

# OFFICE SNAPSHOT Q1 2016



## Demand for office space increased by 19% in Q1 2016; Bengaluru & Hyderabad witness high pre-commitments in the first quarter

- Demand was recorded at 11.7 million square feet (msf), higher by 19% compared to previous year
- Overall vacancy levels seen at 17.12% - lowest in 10 quarters
- Bengaluru and Hyderabad accounted for 62% of total net absorption and also witnessed high pre-commitments
- Supply rose 41% in Q1 2016 partly due to spill-over from last few quarters

Momentum in economic growth and reforms brought about by the government over the last year have increased the confidence of corporate India. The higher business optimism has in turn steered occupiers' demand for current and future office space and increased corporate clarity towards their expansion strategies. Following a strong fourth quarter, the overall office demand in the first quarter of 2016 increased by 19% to 11.7 million square feet (msf) across the top eight cities backed by high pre-commitments, as compared to the corresponding quarter last year.

In order to sync real estate requirements with business growth strategy, a number of companies have committed space foreseeing limited availability of upcoming quality stock in select markets. Pre-commitments more than doubled compared to same quarter last year and were noted at 4.6 msf,

representing 40% of the total demand of the quarter. Net absorption, on the other hand, was seen to be sluggish marked by characteristic slow Q1 fraught by delayed decision making by Indian companies. However the two southern cities of Bengaluru and Hyderabad bucked the trend registering strong uptake of space.

Bengaluru and Hyderabad accounted for a chunk of total demand - at approximately 72% - on the back of strong activity from companies in the IT-ITeS\* sector, which expanded their footprint. Bengaluru witnessed demand of 6.1 msf, a 47% increase from the year-ago quarter. The city has seen steady pre-commitment levels over last couple of years with the first quarter witnessing 2.8 msf, a three-fold increase compared to same quarter last year. Despite a 66% increase in supply during Q1 2016 (as compared to Q1 2015), the city's vacancy level was noted at 10.5% - the lowest in 13. This signals the importance of Bengaluru, which has remained the dominant market, especially for companies in the technology space. Availability of quality space, competitive rentals, availability of talent and political stability have been major reasons that have cemented Bengaluru's position as a leader in the commercial office space.

The IT-ITeS sector continued to fuel the Hyderabad market, leading to a 107% increase in demand to 2.3 msf in Q1 2016, over Q1 2015 levels. The city saw heightened net absorption of 1.2 msf and equivalent pre-commitments during the quarter owing to greater business confidence. After four quarters of staggered supply levels, supply too increased by 49% to 1.4 msf during Q1 2016.

*"Demand looks promising going forward with increasing business confidence backed by policy announcements and government initiatives. The first quarter began by recording a high pre-commitment level ensuring healthy momentum the next few quarters' especially in south cities. Moreover, the year 2016 began with some outright purchases in top cities, which have fuelled optimism into the sector. Overall, with the government streamlining the taxation structure of REITS, the market might witness higher investment activity towards the later end of the year,"*

**Ritesh Sachdev**, Managing Director, Tenant Advisory Group, India, Cushman & Wakefield.

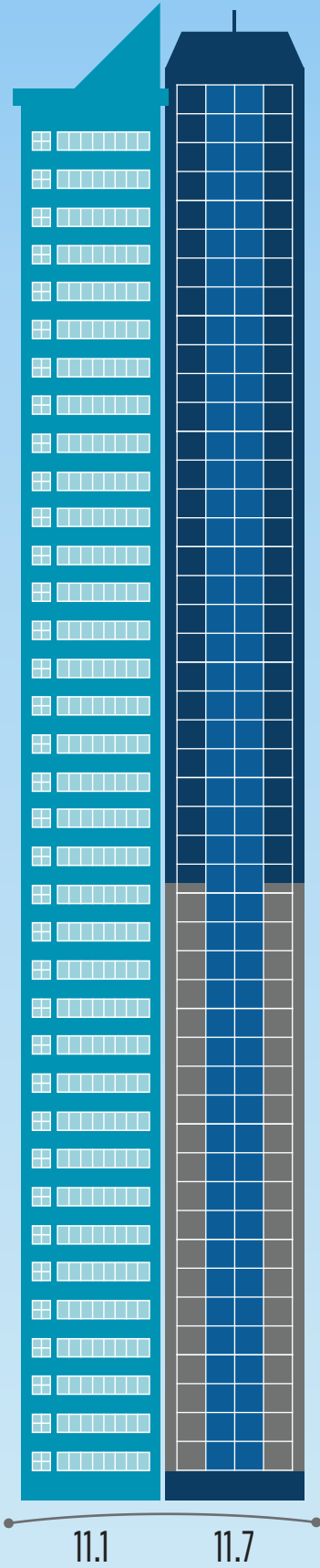
City	Supply Q1 2016 (in msf)	% change (YoY)	Demand Q1 2016 (in msf)	% change (YoY)
Ahmedabad	0.8	222%	0.2	27%
Bengaluru	4.0	66%	6.1	47%
Chennai	-	-	0.67	-47%
Delhi-NCR	2.5	15%	0.7	-10%
Hyderabad	1.4	49%	2.3	107%
Kolkata	0.5	204%	0.1	-37%
Mumbai	0.9	-17%	1.0	-25%
Pune	0.9	22%	0.5	-32%
<b>TOTAL</b>	<b>11.1</b>	<b>41%</b>	<b>11.7</b>	<b>19%</b>

Note: These are approximate figures

Source: Cushman & Wakefield Research

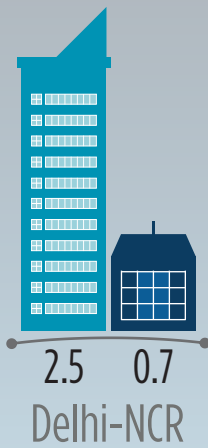
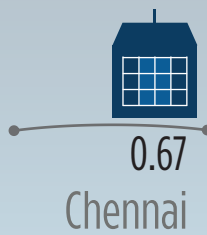
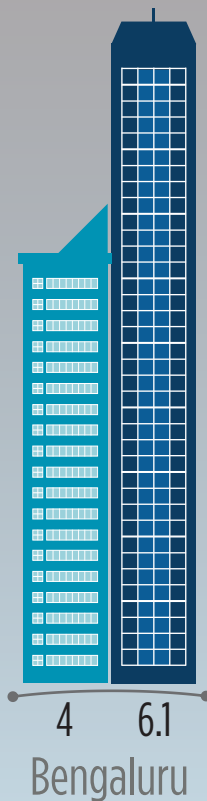
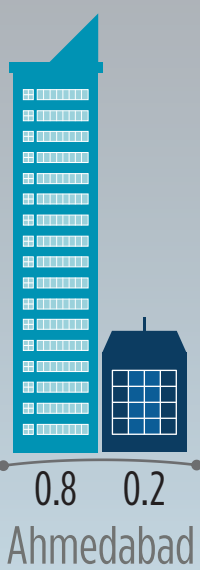
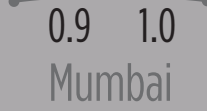
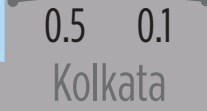
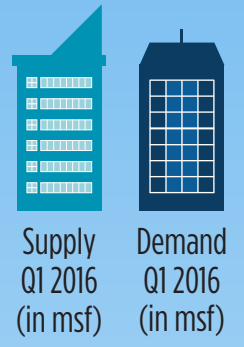
IT-ITeS denotes Information Technology and Information Technology enabled Services

# INDIA



7.1 : Net Absorption

4.6 : Pre-commitments



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## CITY OVERVIEW

### Bengaluru

Demand rose 47% to 6.0 msf in Q1 2016 driven by more than a three-fold rise in pre-commitments during the quarter. Despite the net absorption level increasing marginally (by 1%) to 3.3 msf in Q1 2016, as compared to Q1 2015, Bengaluru's net absorption accounted for 45% of total net absorption across top 8 cities during the quarter.

The rise in demand was driven by the IT-ITES occupiers who executed their expansion strategies and increased their real estate footprint in Bengaluru. The IT driven sub-markets such as the Outer Ring Road (ORR) are currently witnessing all time low vacancy rates as the demand has consistently outpaced supply, creating an upward pressure on rents.

The demand has also impacted the rental values of Grade A offices in the city. The Grade A rent in the submarket of ORR has therefore increased by approximately 16% year on year. While the supply is expected to pick pace in the next quarter, the absorption level is also likely to increase as about 2.2 msf of pre-commitments are scheduled to get absorbed in Q2. On the back of increased spend on technology from key sectors such as BFSI\*, telecom and healthcare, the IT-ITES sector is expected to remain buoyant and grow its share in demand. The vacancy rates are expected to continue to remain low over the next quarter whereas the rents could further increase.

### Chennai

Demand in Chennai dropped by 47% to 0.67 msf owing to reduced transaction activity during the quarter and lower pre-commitments compared to last year. Interestingly, Chennai did not witness any new supply during the quarter.

With limited supply in the often preferred micro-market of suburban south\*\*, demand for space was pushed further southward with the Peripheral South\*\*\* submarket emerging as the star performer during the quarter with a contribution of 64% to the total leasing. IT industry continued to witness the maximum activity with the largest deals of the quarter recorded in this sector followed by the automotive sector in the micro-markets of Thoraipakkam, Sholingnallur and Singaperumalkoil. On the back of no new supply being released and with consistent take up, the overall vacancy rates close to 9%, tilting towards being a developer favoring market. With relatively limited

\*Banking, Financial services and Insurance

\*\*Perungudi, Taramani, Thiruvannamiyur, Velachery

\*\*\*Sholingnallur, Thoraipakkam, Navalur, Siruseri, Padur

Grade A supply scheduled to being released this year, the dynamics is poised to continue. Overall demand however looks to remain stable.

### Delhi-NCR

Delhi NCR witnessed a drop in demand by 10% to 0.7 msf in Q1 2016. Also, despite the CBD# area witnessing a 15% increase in office supply, the city did not record any pre-commitments during this quarter.

Demand declined as occupiers continue to consolidate their real estate footprint in the region. Although IT-ITES and BFSI continue to have the predominant share in office space demand, several other sectors including Aviation, E-commerce & Logistics and Media & Telecommunication together contributed close to 25% share in demand during Q1 2016.

### Hyderabad

The IT-ITES sector continued to fuel the Hyderabad market leading to a 107% increase in demand to 2.3 msf in Q1 2016, over Q1 2015 levels. Hyderabad's net absorption rose by 9% to 1.2 msf in Q1 2016, vis-à-vis Q1 2015. Pre-commitment rose manifold to 1.1 msf in Q1 2016, while supply in Hyderabad rose almost 50% to 1.4 msf during the quarter.

Limited availability of Grade A supply has led to high levels of pre-commitment by IT-ITES sector in Hyderabad. With competitive rentals in the city, quality infrastructure and a proactive government that is creating more visibility for 'Brand Hyderabad', global companies are increasingly preferring to set up offices in the city. With 1.1 msf pre-commitments scheduled for absorption in Q2, we expect the net absorption to increase significantly over the next quarter. We also expect the IT-ITES sector to remain as the key driver of office demand as the entire share of pre-commitments is from the sector. As the vacancy rate in the submarket of Madhapur is under 2% and demand is expected to increase during the next quarter, the rental values for the submarket are therefore likely to witness an upward movement in the next quarter.

### Kolkata

Kolkata witnessed a drop in demand by 37% to 0.1 msf. The city did not record any pre-commitments during this quarter and the corresponding quarter last year due to steady infusion of supply, at 0.5 msf, and rising availabilities.

Kolkata witnessed a decline in demand, led by an equivalent drop in net absorption as companies were still seen to be finalizing their leasing decisions.

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Though IT-ITeS sector remained the highest contributor to total Grade A office space demand with nearly 36% share, slow expansion plans in leased office spaces kept demand at moderate levels.

## Mumbai

Mumbai noted a 49% decline in net absorption compared to last year despite increase in pre-commitment, by 68% to 0.5 msf in Q1 2016. Both net absorption and pre-commitment equally contributed to the demand that was noted at 1.0 msf during the quarter.

Setting the tone for an optimistic year ahead for the market, the quarter witnessed key outright purchase transactions in Mumbai, especially by domestic companies in the BFSI sector. Demand was down by 25% in Q1 due to increased relocation activities in the submarkets of Andheri Kurla Road, Powai and Central suburbs. It is pertinent to note that the quarter recorded 0.5 msf of pre-commitments for future space and majority of this was contributed by the IT-ITES sector for office space in the Thane-Belapur

submarket. Rentals have largely remained range-bound across most of the sub markets in Mumbai. However, select markets within Mumbai viz. Western suburbs and Thane Belapur Road are heading towards more landlord favorable due to diminishing quality supply.

## Pune

Demand in Pune dropped by 32% to 0.6 msf with no pre-commitments recorded during the quarter. The city witnessed increase in supply to 0.9 msf in Q1, a 22% increase compared to same quarter last year.

After witnessing healthy absorption in the previous quarter, Pune witnessed a decline in net absorption in Q1 2016 due to delays in occupiers' decisions with respect to expansion/consolidation strategies. Interestingly the share of absorption by companies in BFSI and consulting sectors has been increasing since last four quarters as global banks and financial institutions continue to expand their captive centers in the city. While in Q1 2015, BFSI and consulting sector together constituted a mere 9% in quarterly leasing, the share of both these sectors increased to almost half (48%) of total Grade A leasing in Q1 2016.

## About Cushman & Wakefield

Cushman & Wakefield is a global leader in commercial real estate services, helping clients transform the way people work, shop, and live. The firm's 43,000 employees in more than 60 countries provide deep local and global insights that create significant value for occupiers and investors around the world. Cushman & Wakefield is among the largest commercial real estate services firms in the world with revenues of \$5 billion across core services of agency leasing, asset services, capital markets, facilities services (branded C&W Services), global occupier services, investment management (branded DTZ Investors), tenant representation and valuations & advisory. To learn more, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @Cushwake on Twitter.

Cushman & Wakefield established operations in India in 1997 and was the first international real estate service provider to be granted permission by the Government of India to operate as a wholly owned subsidiary. We are a strong team of over 2,800 employees, operating across New Delhi, Gurgaon, Mumbai, Pune, Bengaluru, Chennai, Hyderabad, Kolkata and Ahmedabad. In addition, we service over 200 other cities such as Ahmedabad, Nagpur, Cochin, Mysore, Mohali, Chandigarh, Goa, Ludhiana, Jaipur and Coimbatore amongst others. A recognized leader in local and global real estate research, the firm publishes its market information and studies online at [www.cushmanwakefield.com/knowledge](http://www.cushmanwakefield.com/knowledge).

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