Colliers Radar

CHENNAI | OFFICE

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Steady rental rise to continue

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As the market demand continuing to be driven by Information Technology and Information Technology enabled Service (IT-ITeS) sector, the occupier preference remained concentrated in preferred micromarkets like Old Mahabalipuram Road (OMR) pre-toll and Mount Poonamallee High (MPH) Road. Considering the low vacancy in above mentioned micromarkets, we advise occupiers to be strategic in choosing their office locations and be proactive in taking up the available supply.

Forecast at a glance

Demand
Demand to gain momentum in MPH Road and Off CBD in 2018; Pallavaram Thoraipakkam Road (PTR) likely to be the next growth centre in south Chennai

Supply
Total Grade A office stock to increase about 20% by 2020; Supply likely to be stable over next three years with average annual addition of about 4.0 million sq ft (0.4 million sq m)

Vacancy rate
Vacancy should remain at 10-11% as the upcoming supply is likely to offset demand

Rent
Steady increase in rents foreseen in preferred micromarkets pushing overall rents to increase by 8-9% by 2020

Price
Capital Values set to increase in line with raising rents and steady demand

MPH Road and Off CBD to drive demand in 2018

The leasing segment and enquiries remained consistent throughout 2017; however, larger size deals were less than in 2016. We recorded about 4.8 million sq ft (0.46 million sq m) of overall leasing excluding pre-commitments and renewals in 2017 representing a 10% dip in absorption volumes YOY.

Regardless of high rents, OMR pre-toll micromarket continued to garner maximum occupier interest representing 32% of total transaction volume in the city. With 17% and 16% share of overall leasing volume respectively, MPH Road and Off Central Business District (Off CBD) remained the second most active market. The increasing demand resulted in almost double absorption than 2016 in aforementioned micromarkets. The shares of other micromarkets in the gross office take up in 2017 is as follows: OMR post-toll (16%), CBD (13%), GST Road (3%) and Ambattur (3%).

Considering the shrinking vacancy rates coupled with rising rents in OMR pre-toll, occupiers' focus is likely to shift towards OMR post-toll over next 3 years due to the significant supply pipeline. In the medium term, occupiers' interest likely to remain tilted towards active business districts such as MPH Road and Off CBD due to the availability of new Grade A supply.

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 - 78	0.0%	10.8%
OMR Post-Toll	30 - 40	0.0%	0.0%
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 Forecast (INR per sq ft per month)

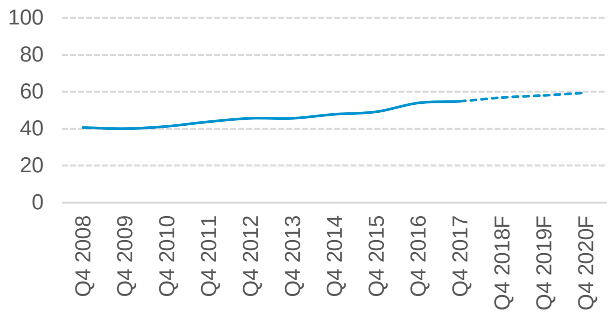
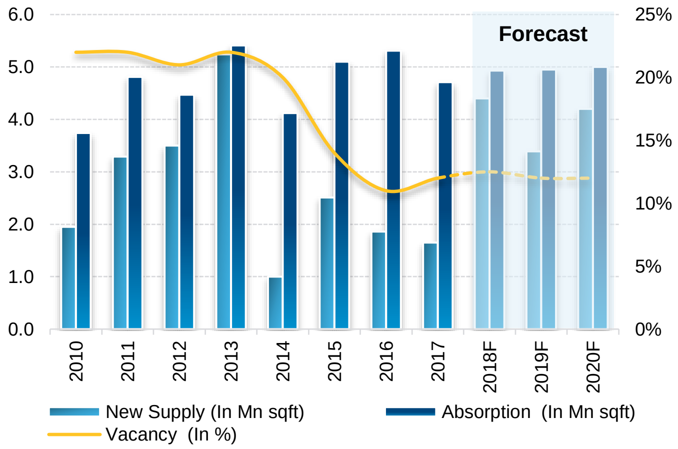


Fig 2. Supply, Absorption & Vacancy Forecast



Major Lease Transactions in 2017

Client	Building Name	Area (sq ft)	Location
Amazon	Ramanujan IT SEZ	472,000	Taramani
Valeo	Cee Dee Yes IT Park	200,000	Navalur
BNY Mellon	DLF Cybercity	188,000	Manapakkam
Wells Fargo	Chennai One Magnum	123,000	Thoraipakkam
Renault Nissan	Ascendas Cybervale	120,000	Singaperumal koil

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

Supply pipeline to improve over next three years

Due to delay in project completions, 2017 witnessed new supply of only 1.8 million sq ft (0.2 million sq m) compared to our forecast of 4.15 million sq ft (0.38 million sq m). We expect, these deferred projects to see completion in 2018. We also forecast Chennai market to see an average 4 million sq ft of new supply for next 3 years resulting in 20% increase in total stock by 2020. About 80% of the total upcoming supply is concentrated in the southern part of the city followed by MPH Road (16%) and Off-CBD (4%). Out of all locations in the south, the PTR in OMR post-toll micromarket likely to get maximum supply, with about 6.7 million sq ft (0.61 million sq m) of office space under various stages of construction. In contrast, scheduled completion in the OMR pre-toll district amounts to only 2.2 million sq ft (0.2 million sq m) in next three years.
We expect the upcoming supply should ease the overall vacancy rates and hold down rents in micromarkets like Off CBD and OMR post-toll. However, rising demand should push rents higher up to 10-15% in OMR pre-toll and MPH Road over the next three years.

Colliers' Forecast

Various flexible workspace players made their debut in Chennai market in 2017. We expect, flexible workspace operators to increase footprint in the city as existing players like Cowrks have planned their expansions and new entrants like Awfis are already in action to set up their office space in Chennai.
About INR 9850 crore (USD 1.54 billion) investment announcements by companies like PSA, CEAT, Xuzhou and Yamaha Musicals should increase the contribution of automobile and manufacturing in office demand. Special Economic Zones (SEZs) should continue to drive sustained demand with increasing pre-commitments in upcoming projects.

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