

Bengaluru again managed to stay at top in office space leasing in 2016 with highest leasing volume across India. In 2017 also, Bengaluru is expected to witness a steady demand of office space as big IT/ITES companies and other small/ mid-size companies from different sectors will continue their office space absorption. Rents are expected to see a slight northward trend due to limited vacancy and low supply of office space in the Bengaluru micro markets.

Grade A office space demand in Bengaluru was recorded highest among the major cities of India during Q4 2016. A minor drop was recorded in office space absorption during 2016 as compared to 2015 due to the interest shown for completed Grade A office space by the occupiers. Due to unavailability of Grade A office space in the preferred micro markets, a commendable pre-commitment was seen in the new and upcoming projects unveiling the precautionary steps of occupiers to deal with the scarcity of Grade A office space in Bengaluru.

Outlook

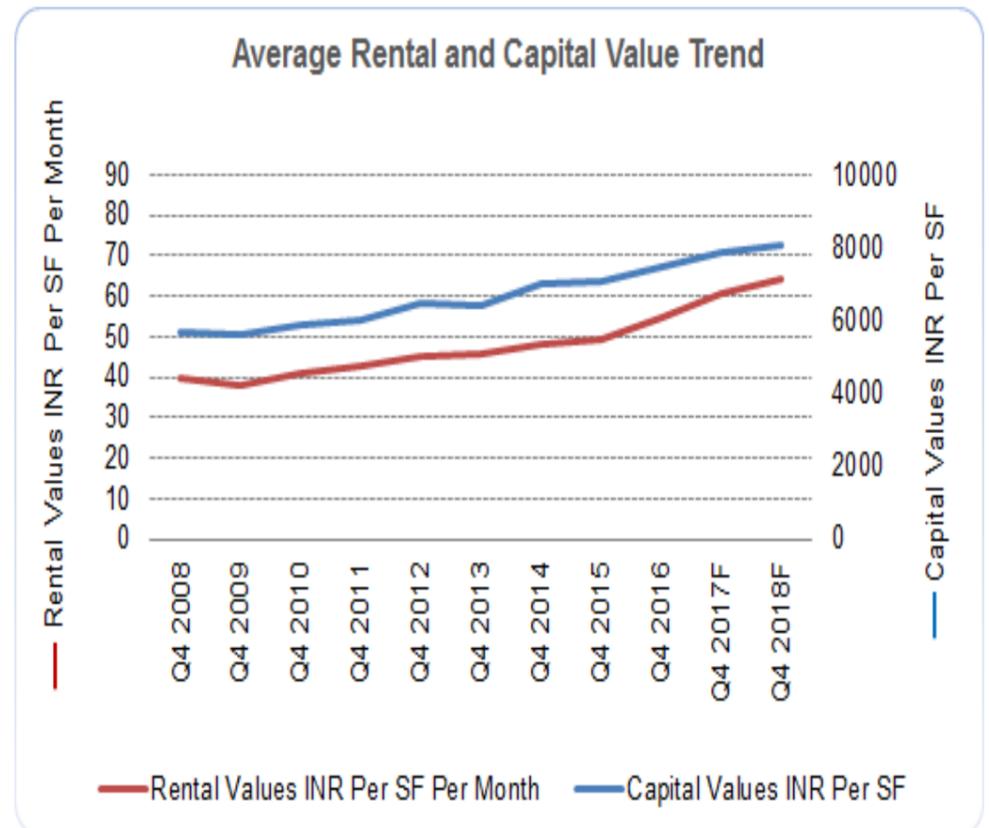
It is expected to see the marginal rental growth in most micro markets of Bengaluru in 2017. The Outer Ring Road (Sarjapur-Marathahalli) has seen the YoY appreciation of around 15%. Also, EPIP & Whitefield has seen the rental growth around 12% YoY due to the availability of bigger floor plates supported the expansion requirements of existing tenants in this micro market. Rental increment is more likely to happen because of the pre-commitments for upcoming supplies helping the landlords of existing Grade A supplies to ask for more rents.

New supply of around 10 million sq ft was injected in Bengaluru during 2016 which was comparatively a little lesser in comparison to 2015. Blackstone has joined hands with Embassy Group to infuse new supplies in the Bengaluru market and have filed application for REIT (Real Estate Investment Trust) listing with SEBI. Other investments are also in the pipeline to boost the confidence in office space investors. We are expecting to see more and more funds coming in to new Grade A office supplies.

MICRO MARKETS	RENTAL VALUE*	% CHANGE	
		QOQ	YOY
CBD	90 - 150	0%	8%
ORR (Marathahalli-Sarjapur)	75 - 85	-2%	15%
ORR North **	65 - 75	0%	10%
Bannerghatta Rd.	55 - 70	0%	2%
Hosur Rd.	25 - 40	9%	9%
EPIP / Whitefield	30 - 40	-4%	12%
Electronic City	30 - 40	0%	5%

*Indicative Grade A rents in INR per sq ft per month

**Northern part of ORR - KR Puram till Hebbal



Top Transactions in 2016

CLIENT	BUILDING NAME	AREA (sq ft)	LOCATION	LEASE / SALE
TCS	International Tech Park	550,000	ORR	Lease
HP	Maruthi Concorde Towers	500,000	Electronic City	Lease
UBER	RGA Tech Park	400,000	Sarjapur Road	Lease
Unisys	RGA Tech Park	300,000	Sarjapur Road	Lease
Google	Bagmane Constellation Business Park	300,000	ORR	Lease
Infosys	Bhartiya City	210,000	Thanisandra Road	Lease

IndusCresa View:

We expect that in 2017, the demand for office space leasing will stay strong due to robust demand and Central government's initiative towards bringing more transparency to the real estate sector through RERA. Vacancy level are supposed to stay low due to solid pre-commitments and current expansion requirements among occupiers. As a result, increase in rentals among various micro markets are also expected. The emerging trend of shared offices and co-working spaces is also going to impact the Bengaluru market as this is getting popular among small companies and startups.

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