

8.3 % VACANCY (Q3 2020)

1.8 msf NEW COMPLETIONS (Q3 2020)

3.5 msf YTD PRE-LEASING ACTIVITY

MARKET INDICATORS OVERALL
Q3 2020

	Q3 2019	Q3 2020	12 month Forecast
Overall Vacancy	1.5%	8.3%	▲
Weighted Average Net Asking Rents (INR/sf/month)	73.68	61.00	▼
YTD Net Absorption (sf)	7,583,818	3,786,619	■

Demand in Q3 driven by significant pre-leasing activity; market remains below 2019 levels

Momentum in the Hyderabad office market continues to remain below trend (as compared to 2019) but leasing activity has shown some resilience during Q3. Gross leasing was recorded at 3.5 msf, of which new space demand accounted for 2.3 msf. Most of these transactions were delayed due to COVID-19 and were ongoing from the pre-pandemic period. While some occupiers have put their space requirements on hold, those with a long-term view and pursuing an expansion-cum-consolidation space strategy moved ahead during the quarter. Prominent ones include Wells Fargo and Provident Health Services which together have pre-leased about 1.4 msf during the quarter. As such, overall pre-leasing activity for the year (YTD 2020) was recorded at nearly 3.5 msf, a 2X rise on an annual basis. These pre-leases in addition to open market renewals of 1.2 msf. in Q3 indicate that tenants are confident on the market fundamentals and in their long-term office space needs.

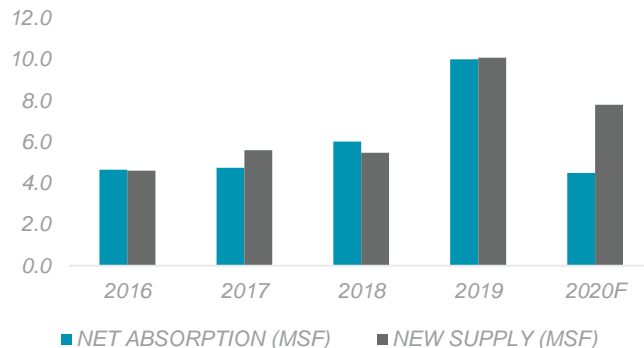
New supply and consolidation strategies push up vacancy rate

Occupiers who undertook expansion space in 2019 and early 2020 have started consolidating their footprint and are giving up smaller units as a cost savings measure with a significant number of employees continuing to work from home. Additionally, new supply of 1.8 msf (of which nearly 63% was vacant) was also recorded during the quarter. Net absorption was about 0.7 msf, a 70% decline q-o-q as tenants continue to recalibrate space strategies for the short term. As such, overall grade A vacancy rate at the city level has climbed to 8.3%, a 160 bps rise on a quarterly basis. Over the next 6-9 months, vacancy rate is expected to go up further to 11-12%+ levels with addition of 4-5 msf of new supply along with tenant exits totalling to about 1.0 msf. Vacancy rates are expected to climb further to 13-15% levels in H2 2021 as nearly 9-10 msf of new supply is expected to become operational in 2021. While not yet constituting an oversupply situation yet, developers need to take cognizance of the fact that the city has not witnessed double digit vacancies in the last 6 years and a relentless addition of new supply amidst a pandemic-induced demand slowdown and delayed decision making could cause rents to soften over the course of the next year.

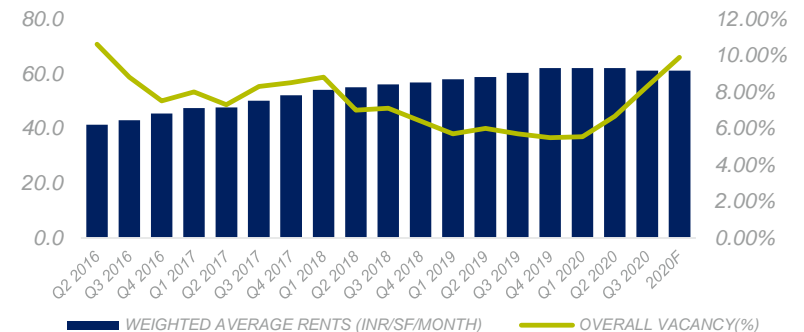
Headline rents are largely stable, early signs of softening spotted

Despite rising vacancies both in Madhapur and Gachibowli, headline rents have largely remained stable over the last 3 months. Even as landlords continue to be strategic in offering rental concessions, tenants with sizeable requirements (>25,000 Sf) are able to command a 5-10% discount. While rents in Gachibowli were stable, those in Madhapur at the higher end have fluctuated marginally downward. Going forward, rents are expected to see further downward pressure albeit at a slower pace as vacancies go up into double digits. From a long-term perspective, such minor revisions in asking rents augur well as it makes the market even more competitive.

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	45,206,340	6.2%	3,839,948	9,132,551	3,617,989	1,762,051	72.00	11.76	10.01
Gachibowli	15,331,193	9.3%	1,881,888	13,905,923	2,062,000	2,068,659	61.00	9.96	8.48
Peripheral East	2,048,000	31.5%	0	0	0	0	38.60	6.30	5.37
TOTAL##	64,505,974	8.3%	5,746,836	23,278,474	5,929,989	3,786,619	61.00	9.96	8.48

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

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

* Term Renewals recorded during Q3 - 1.16 msf. YTD Gross Leasing activity including term renewals - 6.9 msf

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 73.5 € 1 = INR 86.3

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

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KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Divyasree Orion (Block 8)	Suburban (Madhapur)	Wells Fargo	1,100,000	Pre lease
The Nexity	Suburban (Madhapur)	Providence Health & Services	370,000	Pre lease
KRC Mindspace Building # 12D	Suburban (Madhapur)	Mindtree	90,544	Fresh lease

SIGNIFICANT PROJECTS PLANNED AND UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANT	SF	COMPLETION DATE
Galaxy	Suburban (Madhapur)	Aurobindo Pharma	1,700,000	Q1 2021
Divyasree Orion Block # 8	Suburban (Madhapur)	Wells Fargo	1,100,000	Q4 2021
Laxmi Infobahn Tower 5	Suburban (Gachibowli)	Cognizant	1,500,000	Q4 2021

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