India Office Property Market Overview

Q2 2018

Colliers Quarterly

Q2 2018

INDIA | OFFICE

31 July 2018

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Robust supply to support demand

Surabhi Arora Senior Associate Director | India

Indian GDP is forecasted to grow at above 7% annually over 2018-2022, primarily led by cities such as Bengaluru and Hyderabad. In our opinion, this forecasted economic growth should drive demand for Grade A office space and increase institutional investments in premium commercial office assets in the next three years. To meet the changing needs of the workforce, we recommend developers to add premium amenities to their new projects and occupiers to make use of flexible workspace.

Forecast at a glance

Demand

We expect the technology sector to continue to dominate the office sector. However, preference for flexible workspace is likely to surge

Supply

Our revised supply forecast for 2018-2021 is 124 million sq ft (11.5 million sq m), an addition of approximately 21% to India's Grade A stock

Vacancy rate

We expect vacancy to decline in premium and well-located office buildings with tenants' flight to quality

Rent

Average rents are likely to rise by 3-5% annually over 2018-2021 driven by premium buildings in preferred locations

Price

Increasing investor interest in commercial office assets should support prices with a 2-3% YOY increase over 2018-2021.

Growth outlook for commercial real estate remains bright

India witnessed robust leasing volume for the second consecutive quarter in Q2 2018 with about 12.6 million sq ft (1.2 million sq m) of total leasing volume driven by expansion from technology occupiers. Bengaluru maintained its pivotal position with about a 34% share of total leasing demand followed by the NCR on 28%, Mumbai on 14%, Hyderabad on 8%, Chennai on 8%, Pune on 6% and Kolkata on 2%.

With a 7% share of total leasing volume in H1 2018, flexible workspace operators are making their presence felt in the market. Besides its cost-effectiveness and flexibility, use of flexible space is becoming more popular due to increasing uncertainty among occupiers regarding their future headcount growth. We expect the coworking concept to continue expanding notably in cities such as Mumbai, Bengaluru and NCR.

Institutional investment in commercial assets also remained solid with investors continuing to buy pre-leased and buildings nearing completion. In Q2, the Indiabulls fund was reported as having bought Trivium, a 1.0 million sq ft (0.1 million sq m) multi-phase commercial development in Hyderabad. Blackstone LP acquired One Indiabulls Park (2.4 million sq ft or 0.22 million sq m); and Ascendas agreed to buy two towers in the QPark technology park in Navi Mumbai (Source: Mint).

In Q2 2018, due to inflationary pressure, the Reserve Bank of India (RBI) increased repo rates by 25 basis points. The hike in interest rates and falling yields may adversely impact the investment property market. Nonetheless, in its March 2018 Asian Cities Forecast, Oxford Economics forecasted high rates of economic growth in India’s urban centres in the next five years. This is driven by financial and business services in Bengaluru, growing at 9.6%, and Hyderabad, growing at 8.1% per year. This should translate in robust office demand in the coming years. Further, the growth outlook for commercial real estate remains optimistic with both the Nikkei manufacturing and service PMIs pointing towards a solid pace of expansion in output in the last three months.

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Growing demand momentum

Diksha Gulati Manager | Mumbai

Mumbai continued to witness growing momentum in leasing and outright purchase of office space for self-use by occupiers in the Banking and Financial Services Institutions (BFSI), logistics and manufacturing sectors. For premium front-office space, BFSI occupiers should focus on Bandra Kurla Complex (BKC), while cost-sensitive occupiers should evaluate options in micromarkets such as Lower Parel and Andheri.

Forecast at a glance

Demand

We expect demand to increase owing to consolidation in Mumbai's traditional demand driver BFSI

Supply

Approximately 8 million sq ft (0.74 million sq m), of new supply is scheduled to be infused in 2018-2021. This should increase city-wide stock by 5%

Vacancy rate

By 2021, vacancy should drop slightly from the current 13%; new supply infusion amidst robust absorption likely to keep a check on the rate of decline

Rent

Rents in preferred micromarkets of BKC, Andheri and Lower Parel are likely to strengthen by 5%-6% over 2018-2021

Price

We expect capital values to appreciate in line with rents; increasing 10-year government bond yields may keep a check on the rate of increase

BFSI to be key driver for demand

Mumbai recorded gross absorption of 1.7 million sq ft (0.16 million sq m) in Q2 2018 taking the total for H1 2018 to 3.7 million sq ft (0.34 million sq m). This represents a 27% increase from H1 2017. In Q2 2018, leasing activity was concentrated in the micromarkets of Andheri East and Bandra-Kurla Complex (BKC), with shares of 38% and 14% respectively. Demand continued to be driven by flexible workspace operators which took a 20% share, followed by BFSI with a 16% share and then the IT-ITeS, consulting and logistics sectors. The preferred micromarkets for flexible workspace operators were Andheri East, BKC, Navi Mumbai and Worli/Prabhadevi.

Mumbai witnessed significant outright purchases for self-use in H1 2018 by occupiers in varied sectors including BFSI, logistics and manufacturing. Notable transactions included occupiers acquiring 30,000-60,000 sq ft (2,788-5,576 sq m) office space in Andheri and Navi Mumbai. Robust absorption by the BFSI sector is likely to be the key driver for leasing activity in H2 2018 as a number of companies in the BFSI sector are looking at consolidating their office space.

Micromarkets	Rental Values[1]	QOQ Change	YOY Change
CBD	200 - 250	0.0%	0.0%
Andheri East	85 - 130	-2.3%	-2.3%
BKC	220 - 350	2.7%	4.6%
Lower Parel	140 - 195	0.0%	1.5%
Malad	80 - 105	2.8%	2.8%
Navi Mumbai	70 - 110	5.9%	5.9%
Powai	110 - 145	6.3%	6.3%
Worli/Prabhadevi	170 - 210	0.0%	0.0%
Goregaon/JVLR	100 - 130	0.0%	4.5%
Kalina	140 - 185	-1.5%	4.8%
Thane	70 - 80	0.0%	0.0%
LBS	95 - 125	-2.3%	-6.5%

Source: Colliers International India Research

[1]Indicative Grade A rentals in INR per sq ft per month, includes only Non-IT developments

Fig 1. Rental Forecast (INR per sq ft per month)

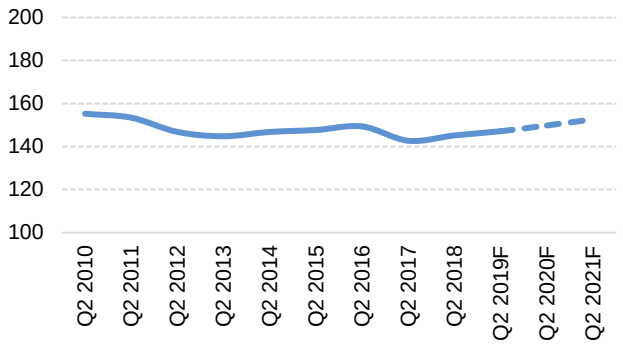
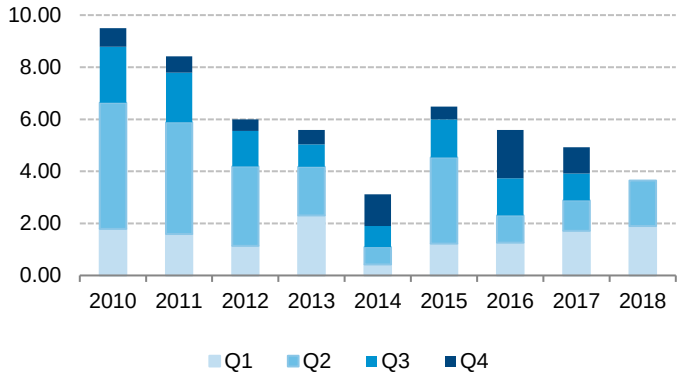


Fig 2. Gross Office Absorption (million sq ft)



Major Lease Transactions in Q2 2018

Client	Building Name	Area (sq ft)	Location
Tablespace	Logitech Park	100,000	Andheri
WeWork	Vaswani Chambers	75,000	Worli
Kotak Mahindra Bank	Neptune Elements	70,000	Thane
Quest Offices	Technopolis	55,000	Andheri

Source: Colliers International Research
Note: All figures are based on market information as on 25 June 2018.

First new supply infusion in H1 2018

For the first time in three quarters, Mumbai witnessed an infusion of 1.6 million sq ft (0.15 million sq m) of new projects. About 70% of the new supply is concentrated in Andheri East and across LBS Road, followed by 17% in Navi Mumbai and the remaining 13% is in Malad. These projects were completed later than scheduled; however, they should come as a relief to occupiers looking for large Grade A floorplates in these micromarkets. Despite the supply infusion, the overall vacancy level remained stable at 13% owing to robust leasing activity. Rents have appreciated by 3%-6% QOQ in the micromarkets of Powai, Navi Mumbai, BKC and Malad with consistent demand amidst limited availability of large floor plates in Grade A stock.

The city is slated to receive approximately 8 million sq ft (0.74 million sq m) of new supply over 2018-2021, amounting to a 5% addition to stock. We expect almost half of the upcoming supply to be located in the Andheri East and Navi Mumbai micromarkets, which can respectively support front-office and back-office operations, which are seeing increasing demand, especially from the BFSI sector.

Colliers' View

Over the next three years, we foresee the timely completion of infrastructure to augment real estate demand. The Mumbai Metropolitan Region Development Authority (MMRDA) has begun soil testing work at Bhakti Park, Wadala, for the metro connecting Wadala-Kasarvadavali. Once operational, this may reduce travel times by up to 75% depending on road conditions. In addition, the new Development Control Rule 2034, scheduled to be finalised by September 2018, should help to increase the floor space index. This should allow developers to build more on a given plot and unlock land within the city and peripheral areas.

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Flexible offices to serve demand

Saif Lari Assistant Manager | NCR

Delhi's leasing activity stayed lukewarm with year-to-date (YTD) absorption of only 0.44 million sq ft (0.04 million sq m). The paucity of Grade A supply has led Aerocity to account for the majority of leasing activity, however, even this micromarket is now low on vacancy. In Q2 2018, flexible workspace operators accounted for 21% of total leasing volume. We advise occupiers to look for optimum office space in flexible workspace operators in times of space crunch in the city.

Forecast at a glance

Demand

Absorption likely to remain stable due to the dearth of large floor plates; flexible workspaces to gain traction

Supply

Modest supply pipeline of 3.3 million sq ft (0.3 million sq m) of Grade A office space over next three years from developer NBCC, which is available for strata sale

Vacancy rate

Average vacancy rates likely to remain under pressure around 8% for the Grade A market; average vacancy to remain at 10-11% due to higher vacancies in Grade B properties

Rent

We expect the rents of Grade A spaces to increaseon average 5% YOY in CBD and Aerocity micromarkets from 2018 to 2021

Price

Capital values are likely to remain stable due to lack of investment sales activity, reflecting lack of investable stock

Leasing remained subdued due to lack of Grade A office space

Absorption levels in Delhi stayed low during Q2 2018 with just 0.15 million sq ft (0.01 million sq m) of gross absorption, down 42% QOQ. The YTD office space take up was around 0.4 million sq ft (0.04 million sq m). Aerocity accounted for around 35% of the overall leasing activity, followed by the CBD with 32% of leasing and Nehru Place with only 10%.

The city's traditional dominant occupier, the Banking, Financial Services and Insurance (BFSI) industry accounted for around 40% of the total leasing volume followed by the flexible workspace operators at 21%, manufacturing 13% and Pharma at 7%. Due to the lack of Grade A space, we expect flexible workspace to see increasing occupancy in the coming years.

In line with our prediction in previous reports, Aerocity has now overtaken the CBD area to be the preference of commercial office occupiers in terms of the absorption levels. The allure of Aerocity is the availability of modern, Grade A assets with competitive rents compared to the CBD, the proximity to the international airport, and efficient connectivity with south and central Delhi as well as Gurugram. With the vacancy as low as 10-11% Delhi and no new supply in sight for next three years, occupiers should explore flexible workspaces for their corporate office in Delhi.

Rental Values (INR per sq ft per month)

Micromarkets	Rental Values[1]	q-o-q Change	y-o-y Change
Connaught Place (CBD)	140 - 425	0.0%	4.8%
Nehru Place	150 - 200	0.0%	0.0%
Saket	110 - 180	0.0%	3.6%
Jasola	80 - 120	2.6%	8.1%
Okhla	40 - 85	0.0%	-2.3%
Aerocity	180 - 200	0.0%	8.6%

Source Colliers International India Research

[1]Indicative Grade A rentals in INR per sq ft per month

Fig 1. Rental Values (INR per sq ft per month)

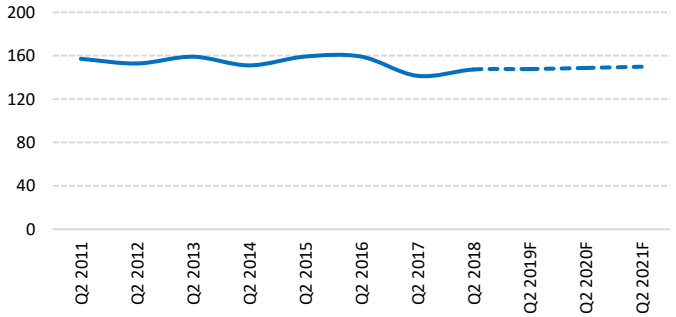
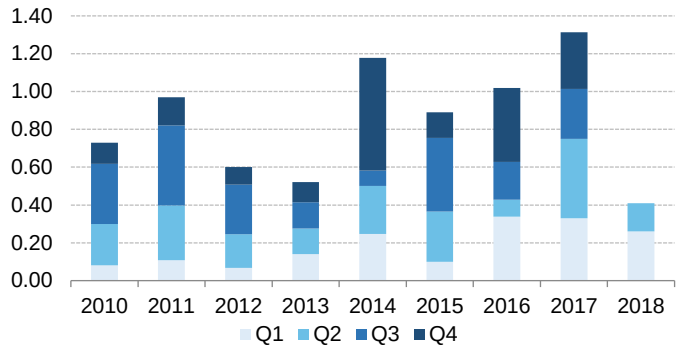


Fig 2. Gross Office Absorption (million sq ft)



Major Transactions in Q2 2018

Client	Building Name	Area (sq ft)	Location
DLL Finance	Hyatt Andaz	33,000	Aerocity
The Executive Center	DLF Center	17,000	CBD
The Executive Center	DLF Center	16,137	CBD
KMPG	International Trade Tower	12,000	Nehru Place
Alcon	Individual	8,700	Okhla

Source Colliers International India Research
All figures are based on market information as of 25th June 2018

Constrained supply to exert pressure on rentals

The lack of quality office space in the national capital has been a long-standing issue. Due to the clear preference of occupiers for Grade A buildings, we have witnessed polarisation of rents across markets. Grade A buildings are fetching premium rents while Grade B buildings are struggling to attract tenants. the absence of new supply, we expect this trend to continue in the next three years. CBD and Aerocity are likely to remain preferred micromarkets amongst occupiers due to availability of Grade A office spaces.

Colliers' View

We forecast Delhi's office market to remain largely steady except for a few micromarkets such as CBD and Aerocity. The demand for flexible workspace from occupiers may strenghten further forced by the lack of office space with modern facilities in the city. As advised in our previous report, there is a clear appetite in the market which may be fulfilled only by redeveloping the older dilapidated buildings inareas such as Nehru Place, Bikaji Cama Place and CBD. In our opinion, low vacancy is an enticing opportunity for developers to redevelop and redesign the sub-standard old projects, in order to unlock the potential premium rentals in the undersupplied market. We recommend occupiers to look for space in the growing numbers of international and national flexible workspace operators to meet their demands.

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Expansionary demand to drive office market

Surabhi Arora Senior Associate Director | India

Gurgaon is likely to remain the dominant market in NCR. The city captured 65% of the total NCR demand in H1 2018 driven by expansionary office requirements. We recommend companies to continue exploring micromarkets such as Golf Course Extension Road and Sohna Road when relocating due to affordable rents and availability of Grade A office space.

Forecast at a glance

Demand
Premium buildings are likely to remain in vogue; we expect demand to remain firm

Supply
13 million sq ft (1.2 million sq m) of office space should be added to Grade A inventory over 2018-2021 representing a 19% increase in the total Grade A stock

Vacancy rate
Vacancy likely to remain high at 25-28% with significant supply pipeline in peripheral micromarkets over 2018-2021

Rent
Overall rents likely to remain stable; decentralised locations and Grade B buildings may face downward pressure while premium locations are likely to see 4-5% increase over 2018-2021

Price
Capital values to go up by 4-5% annually in emerging locations over 2018-2021

Demand momentum continued in Q2 2018

Following the previous quarter's trend, the demand momentum continued in Q2 2018. With gross office uptake at 2 million sq ft (1.8 million sq m) in Q2, uptake in H1 2018 amounted to 3.7 million sq ft (0.35 million sq m), an increase of 111% YOY. Technology companies accounted for 33% of the total leasing volume followed by Banking, Finance and Insurance companies with 27% and the flexible workspace operators with 20%.

In line with our forecast, the Golf Course Extension Road (GCER) started capturing the largest share of the total demand. In Q2 GCER accounted for 30% of the leasing volume leaving behind traditionally favourable markets such as Cybercity at 18%, Golf Course Road at 15%, Udyog Vihar at 11% and MG Road at 10%.

In our opinion, GCER, with 30% of the total upcoming new supply, is a natural extension of the GCR micromarket. Although the social amenities and infrastructure are still nascent, we believe it is the right time for occupiers with leases expiring in the next one to two years to start exploring this micromarket. This should allow an opportunity to hedge against future rent increases.

Rental Values

Micromarkets	Rental Values[1]	QOQ Change	YOY Change
MG Road	105 - 140	0.0%	2.1%
Golf Course Road	110 - 200	0.0%	-6.1%
Institutional Sectors (Sectors 44, 32 and 18)	60 - 90	0.0%	0.0%
GCER/Sohna Road	45 - 75	0.0%	-11.1%
National Highway 8	40 - 130	0.0%	-5.6%
Udyog Vihar and Industrial Sectors	50 - 70	0.0%	5.0%
Manesar	25 - 35	0.0%	-5.0%
DLF Cybercity	118 - 120	0.0%	1.3%

Source Colliers International India Research

[1]Indicative Grade A rentals in INR per sq ft per month

Fig 1. Rental Value Trend (INR per sq ft per month)

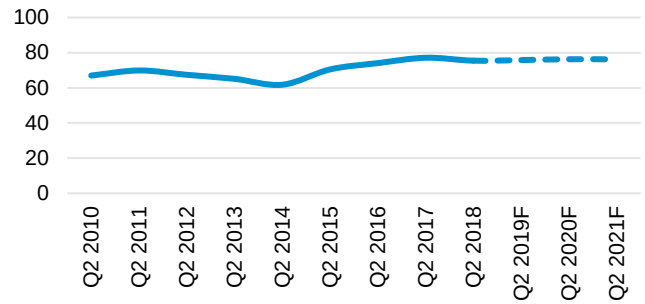
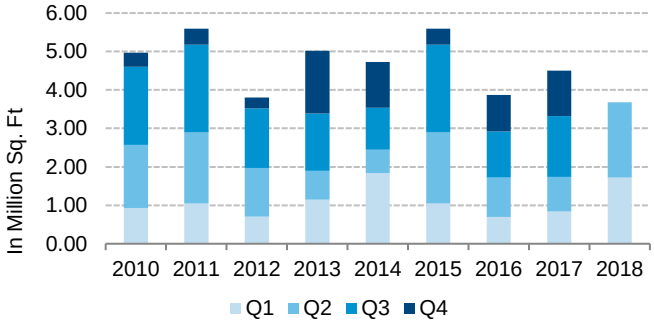


Fig 2. Gross Office Absorption (million sq ft)



Major Transactions in Q2 2018

Client	Building Name	Area (sq ft)	Location
WeWork	Ericsson Forum	225,000	Cyber City
Sunlife	Poineer Square	180,000	GCER
Google	272 - I	150,000	MG Road
Sunlife	Pioneer Urban Square	125,000	GCER
WeWork	Two Horizon Center	120,000	Golf Course Road

Source Colliers International India Research
All figures are based on market information as on 25 June 2018

Rents to remain stable

Rents remained stable, and no new supply was added in Q2 2018. In view of the high vacancy levels at 28% and upcoming supply pipeline of about 11 million sq ft (1.0 million sq m) over 2018-2021 we do not expect rents to up. However, well-located, Grade A buildings should continue to fetch premium rents.

The rents of premium buildings in preferred micromarkets such as Cybercity, MG Road and Golf Course Road may see 4-5% annual increases over 2018-2021. In contrast, Grade B buildings are likely to keep struggling to get tenants, putting further downward pressure on rents and keeping average city rents stable. We advise landlords with Grade B buildings in prime locations to explore options such as working with flexible workspace operators or redesigning their floor plates to be more attractive to small occupiers looking for advantageous locations.

Colliers' View

In our opinion, Grade A assets should continue to do well in all micromarkets. Increased interest from cost-sensitive occupiers towards affordable markets for consolidation or optimisation of their portfolio should drive leasing activities in micromarkets such as Sohna Road and GCER. The flexible workspace segment continues to do well; many corporate occupiers have started exploring flexible workspace setups as opposed to conventional office space as part of their CRE strategy.

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Demand set to strengthen further

Saif Lari Assistant Manager | NCR

We expect demand to remain strong in the coming quarters, making office leasing activity in 2018 to the highest level of the past three years. Positive policy initiatives from the government, a robust supply pipeline and major infrastructure developments are all contributing to the overall performance of the office market. We advise developers to proceed with their Grade A buildings quickly to harness the demand from cost-conscious large occupiers.

Forecast at a glance

Demand

Demand is set to strengthen further over the next three to five years given proactive state government policies and improving infrastructure

Supply

About 13 million sq ft (1.2 million sq m) of new supply is due to come up over 2018-2021 representing 44% increase in total stock.

Vacancy rate

The average city vacancy is set to go down to 25% in next three years due to robust demand and defferment of new supply.

Rent

The city level average rents are likely to remain static over 2018-2021 in view of the high supply pipeline; grade A buildings continue to command premium

Price

Likely to remain stable in view of tepid strata sale transaction activities; institutional investors likely to remain active

NOIDA Expressway micromarket emerging as the clear leader

In Q2 2018, NOIDA's office market recorded about 1.0 million sq ft (0.09 million sq m) of gross absorption, taking the YTD numbers to 2.0 million sq ft (0.19 million sq m). This is about double the same period in 2017. Amongst major occupiers, the technology sector accounted for around 42% of gross absorption followed by engineering and manufacturing sector at 23%, banking, financial services and insurance sector at 15%.

NOIDA's commercial office market has been experiencing higher demand than last year confirming the trend of occupiers from diverse industries shifting to this area. This was discussed in more detail in our recent report "Delhi, Gurugram and NOIDA the Three Aces: Key Opportunities in the NCR Office Market." Specifically, occupiers have started to respond well to the new office supply in NOIDA. In Q2, most of the leasing activity took place in the office developments situated at sectors alongside the NOIDA Expressway, which accounted for a remarkable 37% of the leasing volume. The remaining demand was concentrated in the Institutional and Industrial micromarkets. We expect NOIDA Expressway to remain the preferred destination amongst occupiers looking for consolidation and expansions across NOIDA due to the availability of Grade A office space and the excellent connectivity with Delhi.

Rental Values (INR per sq ft per month)

Micromarkets	Rental Values[1]	q-o-q Change	y-o-y Change
Commercial Sectors[1]	65 - 90	0.0%	-13.0%
Institutional Sectors (Non IT)[2]	75 - 95	0.0%	0.0%
Institutional Sectors (IT)[2]	35 - 45	0.0%	-6.0%
Industrial Sector (IT)[3]	35 - 45	0.0%	-5.9%
NOIDA Expressway	55 - 60	0.0%	3.6%

Source: Colliers International India Research

[1]Sector 18 (hotels, shopping centres, banks, cinemas)

[2]Sector 16 A,62, 125,126,127,132,135,136,142,143,144,153,154

[3]Sector 1-9,57-60, 63-65 (factories, warehouses and IT services)

Fig 1. Rental Values (INR per sq ft per month)

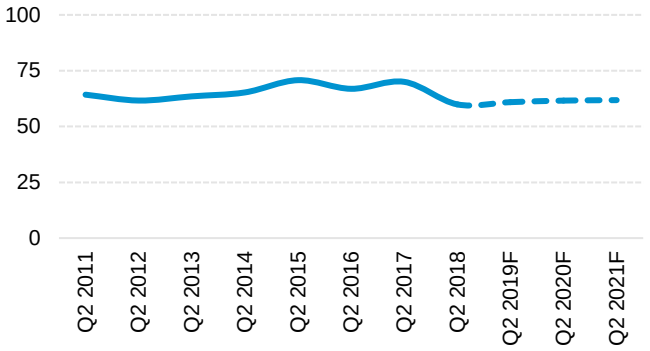
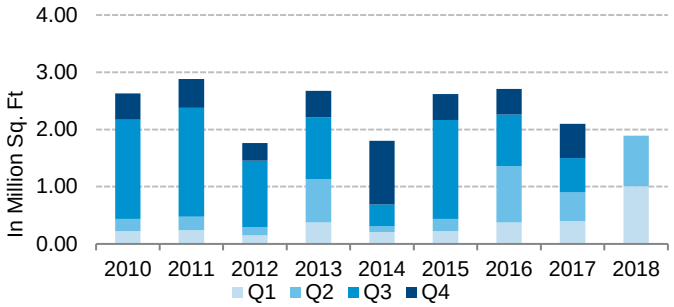


Fig 2. Gross Office Absorption (million sq ft)



Major Transactions in Q2 2018

Client	Building Name	Area (sq ft)	Location
Landgis (Toshiba)	Candor TechSpace	100,000	NOIDA Expressway
Genpact	Candor TechSpace	90,000	NOIDA Expressway
Syscom solutions	FCS House	90,000	Commercial Sector
Insta Office	Individual	85,000	Commercial Sector
ACE Global	Arohant IT Park	80,000	NOIDA Expressway

Source: Colliers International India Research
All figures are based on market information as of 25th June 2018

Robust road and metro-rail infrastructure is the primary demand driver in the city. We expect connectivity of the Institutional and Industrial Sectors to improve drastically after the completion of the last-mile metro connectivity. The Institutional and Industrial Sectors (62-65) should have seamless connectivity which is likely to attract further interest from occupiers in these micromarkets. The new line is an extension to the Dwarka- OIDA City Center line of the Delhi Metro which is likely to open by Q4 2018.

Two new buildings in the market

In Q2 2018, we witnessed the completion of two new major office spaces with a combined leasable area of around 0.6 million sq ft (0.05 million sq m). Candor Techspace, the Special Economic Zone owned by Brookfield, added a new tower in the existing development at NOIDA Expressway. Also, an IT building at Institutional Sector 62 opened in Q2. Approximately 22 million sq ft (2 million sq m) of supply is planned for completion between 2018-21 but in our opinion less than half of it is likely to see completion based on the current development status.

Colliers' View

2018 is turning out to be a vital point for the NOIDA's office market. On the one hand, the facilitation of better connectivity and the proposed airport are encouraging developers to re-assess their strategic outlook for the city. On the other hand, occupiers seem to be responding well to new Grade A developments and looking at NOIDA as a viable option for their future space requirements. We suggest the developers stay focused on matching international quality standards to attract occupiers towards the emerging commercial office market.

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Q2 2018

BENGALURU | OFFICE

31 July 2018

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Consistent rental rise on the cards

Teni Alice Abraham Analyst | Bengaluru

Leasing activity by the end of H1 2018 exceeded half of our yearly projection of 14 million sq ft (1.3 million sq m). We expect the key infrastructure developments of the two metro corridors in Whitefield and the other along Outer Ring Road (ORR) to keep rents stable during the construction period, in part due to the temporary disruption to commuters. As rents are likely to increase upon completion of the metro, we recommend occupiers pre-commit to spaces in the aforementioned micromarkets, keeping in view the completion timeline of these infrastructure projects.

Forecast at a glance

Demand

Strong city level GDP forecast indicates healthy demand over next three years; we forecast gross absorption of 14 million sq ft (1.3 million sq m) by the end of 2018

Supply

Pre-commitments by occupiers will give developers an incentive to adhere to completion timelines. We expect additional supply of 23.7 million sq ft (2.2 million sq m) by 2018-2021

Vacancy rate

Average city vacancy levels of 10% to inch down to 9% by the end of 2018 and 7% by 2021

Rent

We maintain our rent forecast of 3-4% annual increase from 2018 to 2021

Price

We expect capital values to increase by 3-4% annually over 2018-2021

Robust demand to continue

In Q2 2018, Bengaluru retained its leading position in pan-India office space absorption, recording 4.3 million sq ft (0.4 million sq m) of gross absorption. A YOY increase of 13% in gross absorption indicates occupiers are sufficiently confident in their business to take more space in the market. A total of 8.2 million sq ft (0.76 million sq m) of gross leasing has been recorded in H1 2018, out of our yearly projection of 14 million sq ft (1.3 million sq m) by the end of 2018.

ORR continued its dominance as the most popular micromarket in Q2 2018, accounting for 50% of overall demand. Other popular micromarkets include the Central Business District (CBD) accounting for 20% of demand, the Secondary Business District (SBD) accounting for 12%, Whitefield for 9% and North for 6% of demand.

Technology companies expanding drove demand in Q2, representing 45% of the total office leasing volume. This was closely followed by flexible workspace accounting for 26%, engineering and manufacturing at 16%, and the banking sector accounting for 11% of leasing volume.

Rental Values

Micromarkets	Rental Values[1]	QOQ change	YOY change
CBD	110 - 190	0.0%	7.1%
SBD (Indiranagr-Koramangala)	90 - 150	0.0%	9.1%
Outer Ring Road (Sarjapur - Marathahalli)	80 - 90	0.0%	6.3%
Outter Ring Road (K.R. Puram - Hebbal)	75 - 85	0.0%	9.6%
Bannerghatta Road	65 - 90	0.0%	26.0%
Hosur Road	32 - 42	0.0%	5.7%
EPIP Zone/Whitefield	35 - 54	2.5%	6.5%
Electronic City	35 - 45	0.0%	14.3%
North (Hebbal - Yelahanka)	45 - 72	5.1%	5.1%

Colliers International India Research

[1]Indicative Grade A rentals in INR per sq ft per month

Fig 1. Rental Values (INR per sq ft per month)

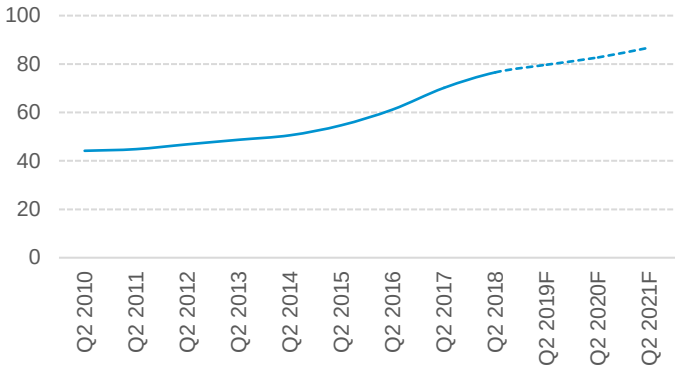
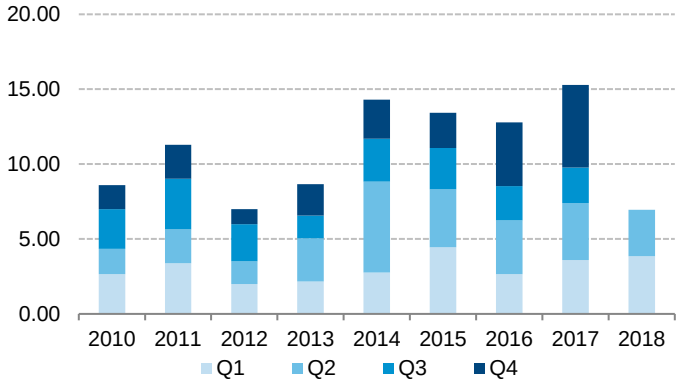


Fig 2. Gross Office Absorption (million sq ft)



Major Lease Transactions in Q2 2018

Client	Building Name	Area (sq ft)	Location
Amazon	Bagmane Constellation Park	650,000	ORR
Samsung	Bagmane Constellation Park	400,000	ORR
Smartworks	Global Technology Park	277,000	ORR
Facebook	Embassy Golf Links	218,440	SBD
WeWork	Prestige Central	200,000	CBD

Source: Colliers International India Research
Note: All figures are based on market information as on 25 June 2018

Infrastructure development to push up rentals in select locations

Only 0.84 million sq ft (0.07 million sq m) of Grade A new supply was introduced in Q2, raising new supply to 4.5 million sq ft (0.41 million sq m) in H1 2018. Occupiers are making pre-commitments to office space in projects which are in finishing stages of construction, therefore incentivising developers to adhere to completion timelines. We expect an additional supply of 6.6 million sq ft (0.6 million sq m) by the end of 2018, out of which 88% should be in information technology parks.

After three consecutive quarters of high rental increases, the average rents have stabilised with only a marginal increase of 0.8% QOQ. Whitefield and North Bengaluru contributed to this rental increase. We expect the average city rents to increase by 3-4% annually over 2018-2021. The near completion of the Whitefield metro corridor and onset of the ORR metro should provide an additional boost to rents in the coming years.

Colliers' View

Oxford Economics “Asian Pacific Cities & Regions Outlook”, dated March 2018, is forecasting Bengaluru's average annual GDP to grow at 9.6% on average till 2021, highest in Asian cities and indicating strong demand for commercial real estate. Despite low project completions in Q2, we expect the market to remain robust in the upcoming quarters due to the various infrastructure developments by the government.

The much-awaited ORR metro rail project, being constructed in a public private partnership, has reached tender and land acquisition stages. We expect the onset of construction to temporarily affect traffic to all the technology parks along the route. We recommend occupiers pre-commit to space, bearing in mind the metro completion timeline, as we expect rents to increase once these projects are completed.

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CHENNAI | OFFICE

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Demand outlook remains firm

Karthiga Ravindran Assist. Manager | Chennai

The office leasing demand in Chennai is likely to remain consistent over 2018-2021 driven by technology sector and companies in banking, logistics, automotive and manufacturing domain. We advise small to medium scale occupiers looking for good connectivity to city's core locations to choose Guindy in Off Central Business District (Off CBD) for their office requirements while large occupiers looking for comparatively economic options should consider pre-committing offices in Old Mahabalipuram Road (OMR) post-toll and Mount Poonamalle High (MPH) Road micromarkets.

Forecast at a glance

Demand
Demand from technology sector to continue dominance and also likely to be driven by companies in automotive and manufacturing domain

Supply
Upcoming supply of about 14 million sq ft (1.3 million sq m) over 2018-2021 likely to increase the total office stock by 25%

Vacancy rate
Likely to remain at about 11% towards the end of 2018; 10-11% vacancy rates to continue over 2019-2021

Rent
Average annual city rents likely to increase by 3-4% driven by rents in premium buildings over 2018-2021

Price
Gradual increase in capital values likely over 2018-2021 across micromarkets

Off CBD gains traction with new supply and enhanced connectivity

With about 1.08 million sq ft (0.1 million sq m) of leasing volume in Q2 2018, Chennai's gross absorption has reached around 2 million sq ft (0.18 million sq m) in the first half of 2018, similar to the same period in 2017. We expect the gross absorption in second half of the year to be higher than the H1 2018, in line with the absorption trends in 2015-2017.

The global alternative asset management firm, Blackstone LP has acquired Indiabulls' Chennai commercial asset - One Indiabulls Parks for nearly INR 900 crores (USD 134 million). Located in Ambattur, the asset has a total development area of 2.4 million sq ft (0.22 million sq m) with a leasable area of about 2 million sq ft (0.19 million sq m). While we expect a very minimal impact on the micromarket but it clearly indicates an increase in commercial investment interest in Chennai.

In Q2 2018, the OMR pre-toll micromarket accounted for a maximum share of city's total office leasing at 28%. The MPH road and CBD micromarkets accounted to a share of about 20% of gross absorption each followed by Off CBD at 16%, OMR post-toll at 14%, Grand Southern Trunk (GST) Road and Ambattur at 1% each. Off CBD including Guindy has started enticing office occupiers with new Grade A supply and improved connectivity. Further, three metro-rail stations have been made operational, extending the connectivity up to Chennai Central railway station and Directorate of Medical & Rural Health Services (DMS), a 2.7km stretch.

Rental Value Trends

Micromarkets	Rental Values[1]	QOQ Change	YOY Change
CBD	70 - 90	0.0%	0.0%
Off-CBD	60 - 75	0.0%	0.0%
GST Road	35 - 45	0.0%	0.0%
MPH Road	50 - 65	0.0%	0.0%
OMR Pre-Toll	55 - 80	0.0%	3.8%
OMR Post-Toll	30 - 42	0.0%	2.9%
Ambattur	30 - 45	0.0%	0.0%

Source: Colliers International India Research

[1]Indicative Grade A (non SEZ) rentals in INR per sq ft per month

Fig 1. Rental Value Trend (INR per sq ft per month)

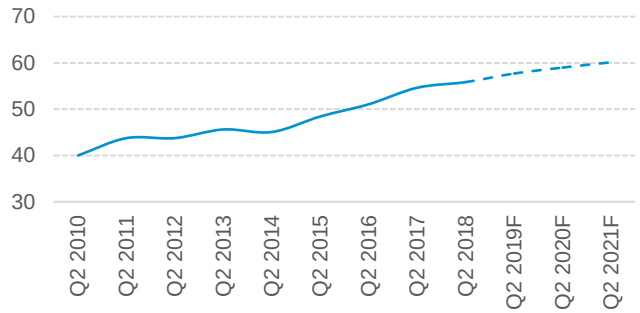
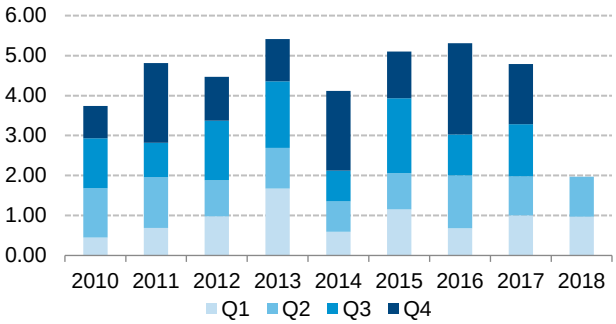


Fig 2. Gross Office Absorption (million sq ft)



Major Lease Transactions in Q2 2018

Client	Building Name	Area (sq ft)	Location
Barclays	DLF cybercity	84,000	Manapakkam
Genesys	SP Infocity	64,000	Perungudi
Citi Bank	Ramanujan IT City	62,000	Taramani
Star Vijay	Kochar Jade	44,000	Guindy
Yamaha	AKDR Tower	34,000	Thoraipakkam

Source: Colliers International Research
Note: All figures are based on market information as on 25 June 2018

YOY rents on rise in MPH Road, OMR pre-toll and OMR post-toll

About 14 million sq ft (1.3 million sq m) of Grade A office supply is scheduled for completions over 2018-2021. Out of the total supply pipeline about 1.1 million sq ft (0.1 million sq m) of new supply has been completed in H1 2018.

While the new supply in Off CBD micromarket is suitable for occupiers looking for small to medium floor plates, the upcoming projects in MPH Road should serve the occupiers with large sized office requirements. In our opinion healthy office supply pipeline and proximity to Guindy in Off CBD should be the key demand drivers for MPH Road over 2018-2021.

In Q2 2018, the southern micromarkets, OMR pre-toll and OMR post-toll, recorded rental increases of 3.8% and 2.9% YOY respectively. The overall average city rent has increased by 1% YOY in Q2 2018. We expect the city's annual average rent should see increase of 3-4% YOY from 2018-2021.

Colliers' View

In line with our earlier forecasts, the demand from automotive, engineering and logistics companies has started gaining momentum with a total of about 0.12 million sq ft (0.11 million sq m) of space leased in Q2 2018 by companies such as Yamaha, TVS Logistics, NTC Logistics, Scorpio Maritime, Keyence and Danieli. We expect the recent announcements by companies such as Eicher Motors and Freudenberg of investments of about INR1,000 crores (USD0.15 bn) in Chennai to further support office demand (Source: Financial Express published on 11 May, 2018 and The Hindu published on 02 June, 2018).

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HYDERABAD | OFFICE

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Strong demand but rising supply

Karthiga Ravindran Assistant Manager

Hyderabad is one of the fastest-growing cities in India, forecasted to record annual Gross Domestic Product (GDP) growth of 8.1% on average over 2018-2022. Normally considering the city's growth rate and positive demand outlook with rising pre-commitments, we would expect the city to record average annual rent growth of 5-6%. However, considering the upcoming supply which is likely to increase the city's Grade A stock by 60% over three years, we only expect average annual rent growth of 3-4% over the next three years. We advise occupiers to be proactive in taking up space in the city to hedge against future rent rises, while developers should adhere to completion schedules to cater to the rising demand on time.

Forecast at a glance

Demand
The demand outlook is positive with increasing pre-commitments; however, the lack of vacant space will probably hold back absorption in 2018

Supply
We forecast total completion of 33.0 million sq ft (3.1 million sq m) over 2018-21; this is likely to increase the city's stock by 60%

Vacancy rate
The overall city vacancy rate is likely to remain low at 6% through 2018. We expect vacancy to increase gradually from 2019 to 15% by end of 2021

Rent
Average annual city rents should see an increase of 3-4% over 2018-2021 driven by premium Grade A buildings

Price
Sales prices are likely rise in line with the increase in rents

Pre-commitments on rise due to limited Grade A office availability

With about 1.0 million sq ft (0.09 million sq m) of office leasing in Q2 2018, Hyderabad recorded approximately 1.5 million sq ft (0.1 million sq m) of gross absorption in H1 2018, representing a 38% dip from H1 2017. In our opinion, the considerable dip in office leasing is primarily due to the limited availability of Grade A office supply in the Secondary Business District (SBD), the city's favourite market, where the vacancy rate is as low as 3.0%.

Nonetheless, about 1.1 million sq ft (84,000 sq m) of space has been pre-committed in Q2 2018 indicating a healthy demand for Grade A office space. Various technology and consulting companies such as JP Morgan Chase, PwC, Shure and S&P Infotech pre-committed space for expansions in projects under-construction in the SBD such as Salarpuria Sattva Knowledge city and RMZ Skyview office park.

In Q2 2018, office demand remained concentrated in the SBD micromarket. With the expansion of technology companies such as Amazon, Conduent, UST Global and Core Compete, the sector accounted for 62% of gross absorption. This was followed by flexible workspace operators, accounting for 31% of gross absorption. In our opinion, increasing pre-commitments by technology occupiers and the continuing rise of flexible workspaces should be the key trends driving the market in H2 2018.

Rental Value Trends

Micromarkets	Rental Values	QOQ Change	YOY Change
CBD (Banjara Hills Road No.1,2, 10 and 12)	45 - 50	0.0%	0.0%
Off-CBD (Begumpet, Somajiguda	45 - 50	0.0%	0.0%
SBD (Madhapur HITEC City, Gachibowli, Nanakramguda, Manikonda Raidurg)	58 - 65	0.0%	7.0%
PBD	25 - 30	0.0%	0.0%

Source: Colliers International India Research
Indicative Grade A rentals in INR per sq ft per month

Fig 1: Rental Value Trend (INR per sq ft per month)

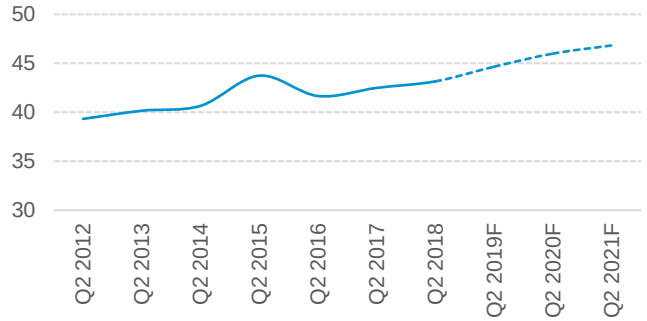
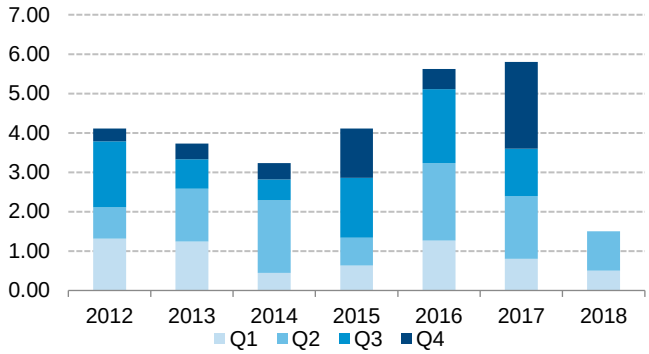


Fig 2: Gross Office Absorption (million sq ft)



Major Leasing Transactions in Q2 2018

Client	Building Name	Area (sq ft)	Location
Amazon	Laxmi Infobhaan	200,000	Kokapet
Legato Health Technologies	Laxmi Infobhaan	109,000	Kokapet
Awfis	Sandya	100,000	Hitech city
Conduent	Laxmi Infobhaan	84,900	Kokapet
Indiqube	Ramky One	60,000	Gachibowli

Source: Colliers International Research
Note: All figures are based on market information as on 25 June 2018

Rental increase likely to be driven by premium Grade A supply

Hyderabad witnessed no new supply in Q2 2018 and most of the scheduled completions were postponed to the second half of the year. On considering the completion schedules of various projects under construction, we expect about 5.9 million sq ft (0.5 million sq m) of Grade A office supply to be added in 2018 representing 10% increase in total existing stock.

About 33 million sq ft (3.1 million sq m) of Grade A supply is in various stages of construction and likely to come online over 2018-2021. We advise developers to adhere to their planned timelines to cater to the unfulfilled demand in the city, as we expect the vacancy to continue to be below 6% through H2 2018. With a positive outlook for demand, indicated by rising pre-commitments and the limited availability of Grade A supply, we expect the annual average city-wide rental growth to be 3-4% in 2018, driven by premium Grade A upcoming supply in SBD micromarket.

Colliers' View

The city is going through an infrastructure makeover with the government's Strategic Road Development Plan (SRDP) calling for the construction of underpasses, flyovers and cable bridges, as well as street and water supply improvement initiatives in CBD locations. In our opinion, such initiatives are likely to reduce the overburden on the available infrastructure further in SBD, CBD and Off CBD micromarkets.

The state government is in progress in setting up one of the world's biggest 'Pharma City' cluster over an extent of 19,000 acres (76.8 million sq m) in Mucherla. Recently, Swiss firm Ferring Pharmaceuticals has also announced investments of about INR1700 crores (USD250 million) in Genome Valley, Hyderabad. We expect the aforementioned investments in pharmaceuticals sector to further support office demand.

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Q2 2018

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New supply to support demand

Diksha Gulati Manager

We expect significant new supply of 12.0 million sq ft (1.1 million sq m), amounting to 18% addition to existing stock, to be infused over 2018-2021 as developers are starting to realise the need to expedite construction. We advise developers to revisit their construction plans and expedite completion of under-construction developments to capitalise on positive occupier sentiment in the market.

Forecast at a glance

Demand
Demand to remain strong, especially in micromarkets such as Kharadi and Hinjewadi; pre-commitments likely to continue

Supply
Approximately 12 million sq ft (1.1 million sq m) of new supply is planned to be infused over 2018-2021, however, a portion of this may be deferred.

Vacancy rate
We expect vacancy to remain low at the current level of around 6% till 2021

Rent
Overall city rents are likely to strengthen by about 7-8% over 2018-2021

Price
Likely to appreciate in line with rental growth; increasing government bond yields may keep a check on the rate of increase of capital values.

Healthy absorption, driven by technology occupiers

Pune recorded gross absorption of 0.8 million sq ft (70,000 sq m) during Q2 2018, which is about the same YOY. Owing to the robust absorption in Q1 2018, the half-year absorption stood at 2.7 million sq ft (250,000 sq m). Fifty per cent of the half-yearly leasing was driven by technology occupiers, while the remainder comprised Banking and Financial Services Institutions, manufacturing and flexible workspace operators. The Q2 absorption was concentrated in the Kharadi and Hinjewadi micromarkets, together accounting for half of the pie. Continued interest was witnessed in Special Economic Zones projects that accounted for the remaining 50% share.

We expect leasing activity to be driven by technology occupiers. However, due to the low vacancy in the existing stock, pre-commitments are likely to retain the current healthy pace of absorption in H2 2018.

The city witnessed new supply of 1.8 million sq ft (0.17 million sq m) in Q2 2018, of which 28% was pre-committed. Despite significant quarterly supply infusion, overall vacancy dropped marginally to 6% at the end of June 2018.

Micromarkets	Rental Values[1]	QOQ Change	YOY Change
Baner	58 - 67	2.5%	6.8%
Bund Garden	58 - 72	4.0%	4.8%
Airport Rd/Pune Station	67 - 90	1.3%	4.7%
Aundh	62 - 66	2.4%	11.3%
Senapati Bapat Road	65 - 125	0.0%	2.7%
Bavdhan	47 - 52	4.2%	7.6%
Kalyani Nagar	57 - 65	1.7%	4.3%
Nagar Road	55 - 65	0.0%	2.6%
Hinjewadi	45 - 59	4.0%	5.1%
Hadapsar/Fursungi	70 - 78	3.5%	5.7%
Kharadi	55 - 105	0.0%	5.3%

Source Colliers International India Research

[1]Indicative Grade A rentals in INR per sq ft per month

Fig 1. Rental Forecast (INR per sq ft per month)

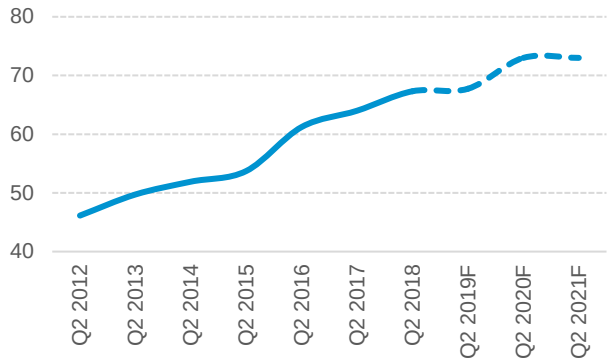
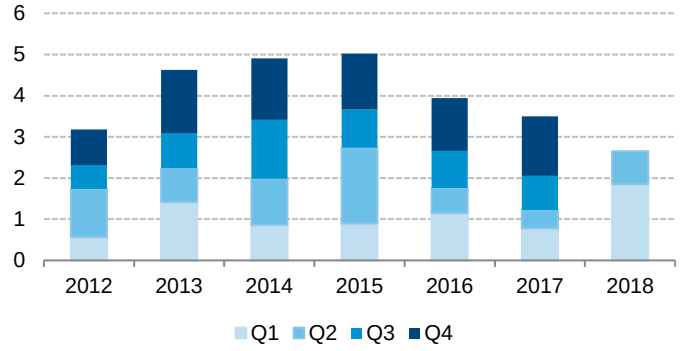


Fig 2. Gross Office Absorption (million sq ft)



Major Lease Transactions in Q2 2018

Client	Building Name	Area (sq ft)	Location
UBS Business Solutions	EON Phase II	142,900	Kharadi
Allianz Technology Services	EON Phase II	71,400	Kharadi
L&T Infotech	Blue Ridge Phase II	51,400	Hinjewadi
EFC India	E Park	45,000	Kharadi

Source: Colliers International Research
Note: All figures are based on market information as on 25 June 2018.

Upcoming supply likely to be deferred

In line with our forecast, average rents in the city witnessed a marginal increase of around 2% QOQ with the highest increase of 4% and more witnessed in Bavdhan, Hinjewadi and Bund Garden, due to strong occupier demand. We expect the rents to continue moving upwards at 7-8% over the next three years as vacancy levels should remain low.

We expect approximately 12 million sq ft (1.1 million sq m) of new supply to be completed over the next three years through 2021 according to developers' construction schedules. However, as suggested by actual construction progress, we expect only three-quarters of this to hit the market within the stipulated timelines as most projects under-construction in the city are stalled either because of regulatory approvals or a lack of commitment from occupiers. We advise developers to revisit their construction schedules and expedite completion of their developments under-construction to capitalise on positive occupier sentiment in the market.

Colliers' View

With the healthy economic forecast, we expect the current trend of healthy demand to continue over 2018-2021. Despite the projected new supply, an increasing focus on pre-commitments is likely to keep vacancy levels flat, which should strengthen rents. We advise small and mid-size occupiers to look for spaces offered by flexible workspace operators in times of space crunch in the city. The construction of the metro line is in full swing around the city and once operational it should improve connectivity between Pune city and business hubs in Pimpri and should strengthen commercial rents in these micromarkets.

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Q2 2018

KOLKATA | OFFICE

31 July 2018

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Leasing remained stable

Saif Lari Assistant Manager

Kolkata's office market leasing activity remained stable in Q2 2018. Major traction was seen from the occupiers expanding their footprint in the peripheral business districts (PBD). The ongoing tax collection activity in New Town and Rajarhat exerted an upward pressure on asking rents; however, we do not expect the contract rents to go up any further due to high vacancy levels. We advise occupiers to take advantage of current high vacancy levels by negotiating the lease rent and conditions well.

Forecast at a glance

Demand
Demand is likely to stay upbeat in the PBD owing to better connectivity and demand from the cost-conscious occupiers.

Supply
We expect an additional 9% supply infusion of about 2.2 million sq ft (0.2 million sq m) from 2018 to 2021.

Vacancy rate
Vacancy likely to remain stable in the range of 28-30% until 2021 with further increase in supply.

Rent
Higher vacancy should keep average rent stable. However, we expect a 2-3% annual increase in rents over 2018-2021 in the CBD due to limited supply.

Price
We expect capital values to see a cumulative 4-5% increase from 2018 to 2021, owing to renewed interest from domestic retail investors due to friendly-business policies of the state government.

Expansion drive by the occupiers in the PBD areas drove demand

Q2 ended with gross absorption of about 0.2 million sq ft (18,000 sq m), similar to Q1 2018. Sector V and Peripheral Business District (PBD) accounted for 70% and 20% of the leasing volume respectively. A scarcity of Grade A stock in the Central Business District (CBD) led to lower levels of absorption with most transactions being 3,000-8,000 sq ft (278-743 sq m). Space take-up by flexible workspace operators like Apeejay Business Center indicates a growth of occupier interest in flexible workspace centers. Demand came primarily from the Engineering and Manufacturing sector, accounting for 43% of total leasing. This was followed by Information Technology enabled Services (IT/ITeS) with 22% and Banking, Finance and Insurance Services (BFSI) which accounted for about 15% of total leasing.

Recently, the Municipal Corporation of Kolkata has started collecting property tax in the Peripheral Business Districts (PBD) areas of New Town and Rajarhat, resulting in an uptick in the average asking rental values in these micromarket. The asking rents in PBD locations witnessed an increase of 5% QOQ.

Rental Value Trends

Micromarkets	Rental Values[1]	QOQ Change	YOY Change
CBD[2]	90 - 120	11%	11%
SBD[3]	60 - 70	0%	0%
Sector V	40 - 45	0%	4%
PBD[4]	28 - 35	5%	5%

Source Colliers International India Research
[1]Indicative Grade A rentals in INR per sq ft per month
[2]Park Street, Camac Street, Chowranghee Road, AJC Bose Road
[3]EM Bypass, Topsia, Ruby
[4]Salt Lake, New Town, Rajarhat

Fig 1. Rental Forecast (INR per sq ft per month)

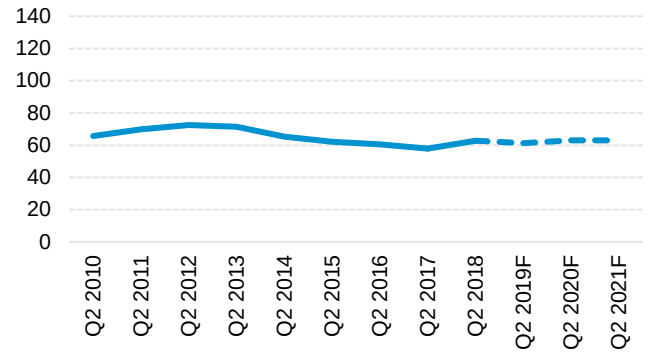
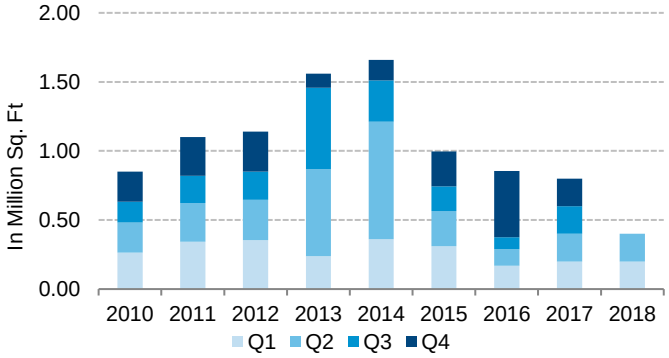


Fig 2. Gross Absorption (million sq ft)



Major Transactions in Q2 2018

Client	Building Name	Area (sq ft)	Location
Apeejay Business Center	Eco Center	16,000	Sector V
ZTE	Millenium City	12,000	Sector V
Blue Star	Eco Center	8,000	Sector V
HDFC Ergo	22 Camac Street	6,000	CBD

Source Colliers International India Research
Notes: All figures are based on market information as of 25th June 2018

Rents to stay flat due to high vacancy rate

Even though asking rents increased in Q2, mainly due to regulatory changes in a few micromarkets, we expect rents to remain stable from 2018-2021. With demand averaging around 0.2 million sq ft (18,000 sq m) every quarter, it is unlikely that the high vacancy rate will sink in the next three years. Despite high vacancy, in our views rents have already reached the bottom and are unlikely to fall much further. Additionally, based on the construction schedule of various developers, about 2.2 million sq ft (0.2 million sq m) of Grade A supply is due for completion over the next three years which will increase the existing stock of the city by 4%. The majority of this upcoming supply is located in the emerging Sector V micromarket.

In contrast to the trend of past few quarters, 0.55 million sq ft (50,000 sq m) of new Grade A supply came online in Sector V, resulting in an increase in vacancy. However, we expect demand to stay robust in PBD locations, keeping overall rents stable.

Colliers' Forecast

Kolkata has seen subdued demand for some time now, but the recent rise of business interest will probably boost the requirement of commercial real estate market. The completion of a new flyover connecting the CBD area with the Salt Lake micromarket should improve connectivity towards the PBD. With new Grade A supply and competitive rents in PBD, we expect more occupiers to relocate to the PBD locations over the next three years. We advise the occupiers to wait for the new Grade A supply to enter the market and close deals at competitive rental rates.

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