

Strong demand but rising supply

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Hyderabad is one of the fastest-growing cities in India, forecasted to record annual Gross Domestic Product (GDP) growth of 8.1% on average over 2018-2022. Normally considering the city's growth rate and positive demand outlook with rising pre-commitments, we would expect the city to record average annual rent growth of 5-6%. However, considering the upcoming supply which is likely to increase the city's Grade A stock by 60% over three years, we only expect average annual rent growth of 3-4% over the next three years. We advise occupiers to be proactive in taking up space in the city to hedge against future rent rises, while developers should adhere to completion schedules to cater to the rising demand on time.

Forecast at a glance



Demand

The demand outlook is positive with increasing pre-commitments; however, the lack of vacant space will probably hold back absorption in 2018



Supply

We forecast total completion of 33.0 million sq ft (3.1 million sq m) over 2018-21; this is likely to increase the city's stock by 60%



Vacancy rate

The overall city vacancy rate is likely to remain low at 6% through 2018. We expect vacancy to increase gradually from 2019 to 15% by end of 2021



Rent

Average annual city rents should see an increase of 3-4% over 2018-2021 driven by premium Grade A buildings



Price

Sales prices are likely rise in line with the increase in rents

Pre-commitments on rise due to limited Grade A office availability

With about 1.0 million sq ft (0.09 million sq m) of office leasing in Q2 2018, Hyderabad recorded approximately 1.5 million sq ft (0.1 million sq m) of gross absorption in H1 2018, representing a 38% dip from H1 2017. In our opinion, the considerable dip in office leasing is primarily due to the limited availability of Grade A office supply in the Secondary Business District (SBD), the city's favourite market, where the vacancy rate is as low as 3.0%.

Nonetheless, about 1.1 million sq ft (84,000 sq m) of space has been pre-committed in Q2 2018 indicating a healthy demand for Grade A office space. Various technology and consulting companies such as JP Morgan Chase, PwC, Shure and S&P Infotech pre-committed space for expansions in projects under-construction in the SBD such as Salarpuria Sattva Knowledge city and RMZ Skyview office park.

In Q2 2018, office demand remained concentrated in the SBD micromarket. With the expansion of technology companies such as Amazon, Conduent, UST Global and Core Compete, the sector accounted for 62% of gross absorption. This was followed by flexible workspace operators, accounting for 31% of gross absorption. In our opinion, increasing pre-commitments by technology occupiers and the continuing rise of flexible workspaces should be the key trends driving the market in H2 2018.

Rental Value Trends

Micromarkets	Rental Values	QOQ Change	YOY Change
CBD (Banjara Hills Road No.1,2, 10 and 12)	45 - 50	0.0%	0.0%
Off-CBD (Begumpet, Somajiguda)	45 - 50	0.0%	0.0%
SBD (Madhapur HITEC City, Gachibowli, Nanakramguda, Manikonda Raidurg)	58 - 65	0.0%	7.0%
PBD	25 - 30	0.0%	0.0%

Source: Colliers International India Research
Indicative Grade A rentals in INR per sq ft per month

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

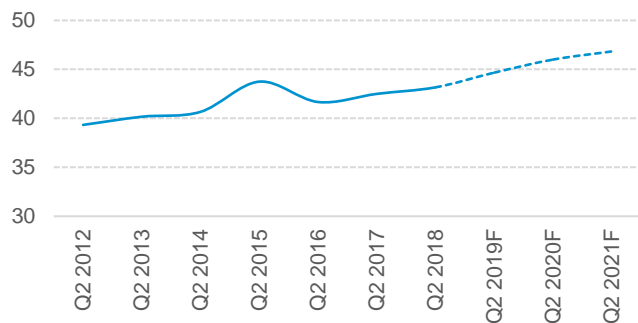
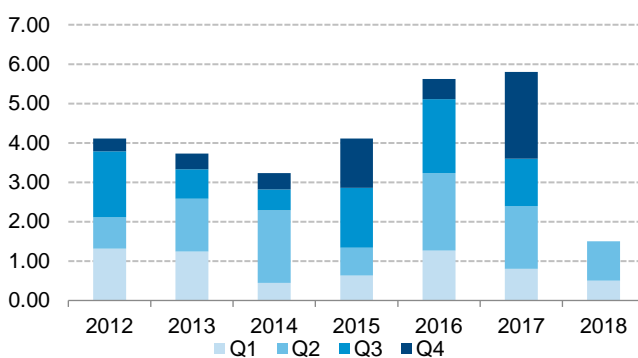


Fig 2: Gross Office Absorption (million sq ft)



Major Leasing Transactions in Q2 2018

Client	Building Name	Area (sq ft)	Location
Amazon	Laxmi Infobhaan	200,000	Kokapet
Legato Health Technologies	Laxmi Infobhaan	109,000	Kokapet
Awfis	Sandya	100,000	Hitech city
Conduent	Laxmi Infobhaan	84,900	Kokapet
Indiqube	Ramky One	60,000	Gachibowli

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

Rental increase likely to be driven by premium Grade A supply

Hyderabad witnessed no new supply in Q2 2018 and most of the scheduled completions were postponed to the second half of the year. On considering the completion schedules of various projects under construction, we expect about 5.9 million sq ft (0.5 million sq m) of Grade A office supply to be added in 2018 representing 10% increase in total existing stock.

About 33 million sq ft (3.1 million sq m) of Grade A supply is in various stages of construction and likely to come online over 2018-2021. We advise developers to adhere to their planned timelines to cater to the unfulfilled demand in the city, as we expect the vacancy to continue to be below 6% through H2 2018. With a positive outlook for demand, indicated by rising pre-commitments and the limited availability of Grade A supply, we expect the annual average city-wide rental growth to be 3-4% in 2018, driven by premium Grade A upcoming supply in SBD micromarket.

Colliers' View

The city is going through an infrastructure makeover with the government's Strategic Road Development Plan (SRDP) calling for the construction of underpasses, flyovers and cable bridges, as well as street and water supply improvement initiatives in CBD locations. In our opinion, such initiatives are likely to reduce the overburden on the available infrastructure further in SBD, CBD and Off CBD micromarkets.

The state government is in progress in setting up one of the world's biggest 'Pharma City' cluster over an extent of 19,000 acres (76.8 million sq m) in Mucherla. Recently, Swiss firm Ferring Pharmaceuticals has also announced investments of about INR1700 crores (USD250 million) in Genome Valley, Hyderabad. We expect the aforementioned investments in pharmaceuticals sector to further support office demand.

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