Colliers Quarterly

Q2 2018

GURUGRAM | OFFICE

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Colliers INTERNATIONAL

Accelerating success.

Expansionary demand to drive office market

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Gurgaon is likely to remain the dominant market in NCR. The city captured 65% of the total NCR demand in H1 2018 driven by expansionary office requirements. We recommend companies to continue exploring micromarkets such as Golf Course Extension Road and Sohna Road when relocating due to affordable rents and availability of Grade A office space.

Forecast at a glance

Demand

Premium buildings are likely to remain in vogue; we expect demand to remain firm

Supply

13 million sq ft (1.2 million sq m) of office space should be added to Grade A inventory over 2018-2021 representing a 19% increase in the total Grade A stock

Vacancy rate

Vacancy likely to remain high at 25-28% with significant supply pipeline in peripheral micromarkets over 2018-2021

Rent

Overall rents likely to remain stable; decentralised locations and Grade B buildings may face downward pressure while premium locations are likely to see 4-5% increase over 2018-2021

Price

Capital values to go up by 4-5% annually in emerging locations over 2018-2021

Demand momentum continued in Q2 2018

Following the previous quarter's trend, the demand momentum continued in Q2 2018. With gross office uptake at 2 million sq ft (1.8 million sq m) in Q2, uptake in H1 2018 amounted to 3.7 million sq ft (0.35 million sq m), an increase of 111% YOY. Technology companies accounted for 33% of the total leasing volume followed by Banking, Finance and Insurance companies with 27% and the flexible workspace operators with 20%.

In line with our forecast, the Golf Course Extension Road (GCER) started capturing the largest share of the total demand. In Q2 GCER accounted for 30% of the leasing volume leaving behind traditionally favourable markets such as Cybercity at 18%, Golf Course Road at 15%, Udyog Vihar at 11% and MG Road at 10%.

In our opinion, GCER, with 30% of the total upcoming new supply, is a natural extension of the GCR micromarket. Although the social amenities and infrastructure are still nascent, we believe it is the right time for occupiers with leases expiring in the next one to two years to start exploring this micromarket. This should allow an opportunity to hedge against future rent increases.

Rental Values

Micromarkets	Rental Values[1]	QOQ Change	YOY Change
MG Road	105 - 140	0.0%	2.1%
Golf Course Road	110 - 200	0.0%	-6.1%
Institutional Sectors (Sectors 44, 32 and 18)	60 - 90	0.0%	0.0%
GCER/Sohna Road	45 - 75	0.0%	-11.1%
National Highway 8	40 - 130	0.0%	-5.6%
Udyog Vihar and Industrial Sectors	50 - 70	0.0%	5.0%
Manesar	25 - 35	0.0%	-5.0%
DLF Cybercity	118 - 120	0.0%	1.3%

Source Colliers International India Research

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

Fig 1. Rental Value Trend (INR per sq ft per month)

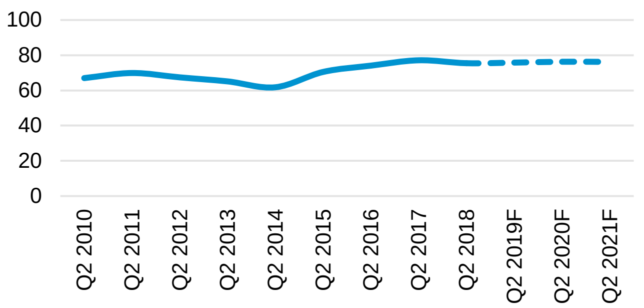
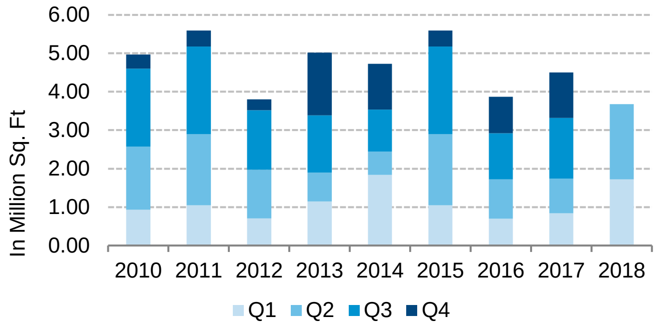


Fig 2. Gross Office Absorption (million sq ft)



Major Transactions in Q2 2018

Client	Building Name	Area (sq ft)	Location
WeWork	Ericsson Forum	225,000	Cyber City
Sunlife	Poineer Square	180,000	GCER
Google	272 - I	150,000	MG Road
Sunlife	Pioneer Urban Square	125,000	GCER
WeWork	Two Horizon Center	120,000	Golf Course Road

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

Rents to remain stable

Rents remained stable, and no new supply was added in Q2 2018. In view of the high vacancy levels at 28% and upcoming supply pipeline of about 11 million sq ft (1.0 million sq m) over 2018-2021 we do not expect rents to up. However, well-located, Grade A buildings should continue to fetch premium rents.

The rents of premium buildings in preferred micromarkets such as Cybercity, MG Road and Golf Course Road may see 4-5% annual increases over 2018-2021. In contrast, Grade B buildings are likely to keep struggling to get tenants, putting further downward pressure on rents and keeping average city rents stable. We advise landlords with Grade B buildings in prime locations to explore options such as working with flexible workspace operators or redesigning their floor plates to be more attractive to small occupiers looking for advantageous locations.

Colliers' View

In our opinion, Grade A assets should continue to do well in all micromarkets. Increased interest from cost-sensitive occupiers towards affordable markets for consolidation or optimisation of their portfolio should drive leasing activities in micromarkets such as Sohna Road and GCER. The flexible workspace segment continues to do well; many corporate occupiers have started exploring flexible workspace setups as opposed to conventional office space as part of their CRE strategy.

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