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STEADY RENT RISE TO CONTINUE

Summary & Recommendations

With a steady influx of large-scale occupiers from the Information Technology and Information Technology enabled Services (IT-ITeS) sectors into the city, the Hyderabad office market is likely to continue to attract firm demand for office space over the next three years

- > Given the limited vacancy of 3% in the SBD, we advise developers to fast track their projects as demand remains strong
- > Occupiers with large space requirements in the SBD should make pre-commitments to space as a hedge against future rent rises and limited availability

	Q3 2018	Full Year 2018	2018-21 Annual Average
 Demand <ul style="list-style-type: none"> > The IT-ITeS sector is likely to stay dominant over 2019-2021; investments by the government should boost demand from the pharmaceutical and biotechnology sectors 	 2,130,000 sq ft	 5,600,000 sq ft	 5,500,000 sq ft
 Supply <ul style="list-style-type: none"> > More than 36.4 million sq ft (3.4 million sq m) of Grade A office development under various stages of construction should increase the total office stock by 60% over 2018-21 	 1,800,000 sq ft	 5,540,000 sq ft	 9,100,000 sq ft
	End Q3/QOQ	End 2018/YOY	End 2021/ Annual Average Growth 2018-21
 Rent <ul style="list-style-type: none"> > Rental appreciation likely to continue especially in the SBD micromarket driven by upcoming premium buildings; average city rents likely to witness an annual increase of 2.8% in the next three years 	 1.0% INR44.0	 2.1% INR44.2	 2.8% INR47.7
 Vacancy <ul style="list-style-type: none"> > Vacancy set to increase gradually to 15% by 2021 due to completions of planned projects 	 -1.0pp 5.0%	 +1.0pp 6.0%	 +2.3pp 15%

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

IT-ITES OCCUPIERS TO CONTINUE TO EXPAND IN THE SBD OVER 2018-21

Hyderabad recorded 2,130,000 sq feet (195,000 sq metres) of gross office leasing in Q3 2018. YTD gross absorption is 3,600,000 sq feet (334,000 sq metres), which is similar to 2017 levels. Considering the large-scale expansion plans of IT-ITeS occupiers, we expect the demand outlook to remain firm towards the end of 2018 and the momentum is likely to continue over the next three years.

In line with the trend over the past two years, the IT-ITeS sector has remained dominant. In Q3 there was an increase in the number of deals by IT-ITeS occupiers, and the average deal size was 79,000 sq feet (7,400 sq metres), higher than the annual average over the last two years of 45,000 sq feet (4,200 sq metres). Deals greater than 1,000,000 sq feet (92,900 sq metres) constituted 70% of total leasing activity in Q3 2018, which is 30% higher than Q2 2018, a likely indication of rising occupier confidence.

In our opinion, owing to the supply crunch in the SBD micromarket, large scale occupiers are likely to continue being proactive in take-up of the new office supply as soon as the projects reach completion.

According to the state's annual report for 2017-18, released by the Information Technology, Electronics & Communications department, IT exports should grow at a CAGR of 16% between now and 2020. This should create 400,000 direct jobs and 2,000,000 indirect jobs over the next three years. If these jobs materialise, we expect such positive developments to fuel further office demand over 2019-2021.

Gross effective rental values

	Q3 2018 (INR psf pm)	Q3 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
CBD ¹	45-52	0.6 – 0.7	2.1	2.1
Off CBD ²	45-50	0.6 – 0.7	0.0	0.0
SBD ³	60-68	0.8 – 0.9	4.1	6.7
PBD ⁴	25-30	0.3 – 0.4	0.0	0.0

Source: Colliers International India Research

Note: Indicative Grade A rentals, includes both Non IT and IT-ITeS buildings

¹Central Business District includes micromarkets such as Banjara Hills Road No.1,2, 10 and 12

²Off Central Business District includes micromarket such as Begumpet, Somajiguda

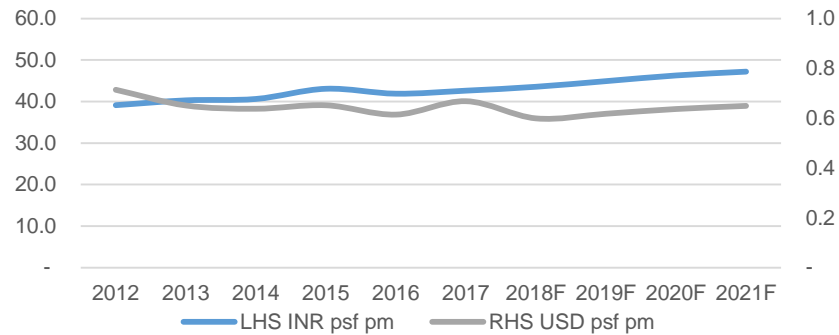
³Secondary Business District includes micromarkets such as Madhapur including HITEC City, Gachibowli, Nanakramguda, Manikonda and Raidurg, Kondapur

⁴Peripheral Business District includes micromarkets such as Pocharam, Uppal and Shamshabad

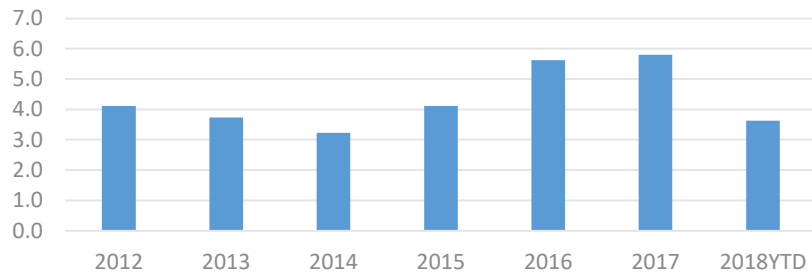
In 2018, the annual ease of doing business ranking published by the Indian Union Ministry of Commerce and Industry has pronounced Telangana state, of which Hyderabad is the capital, as the second most convenient place to do business in the country. The ranking indicates a positive outlook on Hyderabad's potential to attract large investments from various sectors and increase employment growth in the state which in turn should drive additional office demand.

The governments' focus on the State Life Sciences Policy and cluster development initiatives such as Hyderabad Pharma City, Genome Valley 2.0 and the Medical Devices Park is likely to attract investments in the pharmaceutical and biotechnology sectors over next five years.

Rental trend



Gross office absorption (million sq ft)



Source: Colliers International India Research | YTD: Year-to-date - January to September

Major lease transactions in Q3 2018

Client	Building Name	Area (sq ft)	Location
Service Now	Knowledge City	608,000	Raidurg
Facebook	RMZ Skyview	330,000	Raidurg
Micron	RMZ Skyview	250,000	Raidurg
Infor	RMZ Skyview	150,000	Raidurg
F5	RMZ Skyview	100,000	Raidurg

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

INFRASTRUCTURE ENHANCEMENTS TO STRENGTHEN OFFICE DEMAND

Hyderabad has witnessed new Grade A supply of about 2,900,000 sq feet (269,000 sq metres) so far in 2018. We forecast new Grade A office completions of more than 36.4 million sq feet (3.4 million sq metres) over 2018-21. About 93% of this upcoming supply is concentrated in the SBD micromarket while the remaining is distributed among the PBD (3%), Off CBD (2%) and CBD (2%) micromarkets. The upcoming supply is likely to increase the city's total office stock by 60%.

The SBD and CBD micromarkets recorded rental rises of 4.1% and 2.1% QOQ respectively in Q3 2018. Regardless of the huge upcoming supply over the next three years, we expect the average rents to witness a compound annual growth rate of 2.8%, driven by the upcoming premium buildings in the SBD micromarket. We advise developers to track demand closely and fast track their construction timelines in order to cater effectively to the rising demand.

As the city is witnessing unidirectional growth towards the west, this is overburdening the available infrastructure in this region at present. Thus collaboration between developers and the government in increasing the developments in other parts of Hyderabad along with required infrastructure enhancements should be considered in order to distribute the growth of the city in all directions over the next ten years.

Infrastructure initiatives such as further extension of the metro rail to the airport as well as metro station enhancements, road improvement projects under the Strategic Road Development Project, improvement of the international airport and a proposed regional ring road are a few key projects in progress. These projects should improve the connectivity between the SBD and PBD micromarkets and provide prospects for occupiers to shift their focus towards PBD after the next five years.

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