Colliers Radar

KOLKATA | OFFICE

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Demand set to revive in 2018

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With deals signed by key Information Technology and Information Technology Enabled Services (IT-ITeS) and Banking Financial Services and Insurance (BFSI) players in Sector V and new supply addition in peripheral areas in 2017, the relatively untapped Kolkata market is likely to gain renewed momentum in 2018. Considering the high vacancy levels, we advise developers to stay flexible in leasing terms and rents to entice occupier interests in upcoming years. We also advise developers to focus on smaller floorplates in future developments in order to capture demand from smaller occupiers.

Forecast at a glance

Demand
Occupier preference is to remain high for Sector V and Peripheral Business District (PBD) micromarkets in 2018

Supply
We expect an additional supply infusion of about 2.2 million sq ft (0.2 million sq m) by 2020 resulting in 10% increase in total office stock

Vacancy rate
Vacancy likely to increase up to 35% in 2020 with further increase in supply

Rent
With limited Grade A office supply with smaller floorplates, rents to rise in Sector V, thereby pushing overall city rents up to 6% by 2020

Price
Capital values likely to remain stable across most of the micromarkets; We expect CBD to witness a 2-5% drop in owing to passive occupier interest

Technology, BFSI sectors to continue to drive demand in 2018

Kolkata office market witnessed 7% drop in total leasing volume in 2017 with 0.8 million sq ft (0.08 million sq m) of gross absorption. Micromarkets such as Sector V and PBD were dominating in terms of occupier interests contributing 50% and 15% of the total leasing respectively. Due to limited availability of Grade A office space Central Business District (CBD) remained less preferable for large occupiers and mostly small transactions (2,000-5,000 sq ft) were recorded in this area. Space taken-up by companies such as Tata Motors, Reliance Jio, Foster wheels, Samsung Electronics, Tech Mahindra, PwC and Bandhan Bank indicates a revival of occupier interest in Kolkata office market. The city also witnessed traction in coworking segment as the coworking operator Awfis made an entry into the Kolkata market in 2017 and expanded the facility up to 50,000 sq ft (4,600 sq m).

The city also witnessed the increased investor activity in 2017. Tata AIA Life Insurance Co Ltd, the joint venture company formed by Tata Sons and Hong Kong-based AIA Group, sealed a deal for 0.27 million sq ft (0.03 million sq m) at EcoSpace Business Park and Reliance Jio taken over 0.14 million sq ft (0.01 million sq m) over two floors at Godrej Waterside IT Park indicating a revival of office investment market. We expect the peripheral locations such as Salt Lake and Rajarhat should remain in occupier preference over next three years due to availability of quality Grade A office spaces at affordable rents along with scalability options and proximity to airport.

Rental Value Trends

Micromarkets	Rental Values[1]	QOQ Change	YOY Change
CBD[2]	80 - 110	0%	-5%
SBD[3]	60 - 70	0%	0%
Sector V	38 - 50	6%	4%
PBD[4]	34 - 36	1%	-1%

Source Colliers International India Research
[1]Indicative Grade A rentals in INR per sq ft per month
[2]Park Street, Camac Street, Chowranghee Road, AJC Bose Road
[3]EM Bypass, Topsia, Ruby
[4]Salt Lake, New Town, Rajarhat

Fig 1. Rental Forecast (INR per sq ft per month)

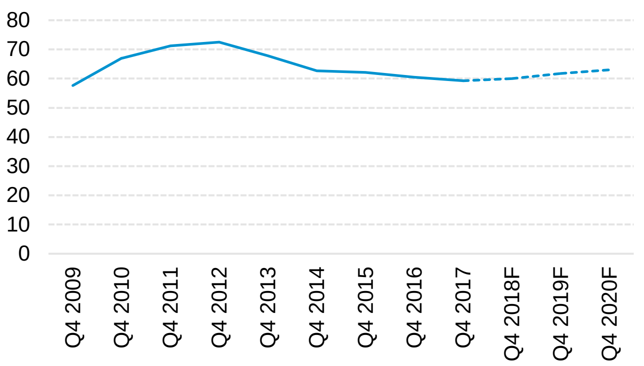
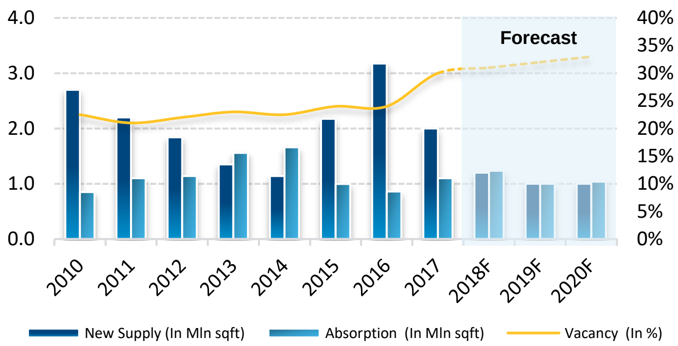


Fig 2. Supply Absorption and Vacancy Forecast



Major Transactions in 2017

Client	Building Name	Area (sq ft)	Location
TVS Motors	Calstar Steel Ltd.	75,000	NH6
Foster Wheeler	Infinity Benchmark	42,000	Sector V
Reliance Capital	Thapar House	40,000	Rashbehari
Samsung Electronics	DLF IT Park	40,000	New Town
PWC SDC	PS Srijan Corporate Park	35,000	Sector V

Source Colliers International India Research

Notes: All figures are based on market information as on 25 Dec 2017

Rental values to surge due to limited availability of small floorplates in Sector V

Despite of high vacancy level, an additional supply of 2.45 million sq ft (0.2 million sq m) of Grade A supply in PBD, resulted in increase of overall vacancy up to 30%. In 2017. Although, we expect occupier demand to intensify in peripheral locations, sufficient supply availability in PBD is likely to keep rental values stable in the micromarket.

No major lease is likely to happen in next few years. Similarly, capital values should also remain stable in most micromarkets except CBD. Due to subdued occupier interest at CBD locations and as several building owners are in a distressed asset selling mode, we expect a decline of about 2-5% in capital values in CBD over the next two years.

Colliers' Forecast

While the Sector V micromarket is already witnessing increased demand, the planned operation of phase 1 of East-West metro line connecting Salt Lake to Sealdah by end of 2018 is likely to boost the market demand further. With new Grade A supply and competitive rents in PBD, more occupiers from CBD are likely to relocate to the peripheral locations. Thus, we expect an increase of about 2-3% in vacancy levels at CBD locations in 2018.

We expect market to gain momentum from Korean investments as after the opening of Korea Trade-Investment Promotion Agency (KOTRA) office in Kolkata in Q4 2017, several Korean companies are also exploring opportunities. The state government is also in action to formulate a comprehensive IT policy and the much awaited IT policy is expected to be announced in January 2018. We expect this in turn will further encourage IT investments in Kolkata.

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