

1.8 msf GROSS LEASING (Q1 2020)

1.0 msf NEW COMPLETIONS (Q1 2020)

0.7 msf PRE-LEASING ACTIVITY (Q1 2020)

MARKET INDICATORS OVERALL
Q1 2020

	Q1 2019	Q1 2020	12 month Forecast
Overall Vacancy	5.4%	5.5%	▲
Weighted Average Net Asking Rents (INR/sf/month)	58.2	62.0	■
YTD Net Absorption (sf)	2,855,480	891,613	■

Healthy start for 2020; COVID uncertainty ahead

The Hyderabad office market witnessed a positive start for the year with robust leasing momentum continuing in the vein of 2019. Gross leasing at 1.8 msf was higher by 12% y-o-y. However, with the COVID-19 becoming a global pandemic, activity tapered off towards end of February and as a result, the space take-up was lower by about 70% q-o-q. Flexible space operators and the technology sector together accounted for nearly 80% of the leasing activity in Q1. Large managed space providers such as Simpliwork, Smartworks and Tablespace have leased more than 700,000 sf in Q1, targeting the strong enterprise demand base in tight vacancy market conditions. Madhapur remained the dominant submarket accounting for nearly 3/4th of the office demand followed by Gachibowli at about 25%. Pre-leasing was also healthy with a 37% share in the gross leasing activity for the quarter, with several tenants like Vertafore, Medtronic, MassMutual and Tanla leasing space in projects lined up for completion in H2 2020. Net absorption was recorded at 0.9 msf, a drop of 18% q-o-q largely because of limited new supply becoming operational during the quarter and vacancy being very tight in the core markets.

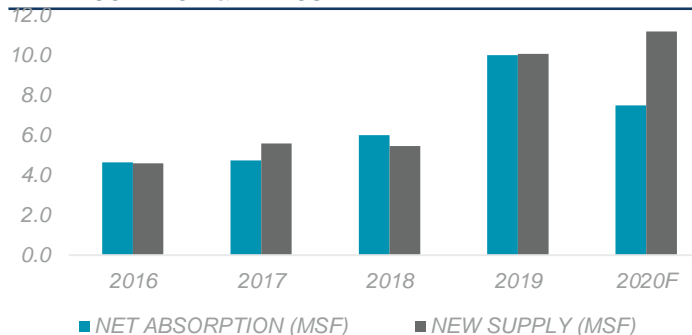
Space constraints continue in Q1, possible supply deferments in H2 2020

Overall vacancy at the city level remained stable at 5.5% during the quarter. New supply of 1.0 msf was added with project completions recorded in Gachibowli and Jubilee Hills. Nearly 70% of this new supply was already pre-leased. Vacancy in Madhapur has tightened further to 1.5%, the lowest ever recorded since 2016. We expect overall vacancy in Madhapur to remain tight at 3-5% over the next 6-9 months considering significant levels of pre-leasing in upcoming projects as well as possible supply deferments in the short term due to the outbreak of COVID-19. Given the impact on resource mobilization and sourcing of raw materials going forward, we expect nearly 3-4 msf of upcoming supply scheduled for completion in 2020 to be delayed. Developers may not have to rush to complete projects as occupiers will remain flexible with timelines in the short term as they seek to resolve BCP issues and rework core business plans in the wake of the uncertain global environment precipitated by the COVID-19 outbreak.

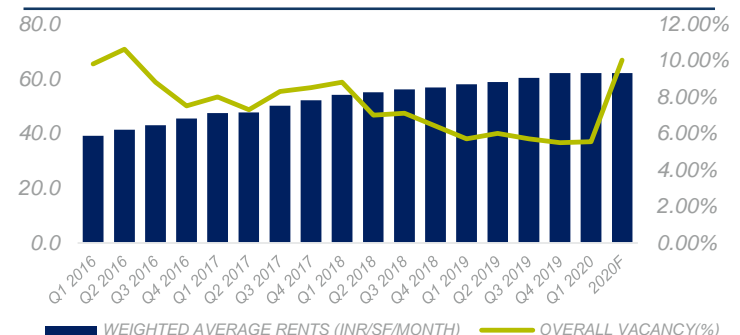
Softening demand in the short term but rental concessions unlikely

Space take-up had been robust early in Q1 but failed to sustain the momentum over the last 4-6 weeks. Leasing activity is likely to remain muted in Q2, but a gradual pick-up is likely in H2 depending on how soon the lockdown is lifted and subsequent situation evolves. We expect an additional supply of 9.0-10.0 msf for the rest of 2020, of which nearly 50% is already pre-leased. Office demand and net absorption over the next 12 months are likely to soften given the headwinds for global economy and its impact on office demand. Occupiers are busy with BCP measures and looking at expected economic headwinds are deferring on-going transaction closures till there is clarity on business growth and direction. We expect consolidation strategies may take a backseat including demand from small & medium enterprises; start-ups may also see reduction in space requirements in the short term. IT-BPM, flex space providers will continue to drive the market going forward while captives, which have fuelled office demand in the city over the last 2-3 years could pick up in a phased manner until 2021. About 6.0-8.0 msf. of active demand from captive centres is likely to get deferred in the short term, while coworking operators will also be careful in expanding very rapidly and may take a more considered view going forward. Rentals are likely to remain stable in the short term given tight vacancies and higher pre-leasing across most upcoming projects in 2020. Moderate rental growth of 2-3% both in Madhapur and Gachibowli can also be expected if there are early signs of recovery, though the trends point towards more rent stability in the short term.

NET ABSORPTION & NEW SUPPLY



OVERALL VACANCY & WEIGHTED AVERAGE ASKING RENT





MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	VACANCY RATE (%)	YTD GROSS LEASING ACTIVITY# (SF)	PLANNED & UNDER CONSTRUCTION (SF)^	YTD CONSTRUCTION COMPLETIONS (SF)	YTD NET ABSORPTION (SF)	GRADE A WTD. AVG. RENT*		
							INR/SF/MO	US\$/SF/YR	EUR/SF/YR
Madhapur	41,588,351	1.5%	1,359,274	17,168,931	0	318,936	78.00	12.27	11.44
Gachibowli	14,019,193	11.3%	313,334	17,602,598	750,000	609,768	61.43	9.66	9.01
Peripheral East	2,048,000	31.5%	0	0	0	0	38.60	6.07	5.66
TOTAL##	59,575,985	5.54%	1,799,879	35,867,149	1,000,000	891,613	62.00	9.75	9.09

The report highlights Grade A details only. Certain indicators are historically corrected by addition / deletion of older / refurbished projects as per grade A classification and accounting for changes in built-up / leasable area besides adjusting tenant leases to reflect accurate market conditions.

#YTD gross leasing activity includes pre commitments and term renewals

^ Includes planned & under construction projects until 2022

Net absorption refers to the incremental new space take-up

*Weighted average asking rental rates for vacant spaces that provide core facility, high-side air conditioning and 100% power back up

Totals include a smaller portion of grade A properties outside the above-mentioned submarkets.

IT-BPM – Information Technology – Business Process Management, BFSI - Banking, Financial services and Insurance

Key to submarkets:

Madhapur includes Madhapur, Kondapur, Raidurg; Gachibowli includes Gachibowli, Nanakramguda, Manikonda Peripheral East includes Pocharam and Uppal;

US\$ 1 = INR 76.3 € 1 = INR 81.85

Numbers for the fourth quarter are based on market information collected until 25th March 2020

KEY LEASE TRANSACTIONS Q1 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
My Home Twitza	Suburban (Madhapur)	Simpliwork	341,566	Pre-commitment
SDE Prameela	Suburban (Madhapur)	Smartworks	262,000	Fresh lease
The Sky View Tower 20	Suburban (Madhapur)	Mindtree	149,630	Fresh lease
My Home Twitza	Suburban (Madhapur)	Vertafore	111,423	Pre-commitment

SIGNIFICANT PROJECTS PLANNED AND UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANT	SF	COMPLETION DATE
KRC Mindspace Building 12D	Suburban (Madhapur)	Vitech, Tanla	1,250,000	Q2 2020
BSR Tech Park Tower -I	Suburban (Gachibowli)	Medtronic, MassMutual	1,480,000	Q2 2020
Knowledge Capital Block 2	Suburban (Gachibowli)	Google	612,598	Q2 2020
My Home Twitza	Suburban (Madhapur)	Simpliwork, Vertafore	1,180,000	Q3 2020

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