

# Leasing remained stable

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**Kolkata's office market leasing activity remained stable in Q2 2018. Major traction was seen from the occupiers expanding their footprint in the peripheral business districts (PBD). The ongoing tax collection activity in New Town and Rajarhat exerted an upward pressure on asking rents; however, we do not expect the contract rents to go up any further due to high vacancy levels. We advise occupiers to take advantage of current high vacancy levels by negotiating the lease rent and conditions well.**

## Forecast at a glance



### Demand

Demand is likely to stay upbeat in the PBD owing to better connectivity and demand from the cost-conscious occupiers.



### Supply

We expect an additional 9% supply infusion of about 2.2 million sq ft (0.2 million sq m) from 2018 to 2021.



### Vacancy rate

Vacancy likely to remain stable in the range of 28-30% until 2021 with further increase in supply.



### Rent

Higher vacancy should keep average rent stable. However, we expect a 2-3% annual increase in rents over 2018-2021 in the CBD due to limited supply.



### Price

We expect capital values to see a cumulative 4-5% increase from 2018 to 2021, owing to renewed interest from domestic retail investors due to friendly-business policies of the state government.

## Expansion drive by the occupiers in the PBD areas drove demand

Q2 ended with gross absorption of about 0.2 million sq ft (18,000 sq m), similar to Q1 2018. Sector V and Peripheral Business District (PBD) accounted for 70% and 20% of the leasing volume respectively. A scarcity of Grade A stock in the Central Business District (CBD) led to lower levels of absorption with most transactions being 3,000-8,000 sq ft (278-743 sq m). Space take-up by flexible workspace operators like Apeejay Business Center indicates a growth of occupier interest in flexible workspace centers. Demand came primarily from the Engineering and Manufacturing sector, accounting for 43% of total leasing. This was followed by Information Technology enabled Services (IT/ITeS) with 22% and Banking, Finance and Insurance Services (BFSI) which accounted for about 15% of total leasing.

Recently, the Municipal Corporation of Kolkata has started collecting property tax in the Peripheral Business Districts (PBD) areas of New Town and Rajarhat, resulting in an uptick in the average asking rental values in these micromarket. The asking rents in PBD locations witnessed an increase of 5% QOQ.

## Rental Value Trends

Micromarkets	Rental Values <sup>1</sup>	QOQ Change	YOY Change
CBD <sup>2</sup>	90 - 120	11%	11%
SBD <sup>3</sup>	60 - 70	0%	0%
Sector V	40 - 45	0%	4%
PBD <sup>4</sup>	28 - 35	5%	5%

Source Colliers International India Research

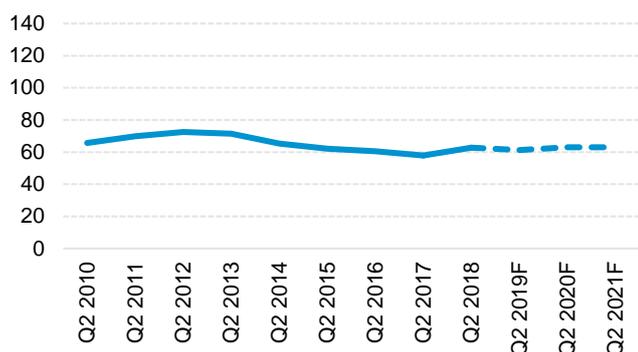
<sup>1</sup>Indicative Grade A rentals in INR per sq ft per month

<sup>2</sup>Park Street, Camac Street, Chowranghee Road, AJC Bose Road

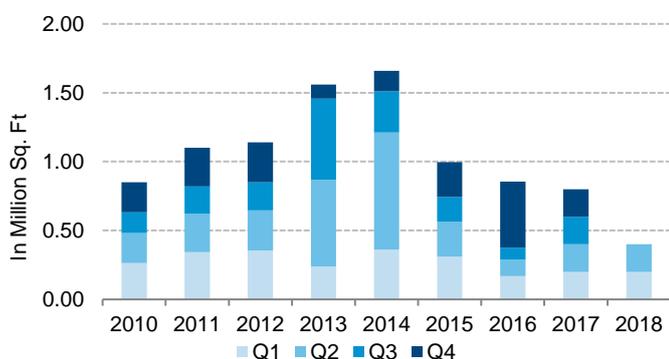
<sup>3</sup>EM Bypass, Topsia, Ruby

<sup>4</sup>Salt Lake, New Town, Rajarhat

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



**Fig 2. Gross Absorption (million sq ft)**



**Major Transactions in Q2 2018**

Client	Building Name	Area (sq ft)	Location
Apeejay Business Center	Eco Center	16,000	Sector V
ZTE	Millenium City	12,000	Sector V
Blue Star	Eco Center	8,000	Sector V
HDFC Ergo	22 Camac Street	6,000	CBD

Source Colliers International India Research

Notes: All figures are based on market information as of 25th June 2018

**Rents to stay flat due to high vacancy rate**

Even though asking rents increased in Q2, mainly due to regulatory changes in a few micromarkets, we expect rents to remain stable from 2018-2021. With demand averaging around 0.2 million sq ft (18,000 sq m) every quarter, it is unlikely that the high vacancy rate will sink in the next three years. Despite high vacancy, in our views rents have already reached the bottom and are unlikely to fall much further. Additionally, based on the construction schedule of various developers, about 2.2 million sq ft (0.2 million sq m) of Grade A supply is due for completion over the next three years which will increase the existing stock of the city by 4%. The majority of this upcoming supply is located in the emerging Sector V micromarket.

In contrast to the trend of past few quarters, 0.55 million sq ft (50,000 sq m) of new Grade A supply came online in Sector V, resulting in an increase in vacancy. However, we expect demand to stay robust in PBD locations, keeping overall rents stable.

**Colliers' Forecast**

Kolkata has seen subdued demand for some time now, but the recent rise of business interest will probably boost the requirement of commercial real estate market. The completion of a new flyover connecting the CBD area with the Salt Lake micromarket should improve connectivity towards the PBD. With new Grade A supply and competitive rents in PBD, we expect more occupiers to relocate to the PBD locations over the next three years. We advise the occupiers to wait for the new Grade A supply to enter the market and close deals at competitive rental rates.

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