Colliers Radar

DELHI | OFFICE

15 January 2018

Rents in Grade A properties to rise

Saif Lari | Assistant Manager | Delhi

Delhi's office market has experienced high leasing momentum and the property owners of grade A projects in high demand have swiftly increased asking prices. In our view, developers have an enticing opportunity to redevelop and redesign sub-standard old projects, in order to unlock the potential premium rentals in the undersupplied market. However, this approach will be challenging for strata-titled buildings.

Forecast at a glance

Demand
Demand for office leasing to remain sturdy. Major contribution to be from Banking and Manufacturing sectors

Supply
Limited supply pipeline in commercial office space except for 3.3 million sq ft (0.3 million sq m) of Grade A office space by NBCC over next three years which is primarily available for strata sale.

Vacancy rate
Average vacancy rates likely to stay flattened at around 9-10% in the next 3 years. Higher vacancies expected in Grade B properties due to occupiers' preference for Grade A buildings.

Rent
RENT
Rents to remain stable in the upcoming 3 year's forecast with an upward bias for Grade A buildings due to restricted supply.

Price
Due to limited transaction volumes, capital values likely to remain stable in 2018 while we can expect 5-10% increase over the next 3 years

Leasing remains active with Aerocity gaining momentum

Leasing activity in the national capital remained very active in 2017, as evidenced by robust gross absorption of 1.3 million sq ft (0.1 million sq m) representing a jump of 31% YOY. Aerocity emerged as the torchbearer in the leasing activity with a share of about 28% closely followed by Connaught Place (CBD) at 21%, Jasola at 8%, and Okhla at 7%. Other Secondary Business Districts (SBD) micromarkets such as Nehru Place, Saket, Bikaji Kama Place contributed lesser transactions. In 2017, as a direct outcome of preference among occupiers, Aerocity recorded a 17% YOY increase in rents. Other traditional SBD micromarkets such as Saket and Nehru Place were impacted negatively and recorded 3-9% decreases in rent in 2017.

We expect Aerocity to remain a favourite among occupiers' due to its locational advantages and ready Grade A stock. DIAL (Delhi International Airport Limited) has started allocating land parcels in phase II of Aerocity for mixed-use development. However, it will take at least three to five years for new building to materialise. Hence, we expect that rents will rise by a further 8-10% in 2018 due to the lack of a visible supply pipeline over the next three years.

In contrast to the trend of 2016, Delhi witnessed a lower volume of new leasing by flexible workspace operators. In our view, Delhi's market is gradually maturing in this area; hence, the number of deals was smaller than in 2016.

Rental Value Trends

Micromarkets	Rental Values[1]	QOQ Change	YOY Change
CBD	140 - 425	0.0%	4.6%
Nehru place	150 - 200	0.0%	-9.1%
Saket	110 - 180	0.0%	-9.4%
Jasola	80 - 115	0.0%	-2.5%
Aerocity	180 - 200	0.0%	16.9%
Okhla	45 - 85	0.0%	0.0%

Source Colliers International India Research
[1]Indicative Grade A rentals in INR per sq ft per month

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

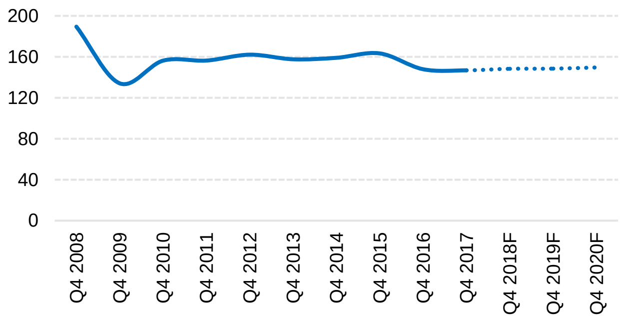
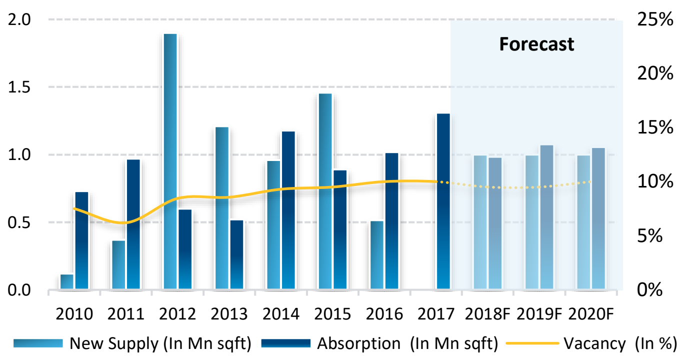


Fig 2: Supply, Absorption & Vacancy Forecast



Major Lease Transactions in 2017

Client	Building Name	Area (sq ft)	Location
Mitsui	Worldmark	60,000	Aerocity
NSDC	Worldmark	60,000	Aerocity
WHO	Parsvnath Redfort Capital Tower	52,000	CBD
Cistera	Vatika Mindspace	34,000	Okhla
Chegg India	Bani Corporate One	32,000	Jasola

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

Most of the flexible workspace operators have in fact started moving towards the neighbouring cities such as Gurugram and Noida in order to optimise the cost per desk. We assume a similar pattern will prevail in 2018.

Delays in the completion of some prime projects in the CBD have meant that there has been no new major supply in Delhi's office market in 2017. We expect supply to remain restricted in coming years, with reduced supply creating a scarcity of space in popular areas. For 2018, we project new supply of roughly 300,000 sq ft (27,900 sq m), with all the supply concentrated in the CBD zone.

Besides, the state-owned developer NBCC is executing a major project at Nauroji Nagar. With 3.3 million sq ft (0.3 million sq m), this will be the first World Trade Center in the national capital. Being located at a prime location in South Delhi, the first e-auction witnessed considerable success with public sector units such as Power Finance Corporation, Hindustan Petroleum Corporation Ltd. and Small Industry Development Bank of India cumulatively buying about 0.28 million sq ft (26,000 sq m) of office space at an average price of INR 38,000 (USD 587) per sq ft, that is 8-10% higher than the CBD capital values. We expect the second tranche of e-auctions in early 2018. In view of its prime location and connectivity, investors looking for prime office space may invest for their own office usage.

Colliers' Forecast

In line with our previous forecast, the Delhi office market is likely to stay stable. We expect vacancy in the new Grade A buildings to decline with an average vacancy rate of about 9%, compared to the 2016-17's 10% vacancy. We predict the vacancy levels to remain around 9-10% till 2020. We see a clear appetite among occupiers for Grade A and re-designed open-plan office space. We recommend landlords and developers in CBD areas to re-design their existing space and create collaborative workspaces to meet the strong demands of smaller tenants.

For more information:

Surabhi Arora
Senior Associate Director | Research | India
+91 98 7175 0808
surabhi.arora@colliers.com

Sanjay Chatrath
Executive Director | NCR
sanjay.chatrath@colliers.com

Vineet Anand
Director | Office Services | NCR
vineet.anand@colliers.com

Ritesh Sachdev
Senior Executive Director | Occupier Services | India
ritesh.sachdev@colliers.com

1st Floor, Ocus
Technopolis Building,
Golf Course Road,
Sector 54, Gurugram
122002
India