Colliers Radar

GURUGRAM | OFFICE

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Accelerating success.

Demand set to improve

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Occupier preference is likely to remain tilted towards premium, well-located developments. Thus, we expect Grade A developments to continue commanding a premium over market rents. Peripheral locations will experience an increase in vacancy rates with a large upcoming supply over the period 2018-2020. Tenants should consider decentralised options with good connectivity to hedge against increasing rents in centralised locations.

Forecast at a glance

Demand

Demand for office leasing to remain sturdy as several occupiers are looking for new space

Supply

We project 11.0 million sq ft (1.0 million sq m) of new supply addition by 2020 , resulting in a 16% increase in total stock. Most of the new supply is concentrated on NH8 and Golf Course Extension Road

Vacancy rate

Average vacancy rate is likely to remain at high level above 30% due to significant supply in peripheral locations. Centralised locations have below 10% vacancy rate over the next three years

Rent

Rents likely to remain stable with an upward bias for Grade A buildings in preffered micromarkets.

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.

Occupiers expansion plan to keep momentum

Gurugram remained the preferred office destination in the National Capital Region (NCR) with about a 57% share of overall leasing. In 2017, we recorded nearly 4.5 million sq ft (0.4 million sq m) of leasing volume excluding pre-commitments and renewals which represents an increase of 5% YOY. The demand for Grade A office space was driven by technology companies which contributed 41% of overall demand, followed by 18% for Banking, Financial Services and Insurance (BFSI) sector and 12% for Engineering & Manufacturing. Apart from Media and Entertainment, Fast Moving Capital Goods (FMCG) and coworking operators leased smaller office spaces that formed the rest of leasing volume.

In line with our expectations, Golf Course Road and its Extension Road remained the occupier preference with a 36% share of overall leasing, followed by 16% for Cyber City, 12% for Sohna Road and 7% for National Highway 8 (NH8) respectively. With significant new supply scheduled for completion along Golf Course Extension Road by 2020, we expect this corridor to gain traction in coming years. However, premium occupiers will probably continue to prefer Cyber City, Golf Course Road and NH8 owing to their enhanced connectivity after completion of rapid metro and various underpasses

Rental Value Trends

Micromarkets	Rental Values[1]	QOQ Change	YOY Change
MG Road	105 - 135	0.0%	-2.0%
Golf Course Road	110 - 220	0.0%	9.0%
Institutional Sectors (Sec 44, 32, 18)	60 - 90	0.0%	0.0%
Golf Course Road Ext./Sohna Road	55 - 80	1.0%	-3.0%
National Highway 8	50 - 130	-6.0%	-6.0%
Udyog Vihar & Industrial Sectors	50 - 70	0.0%	7.0%
Manesar	35 - 45	1.0%	-8.0%
DLF Cyber City (IT)	115 - 120	0.0%	2.0%

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)

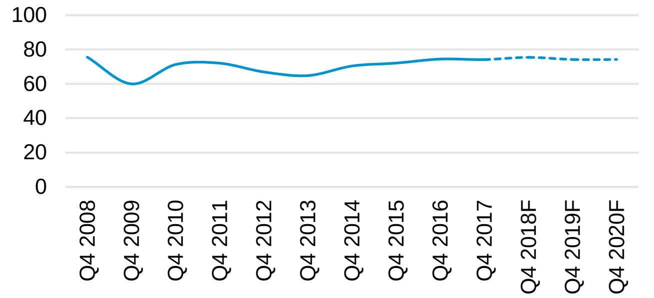
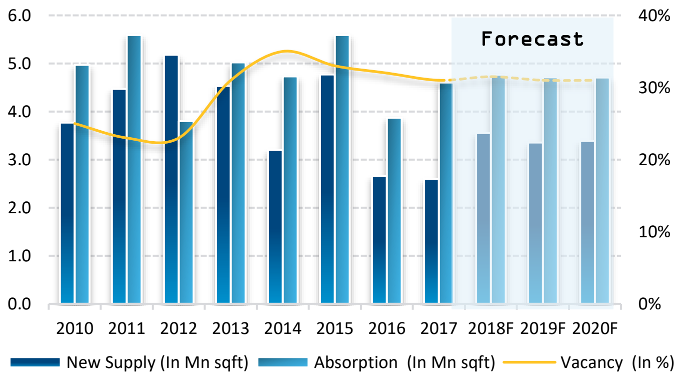


Fig 2. Supply Absorption & Vacancy Forecast



Major Lease Transactions in 2017

Client	Building Name	Area (sq ft)	Location
Pepsi	Poineer Square	160,000	Golf Course Ext. Road
Google	Rolta Tower	140,000	Udyog Vihar
Samsung	Two Horizon Center	100,000	Golf Course Road
Wework	Salcon Platina	80,000	MG Road
KPMG	Building 10 B&C	71,000	Cyber city

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

High vacancy and strong supply pipeline in peripheral locations to keep rents in check

In 2017, Gurugram witnessed the addition of only about 2.5 million sq ft (0.2 million sq m) of new office supply in the city's Grade A inventory. Although Colliers' database suggests nearly 11.0 million sq ft (1.0 million sq m) of new supply to be completed by 2020, we may expect some deferment in project completion looking at the overall high vacancy levels of above 30%.

The overall average rents declined by 1% YOY in 2017 due to pressure on rents in peripheral markets. Premium buildings in preferred micro markets such as Golf Course Road and Cybercity continued to command a premium over the market average. Keeping the view of high vacancy level and supply pipeline, we expect average rent to remain stable. However, tenant appetite for higher quality office would stay in favour of Grade A developments, and they would be able to get premium over market rents.

Colliers' Forecast

We observed that the large occupiers are reviewing their long pending CRE decisions taking cues from the positive policy reforms. In 2017, several occupiers with leases expiring in the next couple of years formulated their relocation and consolidation strategies and pre-committed large office spaces in under construction projects in order to hedge against the rent increasing in the premium sub-markets in the future.

We expect a similar trend to persist in coming years and peripheral locations such as Golf Course Extension Road, Southern Peripheral Road should gain traction among occupiers looking for affordable rents. Meanwhile Cyber city, NH8 and Golf Course Road should remain popular due to their location advantages and improved public transport system.

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