Colliers Quarterly

Q2 2018

DELHI | OFFICE

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Flexible offices to serve demand

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Delhi's leasing activity stayed lukewarm with year-to-date (YTD) absorption of only 0.44 million sq ft (0.04 million sq m). The paucity of Grade A supply has led Aerocity to account for the majority of leasing activity, however, even this micromarket is now low on vacancy. In Q2 2018, flexible workspace operators accounted for 21% of total leasing volume. We advise occupiers to look for optimum office space in flexible workspace operators in times of space crunch in the city.

Forecast at a glance

Demand
Absorption likely to remain stable due to the dearth of large floor plates; flexible workspaces to gain traction

Supply
Modest supply pipeline of 3.3 million sq ft (0.3 million sq m) of Grade A office space over next three years from developer NBCC, which is available for strata sale

Vacancy rate
Average vacancy rates likely to remain under pressure around 8% for the Grade A market; average vacancy to remain at 10-11% due to higher vacancies in Grade B properties

Rent
We expect the rents of Grade A spaces to increaseon average 5% YOY in CBD and Aerocity micromarkets from 2018 to 2021

Price
Capital values are likely to remain stable due to lack of investment sales activity, reflecting lack of investable stock

Leasing remained subdued due to lack of Grade A office space

Absorption levels in Delhi stayed low during Q2 2018 with just 0.15 million sq ft (0.01 million sq m) of gross absorption, down 42% QOQ. The YTD office space take up was around 0.4 million sq ft (0.04 million sq m). Aerocity accounted for around 35% of the overall leasing activity, followed by the CBD with 32% of leasing and Nehru Place with only 10%.

The city's traditional dominant occupier, the Banking, Financial Services and Insurance (BFSI) industry accounted for around 40% of the total leasing volume followed by the flexible workspace operators at 21%, manufacturing 13% and Pharma at 7%. Due to the lack of Grade A space, we expect flexible workspace to see increasing occupancy in the coming years.

In line with our prediction in previous reports, Aerocity has now overtaken the CBD area to be the preference of commercial office occupiers in terms of the absorption levels. The allure of Aerocity is the availability of modern, Grade A assets with competitive rents compared to the CBD, the proximity to the international airport, and efficient connectivity with south and central Delhi as well as Gurugram. With the vacancy as low as 10-11% Delhi and no new supply in sight for next three years, occupiers should explore flexible workspaces for their corporate office in Delhi.

Rental Values (INR per sq ft per month)

Micromarkets	Rental Values[1]	q-o-q Change	y-o-y Change
Connaught Place (CBD)	140 - 425	0.0%	4.8%
Nehru Place	150 - 200	0.0%	0.0%
Saket	110 - 180	0.0%	3.6%
Jasola	80 - 120	2.6%	8.1%
Okhla	40 - 85	0.0%	-2.3%
Aerocity	180 - 200	0.0%	8.6%

Source Colliers International India Research

[1]Indicative Grade A rentals in INR per sq ft per month

Fig 1. Rental Values (INR per sq ft per month)

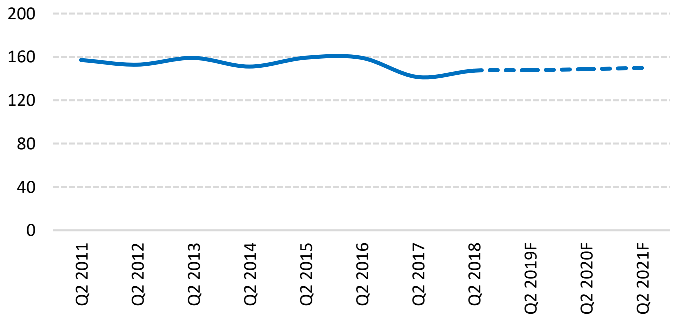
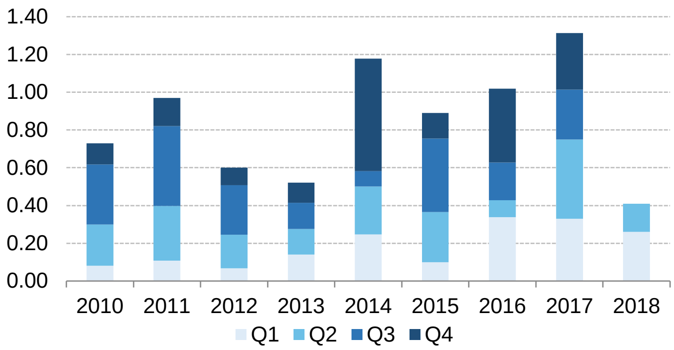


Fig 2. Gross Office Absorption (million sq ft)



Major Transactions in Q2 2018

Client	Building Name	Area (sq ft)	Location
DLL Finance	Hyatt Andaz	33,000	Aerocity
The Executive Center	DLF Center	17,000	CBD
The Executive Center	DLF Center	16,137	CBD
KMPG	International Trade Tower	12,000	Nehru Place
Alcon	Individual	8,700	Okhla

Source Colliers International India Research
All figures are based on market information as of 25th June 2018

Constrained supply to exert pressure on rentals

The lack of quality office space in the national capital has been a long-standing issue. Due to the clear preference of occupiers for Grade A buildings, we have witnessed polarisation of rents across markets. Grade A buildings are fetching premium rents while Grade B buildings are struggling to attract tenants. the absence of new supply, we expect this trend to continue in the next three years. CBD and Aerocity are likely to remain preferred micromarkets amongst occupiers due to availability of Grade A office spaces.

Colliers' View

We forecast Delhi's office market to remain largely steady except for a few micromarkets such as CBD and Aerocity. The demand for flexible workspace from occupiers may strenghten further forced by the lack of office space with modern facilities in the city. As advised in our previous report, there is a clear appetite in the market which may be fulfilled only by redeveloping the older dilapidated buildings inareas such as Nehru Place, Bikaji Cama Place and CBD. In our opinion, low vacancy is an enticing opportunity for developers to redevelop and redesign the sub-standard old projects, in order to unlock the potential premium rentals in the undersupplied market. We recommend occupiers to look for space in the growing numbers of international and national flexible workspace operators to meet their demands.

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