

Growing demand momentum

Diksha Gulati Manager | Mumbai

Mumbai continued to witness growing momentum in leasing and outright purchase of office space for self-use by occupiers in the Banking and Financial Services Institutions (BFSI), logistics and manufacturing sectors. For premium front-office space, BFSI occupiers should focus on Bandra Kurla Complex (BKC), while cost-sensitive occupiers should evaluate options in micromarkets such as Lower Parel and Andheri.

Forecast at a glance



Demand

We expect demand to increase owing to consolidation in Mumbai's traditional demand driver BFSI



Supply

Approximately 8 million sq ft (0.74 million sq m), of new supply is scheduled to be infused in 2018-2021. This should increase city-wide stock by 5%



Vacancy rate

By 2021, vacancy should drop slightly from the current 13%; new supply infusion amidst robust absorption likely to keep a check on the rate of decline



Rent

Rents in preferred micromarkets of BKC, Andheri and Lower Parel are likely to strengthen by 5%-6% over 2018-2021



Price

We expect capital values to appreciate in line with rents; increasing 10-year government bond yields may keep a check on the rate of increase

BFSI to be key driver for demand

Mumbai recorded gross absorption of 1.7 million sq ft (0.16 million sq m) in Q2 2018 taking the total for H1 2018 to 3.7 million sq ft (0.34 million sq m). This represents a 27% increase from H1 2017. In Q2 2018, leasing activity was concentrated in the micromarkets of Andheri East and Bandra-Kurla Complex (BKC), with shares of 38% and 14% respectively. Demand continued to be driven by flexible workspace operators which took a 20% share, followed by BFSI with a 16% share and then the IT-ITeS, consulting and logistics sectors. The preferred micromarkets for flexible workspace operators were Andheri East, BKC, Navi Mumbai and Worli/Prabhadevi.

Mumbai witnessed significant outright purchases for self-use in H1 2018 by occupiers in varied sectors including BFSI, logistics and manufacturing. Notable transactions included occupiers acquiring 30,000-60,000 sq ft (2,788-5,576 sq m) office space in Andheri and Navi Mumbai. Robust absorption by the BFSI sector is likely to be the key driver for leasing activity in H2 2018 as a number of companies in the BFSI sector are looking at consolidating their office space.

Micromarkets	Rental Values ¹	QOQ Change	YOY Change
CBD	200 - 250	0.0%	0.0%
Andheri East	85 - 130	-2.3%	-2.3%
BKC	220 - 350	2.7%	4.6%
Lower Parel	140 - 195	0.0%	1.5%
Malad	80 - 105	2.8%	2.8%
Navi Mumbai	70 - 110	5.9%	5.9%
Powai	110 - 145	6.3%	6.3%
Worli/Prabhadevi	170 - 210	0.0%	0.0%
Goregaon/JVLR	100 - 130	0.0%	4.5%
Kalina	140 - 185	-1.5%	4.8%
Thane	70 - 80	0.0%	0.0%
LBS	95 - 125	-2.3%	-6.5%

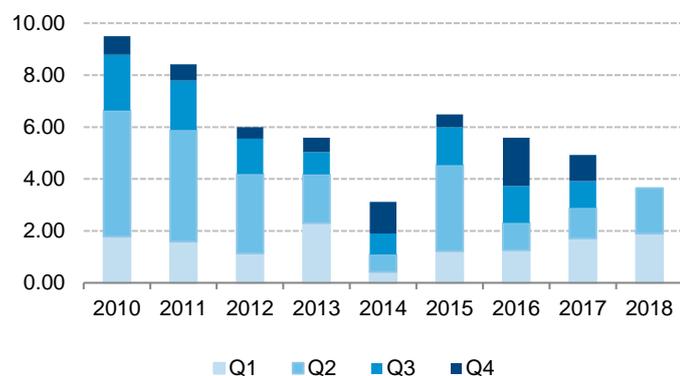
Source: Colliers International India Research

¹Indicative Grade A rentals in INR per sq ft per month, includes only Non-IT developments

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



Fig 2. Gross Office Absorption (million sq ft)



Major Lease Transactions in Q2 2018

Client	Building Name	Area (sq ft)	Location
Tablespace	Logitech Park	100,000	Andheri
WeWork	Vaswani Chambers	75,000	Worli
Kotak Mahindra Bank	Neptune Elements	70,000	Thane
Quest Offices	Technopolis	55,000	Andheri

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

First new supply infusion in H1 2018

For the first time in three quarters, Mumbai witnessed an infusion of 1.6 million sq ft (0.15 million sq m) of new projects. About 70% of the new supply is concentrated in Andheri East and across LBS Road, followed by 17% in Navi Mumbai and the remaining 13% is in Malad. These projects were completed later than scheduled; however, they should come as a relief to occupiers looking for large Grade A floorplates in these micromarkets. Despite the supply infusion, the overall vacancy level remained stable at 13% owing to robust leasing activity. Rents have appreciated by 3%-6% QOQ in the micromarkets of Powai, Navi Mumbai, BKC and Malad with consistent demand amidst limited availability of large floor plates in Grade A stock.

The city is slated to receive approximately 8 million sq ft (0.74 million sq m) of new supply over 2018-2021, amounting to a 5% addition to stock. We expect almost half of the upcoming supply to be located in the Andheri East and Navi Mumbai micromarkets, which can respectively support front-office and back-office operations, which are seeing increasing demand, especially from the BFSI sector.

Colliers' View

Over the next three years, we foresee the timely completion of infrastructure to augment real estate demand. The Mumbai Metropolitan Region Development Authority (MMRDA) has begun soil testing work at Bhakti Park, Wadala, for the metro connecting Wadala-Kasarvadavali. Once operational, this may reduce travel times by up to 75% depending on road conditions. In addition, the new Development Control Rule 2034, scheduled to be finalised by September 2018, should help to increase the floor space index. This should allow developers to build more on a given plot and unlock land within the city and peripheral areas.

For more information:

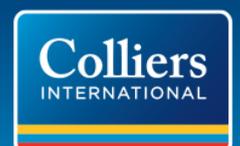
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