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# SLOWDOWN IN LEASING ACTIVITY

## Summary & Recommendations

Office leasing activity in Q3 2018 was 796,400 sq ft (73,987 sq metres), a decline of 60% QOQ. Considering the expansion plans of occupiers we expect demand to regain momentum in Q4 2018.

- 19.8 million sq ft (1.8 million sq metres) of Grade A office space is due to be added to the inventory over 2019-2021, implying growth of 29% in the city's office stock
- We recommend developers to follow their construction schedule supporting leasing activity in the coming years.
- We expect rents in prime districts such as Cybercity and adjacent locations to witness average annual rent growth of about 2% over 2018-2021. For occupiers, the high office quality and good connectivity of these areas outweigh the above-average rents.



### Demand

We expect growth in leasing activity over 2019-21 driven by finance and technology occupiers; flexible workspace operators to gain traction.

Q3 2018



796,378 sq ft

Full Year 2018



5,500,000 sq ft

2018-21  
Annual Average

5,000,000 sq ft



### Supply

We forecast a robust supply pipeline of 19.8 million sq ft (1.8 million sq m) until 2021 under various stage of construction.

Q3 2018



970,000 sq ft

Full Year 2018



1,400,000 sq ft

2018-21  
Annual Average

5,300,000 sq ft

End Q3 2018/QOQ

0.8%



INR75.9

End 2018/YOY

1.1%



INR 76.1

End 2021/  
Annual Average  
Growth 2018-21

0.6%



INR77.1



### Rent

Rents are likely to remain stable but trending upward for Grade A buildings in preferred micromarkets.

End Q3 2018/QOQ

0.8%



INR75.9

End 2018/YOY

1.1%



INR 76.1

End 2021/  
Annual Average  
Growth 2018-21

0.6%



INR77.1



### Vacancy

The average city vacancy rate is set to increase only marginally due to stable demand amid rising supply.

End Q3 2018/QOQ

0.0pp



30.4%

End 2018/YOY

-1.4pp



29.0%

End 2021/  
Annual Average  
Growth 2018-21

-2.3pp



29.6%

Source: Colliers International India Research

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

## TEPID LEASING ACTIVITY IN Q3 2018, EXPECTED TO PICK UP BY YEAR-END

Due to slower decision making on the part of occupiers, gross absorption declined 60% QOQ and 50% YOY. Q3 2018 noted leasing activity of 796,400 sq feet (73,987 sq metres) with most occupiers expanding operations in the city. Contributing to the decline, deals in excess of 50,000 sq ft (4,645 sq metres) comprised 43% of leasing activity, compared to 69% in Q2 2018.

Prime locations adjacent to the National Highway 8 (NH8), namely Cybercity and Udyog Vihar, constituted the majority (69%) of the leasing activity during the quarter. This was followed by Golf Course Road representing a 7% share. These locations have continued to be preferred by occupiers owing to quality developments, and connectivity by metro rail and NH8.

Unlike previous quarters when demand was driven by the IT-ITeS sector, this quarter banking, financial services, and insurance (BFSI) occupiers constituted 42% of total leasing. The IT-ITeS and flexible workspace occupiers were also active accounting for 17% and 12% respectively.

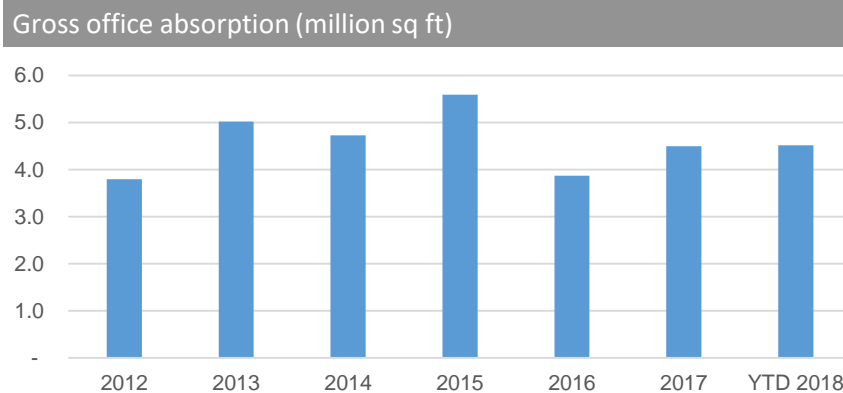
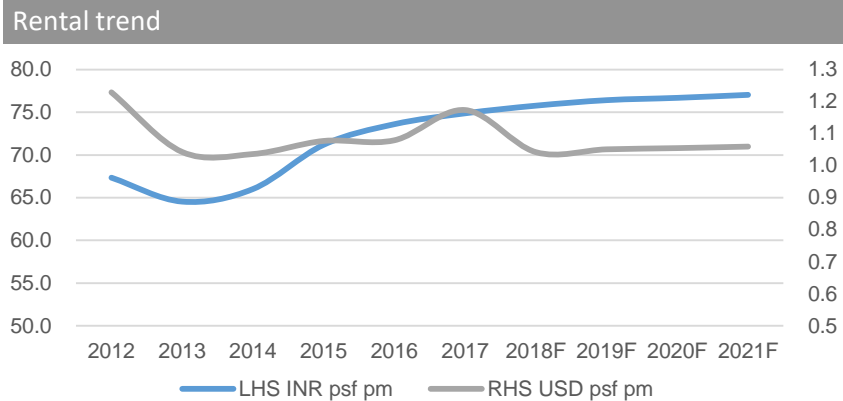
We expect the year 2018 to record 5.5 million sq ft (510,966 sq metres) of gross absorption as leasing activity typically surges in the last quarter of the year. This will likely be highest in the last two years, and a 22% increase over 2017. Following our earlier forecasts, aggregate gross absorption over 2018-2021 should remain robust with an annual average of 5.0 million sq feet (464,515 sq meters).

### Gross effective rental values

	Q3 2018 (INR psf pm)	Q3 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
MG Road	110 - 140	1.5 - 1.9	2.0%	2.0%
Golf Course Road	110 - 200	1.5 - 2.7	0.0%	0.0%
Institutional Sectors (Sectors 44, 32 and 18)	60 - 90	0.8 - 1.2	0.0%	0.0%
Golf Course Extension/Sohna Road	50 - 75	0.7 - 1.0	4.2%	7.5%
National Highway 8	40 - 130	0.5 - 1.7	0.0%	5.0%
Udyog Vihar and Industrial Sectors	50 - 70	0.7 - 1.0	0.0%	4.5%
Manesar	25 - 35	0.3 - 0.5	0.0%	0.0%
DLF Cyber City (IT)	118 - 120	1.6 - 1.6	0.0%	3.2%

Source Colliers International India Research

On the infrastructure front, recently Haryana Urban Development Authority (HUDA) has started work on a new road connecting Delhi with Gurugram. The proposed road connects sector 114 and sector 115 to the Najafgarh-Bijwasan road near the Delhi-Gurugram border. Further, the same road connects to Dwarka, Sector 12. We expect this new road to divert traffic from NH8 which currently serves as the main connector between Gurugram and Delhi. It is planned to facilitate connectivity especially between various parts of South-West Delhi and Gurugram.



**Major lease transactions in Q3 2018**

Client	Building Name	Area (sq ft)	Location
Zomato	Vipul Tech Square	105,000	Golf Course Road
Teleperformance	Individual Building	85,000	Udyog Vihar
Clifford Chance Business Services	Ambience Tower	50,000	NH-8
Personiv	Building No.6	33,700	Cybercity

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

## ROBUST SUPPLY PIPELINE TO KEEP PACE WITH LEASING ACTIVITY

New supply has been declining over the last four years owing to a change in the construction schedule of developments. Q3 2018 saw 970,000 sq feet (90,115 sq metres) of new supply on Golf Course Extension Road. The total supply infused through Q3 2018 is approximately 1.3 million sq feet (120,773 sq metres) with no new supply recorded in Q2 2018.

The construction pipeline is strong over the next three years which should supply 20 million sq feet (1.85 million sq metres) of new development spread across NH8, M.G Road, Golf Course Road and Golf Course Extension Road. Since the new supply is scheduled to come in a staggered manner, rents should not see drastic changes. However, prime locations such as Cybercity and Golf Course Road should see average annual rent increases of about 2% over 2018-2021.

We expect the upcoming high-quality supply to keep pace with leasing activity with occupiers looking to expand or relocate in newer districts such as Golf Course Extension Road. As a result, the average deal size may also see a slight increase with availability of contiguous space at lower rents in the upcoming districts of Gurguram.

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