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RESURGENCE OF HYDERABAD

Western Hyderabad is the vital cog to Hyderabad's office real estate

Summary & Recommendations

In 2019, Hyderabad ranked second in gross office absorption and registered a peak in office space demand. Newfound political stability after the formation of a new state, Telangana, a high quality of life and the presence of adequate infrastructure are driving office demand. However, the office development is concentrated in the western part of the city and we expect it to grow further in the coming five years. We believe Hyderabad's western corridor is witnessing rising occupier interest and the huge upcoming supply caters to their needs.

- > We recommend occupiers from the Central Business District (CBD) who are looking for office space to consider HITEC City and Rai Durg submarkets for expansion or relocation in the wake of the huge upcoming supply of 8.0 million sq feet planned (743,494 sq meters) by the end of 2020.
- > We recommend developers differentiate their projects by adopting cutting-edge building technologies like artificial intelligence, automated parking, internet of things (IoT) and providing charging ports for electric vehicles.

Hyderabad has swiftly gained importance as an office market over the last five years on account of political stability after the formation of the state of Telangana in 2014, coupled with the introduction of a new information technology, electronics and communications policy (ICT), and new policies introduced in 2016 relating to gaming, animation and innovation, providing incentives to the information technology business process management (IT-BPM) sector.

The city has witnessed a host of achievements (discussed on page 4) which are strengthening the domestic economy and the real estate market.



Policies

- > The 2016 ICT and innovation policies incentivized IT sector expansion.
- > The Information Technology Investment Region (ITIR) in western Hyderabad gave impetus to office demand.
- > Land allocation for Banking, Financial Services and Insurance (BFSI) occupiers in the financial district drove demand for office space.

Infrastructure



- > The Outer Ring Road (ORR) and Multi Modal Transport System (MMTS) has increased accessibility.
- > Metro Rail Phase 2 and the Strategic Road Development Plan (SRDP) should enhance infrastructure.

Talent



- > Hyderabad has a large talent pool for machine learning and artificial intelligence due to the education infrastructure and focused curriculum.
- > Presence of top tier engineering colleges such as the Indian Institute of Information Technology and Indian Institute of Technology.

Quality of Life



- > Hyderabad named India's best city to live for the fifth time in a row¹.
- > The Ministry of Housing and Urban Affairs (MoHUA) ranks Hyderabad 27th among 111 cities in India in the ease of living.

Source: Colliers International. ¹[The Hans India, Hyderabad ranks best city to live in india for fifth time in a row, 14 March 2019.](#)

OCCUPIER RECOMMENDATIONS

During 2019, western Hyderabad registered 9.2 million sq feet (855,019 sq meters) of leasing activity, driven largely by the IT-BPM, flexible workspace and consulting sectors. In 2020, based on ongoing occupier enquiries, we expect robust demand in leasing momentum in the western corridor. We project about 3.8 million sq feet (371,750 meters) of pre-commitments which should be occupied in 2020.

Based on our market intelligence, occupiers with large requirements of more than 1.0 million sq feet (92,940 sq meters) are considering Off SBD locations for their future expansion. These occupiers are looking for quality developments with large contiguous floor plates which is likely to drive demand.

To capitalise on the current market trends, we recommend the following strategies for occupiers.



- > We suggest occupiers looking to move to the western corridor from the CBD consider Secondary Business District (SBD) locations such as HITEC City and Rai Durg for expansion or relocation in the wake of the huge supply in 2020.



- > During 2019, flexible workspace operators leased 4X as much office space compared to 2018. We recommend flexible workspace operators look at Off SBD locations such as Nanakramguda and Kokapet as demand from occupiers will likely be strong in these submarkets.



- > **We recommend cost conscious occupiers consider projects in emerging locations such as Puppalaguda and Kokapet**, where rents are up to 40% lower compared to Gurugram's CBD (Cybercity) and Bengaluru's Outer Ring Road micromarkets.

DEVELOPERS RECOMMENDATIONS

Hyderabad's total stock was close to 65 million sq feet (6.0 million sq meters) at the end of 2019, with about 90% of that located in the western corridor. Furthermore, we expect about 84 million sq feet (7.8 million sq meters) of new supply to enter this submarket by the end of 2024. The tenant experience is taking center stage and developers are looking to differentiate their projects to command premium rentals from elite occupiers. With the huge influx of upcoming supply, we recommend developers differentiate their projects to seize upon the upswing in demand. **We expect 4.0 million sq feet (371,747 sq meters) of pre-commitments in Hyderabad by the end of 2020.**



- > Considering the large influx of supply, we recommend developers in Hyderabad obtain pre-commitment from occupiers before starting new projects.



- > We recommend developers **differentiate their projects by adapting new building technologies such as artificial intelligence, automated parking, IoT and building management systems to provide better efficiency and lower operating costs.**



- > We urge developers to offer a flex and core model (see our report [Flex, Core and the Cloud: A Blueprint for the Future Asia Pacific Workplace](#), 18 September 2018) in order to provide flexibility to occupiers. This is a combination of a long-term lease for core operations combined with flexible workspace to accommodate headcount changes associated with shifting operational demands. To implement this strategy we urge developers to enter into partnerships with flexible workspace operators.



We recommend cost conscious occupiers consider projects in emerging locations such as Puppalaguda and Kokapet.

MOVING UP THE RANKS, HYDERABAD IS AMONG THE TOP FOUR OFFICE MARKETS IN INDIA

Among fastest growing cities

- > According to the World Economic Forum, Hyderabad is amongst the top **10** fastest growing cities in the world and the **second** fastest growing city in India after Bengaluru.
- > Hyderabad is the powerhouse of Telangana state, helping push Telangana's gross state domestic product (GSDP) up **15%** for the 2018-2019 fiscal year².
- > The information technology sector drives Hyderabad's office demand. Its exports grew at a CAGR of **10.5%** during 2013-2019².



Office stock to double by 2024

- > In 2019, Hyderabad saw the largest new office supply in India, peaking at 11.5 million sq feet (1.0 million sq meters). This was **51%** higher when compared to 2018.
- > Hyderabad is scheduled to witness **88 million sq feet** (8.2 million sq meters) of new supply in 2020- 2024. This accounts for **28%** of the total new supply in India's top seven cities.*
- > By the end of 2024, we expect the city's office stock to **double**.



Fastest growing office market

- > Compared to 2012-2015, Hyderabad's average office demand grew **81%** in 2016-2019.
- > Average annual office space demand was **6.8 million sq feet** (637,825 sq meters) in 2016-2019, accounting for **14%** of nationwide leasing, compared to an average of 10% in 2012-2014.



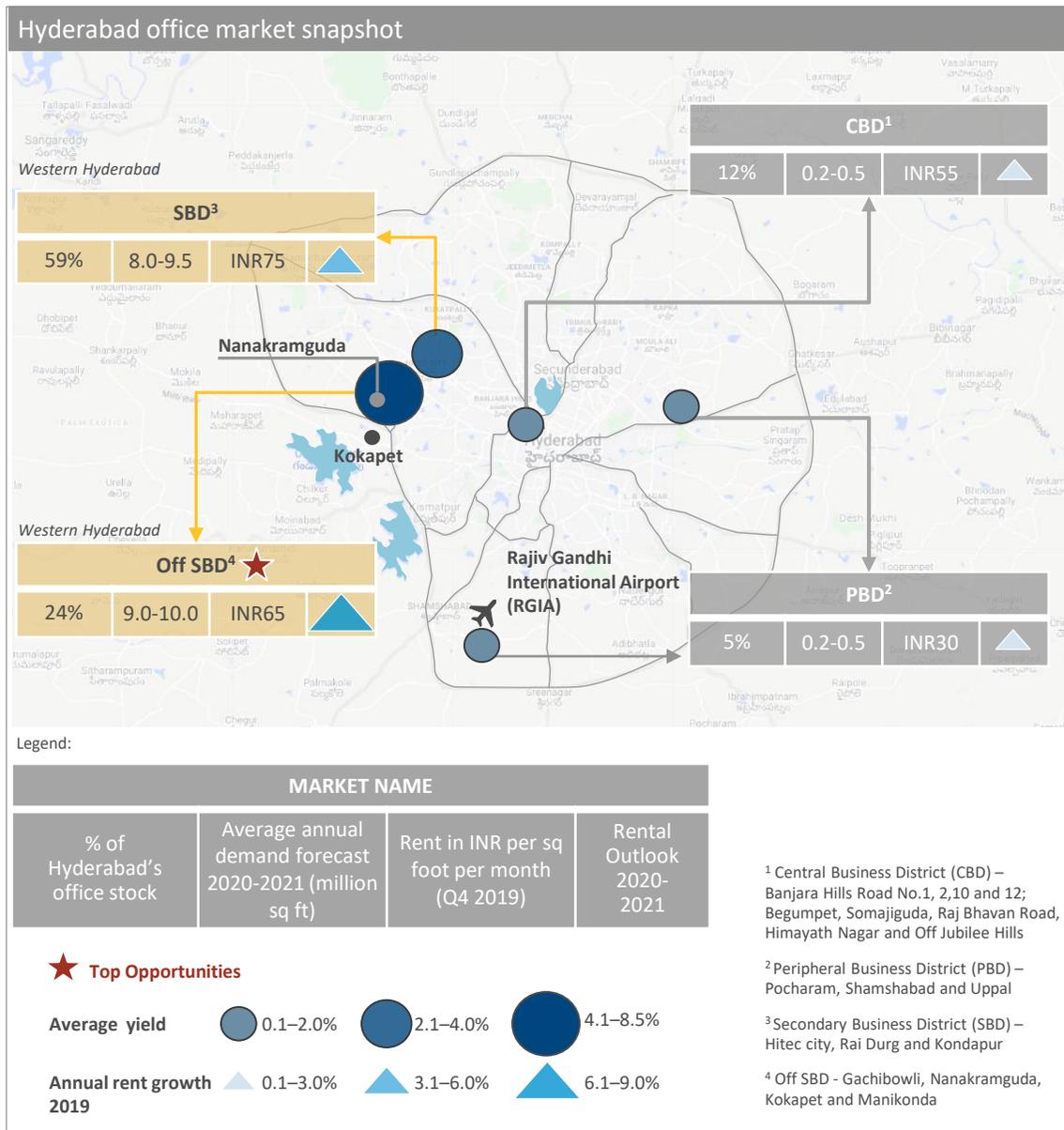
Hyderabad, leading economic and office market indicators

	2012-2015	2016-2019
Gross State Domestic Product CAGR ²	12.1%	14.5%
Unemployment rate ³	7.4% (as of Jan. 2016)	2.3% (as of Dec. 2019)
Average annual office sector gross leasing	3.8 million sq feet	6.8 million sq feet
Average annual new office supply	3.9 million sq feet	6.5 million sq feet
Average vacancy rate	12.8%	7.2%

Source: Colliers International. ²India Brand Equity Foundation, ³Center for Monitoring Indian Economy (CMIE). *Among the top seven cities in India namely Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai and Pune. USD1= INR71.2 as of 24 December 2019.

PE interest on the rise

- > Based on our market intelligence, Hyderabad attracted close to **USD2.0 billion** (INR14,204 crore) in private equity (PE) funds during 2015-2019.
- > Of the total PE investments in Hyderabad during 2015-2019, **75%** went into office assets.
- > We expect Hyderabad to continue to attract investments into office assets due to robust leasing activity and the huge influx of new supply.



Source: Colliers International, Google Maps. USD1= INR71.2, as of 24 December 2019.

LEASING AT ALL TIME HIGH

Investors keen on office assets

From 2016 to 2019, Hyderabad has witnessed average annual gross office leasing of 6.8 million sq feet (637,825 sq meters) with more than 90% of the leasing in the western micromarkets.

Colliers' forecasts demand for Grade A office space in Hyderabad to increase at about 4.0% annually over 2020-2024 crossing 11 million sq feet (1.0 million sq meters) by the end of 2024. Furthermore, we expect huge upcoming supply over the next three years in key micromarkets such as HITEC City and Nanakramguda (see map on page 6) to drive the leasing momentum of the city.

Western corridor micromarkets are increasingly prominent due to the improving infrastructure and steady leasing momentum from BFSI and IT-BPM occupiers. Micromarkets such as Nanakramguda and Kokapet in Off SBD are offering more opportunistic office assets with tenants such as Cognizant, Capgemini, UBS and Micron each reportedly pre-committing to more than 100,000 sq feet (9,294 sq meters) of space.

During 2015-2019, western Hyderabad office developments attracted close to USD1.2 billion (INR8,522 crore) of foreign private equity investments, accounting for 17% of the pan-India office PE investments, indicating confidence in Hyderabad's office market.

WESTERN HYDERABAD

Office market at a glance

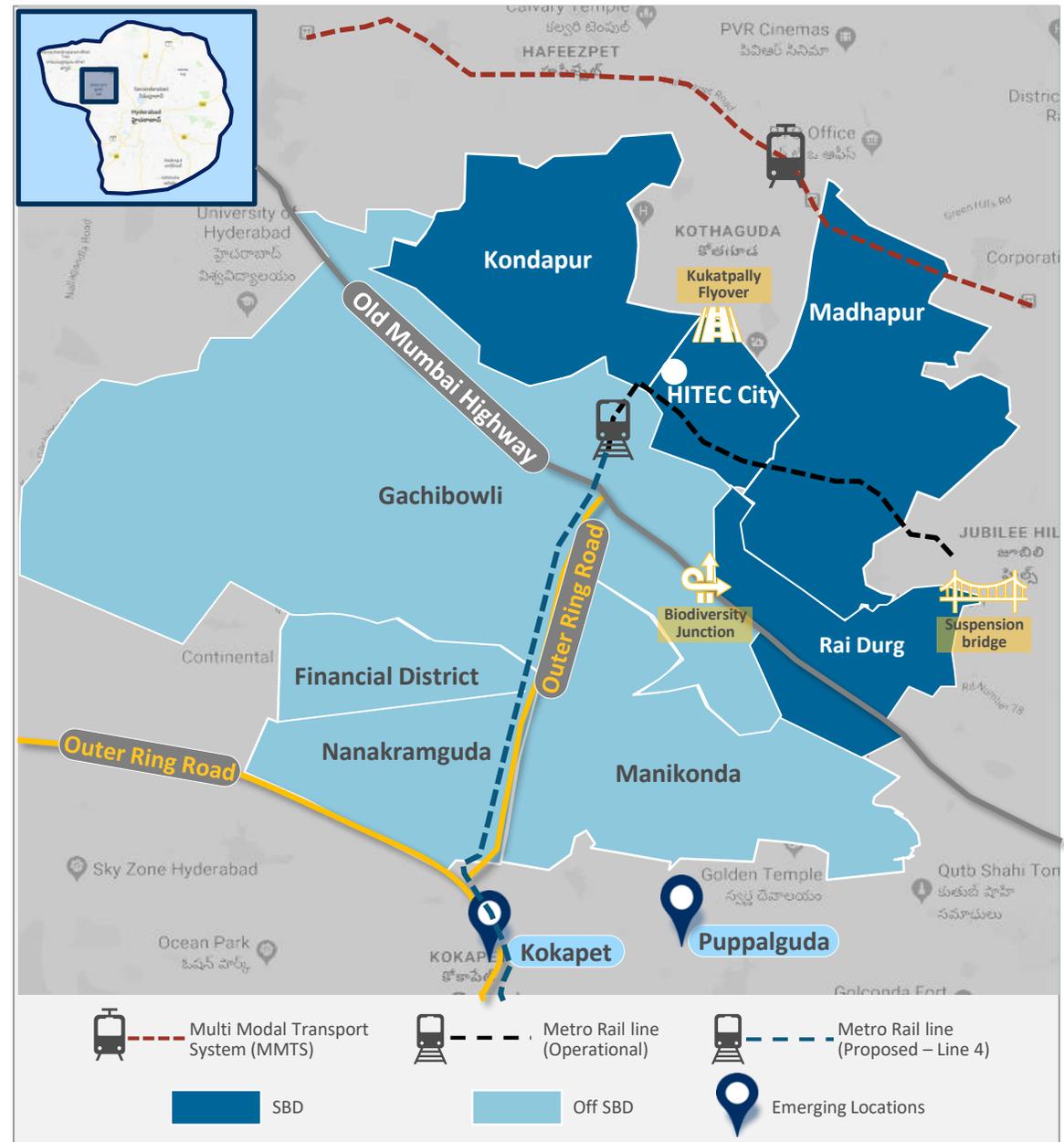
Grade A office stock in Hyderabad’s western corridor is about 59 million sq feet (5.5 million sq meters), making this area the largest micromarket in Hyderabad. We estimate that the upcoming supply will increase stock by 141% by 2024. The western region consists of two major zones, the Secondary Business District (SBD) and Off SBD.

Secondary Business District

A well established micromarket with low vacancy and established infrastructure resulted in rentals touching INR75 per sq foot per month (USD1.1 per sq foot month) in Q4 2019, making this the highest in the city. This is an increase of 35% since Q4 2015. We recommend large IT-BPM occupiers consider this micromarket in 2020 in anticipation of the huge upcoming supply of 8.0 million sq feet (743,494 million sq meters).

Off SBD

Key SBD micromarkets such as HITEC City have vacancy of less than 3.0% as micromarkets like Gachibowli, Nankramguda and Kokapet started witnessing spill over demand from the SBD in 2016. In addition, the state government’s policy to allocate land for BFSI occupiers in the Financial District, coupled with the excellent road connectivity via ORR has triggered office space demand in Off SBD.



Source: Colliers International

INFRASTRUCTURE UPGRADES AND CONSISTENT LEASING TO RALLY WESTERN HYDERABAD'S COMMERCIAL PROPERTY

Existing infrastructure:

During early 2000s, after the formation of HITEC City, western Hyderabad has witnessed rapid infrastructure upgrades gaining attention from occupiers, resulting in development of real estate and infrastructure. Currently, this micromarket enjoys connectivity through Kukatpally Flyover, the MMTS, ORR, Metro Rail, and the recent SRDP flyover and underpass at Biodiversity Junction.



Cyber Towers in Hyderabad. Source: Wikipedia

As nearly 95% of the upcoming supply is planned in this region, we expect some stress on the existing infrastructure while the following upgrades are under construction.

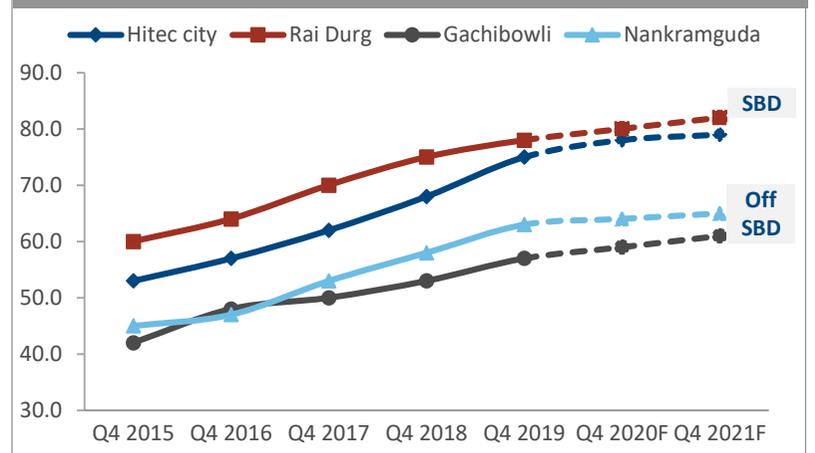
Planned infrastructure

- > A new flyover on Old Mumbai Highway at Biodiversity Junction.
- > Proposed Phase 2 of Metro Rail line-4 project to extend Rai Durg Station to Gachibowli, with a further extension to the south connecting western Hyderabad to Rajiv Gandhi International Airport.
- > Suspension bridge at Durgam Cheruvu connecting Rai Durg to the CBD.

Western Hyderabad supply outlook

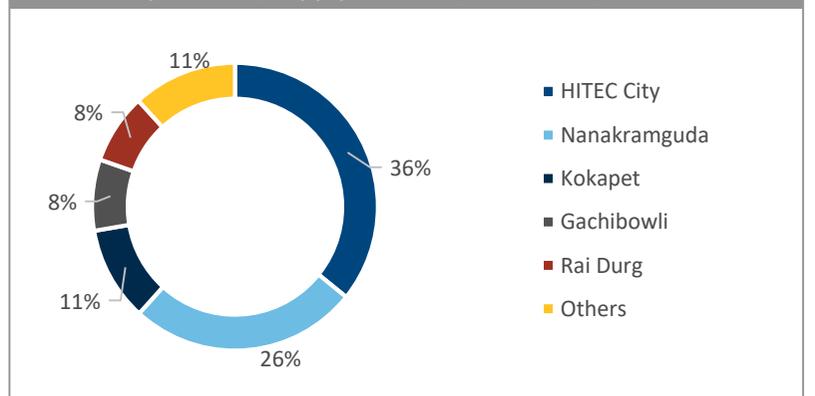
Around 46 million sq feet (4.3 million sq meters) of new supply is planned in 2020-2021, surpassing Colliers' projected demand by two times and pushing our forecasted vacancy levels from less than 5.0% to over 10%. We expect rental growth in western Hyderabad to soften as a result, from a CAGR of 8.0% during 2017-2019 to 2.5% for 2020-2021, considering the huge influx of supply.

Western Hyderabad, rental comparison, 2015-2021 (INR per sq foot per month)



Source: Colliers International

Western Hyderabad, supply outlook (2020-2024)



Source: Colliers International. Note: HITEC City includes Kondapur and Madhapur. Others include Manikonda and Puppalaguda.

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