RISE IN NEW GRADE A SUPPLY

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Summary & Recommendations

In 2018, the NCR saw 10.1 million sq ft (935,530 sq m) of leasing activity. The NCR office market is likely to retain its position as the second most active market across the country with respect to gross absorption. However, we expect the vacancy level to rise to 29.9% from the current 28.1% by 2021 owing to robust upcoming supply during the same period.

> In line with our earlier prediction, average rents are likely to rise marginally over the next three years.

> We recommend cost-conscious occupiers with large space requirements to expand in locations such as NOIDA Expressway and GCER since these districts offer rents up to 50% lower than in secondary and established business districts.

		Q4 2018	Full Year 2019	2018–21 Annual Average
Demand	> We expect gross absorption to remain steady, averaging 9.3 million sq ft (866,785 sq m) over the next three years driven by technology and consulting occupiers.	▲ 2.2 mn sq ft	▼ 9.2 mn sq ft	▼ 9.5 mn sq ft
Supply	> Based on developers' latest construction schedules and market updates, we expect the NCR market to add another 43.0 million sq ft (4.0 million sq m) between 2019-21.	▼ 850,000 sq ft	▲ 12.9 mn sq ft	▲ 11.5 mn sq ft

		QOQ / End Q4	YOY / End 2019	Annual Average Growth 2018–21 / End 2021
Rent	> We expect rents to increase over the next three years led by demand in key business districts and premium buildings in Gurugram and NOIDA.	0.1% ▲ INR94.7	0.9% ▲ INR95.5	0.7% ▲ INR96.7
Vacancy	> Major upcoming supply in the satellite cities of NOIDA and Gurugram should push the vacancy rate from 28.1% in Q4 2018 to 29.9% in Q4 2021.	-1.4pp ▼ 28.1%	0.1pp ▲ 28.2%	0.6pp ▲ 29.9%

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

RECORD ABSORPTION LEVELS WITH MUTED SUPPLY

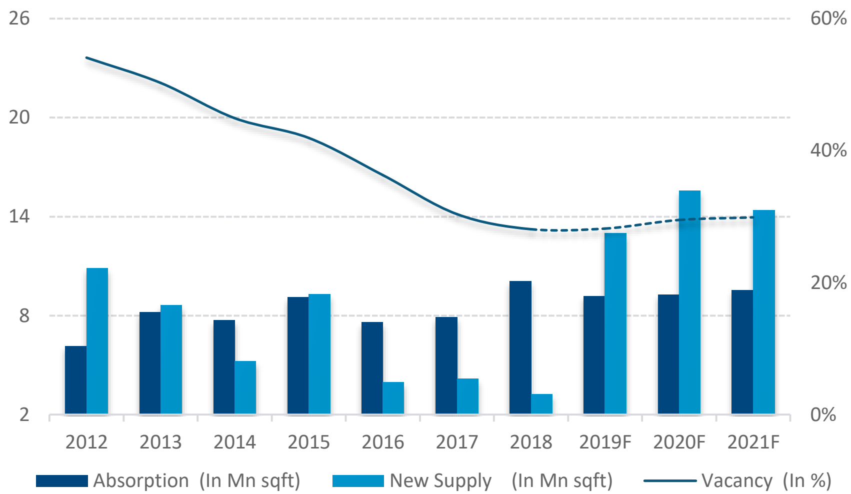
In 2018, the National Capital Region (NCR) recorded the highest leasing volume in the past eight years. The overall absorption of the region was 10.1 million sq feet (938,320 sq metres) in 2018, a 27.3% yoy increase. In Q4 2018, the NCR witnessed three major pre-commitments in Gurugram totaling 435,000 sq feet (40,410 sq metres). These are likely to be absorbed in 2019.

Across NCR, demand came primarily from the IT-ITeS sector, accounting for 24.1% of total leasing. This was followed by Banking, Finance and Insurance Services (BFSI) sector with 16.7% and engineering and manufacturing sector which accounted for about 15.1% of total leasing. Due to delays in construction, new completions during 2018 declined by 23% over 2017 to stand at 3.2 million sq feet (297,290 sq metres).

As a major trend, high rents coupled with lack of availability of large floor plates in prime locations in Delhi drove occupiers to other preferable micromarkets in satellite cities. Locations that offer well-maintained office space and excellent connectivity with other parts of the region garnered occupiers' interest. Therefore, micromarkets such as NOIDA Expressway accounted for 13.8% of the overall leasing in the NCR, followed by Cyber City (Gurugram) with 12.6% and Udhyog Vihar (Gurugram) at 8.9%. The average asking rent for these micromarkets is INR79 per sq feet per month (USD1.1 per sq feet per month) which is 16.6% lower than the region's average rent of INR94.7 per sq feet per month (USD1.3 per sq feet per month).

As the metro-rail corridor between NOIDA and Greater NOIDA is scheduled to be operational from Q1 2019, we foresee that these markets will remain popular with occupiers.

NCR, gross absorption, supply & vacancy trend 2012-2021F



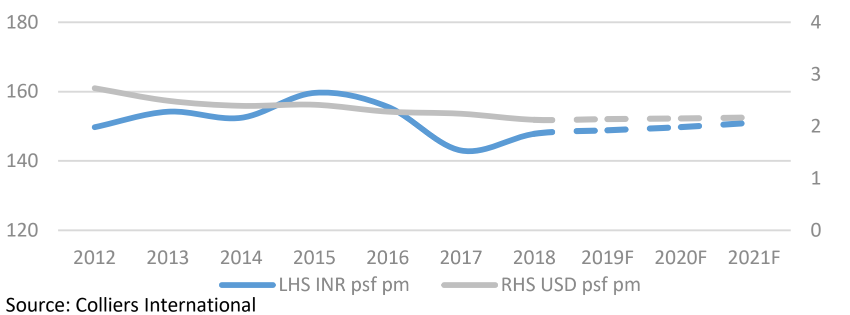
Source: Colliers International

NCR, major leasing transactions, Q4 2018

Client	Building Name	Area (sq ft)	Location
Tech Mahindra	Knowledge Boulevard	150,000	NOIDA Institutional
WeWork	Delhi One	150,000	NOIDA Commercial
Teleperformance	Individual Building	85,000	Udhyog Vihar
Yatra	Gulf Adiba	80,000	Udhyog Vihar
Hero Fincorp	Individual Building	60,000	Mohan Cooperative
DCM	Bharti Worldmark	49,000	Aerocity

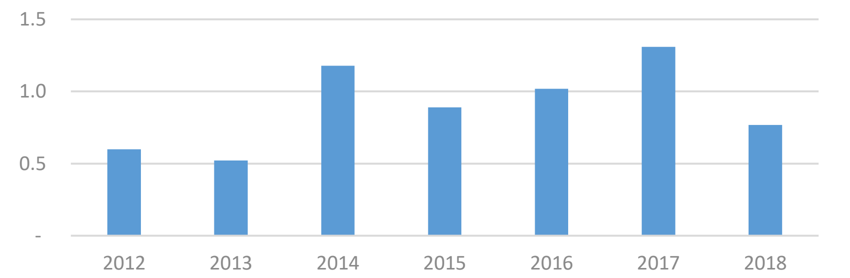
Source: Colliers International
Note: All figures are based on market information as on 31 December 2018

Delhi, rental trend 2012-2021F



Source: Colliers International

Delhi, gross office absorption (million sq ft)



Source: Colliers International

Delhi, gross effective rental values, Q4 2018

	Q4 2018 (INR per sq feet pm)	Q4 2018 (USD per sq feet pm)	QOQ Change (%)	YOY Change (%)
Connaught Place (CBD)	140 – 425	2.0 – 6.1	0.0%	0.0%
Nehru Place	150 – 200	2.1 – 2.9	0.0%	0.0%
Saket	110 – 180	1.6 – 2.6	0.0%	0.0%
Jasola	80 – 120	1.1 – 1.7	0.0%	2.6%
Okhla	40 – 87	0.6 – 1.2	0.0%	1.6%
Aerocity	180 - 200	2.6 – 2.9	0.0%	8.6%

Source Colliers International
Note: Indicative Grade A rentals

DECLINE IN LEASING ACTIVITY

In 2018, Delhi's office market recorded gross absorption of 770,000 sq feet (71,535 sq metres), representing an annual reduction of 41.4% owing to limited availability in quality developments.

The Aerocity micromarket remained a favourite amongst the corporate occupiers. In 2018, Aerocity accounted for 29.3% of the overall leasing followed by the Central Business District (CBD) with 13.6%. The Secondary Business Districts (SBD) such as Saket, Nehru place and Jasola together represented 19.6% of the office space take-up.

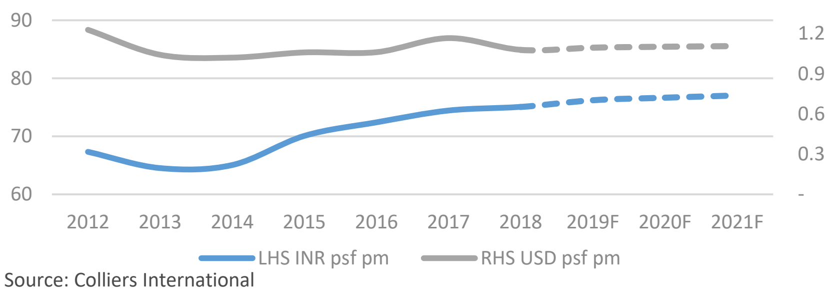
In 2018, leasing activity was led by occupiers in the engineering & manufacturing sector, accounting for 24% of gross absorption, followed by the BFSI sector representing 21%. Flexible workspace operators leased 9.3% of space in 2018, which is 7.4 pps higher than in 2017.

In the last two quarters of 2018, an additional 400,000 sq feet (37,160 sq metres) of supply was released into the market. Looking at future development plans from 2019-2021, Delhi is planned to see 3.9 million sq feet (359,535 sq metres) of office supply, increasing the existing office stock by 26.4%.

The city-wide average asking rents rose 2.6% yoy, and the growth in rents are in direct relation to the limited office supply.

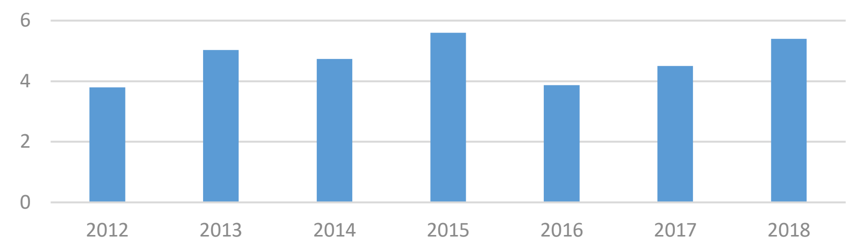
Against the backdrop of robust upcoming supply over the next three years, we expect the average city vacancy rate to rise from the current 10.5% to 12.3% by the end of 2021. The higher vacancy rate will probably flatten the rental growth over the next three years in Delhi.

Gurugram, rental trend 2012-2021F



Source: Colliers International

Gurugram, gross office absorption (million sq ft)



Source: Colliers International

Gurugram, gross effective rental values, Q4 2018

	Q4 2018 (INR per sq feet pm)	Q4 2018 (USD per sq feet pm)	QOQ Change (%)	YOY Change (%)
MG Road	110 - 140	1.6 – 2.0	0.0%	2.0%
Golf Course Road	110 – 200	1.6 – 2.9	0.0%	0.0%
Institutional Sectors (Sectors 44, 32 and 18)	60 - 90	0.8 – 1.3	0.0%	0.0%
Golf Course Extension/Sohna Road	50 – 75	0.7 – 1.1	0.0%	4.2%
National Highway 8	40 - 130	0.6 – 1.8	0.0%	0.0%
Udhyog Vihar and Industrial Sectors	50 - 70	0.7 – 1.0	0.0%	0.0%
Manesar	25 – 35	0.3 – 0.5	0.0%	0.0%
DLF Cyber City (IT)	118 – 120	1.7 – 1.7	0.0%	2.6%

Source Colliers International
Note: Indicative Grade A rentals

RISE IN LEASING; GCER SEEING HIGH OCCUPIER INTEREST

In 2018, Gurugram witnessed gross absorption of 5.4 million sq feet (500,750 sq metres), an increase of 19.8% yoy. The Cyber City micromarket emerged as the most preferred location, constituting 21.7% of overall leasing activity, followed by Golf Course Extension Road (GCER) and Golf Course Road at 15.8% and 12.1%, respectively.

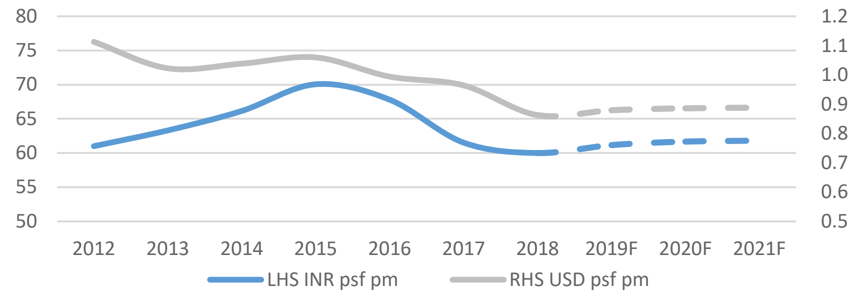
On the supply front, the city witnessed 1.4 million sq feet (127,280 sq metres) of new supply, which is the lowest since 2009. This can be attributed to the fact that the developers are going slow on completing new projects in the wake of persistently high vacancy rates. Gurugram has a supply pipeline 24.6 million sq feet (2.2 million sq metres) during 2019-2021, which should increase the city-wide Grade A office stock by 30.9%.

As projected in our earlier reports, GCER has emerged as a new commercial hub. We expect the Grade A supply pipeline in this micromarket to keep pace with leasing activity over the next three years. Occupiers should look at expanding or relocating to GCER as it offers great connectivity with quality real estate at rents 17.6% lower than the city average.

In 2018, average rents in Gurugram increased by 0.9% yoy, however the highest rental growth of 4.2% yoy was observed in the GCER micromarket due to increased occupier demand. Overall, we expect average asking rents to remain stable with a modest growth of 0.6% CAGR in the next three years.

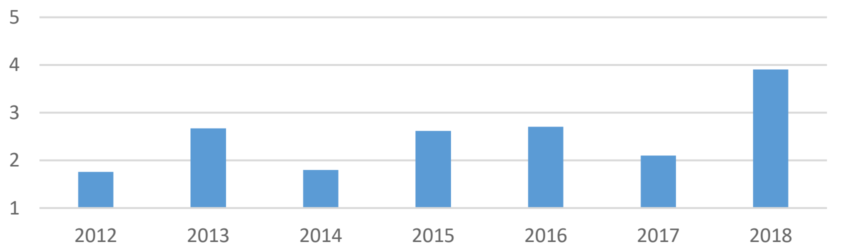
Colliers forecasts Gurugram’s office market to remain one of most prominent, with about 14.5 million sq feet (1.35 million sq metres) of cumulative leasing over the next three years. To complement that, a robust supply pipeline of 24.6 million sq feet (2.2 million sq metres) is scheduled to be delivered by the end of 2021. As a result, the vacancy rate is likely to stay above 30% in the next three years.

NOIDA, rental trend 2012-2021F



Source: Colliers International

NOIDA, gross office absorption (million sq ft)



Source: Colliers International

NOIDA, gross effective rental values, Q4 2018

	Q4 2018 (INR per sq feet pm)	Q4 2018 (USD per sq feet pm)	QOQ Change (%)	YOY Change (%)
Commercial Sectors[1]	65 – 90	0.9 – 1.3	0.0%	0.0%
Institutional Sectors[2] (NON IT)	75 – 85	1.0 – 1.2	0.0%	0.0%
Institutional Sectors (IT)[2]	35 – 45	0.5 – 0.6	0.0%	0.0%
Industrial Sectors (IT)[3]	35 – 45	0.5 – 0.6	0.0%	0.0%
NOIDA Expressway	55 – 60	0.8 – 0.8	0.0%	0.9%

Source Colliers International; [1]Sector 18 (hotels, shopping centres, banks, cinemas)
[2]Sector 16 A,62, 125,126,127,132,135,136,142,143,144,153,154
[3]Sector 1-9,57-60, 63-65 (factories, warehouses and IT services)
Note: Indicative Grade A rentals

HIGHEST EVER LEASING ACTIVITY, AMPLE SUPPLY TO MEET DEMAND

NOIDA's office market witnessed record leasing activity in 2018 at 3.9 million sq feet (363,250 sq metres), registering a significant increase of 86.2% yoy. The IT-ITeS sector continues to be the largest occupier accounting 28% of overall absorption, followed by the engineering & manufacturing sector at 24% and the BFSI sector with 13% of the overall leasing in 2018.

In 2018, the NOIDA's Grade A office market saw new completions of 1.5 million sq feet (137,495 sq metres) increasing the city-wide stock by 5.2%. However, being motivated by the increased corporate demand, we project developers will look at completing their ongoing projects amounting to 14.4 million sq feet (1.3 million sq metres) by the end of year 2021.

In line with our previous projections, the micromarket of NOIDA Expressway has gained importance and constituted 35% of the overall leasing. Amongst all the sectors, occupiers hailing from the engineering & manufacturing background rented about 50% of the Grade A space in NOIDA Expressway this year.

In 2018, rents did not rise in the NOIDA office market as the current vacancy rate, at 30.1%, is quite high compared to other markets. Despite a sizeable supply of 14.4 million sq feet (1.3 million sq metres) scheduled by the end of 2021, we anticipate rents to increase at 0.8% CAGR due to steady demand from technology occupiers.

In our opinion, value will be the key factor driving occupier demand in NOIDA. The leasing trend is moving towards micromarkets such as NOIDA Expressway and the Commercial sectors which constitute newly built Grade A buildings with great connectivity to other parts of the NCR. To supplement that, the upcoming Aqua Line metro corridor will probably result in increasing attractiveness of the NOIDA Expressway micromarket amongst the corporate occupiers.

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