

# Supply to complement demand in 2018

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**In 2017, Bengaluru retained its dominant position in office sector among all the Indian cities and accounted for the highest percentage of overall leasing volume. While the state government is inclined to improve infrastructure and revise the development policy, we expect Bengaluru to remain the preferred city for technology occupiers. Given a robust supply pipeline, we expect healthy leasing activity to continue in 2018 and subsequent years. Since tenants are focusing more on workplace strategies to create a more collaborative working environment and save on rents, demand for flexible workspace is set to improve.**

## Forecast at a glance



### Demand

New technology and software development companies should drive demand momentum in coming years



### Supply

Demand likely to outstrip supply despite estimated new supply of 26 million sq ft (2.4 million sq m) over next 3 years, representing 20% increase in total stock



### Vacancy rate

Vacancy to remain under pressure and should gradually decrease to 7% by the end of 2020 from current 9%



### Rent

Rents to increase by 5-8% per annum over next 3 years with demand outstripping supply in preferred micromarkets



### Price

Capital values are set to increase in proportion to rental values.

## Strong office demand to persist in 2018

Notwithstanding the speculation about the competition from emerging neighbour, Hyderabad and the swelling concerns of automation and its impact on office market, Bengaluru maintained its Silicon Valley status and recorded the highest gross absorption of 15.3 million sq ft (1.4 million sq m) in 2017, representing 36% share of the all India absorption. Out of this 1.3 million sq ft are pre-commitments which got finalised in 2017. A significant increase of 20% from the 2016 number of 12.8 million sq ft (1.18 million sq m).

We attribute the increase in absorption to steady expansion by technology occupiers who contributed about 56% of the total demand. Banking, Financial Services & Insurance (BFSI) and Engineering & Manufacturing followed with 11% and 9% share respectively. As forecasted, Coworking operators with 7% share of overall office leasing continued to expand in 2017 and leased almost twice as much office space as in 2016. We anticipate that many more flexible workspace operators will launch coworking spaces in 2018, not only because Bengaluru houses the highest number of start-ups but also in order to target large occupiers looking for additional flexible office space. We anticipate the office market will remain robust, with average gross absorption of 14 million sq ft (1.3 million sq m) absorption YOY in the next 3 years.

## Rental Value Trends

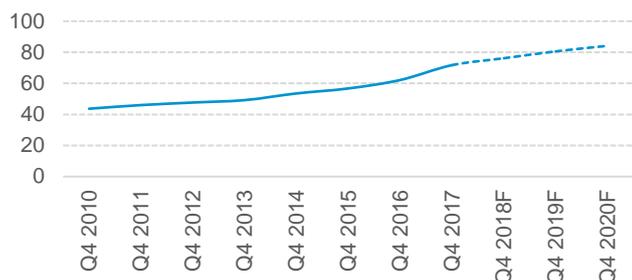
Micromarkets	Rental Values <sup>1</sup>	QOQ Change	YOY Change
CBD	110 - 190	7.1%	25.0%
Outer Ring Road (Sarjapur - Marathahalli)	80 - 90	6.3%	9.7%
Outer Ring Road (K.R. Puram - Hebbal)	70 - 85	3.3%	9.2%
Bannerghatta Road	60 - 85	16.0%	17.9%
Hosur Road	32 - 42	5.7%	5.7%
EPIP Zone/Whitefield	35 - 45*	0.0%	11.1%
Electronic City	35 - 45	14.3%	17.6%

Source: Colliers International India Research

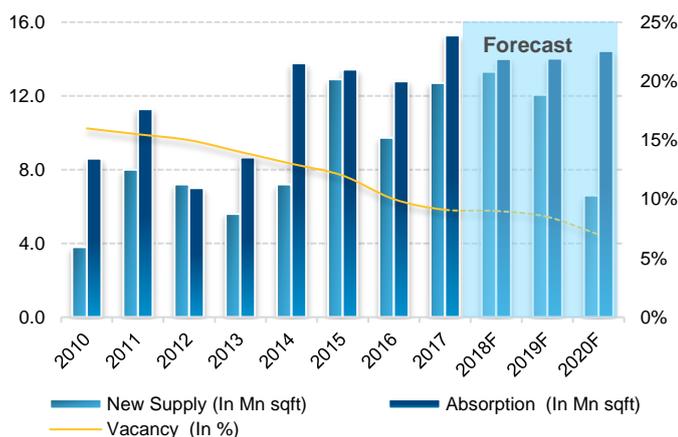
<sup>1</sup>Indicative Grade A rentals in INR per sq ft per month

\* Excluding ITPL rent of Rs. 52 per sq ft per month

**Fig 1: Rental Forecast (INR per sq ft per month)**



**Fig 2: Supply, Absorption & Vacancy Forecast**



**Major Lease Transactions in 2017**

Client	Building Name	Area (sq ft)	Location
Siemens	Gold hill Supreme Tech Park	600,000	Electronic City
Microsoft	Prestige Fern Galaxy	589,000	ORR
Qualcomm	Bagmane Constellation Business Park	560,000	ORR
Lowe's Services	Manyata Business Park	489,000	ORR
Anthem Inc.	Manyata Business Park	477,000	ORR

Source: Colliers International Research  
 Note: All figures are based on market information as on 25 Dec 2017

In 2017, Outer Ring Road (ORR) seized 46% share of the total leasing volume followed by the Central Business District (CBD) 9%, the Secondary Business District (SBD) 13%, Whitefield (7%) and Electronic City (6%) and, North (5%) and others (12%)

**Supply to complement upcoming demand in 2018**

Collier's database suggests new supply of 12.7 million sq ft (1.1 million sq m) was added to the city inventory in 2017, recording a 30% increase from 2016. About 26 million sq ft (2.4 million sq m) of grade A office space is scheduled for completion in Bengaluru between now and 2020. More than 60% of the total upcoming space is concentrated in ORR and Whitefield, while rest of the space is distributed among various micromarkets such as North (10%), SBD (7%) and other micromarkets (14%). We expect micromarkets such as ORR and Whitefield along with emerging market such as North Bengaluru to complement the increasing demand.

We recorded an average rental increase of 13.7% YOY in Bengaluru in 2017, the highest in India against a background of demand outstripping the supply. While sizable supply is under construction, we cannot rule out about 8-10% YOY increase in grade A rents due to high demand in preferred micromarkets.

**Colliers' Forecast**

We expect, demand to remain robust in Bengaluru. Policy initiatives such as Revision of Master Plan (RMP) 2031 and Transit Oriented Development (TOD) should further boost the supply situation. The upcoming infrastructure such as Namma Metro Phase 2 (Bayapanahalli to Whitefield), metro connectivity to Karnataka International Airport (KIA) and signal-free 17 km road extension of the ORR (Silk Road to Mysore Road) is likely to address the infrastructure issues.

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