



Megha Maan

Senior Associate Director | Research | India

+91 96 6718 8334

megha.maan@colliers.com

STRONG SUPPLY PIPELINE TO PUSH VACANCY LEVELS

Summary & Recommendations

We expect the office market to witness strong demand from IT-ITeS occupiers over the next couple of years. The strong supply pipeline suggests that developers are capitalising on buoyant demand.

- > We recommend developers to adhere to project timelines as demand remains strong.
- > Pre-commitments continue to drive the SBD micromarket. Occupiers should pre-commit to space as vacancy levels are declining due to the high level of existing pre-commitments.
- > In key locations such as the SBD and PBD, we expect rents to increase by 10-15% by year-end. Occupiers requiring space in 2019 should move quickly to make commitments for their requirements.

| | Q4 2018 | Full Year 2019 | 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. | 3.6 mn sq ft | 6.3 mn sq ft | 6.8 mn sq ft |
| Supply <ul style="list-style-type: none"> > More than 38.4 million sq ft (3.5 million sq m) of Grade A space under development should increase the total office stock by 50% over 2019-21. | 1.5 mn sq ft | 9.7 mn sq ft | 9.9 mn sq ft |
| | QOQ / End Q4 | YOY / End 2019 | Annual Average Growth 2018-21 / End 2021 |
| Rent <ul style="list-style-type: none"> > SBD rents likely to continue rising driven by premium buildings; new supply is largely pre-committed leaving limited availability, thus average city rents are likely to increase 2.3% annually through 2021. | 5.5% INR45.8 | 2.2% INR46.8 | 2.3% INR49.0 |
| Vacancy <ul style="list-style-type: none"> > Vacancy set to increase gradually to 15.0% by end-2021 due to the completion of planned projects. | 0.9pp 5.9% | 4.1pp 10.0% | 3.0pp 15.0% |

Source: Colliers International

Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR69.55 as on 31 December 2018

CITY SEES HIGHEST ABSORPTION IN LAST EIGHT YEARS

2018 witnessed gross absorption of 6.8 million sq feet (631,740 sq metres), the highest in the last eight years; this outcome reflected heightened leasing activity by IT-ITeS occupiers. Large transactions (deals greater than 1.0 million sq feet or 92,900 sq metres) constituted 63% of leasing activity during the year.

The IT-ITeS sector continued to be the dominant demand driver, accounting for 87% of transactions, followed by flexible workplace operators on 10%. The endeavour to push the state's gaming and animation industry also contributed to rising demand from technology companies, among other initiatives to attract occupiers.

Although the number of deals transacted in 2018 declined yoy, large size deals pushed the average deal size to almost double to 64,400 sq feet (5,983 sq metres). This indicates rising business confidence of technology occupiers as the city offers requisite talent pool, infrastructure and facilities.

According to Oxford Economics, Hyderabad should be the fourth fastest growing city in the world from 2019 to 2035 with GDP growth of 8.5%. We expect this to have a positive impact on real estate sector with office demand likely to rise further during the period.

We expect occupier demand to remain strong, supported by the upcoming supply over the next three years. We expect the steady demand in the SBD micromarket to push rents up 10% by the end of 2019.

Recently, the government announced Vision 2030 for Hyderabad aimed at creating a vibrant business ecosystem not limited to HiTec City, and instead offering a single integrated master plan for the next 20 years. This plan demonstrates the government's conscious effort to enable sustained growth after the notable growth seen over the past few years.

Hyderabad, gross effective rental values, Q4 2018

| | Q4 2018 (INR psf pm) | Q4 2018 (USD psf pm) | QOQ Change (%) | YOY Change (%) |
|----------------------|-------------------------|-------------------------|----------------------|----------------------|
| CBD ¹ | 50-60 | 0.7 – 0.9 | 13.4 | 15.8 |
| Off CBD ² | 45-50 | 0.6 – 0.7 | 0.0 | 0.0 |
| SBD ³ | 60-70 | 0.9 – 1.0 | 1.6 | 8.3 |
| PBD ⁴ | 25-35 | 0.4 – 0.5 | 9.1 | 9.1 |

Source: Colliers International

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

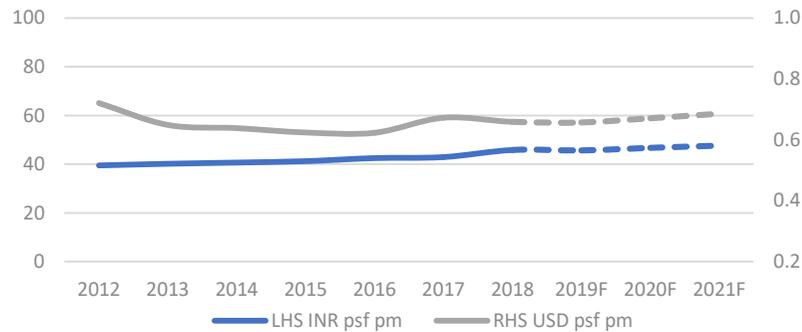
¹Central Business District includes micromarkets such as Banjara Hills Road No.1,2, 10 and 12

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

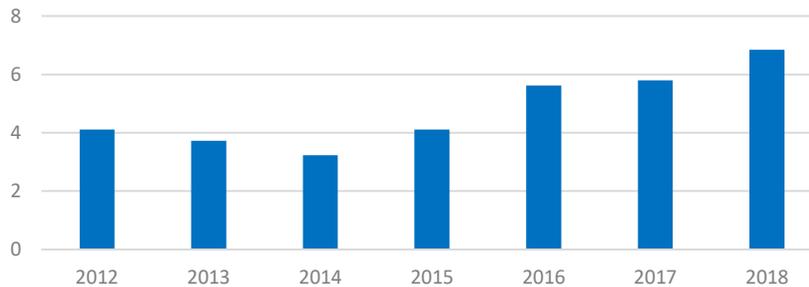
⁴Peripheral Business District includes micromarkets such as Pocharam, Uppal and Shamshabad

Hyderabad, rental trend 2012-2021F



Source: Colliers International

Hyderabad, gross office absorption (million sq ft)



Source: Colliers International

Hyderabad, major leasing transactions, Q4 2018

| Client | Building Name | Area (sq ft) | Location |
|-----------|--------------------|--------------|--------------|
| Qualcomm | RMZ Skyview | 400,000 | Raidurg |
| Intel | Salarpuria | 400,000 | Raidurg |
| Google | Salarpuria Capital | 300,000 | Nanakramguda |
| Microsoft | Salarpuria | 230,000 | Raidurg |

Source: Colliers International

Note: All figures are based on market information on 31 December 2018.

SUPPLY PLANNED TO SURGE IN THE SECONDARY BUSINESS DISTRICT

In Q4 2018, Hyderabad witnessed new Grade A supply of about 1.4 million sq feet (134,245 sq metres), totaling 4.3 million sq feet (399,480 sq metres) for 2018. We forecast new Grade A office completions of 38.4 million sq feet (3.5 million sq metres) over 2019-21. More than 90% of the upcoming supply is concentrated in the SBD micromarket, a market that has attracted occupiers owing to high connectivity and large quality developments. As a result, rental values in the SBD appreciated by 8% over 2018 despite the infusion of new supply. We advise developers to adhere to their construction schedules to cater to the steady demand.

The vacancy level increased over the last quarter by 0.9 pps owing to the infusion of supply in Q4 2018. The development pipeline suggests that vacancy levels will continue to increase over the next two years.

The State government’s commitment to spend INR450 billion (USD6.5 billion) over the next three years to upgrade infrastructure in Greater Hyderabad should elevate the city’s economic prospects. The infrastructure upgrades include construction of flyovers, skyways, underground cabling and the development of parks. These projects should improve the connectivity and are likely to attract occupiers and developers.

Primary Author:

Megha Maan

Senior Associate Director | Research | India

+91 96 6718 8334

megha.maan@colliers.com

For further information, please contact:

Ritesh Sachdev

Senior Executive Director | Occupier Services | India

+91 99 4569 7377

ritesh.sachdev@colliers.com

Arpit Mehrotra

Senior Director | Office Services | Bengaluru

+91 99 6603 0144

arpit.mehrotra@colliers.com

Megha Maan

Senior Associate Director | Research | India

+91 96 6718 8334

megha.maan@colliers.com

About Colliers International Group Inc.

[Colliers International](#) Group Inc. (NASDAQ: CIGI) (TSX: CIGI) is a top tier global real estate services and investment management company operating in 69 countries with a workforce of more than 13,000 professionals. Colliers is the fastest-growing publicly listed global real estate services and investment management company, with 2017 corporate revenues of \$2.3 billion (\$2.7 billion including affiliates). With an enterprising culture and significant employee ownership and control, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide, and through its investment management services platform, has more than \$25 billion of assets under management from the world's most respected institutional real estate investors.

Colliers professionals think differently, share great ideas and offer thoughtful and innovative advice to accelerate the success of its clients. Colliers has been ranked among the top 100 global outsourcing firms by the International Association of Outsourcing Professionals for 13 consecutive years, more than any other real estate services firm. Colliers is ranked the number one property manager in the world by Commercial Property Executive for two years in a row.

Colliers is led by an experienced leadership team with significant equity ownership and a proven record of delivering more than 20% annualized returns for shareholders, over more than 20 years.

For the latest news from Colliers, visit our [website](#) or follow us on   

Copyright © 2019 Colliers International

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

