CUSHMAN & WAKEFIELD

INDIA OFFICE MARKETS

MOVING ONWARDS AND UPWARDS

INDIA OFFICE MARKET UPDATE

The Indian office markets have been the one bright spark in the Indian real estate industry, especially in the current scenario when we are still in a prolonged slump in the residential sector. The domestic NBFC crisis has cast a long shadow on the residential refinancing market, which had been key for this asset class managing to keep it's head above water in recent times. With residential sales on a slow recovery route and the GST impact still being felt, the commercial sector during the same period has gone from strength to strength.

5 Key takeaways of India Office Market Update

- STRONG LEASING ACTIVITY
- TECH CITIES CONTINUE TO DOMINATE
- IT-BPM MAKES A STRONG COMEBACK IN Q2
- LARGE SUPPLY COMPLETIONS
- STRONG NET ABSORPTION TO POSITIVELY SUPPORT NEW WHITE-COLLAR JOBS

1

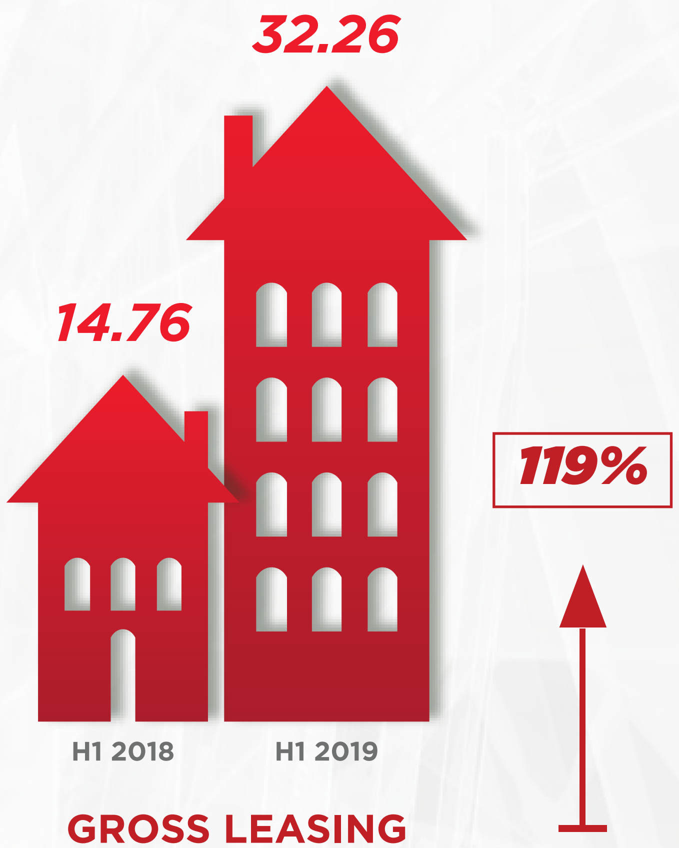
Strong leasing activity; pre-leasing and term renewals indicate future business confidence

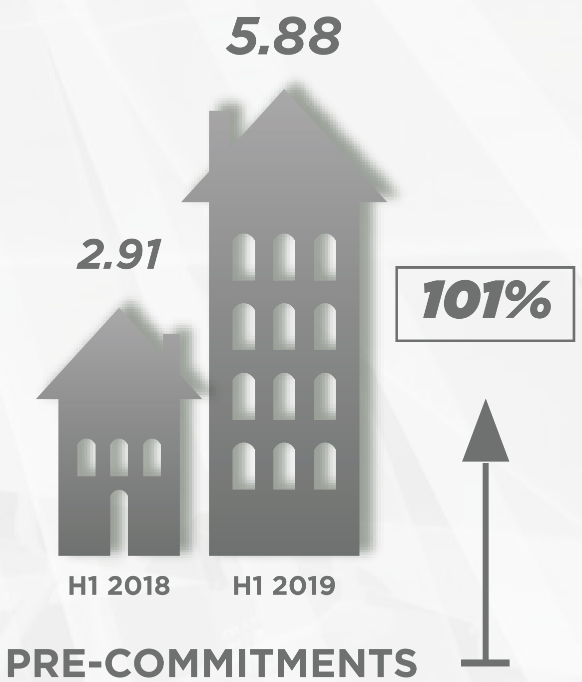
Leasing activity in Q2 2019 was 39% higher on a q-o-q basis, recording 18.7 msf during the quarter, with 4.3 msf of pre-commitments.

When 2018 marked a historic peak in leasing activity numbers, clocking 48 mn sf, it was expected to be sustained for the next 2-3 years. However, 2019 seems on track to surpass that easily with H1 clocking impressive leasing numbers of 32 mn sf; accounting for 2/3rd of the total 2018 number.

What is interesting to note is that, in 2018, the H1 activity was around 14.7 mn sf with the H2 of 2018 adding the momentum through 33 mn sf of activity recorded over that period. Similarly, preleasing activity in H2 2018 was 80% of the year's total of 15.6 mn sf. We seem to have carried the H2 2018 momentum into 2019 with a strong performance over the first half. Preleasing activity is already 5.9 msf in H1 2019, 2X the H1 2018 preleasing numbers.

Term renewals have featured prominently in the space take-up story of 2019 so far, which ties with the partial market recovery in office demand that started to be visible during the year 2010 across the major tech cities.



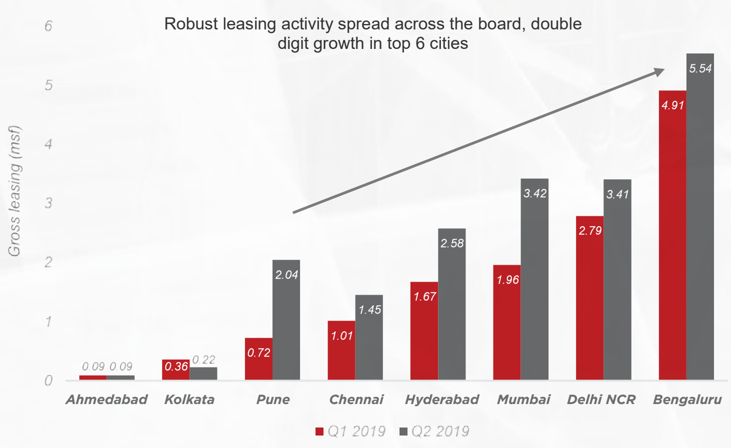


2

Tech cities continue to dominate; Mumbai and NCR also clock a strong showing

Bengaluru continues to remain the biggest office market in terms of leasing activity, leaving others behind in its wake as it retains its tech leader position. It accounted for 30% share of gross leasing in Q2 2019, followed by Mumbai and Delhi NCR with near equal share of around 18.3%. Mumbai was the biggest mover with Q2 leasing activity 75% higher on a q-o-q basis.

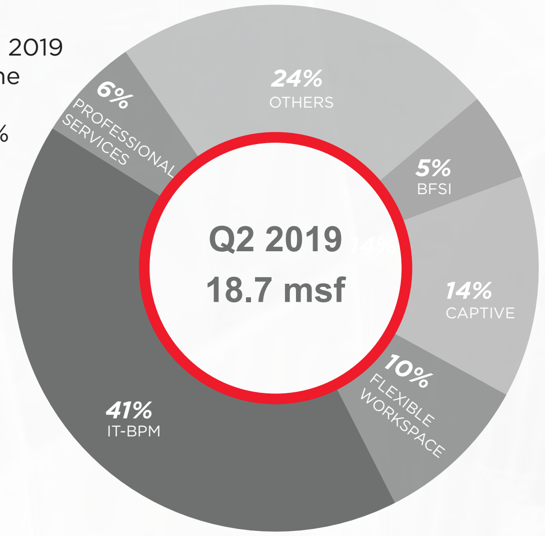
While Hyderabad showed higher absolute numbers on a q-o-q basis, it's share of overall leasing activity in Q2 was slightly lower than the previous quarter. This is also a function of robust leasing activity seen in Hyderabad during 2018 when it surpassed previous records to be the second biggest leasing market in the country. Pune showed significant improvement in quarterly leasing activity with large transactions recorded in the PBD West submarket during the quarter. Chennai also recorded an improvement on a q-o-q basis in absolute number terms.



3

IT-BPM makes a strong comeback in Q2; flexible workspaces set for a record performance with captives showing resilience

The IT-BPM sector with a strong 41% share of leasing activity in Q2 2019 compared to 25% in the previous quarter came back strongly on the back of large transactions over this period. Captive centres (global capability centres) and flex workplace operators accounted for 14% and 10% share of leasing activity in Q2 2019. Flex operators have taken up 4.2 msf in H1 2019, compared to 5.0 msf in full 2018. We expect this segment to account for around 7-7.5 msf of space take-up by end of 2019 even as managed workspaces have gained appreciable traction from large corporates in an environment of cost savings and consolidation. H1 2019 leasing activity has been dominated by Bengaluru and Delhi NCR with shares of 31% and 23%, respectively in this occupier segment. India's growth as a key captive centres market remains on track even as these centres are growing beyond the conventional tech cities. While Bengaluru accounted for 49% share of H1 2019 leasing by captive centres, Mumbai had a strong 31% share in this segment.



4

Large supply completions; tight vacancies prevail in core office markets

The supply build-out activity that started in 2015-16 has started to show results with heavy completions hitting the office market. While 34 msf was completed/added to Grade A office supply in 2018, H1 2019 has already seen 30 msf of new projects being completed and added to the pan India office stock which now stands at 541 msf.

Despite the supply additions, we continue to see single digit, tight vacancies in cities like Bengaluru, Hyderabad and Pune and in core markets of cities such as Delhi-NCR, Mumbai and Chennai.

Considering preleasing levels and ongoing space requirements, we expect that future supply in these cities and relevant core markets will not ease the vacancy constraints in the short to medium term. This creates an environment that is likely to support further rent growth and hence occupiers may look to move aggressively to lock down spaces in such locations.

5

Strong net absorption to positively support new white-collar jobs

With net absorption volumes likely to hit a peak of close to 37-40 msf, it translates to a likely addition of 5-6 lakh jobs to the white-collar workforce over the period of 2019 and beyond. This adds to the overall job market as a single tech job in turn could fuel 5-6 ancillary jobs in its wake.

A strong office market performance and the resultant positive impact in job creation could push consumption-led demand as well as inject some momentum to the residential sales market.

India's continued strength in the IT-BPM sector and its emergence as a R&D and captive centre hub and centre for new technology sectors along with an evolving workforce fueling the growth of coworking, is expected to sustain the upward momentum in India's office sector.

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