

Demand outlook remains firm

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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

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

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

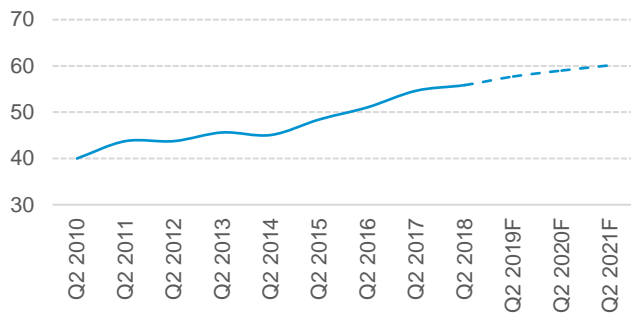
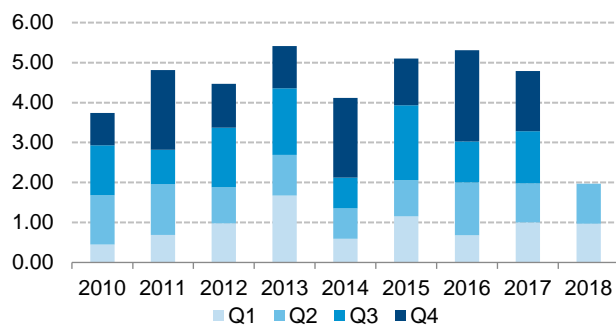


Fig 2. Gross Office Absorption (million sq ft)



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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