Colliers Radar

HYDERABAD | OFFICE

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Accelerating success.

Office supply to surge in 2018

Karthiga Ravindran | Analyst | Chennai

Hyderabad's office leasing demand continues to be notably progressive since 2015 after the bifurcation of the states (Andhra Pradesh and Telangana). With respect to our viewpoint on strong fundamentals of this market, we expect, Hyderabad to witness consistent traction in 2018 as well. However, looking at the excessive supply pipeline of about 32.6 million sq ft (3.0 million sq m) scheduled for completions over next 3 years, we advise developers to be strategic in their plans and avoid too much of speculative construction to maintain the demand-supply balance in coming years

Forecast at a glance

Demand

Steady demand likely with expansion plans of technology and e-commerce players; Coworking to gain momentum

Supply

Robust supply pipeline of about 12.0 million sq ft (1.1 million sq m) in 2018. Over next 3 years, office stock likely to reach oversupply with an increase of about 70% in total stock if all the under-construction buildings follow scheduled completions.

Vacancy rate

Vacancy to rise and remain in 13-15% range in next three years due to huge upcoming supply

Rent

Keeping in view the upcoming supply, we expect rents to stabilize in 2018

Price

Steady increase in capital values likely to continue in Secondary Business District (SBD) micromarket

4% rise in demand in 2017; 2018 outlook remains steady

Followed by a record year in the city's office leasing market in 2016, Hyderabad witnessed another remarkable year in 2017 with about 4% raise in leasing volume at 5.8 million sq ft (0.4 million sq m). In line with our earlier forecast, the demand was driven by the expansion of large scale technology companies like Deloitte, Qualcomm, Microsoft etc. The city also witnessed an additional 0.8 million sq ft (0.07 million sq m) of pre-commitments. In our opinion, Hyderabad market is poised to grow steadily in coming years and to be complemented by huge Grade A supply.

In 2017, the city's SBD remained the preferred destination for technology occupiers and the micromarket accounted for a 91% share in total leasing. Other micromarkets such as Central Business District (CBD), Off CBD and Peripheral Business District (PBD) accounted each 3% share of total leasing. Being a well-established technology hub with increasing quality Grade A office developments, the SBD micromarket should remain as the choice of occupiers eyeing for vast talent pool in upcoming years.

With only 22% of deals signed in Special Economic Zones (SEZs), the occupier preference in Hyderabad stayed tilted towards non-SEZ spaces in 2017. In our opinion, as occupiers focus remains on quality and amenities irrespective of SEZ or non SEZ spaces, we foresee that the trend will continue in upcoming years as well.

Rental Value Trends

Micromarkets	Rental Values[1]	QOQ Change	YOY Change
CBD	45 - 50	0.0%	0.0%
Off-CBD	45 - 50	0.0%	0.0%
SBD	55 - 65	0.0%	4.3%
PBD	25 - 30	0.0%	0.0%

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)

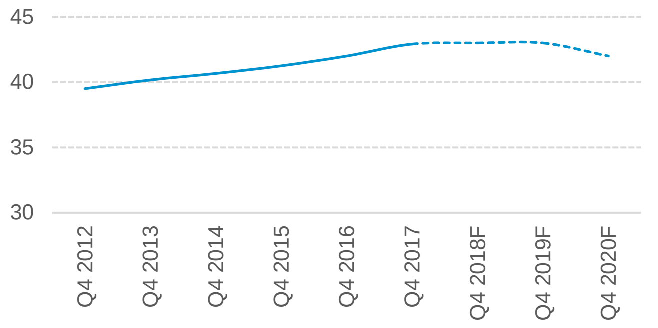
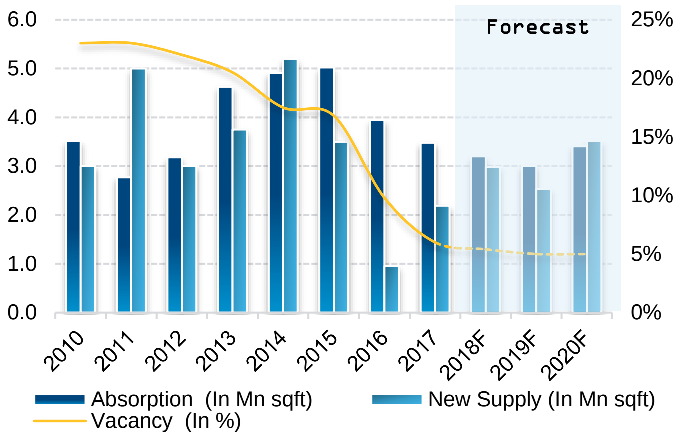


Fig 2: Supply, Absorption & Vacancy Forecast



Major Lease Transactions in 2017

Client	Building Name	Area (sq ft)	Location
Deloitte	Meenakshi Tech	1,400,000	Hitech City
Qualcomm	Mindspace Building No.7	200,000	Hitech City
Microsoft	Knowledge City	166,000	Hitech City
Redbricks	Phoenix Primea	140,000	Hitech City
Service Now	Knowledge City	136,300	Hitech City

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

Vacancy rate set to rise over next 3 years with upcoming supply

About 32.6 million sq ft (3.0 million sq m) of new supply is at various stages of construction in Hyderabad. Assuming, scheduled construction completion, we expect new supply in 2018 to nearly triple in comparison to 2017 with the addition of about 12.0 million sq ft (1.1 million sq m) of Grade A office space.

In our opinion, the demand side initiatives by the state government such as recently held Global Entrepreneurship Summit (GES 2017), the operation of metro rail coupled with a supply-side push by clearance of land litigation issues, and the auction of huge land parcels for developments are likely to further drive the market. However, we advise developers to keep a close eye on demand and plan the construction timelines over next 3 years to avoid oversupply by 2020.

Colliers' Forecast

According to Oxford Economics forecast released in September 2017, Hyderabad should achieve 7.2% average annual GDP growth over the period 2017 to 2021 driven by Pharmaceutical, biotech and IT-ITeS sector. We expect the economic expansion driven by these sectors should help boost the office demand further in coming years.

Regardless of the concerns about automation and layoffs, the technology and e-commerce players like Google, Deloitte, Accenture, Amazon and alike are likely to continue expanding their footprint in the city. With coworking / shared spaces gaining thrust in Hyderabad among start-ups, small companies and even with large companies for specific project needs, the city likely to become the next target city for shared office spaces.

For more information:

Surabhi Arora
Senior Associate Director
Research | India
+91 98 7175 0808
surabhi.arora@colliers.com

Hari Prakash
Senior General Manager
Office Services | Hyderabad
hari.prakash@colliers.com

Ritesh Sachdev
Senior Executive Director
Occupier Services | India
ritesh.sachdev@colliers.com

Level 7, Maximus Towers
Building 2A, Mindspace
Complex, HITEC City,
Hyderabad - 500 081,
India