

Colliers Quarterly

India | Research
20 October 2016



India Office Property Market Overview

Q3 2016

Accelerating success.





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Office market outlook optimistic despite reduced absorption

Surabhi Arora | Senior Associate Director | India

Although Q3 2016 marked a QOQ decrease of 7.6% in gross leasing volume, we expect leasing activity to pick up in the upcoming quarters. Vacancies are set to decline in prime commercial corridors on the back of rising demand momentum, especially in Bengaluru, Pune and Hyderabad.

Forecast at a glance



Demand

Expansion strategy by occupiers in ecommerce, healthcare and technology space will lead to increase in overall occupancy levels



Supply

Supply to outstrip in technology driven markets such as Pune, Bangalore and Hyderabad



Vacancy rate

Likely to dip in Pune, Bangalore and Hyderabad while NCR, Kolkata and Mumbai will see stable vacancies



Rent

To remain stable in most of the markets while premium buildings will continue to demand premium above market rents.



Price

Set to remain stable in most of the markets despite increased demand for completed leased assets.

Growing office demand will outstrip supply in select markets

Office absorption witnessed sustained momentum with Grade A absorption totalling 9.6 million sq ft making it 28.26 million sq ft so far in 2016. Occupier demand remained focus on quality products in preferred micro markets in most of the cities, whereas start up and small size companies showed an increased inclination towards serviced and co working space. Also, there has been an increased demand for leased out commercial assets in the market. Brookfield Asset Management Inc. reportedly agreed to buy 4.5 million sq ft grade A office and retail portfolio of Hiranandani Developers located at Powai, Mumbai. Embassy Property development has recently filed an application to the Securities Exchange Board of India (SEBI) for a Real Estate Investment Trust (REIT) listing.

We expect that India will see first REIT listing as SEBI has eased the norms further recently to facilitate the enabling environment for REITs. These changes will provide much needed operational ease to the REITs, which are yet to launch in Indian markets.

Although Q3 2016 marked a decrease of 7.6% in gross leasing volume, we expect leasing activity to pick up as a few large size deals will come to a closer in the upcoming quarters. We expect an increase in office demand beckoned by improving Business Confidence Index which showed a 5.7% increase during April - July 2016. Other macroeconomic factors such as controlled inflation, falling interest rates and GDP (7.9% for Q1 2016) indicate strong economic fundamentals. Thus despite decrease in gross leasing volume, we are confident about the office market outlook.

We believe that the growing office demand will outstrip the supply in technology sector driven markets such as Pune, Bengaluru, and Hyderabad. This should therefore lead to downward pressure on vacancies and an upward pressure on gross office rents in these markets. In contrast, traditional commercial markets such as Mumbai and NCR are likely to remain stable in terms of rents and vacancy due to a stable demand and supply scenario.

Deal volumes set to increase in coming quarters

Uttara Nilawar | Manager | Mumbai

A few large deals resulted in overall increased absorption in Q3 2016, raising total absorption so far in 2016 to 2.74 million sq ft YTD. We predict closure of more such deals by next quarter, which should increase the overall leasing activity. Limited new supply in prime locations ought to put an upward pressure on rents for the next few quarters.

Forecast at a glance



Demand

Set to improve in the coming quarter with a few large sized transactions likely to see closure



Supply

Limited supply pipeline at preferred locations should remain a concern, whereas ample new supply infusion expected in peripheral areas



Vacancy rate

Further, decrease in vacancy rates at prime locations is expected in the wake of short supply



Rent

Rents are likely to increase marginally in select micro markets



Price

Capital values set to remain stable due to lower transaction volumes

BFSI remains the key driver for office leasing

Leasing activity picked up across Mumbai micro-markets and a QOQ increase of 54% was observed this quarter with gross leasing volume recorded at 1.09 million sq ft. About 53% of this demand was concentrated in western suburbs followed by Bandra Kurla Complex (BKC) 19% and Navi Mumbai 16%, CBD, Central suburbs, Central Mumbai and Thane shared only 12% of the total demand.

Andheri recorded most number of transactions as this micro market is preferred by smaller companies with compact office requirement. Continual new supply addition also complemented the demand in this micro market. One of the biggest deals recorded this quarter was by Teva Pharmaceuticals that took up 125,000 sq ft at Commerz II in Goregaon. Some other companies' also secured major deals this quarter included UBS occupying 130,000 sq. ft. at Gigaplex (Navi Mumbai), Tata Communications with 100,000 sq ft at Parinee Crescenzo (BKC), while a manufacturing company, Danher leased 75,000 sq ft at Phoenix Marketcity.

Rental values

Micro Markets	Rental Values ¹	QOQ Changes	YOY Change
CBD ²	200 - 250	0%	0%
Andheri East	90 - 130	0%	0%
BKC	225 - 320	0%	0%
Lower Parel	145 - 190	0%	0%
Malad	80 - 100	0%	0%
Navi Mumbai	70 - 100	0%	0%
Powai	120 - 130	0%	0%
Worli/Prabhadevi	180 - 210	0%	0%
Goregaon / JVLR	120 - 140	0%	24%
Kalina	150 - 220	0%	6%
Thane	70 - 90	19%	19%
LBS	130 - 150	0%	-

Source Colliers International India Research

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

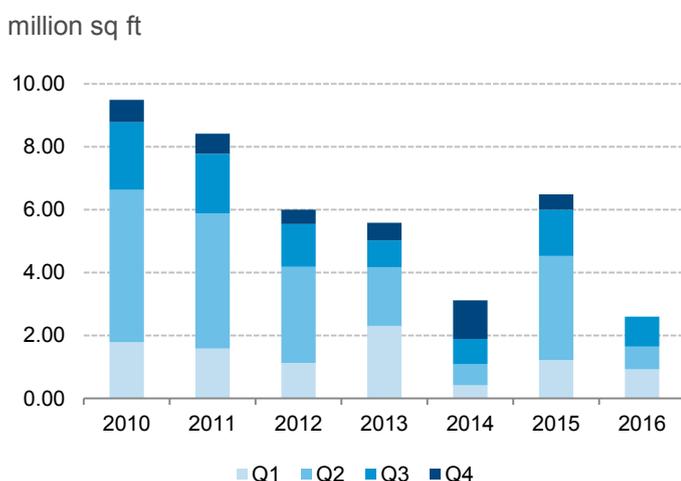
² Nariman Point, Ballard Estate and Ford

³ Jogeshwari Vikhroli Link Road

Sector wise, BFSI companies drove the office demand with 30% share in leasing, engineering and manufacturing came in next with 27%, other industries occupied 19%, while health and pharmaceuticals shared 14% of leasing volume owing to one large deal. On the other hand, consulting and IT/ITeS sectors observed the least volume of 5% each.

There were no major sales transactions concluded this quarter. However, Hiranandani Developers, has recently sold its 4.5 million sq ft grade A office and retail portfolio located in Powai. Brookfield Asset Management Inc. signed an agreement to buy out this portfolio for about USD 1 billion (INR 6,700 crore).

Office Absorption



Source: Colliers International India Research

Supply to remain constrained in coming quarters

We have also recorded a few land deals especially along the Thane-Belapur industrial belt. This demand was primarily from the companies that were looking to expand and set up offices in affordable micro markets with abundant talent pool in nearby residential catchments.

A few commercial developers such as RMZ Corp, Ascendas - Singbridge Embassy Group and Radius Developers were also looking to buy land along the Thane-Belapur belt to set up large IT and industrial parks. K Raheja which currently operates three IT parks in Navi Mumbai is expected to launch its fourth IT Park in coming quarters. Consequently, we expect Mumbai market to witness a healthy supply at these peripheral locations over the next few quarters.

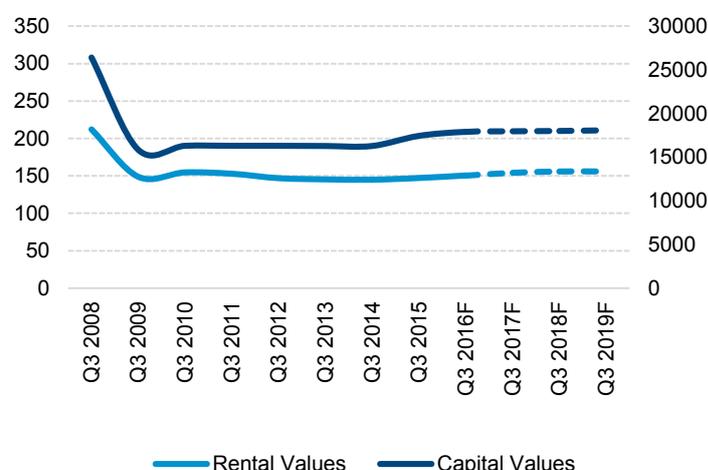
Around 13.3 million sq ft of total office stock is available this quarter. However, we recorded only one major completion during the quarter namely, Adani Inspire at BKC which added about 0.8 million sq ft to the city inventory.

Rental values remained stable during Q3 2016

Capital and rental values have not shown any significant changes and remained stable in this quarter as well. However, reduced vacancy in certain micro markets is putting an upward pressure on rents; for example Thane market has witnessed 19% QOQ rent appreciation as available stock is restricted to a few buildings in the entire micro-market.

On the other hand, a few premium buildings like TCG Financial Center and Maker Maxity at BKC were demanding higher rents putting upward pressure on average market rents.

Rental and Capital Values



Source: Colliers International India Research

Above graph represent, average Grade A rents per sq ft per month and average capital values on per sq ft basis



Colliers View

Andheri and BKC were the most preferred locations this quarter and the trend is likely to continue due to their location specific advantages and availability of grade A office stock. Other locations such as Lower Parel and Navi Mumbai are expecting some completions in upcoming quarters. IT-ITeS absorption is likely to improve with completion of several pre-committed developments. Companies are looking to expand or

relocate to diverse locations in quality buildings at affordable rents. Though the new Maharashtra Housing Policy is unlikely to affect commercial developers, it has decreed higher floor space index (FSI) for select commercial components within housing projects, thus presenting an opportunity for developers. Overall, the Mumbai office outlook is set to improve over the next few quarters and new supply should complement this demand.

MAJOR TRANSACTIONS IN Q3 2016

CLIENT	BUILDING NAME	AREA (SQ FT)	LOCATION	LEASE/SALE
UBS	Gigaplex	130,000	Airoli	Lease
Teva Pharmaceutical	Commerz II	125,000	Goregaon	Lease
Tata Communications	Crescenzo	100,000	BKC	Lease
Danher	Phoenix Marketcity	75,000	Kurla West	Lease
Springboard91	Akruti Trade Center	46,000	Andheri East	Lease

Source: Colliers International India Research

KEY UNDER CONSTRUCTION PROJECTS

BUILDING NAME	DEVELOPER	AREA (SQ FT)	LOCATION	POSSESSION
Seawoods Grand Central Tower I & II	L&T Infrastructure	1,350,000	Navi Mumbai	2018
Piramal Agastya	Piramal Developers	725,000	Kurla	2017

Source: Colliers International India Research

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

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BFSI & manufacturing to drive demand

Parul Bhargava | Senior Analyst | Delhi

Delhi should continue to enjoy strong demand from sectors such as BFSI and manufacturing. We are expecting completion of a few new buildings in CBD aggregating 0.25 million sq ft grade A office space. Rents are likely to remain stable in most of the micro markets. However, new buildings with state-of-the-art amenities should continue to demand premium over market rates.

Forecast at a glance



Demand

Demand for Grade A office space in CBD area should remain upbeat driven mainly by BFSI sector



Supply

New supply coming in the next two quarters should complement demand for Grade A office space



Vacancy rate

Shall remain stable in most of the micro markets. CBD may see marginal increase due to new supply addition.



Rent

Overall rents should remain stable at current levels however, new Grade A building should continue to demand premium over market rate



Price

We do not foresee any change in capital values in coming quarters due to lower transaction volumes

Tenants looking for large floor plates faced challenges

Corporate leasing activity remained stable in Q3 2016 with total absorption recorded at 0.20 million sq ft taking the YTD absorption to 0.63 million sq ft. Analogous with the past trends, leasing activity was driven by demand from manufacturing and Banking, Financial Services and Insurance (BFSI) firms.

International financial institutions looking to set up their base in India continued to be active in CBD, while manufacturing firms, pharmaceutical, entertainment and media companies leased business spaces in suburban areas such as Jasola and Saket for their corporate offices. Tenants from manufacturing industry expanded their foothold in Okhla and Mohan Cooperative area which are established industrial locations in Delhi.

Sector wise, demand was driven by manufacturing firms with 60% share in leasing activity. BFSI firms comprised 20% of the office leasing pie followed by Media firms and pharmaceutical companies which contributed 11% and 6% respectively.

Rental values

Micro Markets	Rental Values ¹	QOQ Changes	YOY Change
CBD ²	160 - 430	-6%	-6%
Nehru Place	160 - 225	-5%	-7%
Saket	120 - 180	-9%	-14%
Jasola	85 - 125	-5%	-5%
NSP ³	65 - 115	-5%	-5%
Okhla	30 - 100	0%	-3%

Source Colliers International India Research

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

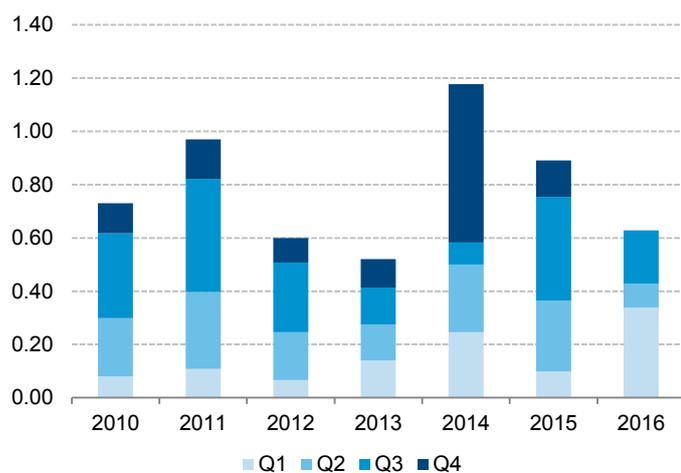
² Connaught Place

³ Netaji Subhash Place

Major transactions in this quarter include Sony leasing 100,000 sq ft in Mohan Cooperative area and Zee Networks leasing 25,000 sq ft in Okhla. Also, Japan International Cooperation Agency took 19,000 sq ft in CBD zone. Bulk of the deals concluded in the quarter were small to medium sized averaging 15,000 to 20,000 sq ft; tenants looking for large contiguous office blocks faced challenges due to non-availability of large floor plates especially in CBD area.

Office Absorption

million sq ft



Source: Colliers International India Research

Supply infusion of 0.4 million sq ft expected in the next six months

On the supply front, about 3.6 million sq ft of office space was available for lease in Q3 2016. About 17% of the total vacant stock was in CBD. Nearly 6% was located in Saket, 5% in Netaji Subhash Place and 3% in Jasola.

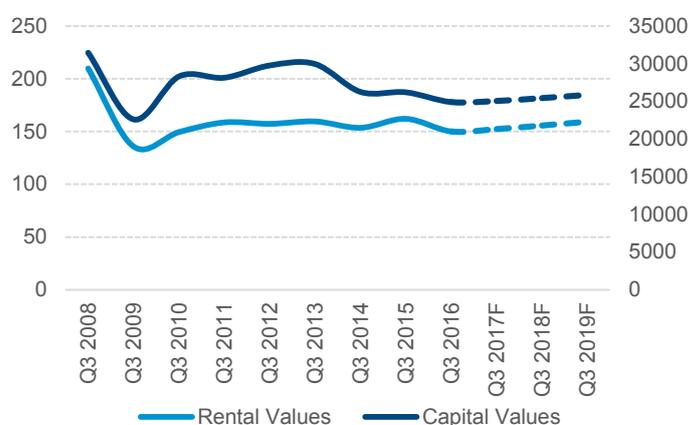
This quarter, two small commercial buildings admeasuring 0.23 million sq ft on Shivaji Marg saw completion. We are expecting addition of about 0.4 million sq ft Grade A supply in the next six months in the form of small office blocks in areas such as CBD, Jasola, Okhla and Mohan Cooperative. Major projects scheduled for completion in CBD area are Parsvanath One on KG Marg and Skipper House on Barakhamba Road.

Average rents declined by 5% in Q3 2016

Rents registered a negative growth of about 5% on QOQ basis, however, new grade A buildings continued to demand premium over market rates due to limited availability and occupier preference for such buildings.

We foresee rents to remain stable for well-located grade A as well as grade B buildings in most of the micro markets. However, high rents in premium buildings may push rents upward in CBD locations.

Rental and Capital Values



Source: Colliers International India Research

The above graph represent, average Grade A rents per sq ft per month and average capital values on per sq ft basis

We did not witness any increase in sale transaction volume this quarter. Considering the overall reduction in market values for real estate properties, the state govt. decided to decrease the circle rate by 15%. The state government has also proposed the re-categorisation of colonies in National Capital territory. The proposal has come in the wake of rationalisation of circle rates as in certain micro markets, the circle rate has gone beyond market rates leading to overall slump in the real estate market.

Colliers View

We expect an increase in absorption in coming quarters, especially from BFSI, IT-ITeS, Media & Entertainment and Government sectors. Micro markets like Connaught Place, Aero City, Saket and Okhla should continue to see maximum traction. In view of the upcoming Grade A new supply, rents are likely to remain stable in most of the micro markets with upward bias in CBD as new office buildings facilitating modern state-of-the-art amenities

demanding premium over market rates.

A few tenants might upgrade to new premises resulting in higher vacancies in Grade B & C buildings. The suburbs of Okhla, Mohan Cooperative area should continue to draw attention from tenants looking for larger spaces at affordable rents.

MAJOR TRANSACTIONS IN Q3 2016

CLIENT	BUILDING NAME	AREA (SQ FT)	LOCATION	LEASE/SALE
Sony	Individual building	100,000	Mohan Cooperative Area	Lease
Zee Network	Plot No. A-26/3	25,000	Mohan Cooperative Area	Lease
Sonali Tractors	TERI Campus	21,000	Vasant Kunj	Lease
JICA	HT House	19,000	Connaught Place	Lease
Karl Storz	Gopal Das Bhawan	14,500	Connaught Place	Lease

Source: Colliers International India Research

KEY UNDER CONSTRUCTION PROJECTS

BUILDING NAME	DEVELOPER	AREA (SQ FT)	LOCATION	POSSESSION
Parasvsnath One	Parasvsnath Developers	150,000	KG Marg	2017
Skipper House	Govt Trust	100,000	Barakhama Road	2017

Source: Colliers International India Research

Notes:

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

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Accelerating success.

Significant SEZ supply on the cards

Parul Bhargava | Senior Analyst | Gurgaon

We expect transaction volumes in the technology sector to increase in Gurgaon, bolstered by significant upcoming Grade A SEZ (Special Economic Zones) office supply in Golf Course Extension Road over the next 5 to 7 years. This marks a welcome transition for an under supplied SEZ market in NCR region.

Forecast at a glance



Demand

Transaction volume likely to increase in the coming quarters backed by robust demand



Supply

About 1.0 million sq ft new supply is likely to see completion by the end of next year mainly in Golf Course Extension Road and Sohna Road.



Vacancy rate

Overall vacancy to remain stable; Cyber City may see further drop in vacancy due to no supply pipe line in near term



Rent

Preferred micro markets such as Cyber City, NH8 and Golf Course Road are likely to see upward pressure on rents owing to low vacancy



Price

Capital values set to remain stable due to lower transaction volumes

Co-working spaces and virtual offices gaining traction

Office leasing volume remained stagnant with about 1.2 million sq ft office absorption recorded in Q3 2016 taking the total YTD absorption to 2.92 million sq ft. NH8, Sohna Road, Institutional Sectors (Sector 32 and 44) and Golf Course Road remained the preferred locations. Analogous to the previous quarter IT-ITeS sector followed by BFSI and Consulting remained the key drivers of office leasing activities.

On a YOY comparison, absorption volume has declined by about 43% during the first nine months of the year. This is primarily due to reduction in large size transactions this year.

It is worthwhile to note that the concept of co-working spaces and virtual offices is gaining traction not only among start-ups but also from small to medium size corporates looking for expansion.

Rental values

Micro Markets	Rental Values*	QOQ Changes	YOY Change
MG Road	110 - 140	0%	-2%
Golf Course Road	95-210	0%	13%
Institutional Sectors (Sector 44,32,18)	60-90	0%	-3%
Golf Course Extension Road/ Sohna Road	60-75	0%	0%
National Highway 8	50-130	0%	0%
Udyog Vihar & Industrial Areas	30-45	0%	10%
Manesar	38-45	0%	0%
DLF Cyber City (IT)	100- 110	0%	6%

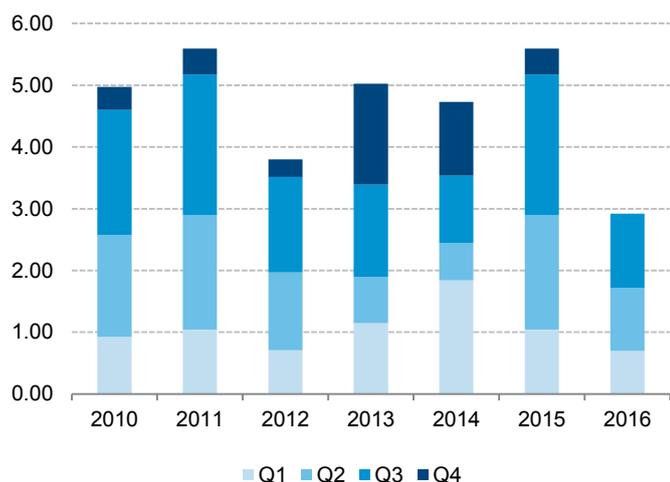
Source Colliers International India Research

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

According to market sources, co working space firm Instaoffice is mulling plans to lease around one lakh sq ft office space by March 2017 and expand its operations in NCR region. Currently, the company has small presence in Gurgaon.

Office Absorption

million sq ft



Source: Colliers International India Research

Golf Course Extension witnessed launch of new SEZ projects despite high vacancy levels

About 9.0 million sq ft of office space was available for lease in Gurgaon this quarter. Nearly 30% of this available stock was located in Udyog Vihar and Industrial Areas followed by 18% in Golf Course Extension Road and 13% on NH-8. DLF Cyber City, MG Road, Institutional Sectors like Sectors 44, 32 and Sector 18 are left with very limited stock and account for 3% to 5% of the total available stock.

Despite high vacancy levels, Gurgaon market witnessed launch of a couple of new projects this quarter.

Ascendas- Singbridge unveiled its integrated IT Park at Sector 59, Golf Course Extension Road. This 60 acre IT park will be developed in various phases. We are expecting that the phase 1 of the project should complete by the end of 2017. This quarter, Tata Realty and Infrastructure Ltd has commenced construction for the Tata Centre project located on an 8 acre land parcel in Sector 72.

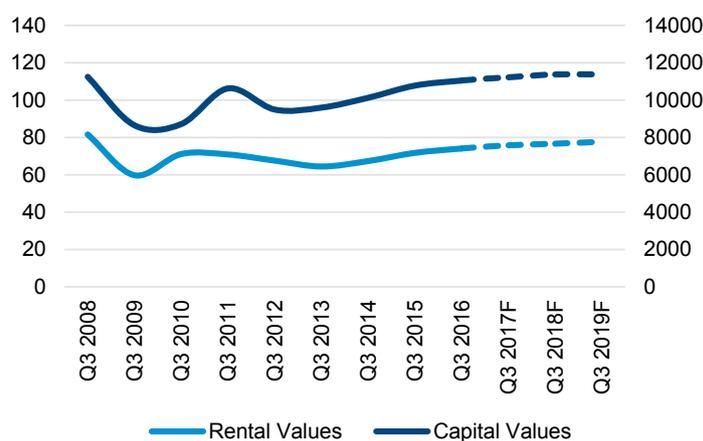
Apart from this, IREO is also developing an IT SEZ on a 67 acre land parcel in this area with scheduled completion of phase 1 in 2018. Besides these SEZs, DLF launched a commercial project admeasuring about 2.1 million sq ft on NH8 and Experion Developers also launched a commercial project at NH8 in partnership with Milestone Ventures. Both these projects are likely to see completion by the end of 2019.

Rental values remained stable in Q3 2016 barring Golf Course and Cyber City

Rents and capital values remained largely stable on QOQ basis. However, YOY rents have registered a 13% upsurge on Golf Course road and 6% in Cyber city owing to dwindling vacancy levels. These micro markets remained on top of occupier preference due to better connectivity and presence of rapid metro.

On the infrastructure front, Gurgaon continues to see several hurdles related to land acquisition. This may hamper the completion of several major road projects such as Southern Peripheral Road and Dwarka Expressway.

Rental and Capital Values



Source: Colliers International India Research

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

Colliers View

Rents in Cyber City, Golf Course Road, and MG Road are likely to witness upward pressure in the backdrop of single digit vacancy levels and healthy occupier demand. Slowly, the axis of development of the city is shifting towards south of Gurgaon. Over 20 million sq ft of Grade-A business space is going to be added in the Golf Course Extension area in the next 5 to 7 years.

The upcoming supply should ease out challenges for tenants looking for SEZ space in NCR region. With micro markets such as Cyber City and Golf Course road getting saturated Golf Course Extension Road and Sohna Road should see renewed occupier interest.

MAJOR TRANSACTIONS IN Q3 2016

CLIENT	BUILDING NAME	AREA (SQ FT)	LOCATION	LEASE/SALE
Adidas	Plot no.53, Sector 32	150,000	Sector 32	Lease
G4S	DLF World Tech Park	100,000	Silokhera	Lease
Guardian Life	Infospace (Brookfield)	80,000	Sohna Road	Lease
Tower Research	DLF Two Horizon Centre	60,000	Golf Course Road	Lease
IBM	DLF Infinity Tower	58,960	Cyber City	Lease

Source: Colliers International India Research

KEY UNDER CONSTRUCTION PROJECTS

BUILDING NAME	DEVELOPER	AREA (SQ FT)	LOCATION	POSSESSION
Ireo City	Ireo	1,500,000	Golf Course Road Extension	2018
International Tech Park Phase 1	Ascendas	950,000	Golf Course Road Extension	2018

Source: Colliers International India Research

Notes:

1. Office Market: The prime business locations in Gurgaon are MG Road, Golf Course Road, Cyber City and Udyog Vihar. Manesar on the outskirts of Gurgaon is also emerging as the city's new office destination.
2. Rents/Capital Value: Market average of indicative asking price for Grade A office space.
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Accelerating success.

High vacancy to keep rents in check

Parul Bhargava | Senior Analyst | Gurgaon

We expect leasing activity to remain healthy in the coming quarters as demand from occupiers looking for affordable rents remains high. The established IT hubs such as Noida Expressway and Sector 62 should continue to attract tenants due to their affordable rents and connectivity with the national capital region.

Forecast at a glance



Demand

Demand shall remain healthy on the back of affordable rents and favourable government policies



Supply

New supply infusion should see an uptick in Noida Expressway and Sector 62 in the next three years



Vacancy rate

City level vacancy shall hover around 40%; Micro markets like Noida Expressway shall see a further rise over the next three years as ongoing projects get delivered



Rent

Rental Values shall register a slight fall in Institutional Sectors due to mounting supply side pressure



Price

Capital Values should remain largely stagnant in the short term

Technology, manufacturing and consulting firms driving demand

Overall leasing activity in the Q3 2016 was recorded at about 0.90 million sq ft, equating 8% decline from the last quarter levels. This takes the total YTD absorption numbers to 2.26 million sq ft. Leasing levels inched down primarily due to fewer large deals compared to previous quarters. Consistent with the previous quarters, technology firms, electronics' manufacturing firms and consulting firms carried the greatest demand. Tenant demand was skewed towards modern, smart, and efficient offices with options like plug and play and hot-desking gaining acceptance. Co-working spaces are gaining ground among start-ups and small sized firms mostly in newly constructed buildings.

Noida Expressway and Yamuna Expressway continued to draw attention from Technology and mobile manufacturing firms. A few forthcoming new buildings showed healthy commitment rates. This is highlighted by the largest deal in the quarter in Noida, which was NEC leasing 120,000 sq ft in Sector 135 Block 5, Brookfield Tower which is scheduled to be completed by Q1 2017.

Rental values

Micro Markets	Rental Values ¹	QOQ Changes	YOY Change
Commercial Sectors ²	70 - 110	0%	-10%
Institutional Sectors (Non IT) ³	80 - 100	0%	6%
Institutional Sectors (IT) ³	40 - 55	0%	-14%
Industrial Sector (IT) ⁴	35 - 55	0%	0%

Source Colliers International India Research

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

² Sector 18

³ Sector 16A, 62, 125-142

⁴ Sector 1-9, 57-60, 63-65

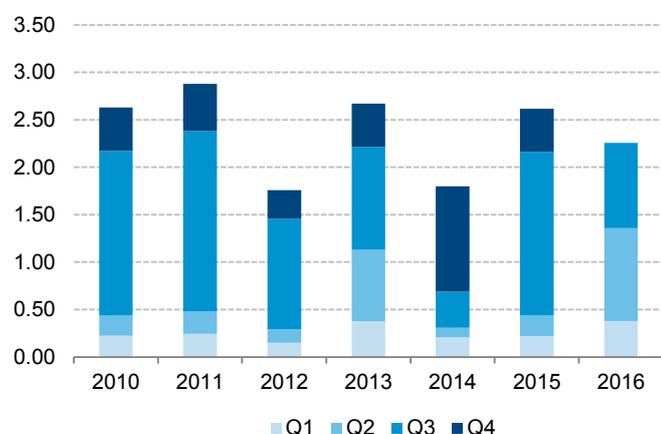
Also, a few consulting firms also bought small sized buildings for their offices such as Tech Sci Research acquired 35,000 sq ft in Sector 57 whereas Ramatek Inc. purchased 30,000 sq ft individual building in Sector 67. Other prominent transactions include 120,000 sq ft lease by IBM in Wegmans Trustone SEZ.

Information technology sector retained its top position in overall leasing volume accounting for about 56% share. Consulting firms and manufacturing firms comprised 20% and 11% respectively.

Government's push to develop Greater Noida as a mobile manufacturing hub in India, and lucrative incentives continued to attract Mobile manufacturing firms to the region. This quarter Micromax was allotted 17 acres of land in Greater Noida to set up its manufacturing facility. Le Eco started operations in its manufacturing unit in Greater Noida spread over two lakh square feet area. The Authority set aside 210 acres of land under its Electronic Manufacturing Cluster (EMC) policy. The government plans to offer 25% rebate on land rate and subsidy on capital investment.

Office Absorption

million sq ft



Source: Colliers International India Research

This quarter, Logix Group raised INR 400 Crore from Apollo Global in a structured debt transaction. The amount shall be used to complete ongoing commercial and residential projects in Noida.

Supply kept pace with the absorption

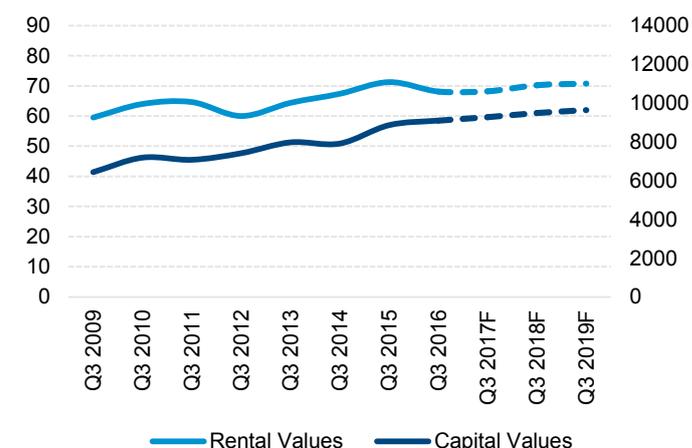
It is worthwhile to note that new supply has kept pace with absorption. This quarter IT building by New Track Developers in Sector 136 was completed adding 0.07 million sq ft to the total stock.

Also, Alphathum, an integrated development in Sector 90 was launched with estimated built up area of 2.3 million sq ft scheduled for completion by the end of 2019.

Landlords wary of raising rents due to high vacancy levels

Rents remained unchanged from the last quarter in most of the micro markets. Institutional Sectors along Noida Expressway registered a 13% dip in rentals on YOY basis. This is because landlords are wary of raising rents due to softer leasing volumes and high vacancy levels. With about 15 million sq ft currently under construction, rents shall remain under pressure.

Rental and Capital Values



Source: Colliers International India Research

The above graph represent, average Grade A rents per sq ft per month and average capital values on per sq ft basis



Colliers View

In the backdrop of high vacancy and huge supply pipeline, we expect rents to remain stable in coming quarter. The relatively lower rents and new supply in NOIDA shall continue to attract cost sensitive tenants who are looking for quality affordable spaces. While demand should remain upbeat, average vacancy is expected to increase further as markets take time to absorb the upcoming supply.

MAJOR TRANSACTIONS IN Q3 2016

CLIENT	BUILDING NAME	AREA (SQ FT)	LOCATION	LEASE/SALE
NEC	Brookfield Tower	120,000	Sector 135	Lease
IBM	Wegmans Trustone SEZ	120,000	Greater Noida	Lease
Nokia	Logix Cyber Park	30,000	Sector 62	Lease
Ion Digital	Individual building	30,000	Sector 62	Lease
Ramatek Inc.	Individual building	30,000	Sector 67	Lease

Source: Colliers International India Research

KEY UNDER CONSTRUCTION PROJECTS

BUILDING NAME	DEVELOPER	AREA (SQ FT)	LOCATION	POSSESSION
The Business Capital	Adhar Group	1,176,120	Knowledge Park 5	2018
Assotech Business Cresterra	Assotech	500,000	Greater Noida Expressway	2017
World One	CBS International Projects Pvt. Ltd.	100,000	Sector 90	2017

Source: Colliers International India Research

Notes:

- Office Market: NOIDA market is comprised of sectors broadly classified as institutional, industrial and commercial sectors. Institutional sectors include Sec 16 A, 62 and 125-142, Industrial Sectors include Sector 1-9, 57-60 and 63-65 while Sector 18 is the most developed commercial sector.
- Rents/Capital Value: Market average of indicative asking price for Grade A office space.
- Available Supply: Total Grade A office space being marketed for sale or lease in surveyed quarter.
- All the figures are based on market information as on 25th September 2016

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Accelerating success.

Decline in new supply & leasing

Divya Grover | Senior Manager | Bengaluru

With about 8.5 million sq ft office absorption so far in 2016, Bengaluru remained at the top of all other major cities in India. However, this was about 23% less than same period last year. We are confident about Bengaluru's office market outlook this year but in our opinion, the transaction volumes are unlikely to reach last year's record. Also, despite a huge upcoming supply pipeline, we cannot rule out the possibility of upward pressure on rents due to low vacancy levels

Forecast at a glance



Demand

IT-ITeS sector shall remain the prime demand driver. Demand for co-working spaces is likely to increase



Supply

New supply infusion should witness an uptick as a large IT Park on Outer Ring Road is set for completion in the next quarter



Vacancy rate

Likely to remain in single digit for most of the micro markets



Rent

Upward pressure in preferred micro markets due to all-time low vacancy levels



Price

Set to largely remain stable in short to mid-term across micro markets

Strong demand fundamentals despite decrease in the leasing volume

Overall office demand in current quarter failed to keep pace with the previous quarter as about 2.27 million sq ft gross leasing volume was recorded in Bengaluru. This was about 36% less than the last quarter. Despite decrease in overall leasing volume, in our opinion the city has strong demand fundamentals as we recorded several pre-commitments and Build-To-Suit (BTS) transactions during the quarter.

Key employment hubs such as Outer Ring Road remained the most preferred micro market with 32% share in overall leasing followed by EPIP Zone/Whitefield (25%) and Northern precincts (10%). SBD, Banerghatta Road, Hosur Road and other micro markets together accounted for the remaining 17% of the share. Prominent deals in this quarter included a 500,000 sq ft lease by ABB Global and 200,000 sq ft lease by Infosys.

Office sector demand was largely driven by execution of expansion strategies by occupiers who contributed nearly 56% of total leasing volume.

Rental values

Micro Markets	Rental Values*	QOQ Change	YOY Change
CBD	90 - 150	0%	9%
Outer Ring Road (Sarjapur - Marathahalli)	75 - 85	3%	28%
Outer Ring Road (K.R. Puram - Hebbal)	65 - 75	0%	15%
Bannerghatta Road	55 - 68	0%	3%
Hosur Road	25 - 40	0%	0%
EPIP Zone/Whitefield	35 - 40	7%	17%
Electronic City	30 - 38	6%	6%

Source Colliers International India Research

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

Sector wise, Information Technology and Information Technology Enabled Services (IT-ITeS) constituted nearly 66% of the total leasing volume. Due to relatively smaller sized transactions (average ticket size of 45,000 sq ft), the Banking, Financial Services and Insurance (BFSI) and Healthcare accounted for only 4% and 2% of total leasing volume respectively. 11% was constituted by other sectors such as engineering, FMCG and telecom. However, there were no major sales transactions reported in this quarter.

We have witnessed a new trend this quarter whereby a couple of big players ventured in the field of co-working spaces and leased nearly 8% of the total leasing volume. As Bengaluru is a hot spot for start-ups, we expect the demand for co-working spaces to increase in the near term as several global co-working office start-ups are likely to establish a footprint in the city.

Office Absorption

million sq ft



Source: Colliers International India Research

SEZ developments dominate with the maximum volume of new supply

New supply remained muted as only 1.84 million sq ft became operational in this quarter. Almost 90% of this supply was in various special economic zones located in emerging commercial hubs such as Outer Ring Road (54%) and Mysore Road (35%) and Intermediate Ring Road (11%).

There was a clear dearth of new supply in preferred micro markets of Outer Ring Road (Marathahalli-Sarjapur) and EPIP Zone/Whitefield resulting in lower vacancy levels in all these micro markets. However, rise in demand in Northern Bengaluru prompted developers to undertake a couple of office space projects in this belt

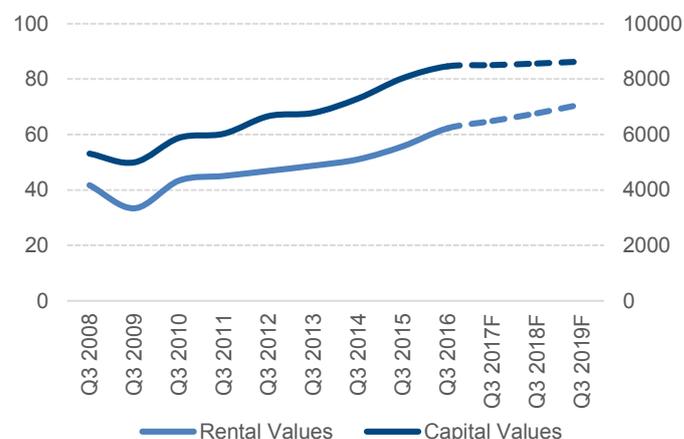
and we witnessed a few new project launches in Malleshwaram.

Moderate rents appreciation in select micro markets

Moderate rental appreciation was noted in few peripheral micro markets in southern and eastern parts of the city as they remain hotspots for expansion by occupiers due to a higher concentration of talent pool. While Outer Ring Road (Sarjapur - Marathahalli) witnessed a quarterly rental uptick of 3%, Electronics City and EPIP Zone/Whitefield noted a 6-7% appreciation too in the same period due to above mentioned reasons.

Due to low transaction volume, rents on Hosur Road and Banerghatta Road remained stagnant. CBD and Outer Ring Road (K.R. Puram - Hebbal), too did not witness any rental appreciation despite steady transaction volume as available supply outstripped demand continually. However, location attractiveness and saturation in other micro markets deterred any rental decline in short term.

Rental and Capital Values



Source: Colliers International India Research

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



Colliers View

We are relatively confident about Bengaluru's office market outlook. However, the city may not witness double digit transaction volume this year. The continued government support to remove some of the constraints such as infrastructure related issues and upcoming supply pipeline in preferred areas would not only reinstate leasing momentum but also encourage entry of new tenants. Despite upcoming supply, we cannot rule out the possibility of upward pressure on rents

rents in preferred micro markets such as Outer Ring Road (Marathahalli - Sarjapur) and EPIP/Whitefield Zone.

MAJOR TRANSACTIONS IN Q3 2016

CLIENT	BUILDING NAME	AREA (SQ FT)	LOCATION	LEASE/SALE
ABB Global	Bhoruka Tech Park	500,000	Whitefield	Lease Renewal
Infosys	Bhartiya City	200,000	Thanisandra Road	Lease
Google	Constellation Business Park	150,000	Outer Ring Road	Lease
Misys	Constellation Business Park	150,000	Outer Ring Road	Lease
CoWrks	RMZ Ecoworld - 6A	150,000	Outer Ring Road	Lease

Source: Colliers International India Research

KEY UNDER CONSTRUCTION PROJECTS

BUILDING NAME	DEVELOPER	AREA (SQ FT)	LOCATION	POSSESSION
Embassy Tech Village - 7A & 7B	Embassy Group	1,600,000	Outer Ring Road	2017
Global Technology Park	Adamas Builder (Maple Tree)	900,000	Outer Ring Road	2018
North Gate	Modern Asset	800,000	Yelahanka	2018

Source: Colliers International India Research

Notes:

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

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Accelerating success.

New supply infusion to boost office leasing

Divya Grover | Senior Manager | Bengaluru

Despite healthy demand momentum, the last quarter has seen only 1 million sq ft of office absorption raising the total to about 3 million sq ft YTD. That said, we expect the momentum to pick up in the coming quarters with numerous Request for Proposals (RFPs) floating in the market. With new SEZ supply likely in upcoming quarters, we expect expansion activities to pick up

Forecast at a glance



Demand

Likely to pick up as large corporates may commit huge office blocks especially in SEZs



Supply

Next quarter should witness infusion of nearly 2.5 million sq ft all of which will become operational along the IT corridor



Vacancy rate

Should increase marginally in OMR - Pre Toll and OMR - Post Toll due to huge expected supply



Rent

Should largely remain stable; OMR - Pre Toll may witness a moderate uptick due to continual high demand



Price

Should remain stable across micro markets in mid-term

Quarterly dip in leasing volume

During the current quarter, office sector demand dipped by 22% on quarter on quarter (QOQ) basis and only 1.0 million sq ft gross absorption was noted in Chennai taking the YTD absorption total to 3 million sq ft. The peripheral IT corridor continued to remain in occupier focus garnering about two-thirds share in the overall absorption followed by CBD and Off CBD. Old Mahabalipuram Road (OMR) - Post Toll belt has also started gaining occupier interest due to availability of ready quality IT spaces at affordable rents.

Due to paucity of available contiguous office spaces on OMR - Pre Toll which suit occupier requirements, the locus of office space absorption is gradually moving beyond OMR - Pre Toll to OMR- Post Toll micro market with many IT Parks and SEZs are now witnessing increasing occupier demand and rise in number of enquiries. We have noticed that OMR - Post Toll's share in total quarterly absorption has increased from 10% in Q2 2016 to 23% in Q3 2016. With steadily increasing absorption rate, we foresee this micro market to witness substantial leasing volume going forward.

Prominent deals during the quarter included an 180,000 sq ft lease by IVTL Infoview Technologies and another 170,000 sq ft lease by GE. However, no major sales transactions were reported in this quarter.

Rental values

Micro Markets	Rental Values*	QOQ Change	YOY Change
CBD	65 - 85	0%	3%
Off CBD	60 - 70	8%	18%
Ambattur	30 - 40	0%	21%
OMR - Pre Toll	55 - 65	0%	9%
OMR - Post Toll	27 - 40	3%	3%
Mount Poonamalle Road	50 - 60	0%	0%
GST Road	35 - 45	0%	0%

Source Colliers International India Research

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

Interestingly, another trend that has come to fore was that nearly one-fourth of total gross leasing was purely concentrated in non IT spaces in central and off central micro markets as few companies across Information Technology and Information Technology Enabled Services (IT-ITeS), healthcare, Banking, Financial Services and Insurance (BFSI) and logistics sectors took up spaces in available buildings to maintain front-end operations.

Expansion and entry of new tenants accounted for nearly 50% of the total gross leasing in this quarter. IT-ITeS sector retained its top position in the overall absorption accounting for nearly 79% share followed by BFSI (8%). Other sectors such as healthcare, FMCG, logistics and manufacturing accounted for the remainder 13% share as only a handful of transactions were noted in these sectors.

Office Absorption

million sq ft



Source: Colliers International India Research

No new supply infusion led to further decrease in vacancy levels

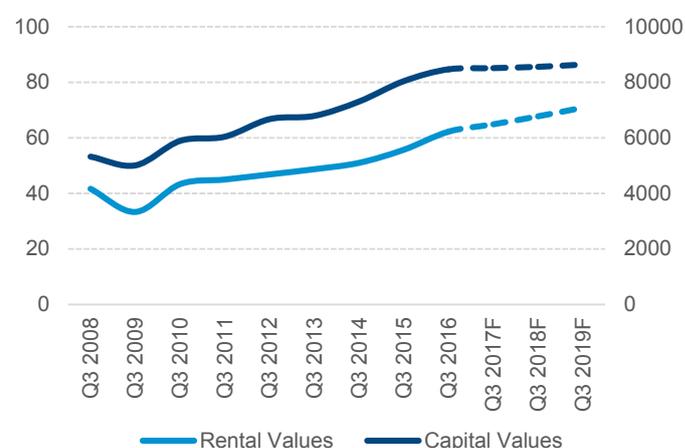
No new supply became operational in this quarter which further restricted the ability of occupiers to execute their expansion strategies despite being interested in scaling up their operations. Vacancy levels have reached single digit in most of the preferred micro markets such as OMR - Pre Toll and some locations in Off CBD such as Guindy. Also, no new projects were announced in this quarter either and developers remained focused on completion of upcoming blocks in existing IT parks and SEZs to fulfil the prevailing space requirements by occupiers.

Rental values uptick in select micro markets

Rents remained stable across central, western and north western micro markets in the current period. However, Off CBD noted a quarterly rental appreciation of 8% due to recurring occupier demand to maintain operations in inner city areas.

OMR - Post Toll too noted marginal rental appreciation of 3% on a QOQ basis as demand for office spaces in this location is gradually increasing.

Rental and Capital Values



Source: Colliers International India Research

The above graph represent, average Grade A rents in per sq ft per month and average capital values on per sq ft basis

Road infrastructure gets a boost in Chennai

In view to reduce traffic bottlenecks at busy junctions, the Highways department has initiated construction of twin flyovers near the Medavakkam Road and Pallavaram- Thoraipakkam Road junction. Once complete, this three lane flyover will help reduce commute time during peak hours. Additionally, a flyover is also under construction on Jawahar Lal Nehru Salai in Vadapalani is nearing completion and should be open for vehicular traffic before year end.

Both these above mentioned projects will help improve connectivity to and from the busy commercial hubs such as OMR and Guindy.

Colliers View

A huge upcoming supply pipeline of 2.5 million sq ft before year end should keep rents in check for the rest of the year. The IT Corridor of Old Mahabalipuram Road (OMR including both Pre Toll and Post Toll) should remain the preferred micro markets for occupiers. However, the pace of supply infusion should determine how quickly new quality spaces gets absorbed in these micro markets. Since most new supply is going to be concentrated in upcoming blocks of IT-SEZs in these

Corridors, a significant chunk of gross leasing should also be concentrated in these micro markets going forward.

MAJOR TRANSACTIONS IN Q3 2016

CLIENT	BUILDING NAME	AREA (SQ FT)	LOCATION	LEASE/SALE
IVTL Infoview	Prince Info Park	180,000	Perungudi	Lease
GE	Ramanujan IT City	170,000	Taramani	Lease
Societe Generale	Ramanujan IT City	69,000	Taramani	Lease
World Bank	SP Info City	67,000	Kandanchavadi	Lease
Broadsoft Technologies	Infinite Towers	36,000	Guindy	Lease

Source: Colliers International India Research

KEY UNDER CONSTRUCTION PROJECTS

BUILDING NAME	DEVELOPER	AREA (SQ FT)	LOCATION	POSSESSION
Chennai One SEZ - South Block	IG3 Infra Ltd.	1,200,000	Thoraipakkam-Pallavaram Road	2016
Ramanujan IT City (Cambridge Block)	TRIL	750,000	Taramani	2016

Source: Colliers International India Research

- Notes:
- Office Market: Prime office properties in Chennai are located in seven principal sub markets such as CBD, Off CBD, Ambattur, OMR - Pre Toll, OMR - Post Toll, Mount Poonamalle Road and GST Road.
 - Rents/Capital Value: Market average of indicative asking price for Grade A office space.
 - Available Supply: Total Grade A office space being marketed for sale or lease in surveyed quarter.
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Accelerating success.

Supply woes likely to continue

Uttara Nilawar | Manager | Mumbai

Quality supply remained scarce and the trend is likely to linger in subsequent quarters. Although a few new projects were launched this quarter, new supply is not scheduled to come in until Q3 2017 so large floor plate size deals are unlikely to take place for the next few quarters.

Forecast at a glance



Demand

Limited supply shall lead to lower absorption, smaller deal sizes expected in subsequent quarters



Supply

No major new supply expected till Q3 2017



Vacancy rate

Vacancy rates shall decline further as no supply addition is expected in the coming quarters



Rent

Rents are likely to rise in the wake of limited supply



Price

Capital values shall rise in the short term but should stabilize moving forward

Tech sector shall remain key demand driver; automobile and engineering to pick up

A slight uptick in absorption was observed in the Pune commercial market since last quarter with 0.9 million sq ft, making it 2.74 million sq ft YTD. Pune market promises significant talent pool in the IT-ITeS industry and hence the industry continues to thrive in the region.

Accordingly, a big chunk of leasing activity was taken up by the IT-ITeS sector in this quarter as well, amounting to around 68% of the total transaction volume. This was due to one of largest deals this year by ZS Associates who signed up for 240,000 sq ft at Kharadi location. Engineering and Manufacturing came in next with 18%, followed by BFSI with 8%, consulting and other industries with 3% each. Engineering and manufacturing demand shall flare up in the future owing to promising developments in the automobile industry at peripheral locations such as Chakan and Ranjangaon.

Rental values

Micro Markets	Rental Values*	QOQ Changes	YOY Change
Baner	50 - 60	0%	7%
Bund Garden	53 - 67	0%	4%
Airport road/pune station	56 - 87	0%	6%
Aundh	50 - 64	0%	9%
Senapati Bapat Road	65 - 110	0%	17%
Bavdhan	39 - 50	0%	11%
Kalyani Nagar	52 - 65	0%	9%
Nagar Road	52 - 65	0%	11%
Hinjewadi	42 - 55	0%	10%
Hadapsar/Fursungi	55 - 72	0%	21%
Kharadi	48 - 90	0%	20%

Source Colliers International India Research

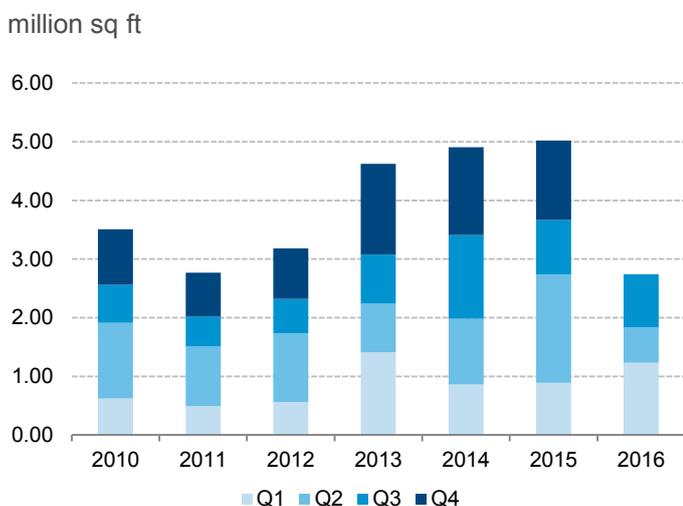
* Indicative Grade A rentals in INR per sq ft per month

Apart from ZS Associates, one of the major lease transactions include 88,000 sq ft lease of commercial space by Amdocs in Hadapsar. Other major tenants include L&T and Nitor Infotech that leased 69,000 sq ft in Blue Ridge SEZ and 50,000 sq ft in Embassy Tech Zone SEZ respectively. Average deal size was relatively lower this quarter.

About 4.5 million sq ft of office space was available for lease in Pune this quarter. Most of the available supply was concentrated at peripheral locations such as Kharadi (31%) and Hadapsar/Fursungi (19%). These were followed by CBD locations with 15%, Hinjewadi with 13% and Airport Road/Pune station with 11%. Other micro markets like Kalyani Nagar (4%), Bavdhan (3%), Aundh (3%) and Baner (1%) experienced minimal leasing activities.

France's FM Logistic who plans to invest EUR 50 million in India over the next four years, recently bought a majority stake in Pune's Spear Logistics. Pune based Kohinoor Development Corporation plans to set up two logistics parks in Chakan and Ranjangaon with 2 million sq ft of warehousing facility for auto ancillary units by 2020.

Office Absorption



Source: Colliers International India Research

Restricted new supply in all micro markets causing low vacancy rates to decline further

Although new supply remained scarce this quarter as well, around 0.14 million sq ft of space was added to the office inventory; a significant increase since last quarter. Stellar Spaces in Kharadi, Pushpak Business Hub in Wakad and Vasu Kamal in Baner admeasuring 65,000

sq ft, 60,000 sq ft and 16,500 sq ft respectively were new additions to the office stock this quarter. In spite of these new inclusions, quality office supply remained restricted.

Due to lack of good supply, corporates have started looking for good grade B buildings in preferred locations. This quarter has experienced some new launches like Commerzone SEZ in Kharadi, Futura in Hadapsar and Gera Imperium in Hinjewadi.

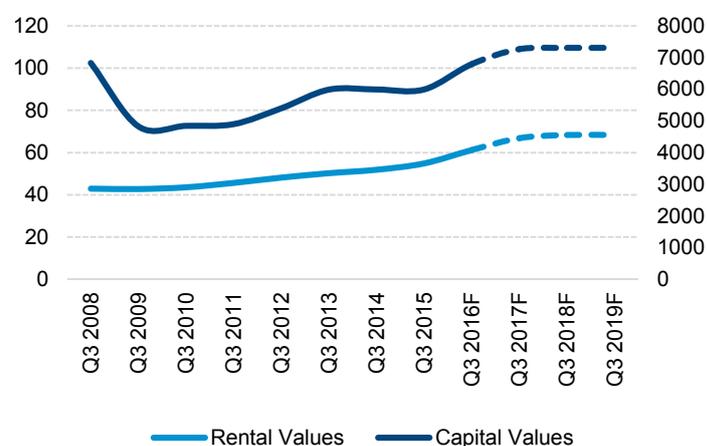
Rental values seem to have stabilized in most micro markets

After a significant increase in rental values last quarter, rents seem to have stabilized and no major appreciation was witnessed in most of the micro markets.

It is worthwhile to note, that on a YOY basis most of the micro markets have witnessed an average increase of 11% while a few micro markets such as Kharadi, Hadapsar, Fursungi has noted YOY increase as high as 20%. This is primarily due to occupier preference and continuous scarcity of grade A supply.

Capital values however, witnessed a 2% to 8% increase in locations such as Nagar Road and Aundh.

Rental and Capital Values



Source: Colliers International India Research

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

We expect, the rental values to remain stable in most of the micro markets in coming quarters barring select micro markets such as Senapati Bapat Road, Kharadi and Hadapsar which shall continue to see upward pressure due to supply crunch.



Colliers View

We expect that the current supply gaps shall start filling by the end of next year and shall help to rationalize rents and capital values. However, in the short term most of the markets are likely to see upward pressure on rents. Pune metro project has finally kicked off with the funding sanctioned for its construction by The World Bank and Asian Infrastructure Investment which should bring a boost to the connectivity of commercial hubs in Pune. There have also been some major developments in the

automobile industry this quarter such as expansion of its existing facilities by Mercedes-Benz, entry of auto component firms such as Cooper Standard and TomTom. Apart from that, Arcelor Mittal and SAIL are also looking to open an automobile facility along the Pune-Chakan belt. We believe that coming quarters shall harness industrial potential in Pune diversifying commercial space needs in certain micro markets.

MAJOR TRANSACTIONS IN Q3 2016

CLIENT	BUILDING NAME	AREA (SQ FT)	LOCATION	LEASE/SALE
ZS Associates	World Trade Centre-Tower C	240,000	Kharadi	Lease
Amdocs	Magarpatta Tower 3	88,000	Hadapsar	Lease
L&T	Blue Ridge Tower 8	69,000	Hinjewadi-1	Lease
Nitor Infotech	Embassy Tech Zone - SEZ Block Congo	50,000	Hinjewadi-2	Lease
Schlumberger	Commerzone B4	43,000	Yerwada	Lease

Source: Colliers International India Research

KEY UNDER CONSTRUCTION PROJECTS

BUILDING NAME	DEVELOPER	AREA (SQ FT)	LOCATION	POSSESSION
EON Phase II	Panchshil Realty	2,000,000	Kharadi	2018
DLF IT SEZ Block 5	DLF	600,000	Hinjewadi Phase II	2018
Futura	Panchshil Realty	250,000	Hadapsar	2017

Source: Colliers International India Research

Notes:

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

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Accelerating success.

Technology sector continues to drive demand

Divya Grover | Senior Manager | Bengaluru

Hyderabad's office market remained resilient with about 5.0 million sq ft office absorption YTD, which is about 79% more than the same period last year. We expect healthy demand momentum to continue for the rest of the year and anticipate entry of more new tenants. Also, expansion by tech companies will continue to drive rents upwards in SBD.

Forecast at a glance



Demand

We forecast healthy demand in the next three months based on numerous RFPs floating in the market



Supply

Next quarter should witness the infusion of nearly 1.0 million sq ft in multiple projects across the SBD



Vacancy rate

Should continue downward slide in Suburban Business District (SBD) in the western part of the city



Rent

SBD rents likely to see upward pressure in wake of healthy demand for office spaces



Price

Capital values set to remain stable in mid-term across all micro-markets

SBD remains the nerve of leasing activities

Healthy demand from occupiers in Information Technology and Information Technology Enabled Services (IT-ITeS) segment took the gross leasing volume to 1.88 million sq ft in Q3 2016 totalling to about 5 million sq ft YTD. In line with the expansion strategy of the large occupiers we recorded a number of pre-commitments, and agreements to lease, mostly concentrated in the SBD. Of the total absorption in this quarter, SBD noted an evidently huge chunk of 96% clearly reinstating that it is the nerve centre of the entire office sector demand and supply dynamics of the city.

Most of this demand was driven by IT-ITeS mainly due to some large ticket sized transactions concluded this quarter from this sector. Almost half of this absorption was recorded in IT-SEZ spaces with an average deal size of 47,000 sq ft. Prominent leases in this quarter included a 580,000 sq ft lease by Google and 500,000 sq ft lease by Cognizant. No major sale transactions were reported in this quarter.

Due to favourable state government policies to attract IT companies, many new companies are continuously setting up base in Hyderabad and have been a prime demand driver for Grade A spaces. A healthy occupier demand scenario has also been instrumental in bringing down vacancy for Grade A spaces across micro markets and has provided an impetus to development of large scale IT parks and SEZs in the long term to cater to this rising demand.

Rental values

Micro Markets	Rental Values*	QOQ Changes	YOY Change
CBD	45 - 50	0%	-5%
Off CBD	45 - 50	0%	-17%
SBD	53 - 58	6%	31%
PBD	25 - 30	0%	0%

Source Colliers International India Research

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

Most of the new supply get deferred to next quarter

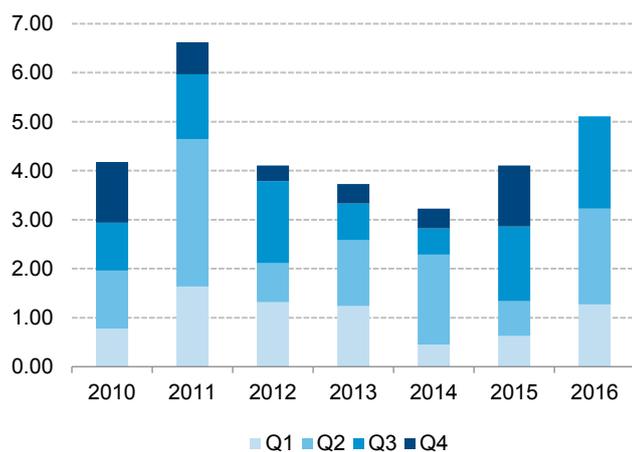
Despite huge demand, new supply remained absent as most of the expected completions were deferred to the next quarter. Similarly, no new projects were launched either and developers are more inclined to complete ongoing projects to infuse new office spaces in the market to cater to the rising demand.

Additionally, some large construction companies are gearing up for future construction by monetizing land parcels and also planning mixed-use developments over the next four-five years which will increase the supply of ready commercial spaces to suit the needs of occupiers. With many Pan India developers continuously entering into joint development and joint venture partnerships, Hyderabad's commercial real estate market is set to witness steady supply infusion in the long term as it remains a prime market for them to establish footprint given the long standing interest from global technology and IT companies.

Hence, we are confident about the city's future supply pipeline to complement the robust demand scenario which is expected to play out in Hyderabad going forward.

Office Absorption

million sq ft



Source: Colliers International India Research

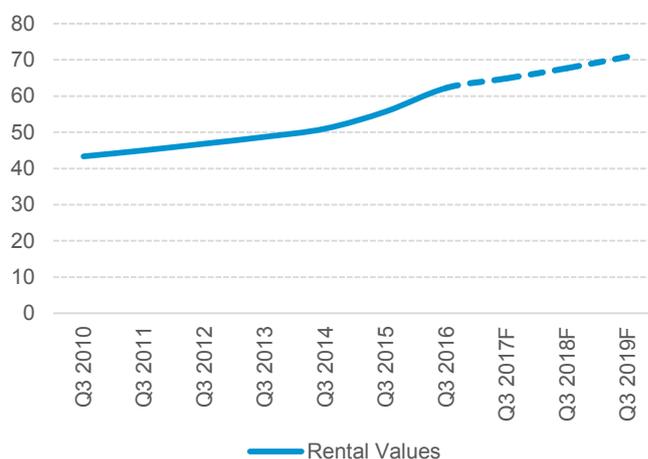
Large scale infrastructure development on the anvil

The city is gearing up to give a face lift to its road transportation network and some key junctions in Panjagutta and Somajiguda have been identified for white topping on a pilot basis. Additionally, the state government is focusing on improving civic infrastructure including drainage systems across Hyderabad and is planning for fund raising through Central government and private players to commence work. There are also preliminary discussions under progress to increase the number of districts under the Hyderabad Municipal Development Authority (HMDA) which shall help improve demand for real estate going forward.

Limited supply in SBD area is likely to put upward pressure on rents

Only the western suburbs or SBD, with a sizeable concentration of entire Grade A stock noted a 6% quarterly uptick due to continually high occupier demand. Other micro markets witnessed a stable rent scenario due to lower leasing volume.

Rental Value Trend



Source: Colliers International India Research

The above graph represent, average Grade A rents per sq ft per month

Going forward, we expect, the rents in SBD to keep moving up continuously as all available and expected future supply is anticipated to be taken up by interested occupiers across multiple sectors such as IT-ITeS, technology etc.

Colliers View

We expect the occupier demand to strengthen in Hyderabad going forward as several new entrants in the IT sector such as data analytics companies, e-commerce companies and social networking platforms have identified the city as the next bright spot. With attractive govt. policies and a few investment grade projects set to become operational in Q4 2016 and 2017 we foresee an increase in overall city attractiveness in near future.

Mainly SBD and adjoining belts such as Financial District, Gachibowli and Nanakramguda will be the beneficiaries of this rising demand.

MAJOR TRANSACTIONS IN Q3 2016

CLIENT	BUILDING NAME	AREA (SQ FT)	LOCATION	LEASE/SALE
Google	Meenakshi Technova	581,000	Gachibowli	Lease
Cognizant	Avance Business Hub	500,000	HITEC City	Lease
Capgemini	Divyasree Orion	165,000	Raidurg	Lease
Wells Fargo	Divyasree Orion	125,000	Raidurg	Lease
Agility Logistics	Navyuga Vizva	52,000	Gachibowli	Lease

Source: Colliers International India Research

KEY UNDER CONSTRUCTION PROJECTS

BUILDING NAME	DEVELOPER	AREA (SQ FT)	LOCATION	POSSESSION
Knowledge City	Salarpuria Sattva	1,540,000	Raidurg	2017
SBR Siri	Sandhya Hotels Group	1,000,000	Raidurg	2017
Amsri Brain Storm	Amsri Builders	900,000	Gachibowli	2018

Source: Colliers International India Research
Notes:

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

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Subdued demand weighs down rents in SBD

Parul Bhargava | Senior Analyst | Gurgaon

Occupiers are scouting for Grade A office spaces in peripheral areas in order to harness the advantages of high vacancies and lower rents. This should translate into improved gross absorption in the coming quarters. However, developers should refrain from adding any new supply due to higher vacancy levels

Forecast at a glance



Demand

Demand for Grade A office space should turn the corner in coming quarters as enquiries have started picking up



Supply

We foresee, very limited supply addition in the market in near term as only one major project is likely to see completion by 2017



Vacancy rate

City level vacancy should hover around its current level of 24% till a turnaround in demand is recorded



Rent

Muted demand coupled with high vacancy should continue to weigh down on rents in suburban and peripheral micro markets



Price

Capital Values may see marginal appreciation on the back of domestic demand

Leasing activity driven by tenant favourable conditions

At just over 0.09 million sq ft, overall transaction volume was unable to pick up this quarter as well, but on a positive note, enquiries have started picking up. YTD absorption was recorded at 0.38 million sq ft, and is expected to show improvement with festive season round the corner.

Lease activity was driven by assortment of industries including Technology firms which shared about 33% of the absorption pie while, Engineering firms came in next at 25% share. FMCG and Pharmaceutical sectors both contributed 11% to the transaction volumes.

Bulk of the leasing volumes was concluded in Sector V due to availability of large floor plates. A number of tenants whose leases were about to end were looking to benefit from affordable rents and high availability of good quality office space in peripheral area.

Major transactions in this quarter include GE Alstom lease renewal in Millenium City building in Sector V. Other notable transactions include Uber taking up 15,600 sq ft space and YSG taking up 10,000 sq ft in Sector V.

Rental Values

Micro Markets	Rental Values ¹	QOQ Changes	YOY Change
CBD ²	85 - 115	0%	0%
SBD ³	60 - 70	0%	-7%
Sector V	40 - 45	0%	-3%
PBD ⁴	34 - 35	0%	0%

Source Colliers International India Research

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

² Park Street, Camac Street, Chowranghee Road, AJC Bose Road

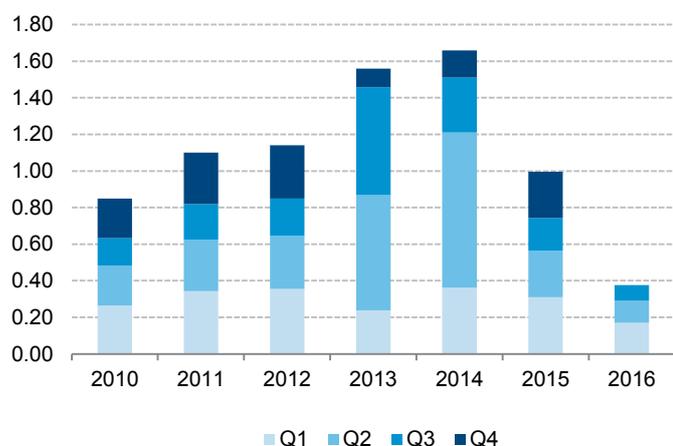
³ EM Bypass, Topsia, Ruby

⁴ Salt Lake, New Town, Rajarhat

Occupiers continued to opt for lower cost options in Sector V. It is worthwhile to note that CBD and SBD micro markets together account for only 6% of the total vacant stock. Peripheral areas of New Town and Rajarhat contribute 45% while Sector V accounts for 42% of the total vacant stock. With vacancy levels reaching 30% in PBD, rents are unlikely to pick up in the coming quarters.

Office Absorption

million sq ft



Source: Colliers International India Research

No major launches in the quarter

New completion Isha Tower added 0.1 million sq ft to the total stock on AJC Bose Road. There were no major launches this quarter.

This quarter, IT major Cognizant Technology Solutions was allocated 15 acres of plot area in New Town to set up its third campus. A proposal from Infosys to set up an IT SEZ (Information Technology Special Economic Zone) on a 20.14 hectares land parcels in South Parganas was rejected by the state govt. Also, Wipro's proposition to establish an IT SEZ on 19.76 hectares in Rajarhat has also been deferred.

Amid subdued demand and double digit vacancy rates, landlords remained cautious

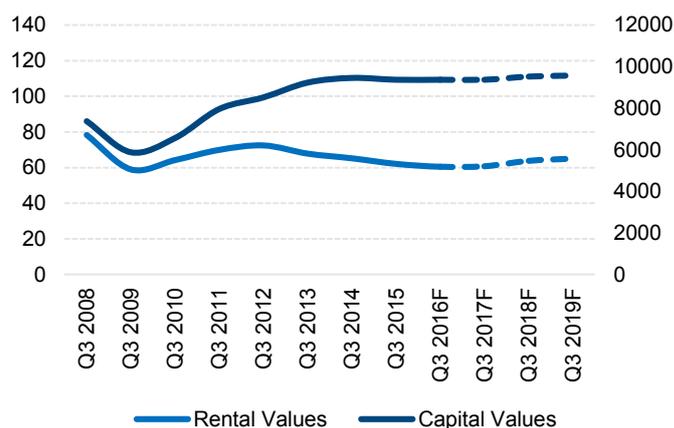
Rents and Capital Values remained stable in the quarter across all micro markets. However, on YOY basis, rents in SBD and Sector V have registered 7% and 3% decline, respectively.

However, a few new office buildings in Sector V registered growth in rental values. Sector V remained as the preferred destination accounting for 78% of the total deal volume on the back of affordable rents. As vacancy levels remain high at 30% in Sector V, property owners offered discounts on lease renewals to retain existing occupiers.

Demand will remain concentrated in Sector V backed mainly by home grown companies looking for small to medium sized office space. Peripheral locations like Rajarhat will see decline in rents owing to high vacancy levels and new supply coming in the next six months.

It is worthwhile to note that in the backdrop of muted demand, strata owned office blocks are witnessing more decline in rents while buildings owned by developers have maintained stable rents due to occupier preference.

Rental and Capital Values



Source: Colliers International India Research

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

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

Colliers View

We expect gross absorption to pick up in the coming quarters, as number of enquiries have increased. Sector V and peripheral district will continue to draw enquiries on account of high vacancy and lower rents. New supply planned for 2017 is rather limited with only one project expected to be completed in peripheral area of Rajarhat, adding 0.15 million sq ft built up area.

In the backdrop of low volume of transactions in Q3 2016, most landlords were concerned with tenant outflow to lower cost locations and therefore were willing to keep rents at the same level or reduce rents to retain current occupiers. This trends is likely to continue, till major uptick in absorption is registered.

MAJOR TRANSACTIONS IN Q3 2016

CLIENT	BUILDING NAME	AREA (SQ FT)	LOCATION	LEASE/SALE
GE Alstom	Millenium City	21,165	Sector V	Lease
Uber	Infinium Digispace	15,595	Sector V	Lease
YSG	Srijan Corporate Park	10,000	Sector V	Lease
ITC	Kanak Building Annexure	7000	CBD	Lease
Cipla	Srijan Corporate Park	6500	Sector V	Lease

Source: Colliers International

KEY UNDER CONSTRUCTION PROJECTS

BUILDING NAME	DEVELOPER	AREA (SQ FT)	LOCATION	POSSESSION
Technopolis 2	Forum Projects	1,200,000	Bantala	2016

Source: Colliers International

Notes:

1. Office Market: The major business locations in Kolkata are CBD (Park Street, Camac Street, Chowranghee Rd, AJC Bose Road) , East Kolkata (EM Bypass, Topsia, Ruby), Salt Lake/Sector V and New Town/ Rajarhat.
2. Rents/Capital Value: Market average of indicative asking price for Grade A office space.
3. Available Supply: Total Grade A office space being marketed for sale or lease in surveyed quarter.
4. All figures in the report are based on market information as on 25th September, 2016.

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