MARKETBEAT

BENGALURU

Office Q2 2020

2.2 msf GROSS LEASING (Q2 2020)

0.2 msf SUPPLY/COMPLETION (Q2 2020)

6.52% VACANCY (Q2 2020)

MARKET INDICATORS
OVERALL Q2 2020

	Q2 2019	Q2 2020	12 month Forecast
Overall Vacancy	5.76%	6.52%	▲
Weighted Average Net Asking Rents (INR/sf/month)	73.87	81.60	▬
YTD Net Absorption (sf)	7,159,134	2,542,509	▼

Leasing activity loses momentum in Q2 amidst the pandemic

Along expected lines, with the COVID pandemic and the lockdown measures in place for a major part of Q2, leasing activity slowed down. Occupiers were initially focusing on business continuity measures and are now looking towards portfolio assessment, workplace strategies and cost optimisation measures which are driving their real estate decision making exercise. A few active transactions got pushed and re-negotiations were initiated for renewals, pre-renewals (coming up in the next 6-9 months) and even for deals in advanced stages of finalisation. The city clocked a gross lease volume of 2.2 msf in Q2, a q-o-q drop of 39% and a y-o-y dip of 43% on H1 comparison. Slowing occupier activity and delayed completions during the first half of the year also impacted the YTD net absorption which stood at 2.54 msf, tracking a drop of 64% y-o-y. With almost 62% of the upcoming supply in H2 2020 being pre-committed, net absorption for the year is likely to remain at healthy levels. While few occupiers are now mulling cost savings through space surrender and revisiting pre-commitments, some of the others who operate across owned campuses and leased assets are exploring consolidation possibilities in these campuses than pay rent for leased assets. On a positive note, pre-commitments, though at a smaller scale continue to get recorded in projects awaiting OC (PWC signed in Bagmane Quay, due for completion in Q3 2020) and some active occupiers in the tech sector too continue to go ahead with their plans. There is still a consistent churn in office spaces across prominent submarkets like Suburban East and ORR, indicating steady demand even as these locations continue to show tight vacancy levels (2-5%) over the last 5 years. With many of the occupiers still being in “wait-and-act” mode and deferring consolidation/expansion requirements, new large space enquiries are less in number, while smaller space requirements for 30,000-40,000 sf are ongoing. With start-up and freelancer demand for co-working centres witnessing a substantive drop, few operators are shrinking their capacity and footprint. However, cost optimization strategies by corporates may support the sector’s future sustenance, especially for managed space providers servicing enterprise demand.

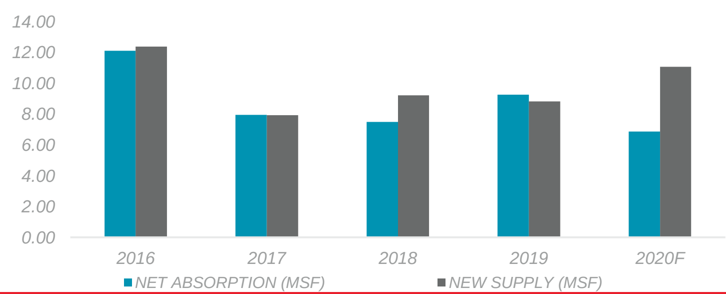
Construction activity resumes, though at a slower pace

While on-ground construction activity stalled during the lockdown and resumed at a slow pace in Unlock 1.0, a project completion of 0.2 msf was recorded in Q2, adding up to a total supply of 4.72 msf during H1 2020, which marks a drop of 37% y-o-y on H1 comparison. However, with a high percentage of pre-commitments (62%) and taking into account the projects awaiting OC or nearing completion, we forecast an upcoming supply of ~6-6.5 msf for H2 2020, even as developers control supply to keep the vacancy levels within the tight range, that has been prevailing across the prominent submarkets over the quarters.

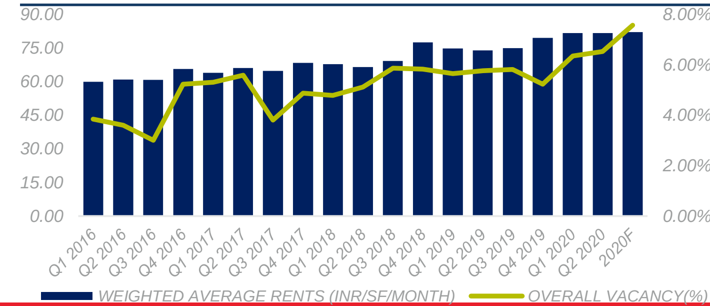
Rentals remain stable backed by tight vacancy levels

Despite occupiers seeking rental negotiations and discounts on renewals, majority of the landlords/developers in the city continue to hold steady by not offering rental reductions or waiving off rental escalations. However, mid-sized developers are likely to offer some flexibility in rentals and waivers on CAM in the short to medium term to retain tenants. Even with a foreseeable decline in occupier activity in the short-term, the high proportion of pre-leasing in upcoming supply and tight vacancy levels, are likely to be the factors keeping rents steady. However, the on-ground situation is still evolving and we shall continue to keep a close watch on the rental movement over the next few quarters.

NET ABSORPTION & SUPPLY



OVERALL VACANCY & ASKING RENT



MARKETBEAT

BENGALURU

Office Q2 2020

CUSHMAN & WAKEFIELD

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	VACANCY (%)	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
CBD / Off-CBD	6,638,322	4.1%	80,075	660,000	125,000	23,816	161.00*	25.56	22.65
Outer Ring Road	70,395,985	1.3%	1,980,277	9,364,483	2,631,040	2,336,771	107.00	16.98	15.05
Peripheral East	29,105,019	16.0%	723,158	6,233,764	1,759,000	446,329	68.00	10.79	9.57
Peripheral North	5,995,654	38.3%	99,572	4,502,248	200,000	-101,282	75.00	11.90	10.55
Peripheral South	8,842,839	1.0%	1,250,000	2,550,000	-	86,000	65.00	10.32	9.14
Suburban East	19,452,232	3.4%	1,604,764	1,661,460	-	-132,548	125.00**	19.84	17.58
Suburban North West	1,100,000	0.0%	20,620	120,000	-	9,600	158.00	25.08	22.23
Suburban South	6,429,742	11.9%	35,633	1,700,000	-	-126,177	93.00	14.76	13.08
TOTALS	**147, 959,793**	**6.52%**	**5,794,099**	**26,791,955**	**4,715,040**	**2,542,509**	**81.60**	**12.95**	**11.48**

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.
^ Includes planned & under construction projects until 2022
Net absorption refers to the incremental new space take-up;
#YTD gross leasing activity includes pre commitments and term renewals
Weighted average asking rental rates for vacant spaces that provide core facility, high-side air conditioning and 100% power back up
**CBD/Off-CBD- Weighted average rents, submarket includes certain outperformers where quoted rentals are above INR 220-250/Sf/Month*
***Suburban East - Weighted average rents, submarket includes certain outperformers where quoted rentals are above INR 150-160/Sf/Month.*
Key to submarkets:
CBD/Off-CBD – M.G. Road, Millers Road, Vittal Mallya Road, Residency Road, etc.; Peripheral South – Electronic City, Hosur Road, Mysore Road; Outer Ring Road – Sarjapur, KR Puram, Hebbal; Suburban East – Indira Nagar, Old Airport Road, C.V. Raman Nagar; Peripheral East – Whitefield; Suburban South – Koramangala, Bannerghatta Road, Jayanagar; Peripheral North – Bellary Road, Thanisandra Road, Tumkur Road; Suburban North West – Rajaji Nagar, Malleshwaram.
US$ = INR 75.6 AND € = INR 85.3
Numbers for the second quarter are based on market information collected until 20th June 2020

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Bagmane Capital-Luxor	Outer Ring Road	GSK	145,000	Fresh Lease
Embassy Golf Links (Cherry Hills)	Suburban East	Fidelity Investment	70,616	Fresh Lease
RMZ Infinity	Suburban East	Google	58,000	Fresh Lease

SIGNIFICANT PROJECTS PLANNED AND UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANT	SF	COMPLETION DATE
KarleTown Centre Block 4	Outer Ring Road	Resource Pro (106,000 sf)	750,000	Q3 2020
Bagmane Quay	Suburban East	Commvault (70,000 sf)	655,060	Q3 2020
Brigade Southfield	Peripheral East	ABB	350,000	Q4 2020
Salarpuria Sattva South Gate	Peripheral South	Continental	850,000	Q4 2020

Rohan Sharma
Director, Research Services
+91 124 4695555 /rohan.sharma1@cushwake.com

Kapil Kanala
Associate Director, Research Services
+91 40 40405555 /kapil.kanala@ap.cushwake.com

cushmanwakefield.com

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of $8.2 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services.