

# Consistent rental rise on the cards

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**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.

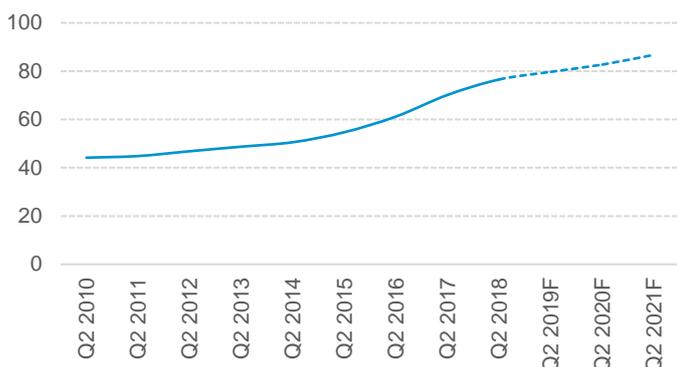
## Rental Values

Micromarkets	Rental Values <sup>1</sup>	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%
Outer 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%

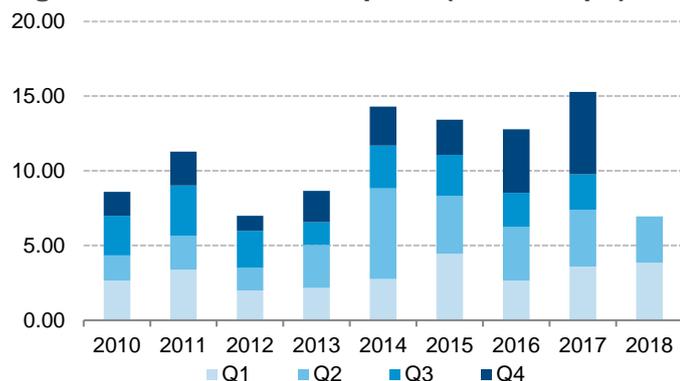
Colliers International India Research

<sup>1</sup>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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