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# CONTRACTING GROSS ABSORPTION

## Summary & Recommendations

Office leasing activity in Q3 2018 registered a decline of 6.7% QOQ, with 560,000 sq ft (52,025 sq m) of gross absorption so far in 2018. Limited availability of quality Grade A office space in the CBD and SBD micromarkets restricted leasing activity.

- Despite expected supply of 4.8 million sq ft (445,935 sq m) during 2018 – 2021, we anticipate rents to remain steady. However, well-located quality Grade A developments will fetch rental premiums of to 3-5%. over the market rate.
- We suggest developers and landlords of Grade B & B+ buildings in the CBD redesign their workspaces to attract demand for flexible workspaces.

	Q3 2018	Full Year 2018	2018-21 Annual Average
 <p><b>Demand</b></p> <p>We foresee an increase in absorption levels over the period of 2019 – 2021 primarily driven by finance and manufacturing occupiers.</p>	 <b>139,670 sq ft</b>	 <b>830,000 sq ft</b>	 <b>1,000,000 sq ft</b>
 <p><b>Supply</b></p> <p>4.8 million sq ft (445,935 sq m) of office space is expected to be completed during 2018 – 2021, the majority of which is in South Delhi.</p>	 <b>40,000 sq ft</b>	 <b>40,000 sq ft</b>	 <b>1,200,000 sq ft</b>
	<b>End Q3 2018/QOQ</b>	<b>End 2018/YOY</b>	<b>End 2021/ Annual Average Growth 2018-21</b>
 <p><b>Rent</b></p> <p>We expect CBD rents to increase by 2.7% over the next three years, faster than the city average rate owing to lack of Grade A space.</p>	 <b>0.0%</b> <b>INR148.0</b>	 <b>2.3%</b> <b>INR 148.7</b>	 <b>1.2%</b> <b>INR150.2</b>
 <p><b>Vacancy</b></p> <p>We expect the city-wide vacancy rate to dip in Q4 2018 with no new supply coming online. However, sizeable supply over 2019 - 2021 should push the vacancy rate.</p>	 <b>2.6pp</b> <b>7.9%</b>	 <b>7.6pp</b> <b>6.1%</b>	 <b>-0.7pp</b> <b>10.7%</b>

Source: Colliers International India Research

Note: Demand represents gross leasing; 1 sq meter = 10.76 sq ft; pp: percentage point; USD1 = INR72.71 as on 25 September 2018

## RESTRAINED LEASING DUE TO LIMITED AVAILABILITY OF QUALITY SPACE

The office market recorded gross absorption of 139,670 sq feet (12,975 sq metres) in Q3 2018, representing a quarterly contraction of 6.7%. Over the last three quarters, the continued decline in demand can be attributed to a lack of Grade A space in major micromarkets such as the CBD and Aerocity, as evidenced by the CBD recording a significant decline in take up compared to last quarter. In Q3 2018, Grade A space take-up was evenly spread across the city, unlike the previous few quarters when the demand was mainly concentrated in the CBD and Aerocity micromarkets. This was mainly due to the scarce availability of Grade A space in both of these micromarket leading to restricted leasing while fresh demand was pushed to other micromarkets, such as Jasola.

Engineering and manufacturing companies were active during the quarter and accounted for 52.9% of the overall leasing volume, whereas the banking, financial services and insurance sector accounted for 11.8% of leasing and flexible workspace occupiers accounted for 5.7% of leasing.

The gross absorption over the first nine months of 2018 in Delhi stood at 560,000 sq feet (52,025 sq metres), which is 49.1% lower than the same period in 2017. This can be attributed to limited leasing activity in the CBD and Aerocity micromarkets owing to limited availability of Grade A inventory and sustained high rents. We expect demand during 2019 - 2021 will be primarily driven by occupiers looking for front offices at prime locations in the city as the rents in prime micromarkets do not favour back-end occupiers.

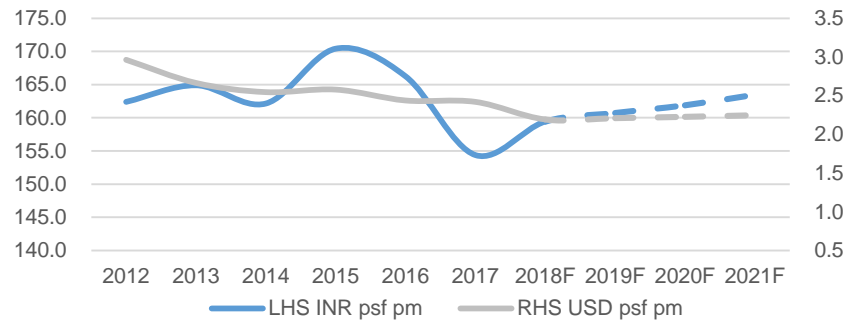
The reduction in demand over the last two quarters has resulted in a stabilisation of rents. However, we anticipate the quality Grade A office developments to continue to command a premium over average rents in supply-restrained locations such as the CBD and Aerocity in the next three years.

### Gross effective rental values

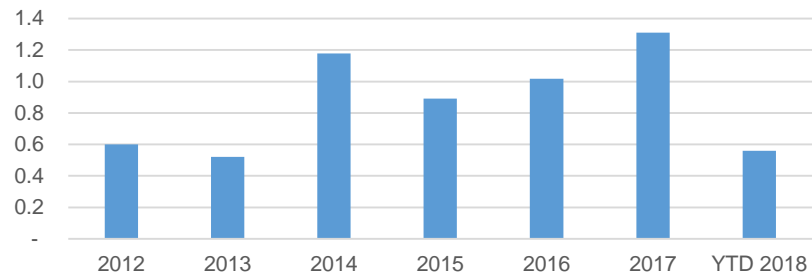
	Q3 2018 (INR psf pm)	Q3 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
Connaught Place (CBD)	140 – 425	1.9 – 5.8	0.0%	0.0%
Nehru Place	150 – 200	2.0 – 2.7	0.0%	0.0%
Saket	110 – 180	1.5 – 2.5	0.0%	0.0%
Jasola	80 – 115	1.1 – 1.6	0.0%	2.6%
Okhla	40 – 87	0.5 – 1.2	0.0%	1.6%
Aerocity	180 - 200	2.5 – 2.7	0.0%	8.6%

Source Colliers International India Research

## Rental trend



## Gross office absorption (million sq ft)



Source: Colliers International India Research | YTD: Year-to-date - January to September

## Major lease transactions in Q3 2018

Client	Building Name	Area (sq ft)	Location
Hyundai	Uppals 6	22,000	Jasola
Rivierap	Individual Building	18,000	Delhi Other
Statkraft India	Salcon Rasvilas	17,938	Saket
NIIF	HT House	7,000	CBD

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

## MEAGRE SUPPLY ADDITION IN 2018; STRONG GRADE A SUPPLY PIPELINE

The city saw new supply of 40,000 sq feet (4,000 sq metres) for the first time this year in Central part of the city. Considering the construction schedule, we expect around 4.3 million sq feet (399,483 sq metres) of Grade A office space to be completed over the next three years. This includes a commercial development by NBCC which has a gross leasable area of 3.0 million sq feet (278,710 sq metres). Out of the total supply pipeline, the majority of the developments are concentrated in the various business districts of South Delhi such as Nauroji Nagar, Aerocity, Bhikaji Cama Place and Okhla locations.

Limited contiguous space in Grade A buildings caused a slight increase in the average deal size of 8,700 sq feet (810 sq metres). This is about 5.8% larger than the average deal size in Q2 2018.

With significant new supply scheduled for completion in various South Delhi's business districts by 2021, we expect this corridor to be a hotspot for BFSI and manufacturing occupiers looking for large Grade A supply.

Underpinned by slow demand and a limited availability of quality space, average rents in Q3 2018 remained stable across all major micromarkets in the city. However, amidst modest absorption growth and an infusion of quality supply during 2018 - 2021, we expect annual average rental growth of 1.2%. The rise in rents should be caused by the sustained high rents in the prime locations of the city.

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