

3.27 msf GROSS LEASING (Q4 2020)

2.2 msf SUPPLY/COMPLETION (Q4 2020)

8.05% VACANCY (Q4 2020)

MARKET INDICATORS OVERALL
Q4 2020

	Q4 2019	Q4 2020	12 month Forecast
Overall Vacancy	5.19%	8.05%	▼
Weighted Average Net Asking Rents SBD (INR/sf/month)	74.83	82.60	▲
YTD Net Absorption (sf)	9,801,389	6,178,765	▲

Projects with pre-commitments drive higher supply addition in 2020

Despite slippages in project completion timelines during Q2-Q4 caused by labour and supply constraints, the year recorded annual supply addition of 11.2 msf, translating to an 18.4% increase y-o-y and higher than the average supply recorded over the last couple of years. The pace was slightly slower in Q4, with 2.2 msf supply added in the quarter, which was nearly half of the previous quarter. This was also on account of the previous quarter having seen a noticeable jump in completions (4.3 msf) post easing of lockdown norms and negligible supply in Q2. While submarkets like ORR, Peripheral East and Peripheral South have accounted for a greater share of 2020 supply, construction completions in other peripheral and suburban submarkets too have regained pace with labour availability reaching 55-60% of pre-COVID levels at majority of the project sites. Backed by healthy pre-commitments in previous years and with developers aiming to complete/prioritise projects which are entirely or partially pre-leased, the last quarter's supply became operational with nearly 73% preleasing levels. Even amidst a gradual return of economic activity, we anticipate upcoming supply of ~1.8-1.9 msf during the first quarter of 2021 just from projects awaiting OCs or nearing completion, indicating the inherent resilience in the city's office market.

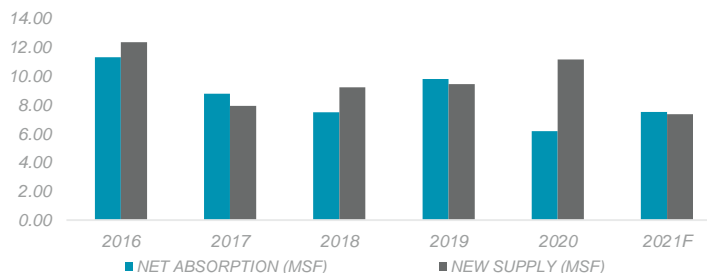
Resurgence in demand, large office deals make a gradual comeback

While the city continued to record high completions in Q4, net absorption too kept pace and improved 15% on a q-o-q basis, indicative of recovery momentum in occupier confidence. This was supported by improved leasing activity and a significantly higher proportion (73%) of pre-leasing in the quarterly supply. However, annual net absorption which added up to 6.2 msf, recorded a 63% decline y-o-y with occupier exits as part of portfolio optimisation strategies causing a spike in vacancy levels. Despite vacancy levels rising at both y-o-y (286 bps increase) and q-o-q (5 bps increase) basis, net absorption is anticipated to remain healthy in the coming quarters as well. Occupiers are still contemplating on their planned exits as they continue to evaluate optimum solutions for their property portfolios, even as the business sentiment is showing signs of improvement. The annual gross leasing volumes of 13.68 msf, was only 20% lower than the 2019 numbers, despite losing a part of the year to lockdown measures which in turn impacted occupier activity. It speaks well of the improved traction in the city's office sector in H2 of 2020 with Q4 accounting for 3.27 msf of gross leasing. The number of large office space deals (>100,000 sf), which were muted during earlier quarters as there was an obvious lack of visibility on expansion plans, have seen an increase in Q4 with occupiers like Herbalife, Indique and Tablespace among others active across submarkets. Term renewals, which have accounted for 21% of quarterly and 19% of annual leasing activity, clubbed with ongoing renegotiations for pre-renewals also refer to a gradual recovery in occupier sentiment and long-term confidence. Grade A office space renewals at 2.56 msf in 2020 were also higher by 82% compared to the 2019 numbers. Pre-leased space being at par in 2019 and 2020 while accounting for 35-36% for both the Q4 and the full year of 2020, also indicates a strong occupier sentiment with expectations of market and business recovery by next year. Major pre-commitments during Q4 were Amazon and Wells Fargo taking space in Bagmane Constellation Taurus and Embassy Tech Village, respectively. While IT-BPM sector accounted for a higher share (30%) of leased space during the year, BFSI sector contributed for a higher share (38%) in quarterly leased space. Flexible workspace which recorded a 10% share in Q4 lease volume, witnessed an increasing demand from enterprises with 50-100 seat requirements abounding among mid-sized firms who are preferring customised workspaces.

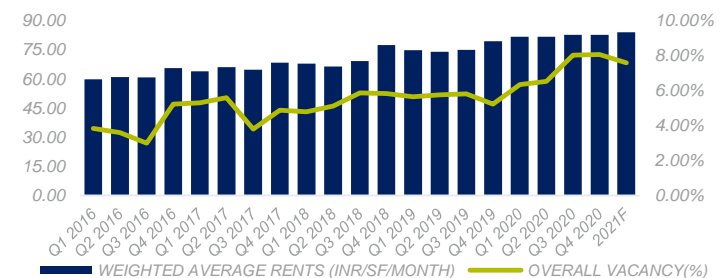
Rentals remain resilient

Office rentals in the city continue to remain stable, backed by high pre-leasing levels in majority of projects nearing completion, even amidst the slowly recovering occupier activity and increase in vacancy levels due to some portfolio downsizing by occupiers across submarkets. Despite the sluggish demand, there is no perceptible drop in quoted rentals during the quarter, although flexibility in closure rents is still available for occupiers, either through discounts or increased rent-free periods. However, rental values across submarkets have remained flat during the year, unlike in previous years when the city witnessed a steady q-o-q increase in its office rentals. With a high proportion of the city's office inventory being institutionally owned, rising investor interest and low vacancies in big portfolios, the office sector is unlikely to witness any noticeable decline in rentals. An anticipated recovery over the next year will further keep rents at current levels in the short-term. Additionally, low single digit vacancy in Bengaluru's office sector catalysed by the strong absorption volumes even for upcoming supply, may also support a marginal appreciation of rents in the medium term.

NET ABSORPTION & SUPPLY



OVERALL VACANCY & ASKING RENT





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	6,673,322	4.7%	555,913^	460,000	160,000	-16,137	161.00*	26.29	22.05
Outer Ring Road	70,967,911	2.7%	6,754,275	14,468,333	3,202,966	1,864,814	107.00	17.47	14.66
Peripheral East	30,085,019	16.1%	1,650,245	4,543,764	2,739,000	1,298,526	68.00	11.10	9.32
Peripheral North	6,389,654	42.7%	182,976	4,035,000	594,000	-137,758	75.00	12.24	10.27
Peripheral South	11,342,839	9.0%	1,079,500	-	2,500,000	1,619,000	65.00	10.61	8.90
Suburban East	20,107,292	4.6%	2,709,046	996,000	655,060	252,406	127.00**	20.73	17.40
Suburban North West	1,100,000	4.5%	20,620	1,128,000	-	-39,400	158.00	25.80	21.64
Suburban South	7,747,833	8.0%	724,184	350,000	1,318,091	1,337,314	93.00	15.18	12.74
TOTALS	154,413,870	8.05%	13,676,759	25,981,097	11,169,117	6,178,765	82.60	13.49	11.33

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.

*Marginal drop in Gross Lease Volume due to leased space (sf) modification

#YTD gross leasing activity includes pre commitments and term renewals

^ Includes planned & under construction projects until 2023

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

*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 73.5 AND € = INR 87.6

Numbers for the fourth quarter are based on market information collected until 20th December 2020

KEY LEASE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
Prestige Shantiniketan	Peripheral East	Herbalife	150,000	Fresh Lease
Bagmane Capital Luxor	Outer Ring Road	Tablespace	252,625	Fresh Lease
Embassy Golf Links (Pine Valley)	Suburban East	PwC	136,000	Renewal
Embassy Golf Links (Blue Bay)	Suburban East	JPMC	225,000	Renewal

SIGNIFICANT PROJECTS PLANNED AND UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANT	SF	COMPLETION DATE
KarleTown Centre Hub 4	Outer Ring Road	IKEA, Resource Pro, H&M (107,000 sf each)	750,000	Q1 2021
Sattva Knowledge Court	Peripheral East	Harman (400,000)	1,100,000	Q3 2021
Helios Business Park-Block E	Outer Ring Road	-	567,723	Q2 2021
Modern asset North Gate Phase II- Wing A	Peripheral North	-	490,000	Q2 2021

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