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# DEMAND FROM INFORMATION TECHNOLOGY LIKELY STEADY

## Summary & Recommendations

In Q4 2018, the Kolkata office market logged gross absorption of 215,500 sq ft (20,020 sq m), an increase of 5.0% yoy. This was driven mainly by the IT sector. However, overall vacancy also increased due to completion of a sizable IT-ITeS building in the Sector V micromarket.

- > Initiatives such as the IT policy, the launch of a Silicon Valley Asia Hub and hosting of The Global Blockchain Congress are measures by the state government to attract IT occupiers to the city.
- > In view of limited quality space and high rents in the CBD, we recommend occupiers consider relocating to PBD areas as these offer contiguous space at rents about 60% lower.

	Q4 2018	Full Year 2019	2018-21 Annual Average
 <b>Demand</b> <ul style="list-style-type: none"> <li>&gt; Occupiers are likely to favour micromarkets like Sector V and PBD for affordable rents and availability of supply; we expect flexible workspaces to gain traction in 2019.</li> </ul>	 <b>215,500 sq ft</b>	 <b>1.0 mn sq ft</b>	 <b>960,000 sq ft</b>
 <b>Supply</b> <ul style="list-style-type: none"> <li>&gt; We project new supply of about 2.4 million sq ft (218,320 sq m) during 2019-2021.</li> </ul>	 <b>800,000 sq ft</b>	 <b>1.6 mn sq ft</b>	 <b>920,000 sq ft</b>
	<b>QOQ/ End Q4</b>	<b>YOY/ End 2019</b>	<b>Annual Average Growth 2018-21/ End 2021</b>
 <b>Rent</b> <ul style="list-style-type: none"> <li>&gt; We expect overall rents to grow at a 2.0% CAGR between now and 2021, with the PBD micromarket likely to witness the fastest growth.</li> </ul>	 <b>0.0%</b> <b>INR61.0</b>	 <b>2.5%</b> <b>INR 62.5</b>	 <b>2.0%</b> <b>INR64.8</b>
 <b>Vacancy</b> <ul style="list-style-type: none"> <li>&gt; We expect the vacancy rate to fall due to steady demand projections and low upcoming supply.</li> </ul>	 <b>1.4 pp</b> <b>30.3%</b>	 <b>0.6pp</b> <b>30.9%</b>	 <b>-1.5pp</b> <b>25.8%</b>

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

## FLEXIBLE WORKSPACE OPERATORS ARE THE MAJOR DEMAND DRIVER IN 2018

The Kolkata office market witnessed a 13.8% increase in gross absorption in 2018. In Q4 2018, overall absorption was 215,500 sq feet (20,020 sq metres) with the full year 2018 reaching 910,000 sq feet (84,542 sq metres). In 2018, Sector V and the Peripheral Business District (PBD) areas remained the most active micromarkets in terms of leasing volume contributing 54% and 34% to total absorption, respectively. While lower rents and availability in Grade A buildings led the demand for micromarkets like Sector V and New Town, the Central Business District (CBD) area remained popular amongst occupiers looking for a well-connected location. However, owing to the limited availability of leasable office space in the CBD, the average transaction size in this micromarket was 42% lower than the city-average deal size which was 12,900 sq feet (1,120 sq metres).

Flexible workspace operators contributed 10% of the total leasing volume, while technology occupiers accounted for 29%. In terms of developments, IT-ITeS and IT-Special Economic Zones (SEZs) offices attracted 57% of the overall transaction volume and the remaining absorption took place in the non-IT office spaces.

Occupier expansion accounted for 82% of transactions, followed by companies relocating at 16%. Most of the offices in 2018 relocated to Sector V from the CBD and Secondary Business District (SBD) areas because of the availability of contiguous space. We expect office absorption between 2019-2021 to be dominated by occupiers looking to expand to peripheral micromarkets in search of large contiguous space and competitive rents.

The Grade A office vacancy rate in Q4 2018 increased by 0.1pp over the past year. However, vacancy grew by 1.4 pps qoq to 30.3%. By the end of 2019, we expect the city-wide vacancy rate to be 30.9% due to the new supply scheduled to be delivered during the period.

### Kolkata, gross effective rents, Q4 2018

	Q4 2018 (INR psf pm)	Q4 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
CBD <sup>1</sup>	90 - 120	1.3 – 1.7	0.0%	10.5%
SBD <sup>2</sup>	60 - 70	0.8 – 1.0	0.0%	0.0%
Sector V	40 - 45	0.6 – 0.6	0.0%	0.0%
PBD <sup>3</sup>	28 - 35	0.4 – 0.5	0.0%	0.0%

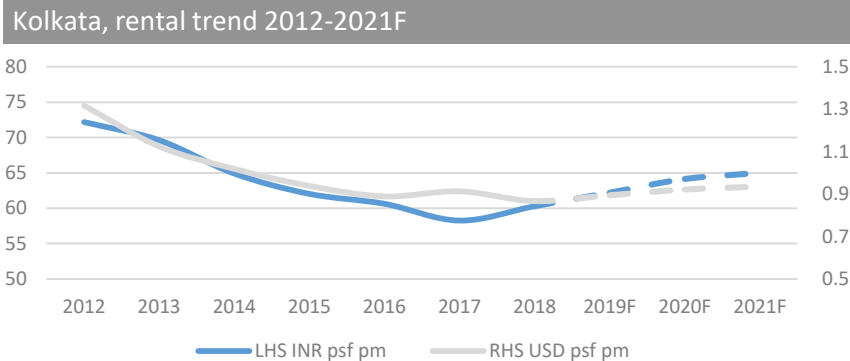
Source: Colliers International

<sup>1</sup>Park Street, Camac Street, Chowranghee Road, AJC Bose Road

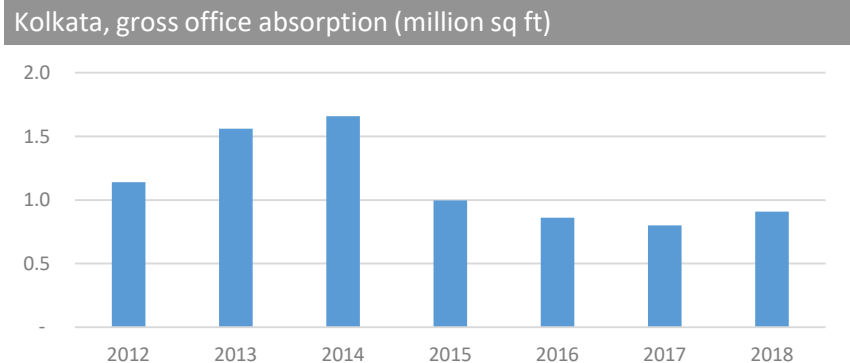
<sup>2</sup>EM Bypass, Topsia, Ruby

<sup>3</sup>Salt Lake, New Town, Rajarhat

Note: Indicative Grade A rentals



Source: Colliers International



Source: Colliers International

### Kolkata, major leasing transactions, Q4 2018

Client	Building Name	Area (sq ft)	Location
Capgemini	Candor Techspace	45,000	PBD
Decathlon	Mediaciti	25,000	Sector V
Mitsui OSK Lines	Ecocenter	16,000	Sector V
Bhushan Steel	Jasmine Tower	15,000	CBD

Source: Colliers International

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

## MAJOR SUPPLY PLANNED IN SECTOR V

In Q4 2018, the Sector V micromarket witnessed highest new Grade A supply of the year, adding 800,000 sq feet (74,320 sq metres) to stock. Due to increased leasing momentum in 2018, we witnessed developers quickly completing their projects, which pushed the total supply to 1.3 million sq feet (125,420 sq metres) by the end of the year.

We project new supply of about 2.4 million sq feet (218,320 sq metres) over the next three years, increasing total stock by 8.9%. About 50% of the planned developments are in the Sector V micromarket, followed by the SBD micromarket on 43%, while the CBD is planned to account for 7.4%.

Kolkata hosted The Global Blockchain Congress – Consensus 2018, in an effort to attract companies in the Information Technology enabled Services (IT-ITeS) sector. The summit was focused on the integration of blockchain technology with various other industries. During the two-day event, the state government also partnered with the Indian Statistics Institute to set up a Blockchain centre of excellence. We expect initiatives like the Blockchain Congress and the Silicon Valley Hub Asia project to garner significant interest from the IT and allied industries. This should support demand for IT-ITeS and IT-SEZ office spaces in the next three years.

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