/ITeS sector led quarterly leasing activity, followed by engineering and manufacturing firms. While demand from IT/ITeS companies was spread across the city, engineering and manufacturing occupiers leased spaces in CBD and SBD micro-markets only.

PRICING TRENDS

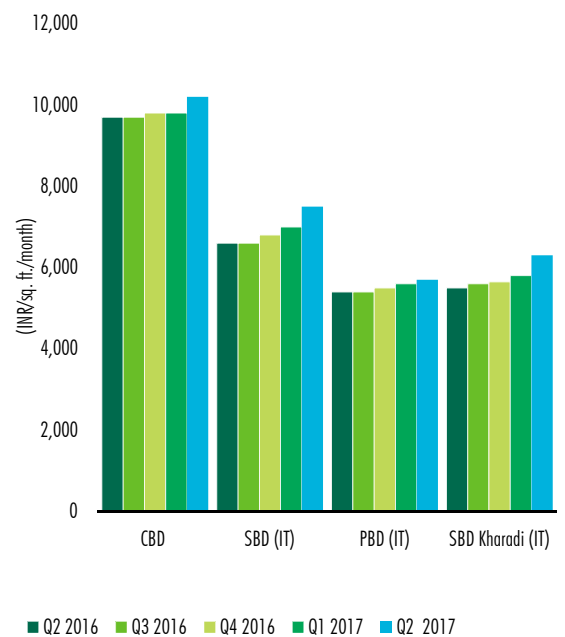
Sustained occupier demand in SBD micro-markets resulted in a rental appreciation of about 4-8% q-o-q across all segments. A similar trend was witnessed in CBD, with limited availability of space leading to rental values rising by 4-8% q-o-q.

Chart 16: Rental Value Movement



Source: CBRE Research, Q2 2017.

Chart 17: Capital Value Movement



Source: CBRE Research, Q2 2017.

Micro-market	Key Highlights	Demand q-o-q	Supply q-o-q	Rent q-o-q
CBD	Leasing activity declined on a quarterly basis, however, sustained occupier interest resulted in rental values rising by 4-8% q-o-q	▼	▼	▶
SBD	Leasing activity declined on a quarterly basis, mainly driven by engineering and manufacturing firms taking up small to medium-sized spaces	▼	▲	▲
PBD	Leasing activity declined on a quarterly basis, mainly driven by IT/ITeS firms taking up small to medium-sized spaces	▼	▲	▶

Table 11: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Blueridge	PBD	50,000	Microland
Bajaj Brandview	CBD	13,000	Imagination Technologies
ICC Trade Tower	CBD	11,000	TMF Group
Bhalerao IT Park	CBD	10,000	Medaline Industries

Source: CBRE Research, Q2 2017.

Table 12: Sub-market Key Stats

Micro-market	Average Rent in Q2 2017 (INR/sq. ft. / month)	Average Rent in Q1 2017 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Koregaon Park, Kalyani Nagar, Camp, Wakdewadi, Shivajinagar, Yerwada) Grade A	79	76	4.0	5.0
SBD (Aundh, Baner (till Sadanand), Pashan, Karve Nagar, Kothrud, Balewadi, Pune B'lore Highway (till SUS Road), Viman Nagar, Nagar Road (from Agakhan Junction), Mundhwa, Magarpatta City, Hadapsar (till Mundwa Bridge) Wanowrie.) (IT)	67	62	8.0	16.0
PBD (Talawade, Pimpri- Chinchwad, Wakad, Hinjewadi, Bavdhan, Pashan, Narhe, Undri, Phursungi, Wagholi, Charoli) (IT)	47	47	0.0	12.0

Source: CBRE Research, Q2 2017.

MARKET SUMMARY

- Leasing activity rose on a quarterly basis
- Negligible supply addition, rental stability observed

NEW COMPLETIONS

The city witnessed negligible supply addition during the quarter.

SPACE TAKE-UP

Large-sized deals (greater than 1,00,000 sq. ft.) in a prominent SEZ in Rajarhat resulted in the SEZ segment dominating leasing activity during the present quarter.

Prominent instances of deals included a co-working operator leasing small-sized spaces (between 10,000 – 20,000 sq. ft.) in developments in CBD and PBD.

OCCUPIER TRENDS

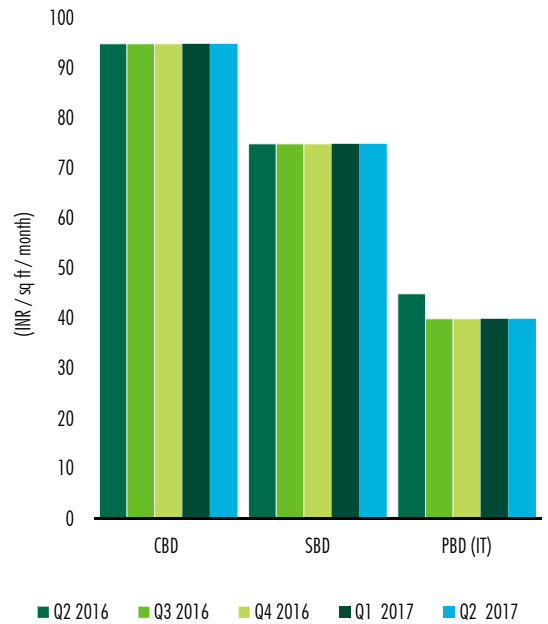
IT/ITeS dominated overall leasing activity, followed by engineering and manufacturing firms.

The peripheral micro-markets continued to attract occupier interest, owing to significant availability of investment-grade office space at competitive rentals.

PRICING TRENDS

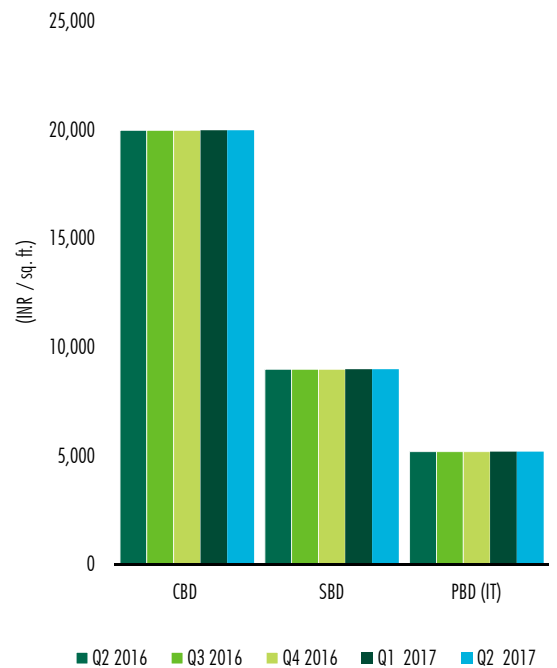
Rental values maintained stability during the quarter across micro markets.

Chart 18: Rental Value Movement



Source: CBRE Research, Q2 2017.

Chart 19: Capital Value Movement



Source: CBRE Research, Q2 2017.

Micro-market	Key Highlights	Demand Q-o-q	Supply Q-o-q	Rent Q-o-q
CBD	Leasing activity rose marginally during the quarter, mainly led by a small to medium-sized space take-up by a co-working operator	▲	▶	▶
PBD	Transaction activity rose on a quarterly basis; mainly driven by large-sized space take-up by a leading American IT firm in a prominent SEZ	▲	▶	▶

Table 13: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Candor	PBD	364,000	Cognizant
Globsyn Crystal	PBD	22,000	Awfis
Shrimanjari Building	CBD	15,000	Awfis

Source: CBRE Research, Q2 2017.

Table 14: Sub-market Key Stats

Micro-market	Average Rent in Q2 2017 (INR/sq. ft. / month)	Average Rent in Q1 2017 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD (Park Street, Camac Street, Theatre Road) Grade A	95	95	0.0	0.0
Secondary Business District Grade A	75	75	0.0	0.0
Peripheral Business District (Salt Lake, Rajarhat) (IT) Grade A	40	40	0.0	-11.0
Peripheral Business District (Salt Lake, Rajarhat) (SEZ) Grade A	38	38	0.0	0.0

Source: CBRE Research, Q2 2017.

MARKET SUMMARY

- Leasing activity declined on a quarterly basis; mainly concentrated in SBD
- Rental values remained stable

NEW COMPLETIONS

The city witnessed negligible supply addition during the quarter.

SPACE TAKE-UP

The non-SEZ segment dominated leasing activity, mainly consisting of small-sized deals. Majority of the deals were reported in Kakkanad in SBD, followed by a few deals witnessed in a development on MG Road in CBD.

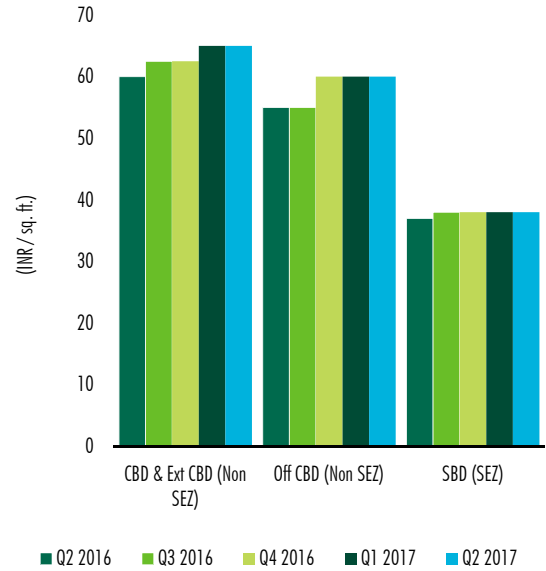
OCCUPIER TRENDS

Transaction activity in the city was mainly driven by the IT/ ITeS sector, followed by engineering and manufacturing corporates.

PRICING TRENDS

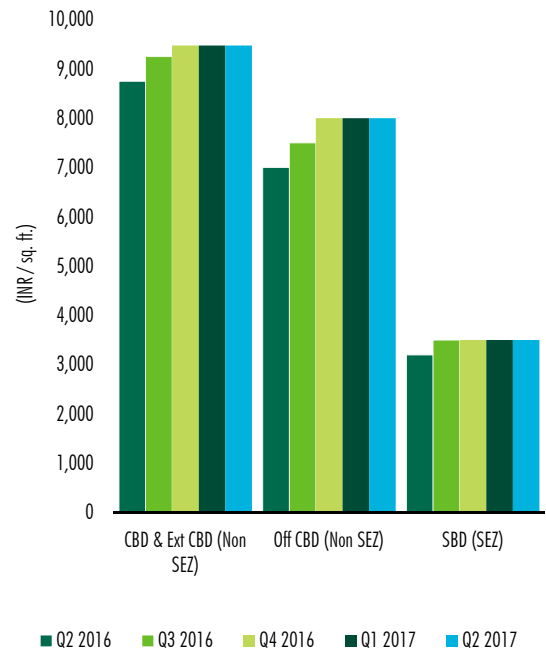
Rental values were observed to be stable during the review period across micro-markets.

Chart 20: Rental Value Movement



Source: CBRE Research, Q2 2017.

Chart 21: Capital Value Movement



Source: CBRE Research, Q2 2017.

Micro-market	Key Highlights	Demand q-o-q	Supply q-o-q	Rent q-o-q
CBD	Limited demand for space led to stability in rental growth	▼	▶	▶
SBD	Ample availability of investment grade space and sustained occupier interest resulted in rental values rising by 5-6% y-o-y	▼	▶	▶

Table 15: Selected Leasing Transactions

Property	District	Size (in sq. ft.)	Tenant
Brigade WTC	SBD	5,000	Faces
Smart City	SBD	5,000	Gadgeon Smart Systems
CUC	CBD	4,000	Schneider Electric

Source: CBRE Research, Q2 2017.

Table 16: Sub-market Key Stats

Micro-market	Average Rent in Q2 2017 (INR/sq. ft. / month)	Average Rent in Q1 2017 (INR / sq. ft. / month)	Q-o-Q change (%)	Y-o-Y Change (%)
CBD & Ext CBD (MG Road, Kaloor, Kadavanthara, Marine Drive) Grade A (Non SEZ)	65	63	0.0	8.3
Off CBD (Vytilla, Pallarivattam, Edapally) Grade A (Non SEZ)	60	60	0.0	9.1
SBD (Kakkanad) (SEZ)	38	38	0.0	5.6

Source: CBRE Research, Q2 2017.

GLOBAL EVENTS, LOCAL POLICY REFORMS TO IMPACT THE SECTOR

The IT/ITeS sector is currently going through a series of disruptions - changes in the H-1B visa regime proposed by the new US government, increased protectionism impacting the growth of outsourcing to India and the rising automation of processes – all of which are likely to lead to a subsequent slowdown in projected office demand. Being a flagship industry, disruptions in the same are expected to trickle down to the real estate sector as well. While India's overall appeal as an established outsourcing destination and the cost arbitrage offered is unlikely to change; however, any protectionist measure undertaken by the new US regime will certainly have a long-term fallout on the sector. Consequently, NASSCOM has also lowered expected growth of the IT sector in India to 8-10% for the current year. However, the overall impact of the change in US policy and subsequent operations of IT/ITeS firms is likely to pan out in the coming quarters only.

Also, other prominent sectors such as BFSI, engineering and manufacturing, research and consulting are likely to constitute a larger share in the leasing activity. Occupier demand is also expected from other sectors, including pharmaceuticals, telecommunications and e-commerce, which would also provide an impetus to the demand for commercial space.

The year is also expected to witness the implementation of RERA (which also covers the commercial segment) by the next quarter and the country's first REIT listing – signifying positive developments for the real estate sector. With the impact of both global and domestic factors panning out in the coming months, the real estate sector in India is expected to go through a necessary transition – emerging as a more formalized/organized industry segment, which would continue to support organizations entering or expanding their footprint across leading cities.

MULTIPLE THEMES LIKELY TO DRIVE LEASING ACTIVITY

Office leasing activity is expected to sustain in the short-term, backed by companies looking to expand or consolidate their operations. However, we expect leasing activity to be marginally impacted in the medium to long-term. Due to a deficiency of space in core micro-markets, we expect occupiers to continue moving towards supply-laden peripheral locations, particularly in cost-effective investment grade developments. With all cities under various stages of development, the rising traffic congestion has become an important factor impacting location strategies adopted by various occupiers. We anticipate that infrastructure initiatives (such as completion of new highways, introduction of MRTS services, etc.) would influence occupier preferences and their decision making in the coming quarters.

Occupiers, while expanding their footprint across the country and implementing their expansion plans, are also expected to keep a strong check on space utilization ratios and innovations in workplace strategies. The use of 'co-working spaces' is expected to rise, with the concept being adopted not only by start-ups and individuals, but also by organizations with fluid expansion/occupation plans.

The share of co-working space in the overall space leasing will continue to grow further, as more and more established corporates opt for this format of shared workspace. Occupier focus on business operations over RE decisions, increasing occupier awareness of co-working as an alternate option, the rising acceptance of 'remote' working and an increased preference towards flexible leasing terms will be factors that will drive demand for co-working spaces in the times to come. We expect rising instances of corporates opting for such solutions is in line with their strategies of cost-saving and operational efficiency. We anticipate a rise of both domestic and international co-working operators offering such solutions, thereby raising

the 'quality' of space offered going forward. Pre-commitments in projects which are nearing completion are also expected to continue in the coming months, also due to the limited availability of 'ready-to-move-in' space in the coming quarters.

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

On the supply front, a significant quantum of space is expected to be released in the decentralized locations of leading cities over the next few quarters. In case of Bangalore and Delhi

NCR, the upcoming developments in 2017 would consist of pent-up supply, scheduled for completion in the earlier quarters.

RENTAL GROWTH EXPECTED TO CONTINUE ACROSS CITIES

With supply slippages recorded across most cities, we expect a supply-demand gap over the next few quarters, likely to drive rental growth. However, while this growth is likely to be witnessed across most peripheral and sub-urban micro-markets, we expect growth to continue to be tapered in the coming quarters.

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