



Megha Maan

Senior Associate Director | Research | India

+91 96 6718 8334

megha.maan@colliers.com





GROSS LEASING AT A NEW HIGH

Summary & Recommendations

Gross absorption grew by 17% yoy in 2018 to 50.2 million sq ft (4.7 million sq m) driven by technology, flexible workplace and banking and finance occupiers. However, new supply fell by 20% to 26.3 million sq ft (2.4 million sq m) in 2018. The combined effect of incremental demand over 2018-2021 and additional supply during the same period should strengthen rents by a CAGR of 1.7% till 2021 while also pushing vacancy to 15.1%.

We recommend tech occupiers planning to expand in Bengaluru to make early commitments to space as we expect rental appreciation.

As expanding flexible workspace operators offer new-style offices, we advise developers to offer premium services and flexibility to tenants, at least in the peripheral locations with high vacancy, to retain leasing momentum.

		Q4 2018	Full Year 2019	2018-21 Annual Average
	Demand > The technology sector will likely be the key driver of demand followed by the banking, financial services and insurance, flexible workspace and consulting sectors.	13.2 mn sq ft	45.7 mn sq ft	46.8 mn sq ft
	Supply > We expect substantial new supply in Bengaluru, the NCR and Hyderabad in 2019 as developers respond to steady demand.	7.7 mn sq ft	51.3 mn sq ft	46.7 mn sq ft
		QOQ / End Q4	YOY / End 2019	Annual Average Growth 2018-21 / End 2021
	Rent > We expect average rents to rise at an average annual rate of 1.7% over 2018-2021 driven by high-quality assets in core locations.	0.5% INR82.4	1.9% INR83.9	1.7% INR86.7
	Vacancy > We expect the scheduled supply pipeline, if developed according to current schedules, to boost vacancy over the next three years. This should have a limited impact on rents as high quality assets command a premium.	-2.7pp 10.6%	3.4pp 14.0%	1.5pp 15.1%

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

TECHNOLOGY, FLEXIBLE WORKPLACE AND BFSI DRIVE DEMAND

2018 gross leasing activity across seven major cities in India was 50.0 million sq feet (4.7 million sq metres). This was the highest in the last eight years and was driven by buoyant leasing in Bengaluru and Delhi-NCR. Compared to 2017, gross leasing increased by 17% as occupiers continued to expand and consolidate. The top three sectors contributing to gross leasing were IT-ITeS on 43% of the total, flexible workplaces on 14% and BFSI (banking, finance and insurance) on 12%.

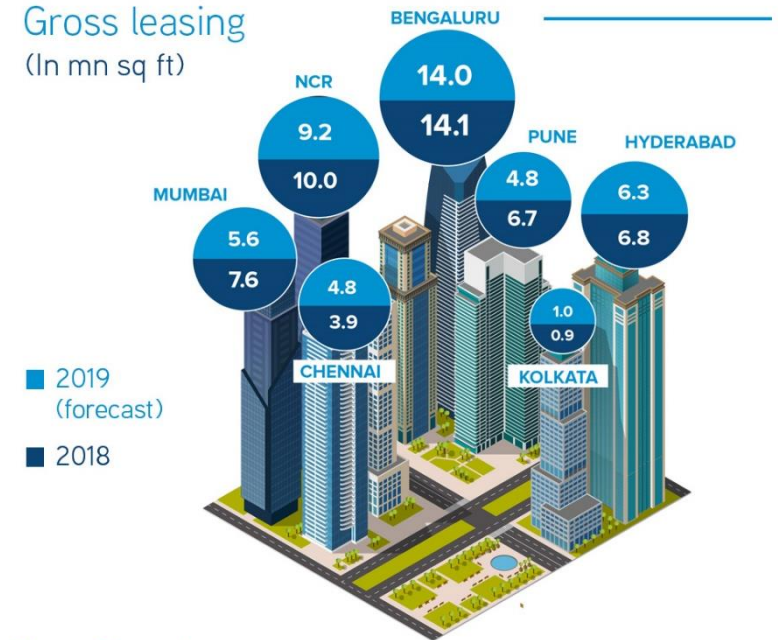
The average leased area in India has declined by 18% from 45,200 sq feet (4,200 sq metres) in 2016 to 37,100 sq feet (3,448 sq metres) in 2018. Although the number of transactions has increased, the declining average lease size implies shrinking workplaces as a result of increased efficiency with improved per square foot occupancy.

New supply declined by 20% compared to 2017 and stood at 26.3 million sq feet (2.4 million sq metres) in 2018. The delay in completions owing to a slow pace of construction and approvals resulted in the deferment of new supply. Bengaluru had the highest quantity of new supply at 8.0 million sq feet (743,200 sq metres), followed by Pune at 5.8 million sq feet (538,800 sq metres).

In Q4, overall rental values increased by 2.5% yoy across major cities against a backdrop of buoyant leasing and a decline in new supply. Hyderabad noted the highest increase in rental values at 8% followed by Bengaluru where rents increased by 5%.

We expect the peripheral locations in major cities such as Bengaluru, NCR and Mumbai to gain occupier attention as they offer better quality contiguous space at lower rents. Moreover, flexible workplace operators in both central as well as peripheral business districts may see increased leasing. However, net take-up of space by occupiers may see lower growth given the growing need for workspace efficiency and cost effectiveness.

Gross leasing (In mn sq ft)



New Supply (In mn sq ft)



Source: Colliers International

Primary Author:

Megha Maan

Senior Associate Director | Research | India

+91 96 6718 8334

megha.maan@colliers.com

For further information, please contact:

Joe Verghese

Managing Director | India

+91 98 6758 4684

joe.verghese@colliers.com

Ritesh Sachdev

Senior Executive Director | Occupier Services | India

+91 99 4569 7377

ritesh.sachdev@colliers.com

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