

1.6 msf GROSS LEASING (Q2 2020)

3.0 msf NEW COMPLETIONS (Q2 2020)

1.3 msf PRE-LEASING ACTIVITY (Q2 2020)

**MARKET INDICATORS OVERALL
Q2 2020**

	Q2 2019	Q2 2020	12 month Forecast
Overall Vacancy	6.0%	6.7%	▲
Weighted Average Net Asking Rents (INR/sf/month)	58.72	62.0	■
YTD Net Absorption (sf)	5,778,364	2,649,783	▼

Net absorption driven by pre-leasing from the past, demand softening visible in Q2

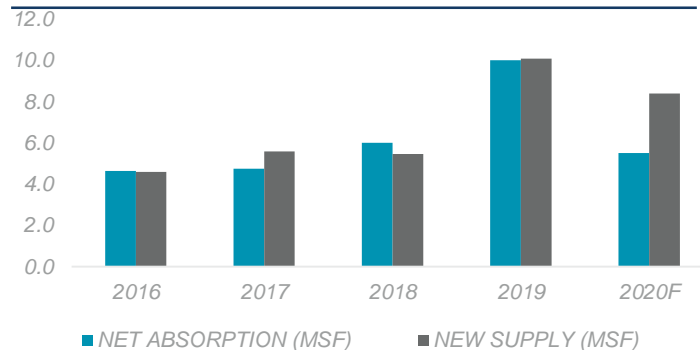
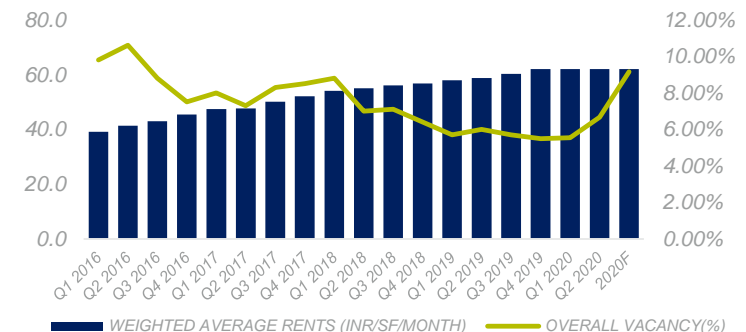
The momentum in office demand carried through 2019 and Q1 2020 was blighted by the COVID pandemic and lockdown which severely impacted the Q2 market activity. Gross leasing was recorded at 1.6 msf, lower by 10% q-o-q (-36% y-o-y). Google has pre-leased a little over 1.3 msf in Gachibowli, as one of the biggest deal post COVID, thus re-iterating its long-term commitment to the city. Fresh leasing meant for immediate occupation was less than 20% of the overall space take-up indicating that the tenants are avoiding new lease commitments as they assess the business impacts of the pandemic. The IT-BPM sector was the sole driver of leasing activity during the quarter. Several ongoing transactions, totalling to about 5.0 msf of active demand, have been deferred in the short term as tenants are focused on cost savings and are re-evaluating space strategies. On the other hand, net absorption of 1.76 msf was almost twice as compared to Q1, as nearly 80% of the new supply completions in Q2 was already pre-leased in 2018-19.

Supply surge driven by ready to occupy projects, construction delays to impact projects in H2 2020 & 2021

New supply of 3.0 msf was completed in Q2, a 3X rise on a q-o-q basis driven by projects that were awaiting final approvals (completion certificate) just before the lockdown. Construction activity hasn't fully resumed given the labour and resource constraints have not been fully mitigated. Sites where construction activity has resumed, are working at less than 50% of the required labour force and developers are only focusing on projects where sizeable pre-leasing already recorded. With tenants shying away from signing any new leases and even re-evaluating spaces that are already pre-committed, landlords with limited or no pre-leases are reviewing completion timelines and are deferring commencement of work in the short term. As such, projects totalling to about 4.0 -5.0 msf targeted for completion during the year have been deferred by 6-9 months. A similar situation prevails for projects with targeted completion of 2021. Nonetheless, nearly 8-9 msf of annual supply is expected for the full year 2020.

Upward fluctuations in vacancy, rentals largely stable, landlords to remain flexible with larger occupiers

With some occupiers either partially or fully giving up pre-leases and revising space take-up, and a few reducing their existing footprint, overall Grade A vacancy rate in the city has inched up by more than 100 basis points, to 6.7% during Q2. Vacancy rate is expected to rise further in the short term on the back of subdued demand and limited pre-leasing levels in the upcoming supply (about 4.0-5.0 msf) during H2 2020. Vacancy in Madhapur has increased to 4.5% (from 1.5% in Q1) and is expected to go up again in the second half of 2020 to early 2021 as two large projects (>1.0 msf each) are nearing completion. Overall, rents have largely remained stable over the last 3 months. However, landlords are being strategic in offering concessions and rental discounts. With vacancies set to rise further, tenants with larger requirements are already pushing for better commercial terms. A steeper correction in rentals across the city is not anticipated given that the vacancy levels are still much lower than the historical average. There is a considerable amount of committed supply for the next two years indicates the supply surge to continue. Rental concessions could disappear quickly upon resumption of demand.

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	44,026,340	4.5%	1,664,895	12,712,551	2,437,989	1,406,196	78.00	12.38	10.97
Gachibowli	14,177,193	7.5%	1,631,248	14,605,923	1,362,000	1,279,640	61.43	9.75	8.64
Peripheral East	2,048,000	31.5%	0	0	0	0	38.60	6.13	5.43
TOTAL##	62,171,974	6.7%	3,423,414	27,558,474	4,049,989	2,649,783	62.00	9.84	8.72

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 75.6 € 1 = INR 85.3

Numbers for the second quarter are based on market information collected until 25th June 2020

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Mindspace Building # 12D	Suburban (Madhapur)	Wipro	181,167	Fresh lease
Divyasree Trinity Block # 4	Suburban (Madhapur)	Hexagon	66,254	Fresh lease
Knowledge Capital Block III	Suburban (Gachibowli)	Google	1,317,914	Pre lease

SIGNIFICANT PROJECTS PLANNED AND UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANT	SF	COMPLETION DATE
BSR Tech Park Tower -I	Suburban (Gachibowli)	Medtronic, MassMutual	1,475,900	Q3 2020
Divyasree Orion (Block 3)	Suburban (Madhapur)	Salesforce	598,930	Q4 2020
Galaxy	Suburban (Madhapur)	Aurobindo Pharma	1,700,000	Q1 2021
Laxmi Infobahn Tower 5	Suburban (Gachibowli)	Cognizant	1,500,000	Q3 2021

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