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RECORD HIGH LEASING ACTIVITY

Summary & Recommendations

The market is likely to remain dominated by back-end information technology occupiers. However, upcoming Grade A supply and improving connectivity should attract corporate occupiers as well.

- Over the next three to five years and in line with our earlier prediction, rents should stay stable in most micromarkets. Injection of new supply will likely keep the office market tilted in favour of occupiers.
- As the market favours tenants, occupiers should consider signing deals in new developments with good connectivity at NOIDA Expressway to achieve desirable rents.



Source: Colliers International India Research

Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR72.71 as on 25 September 2018

NOIDA EXPRESSWAY CONTINUES TO SEE MAJORITY OF LEASING ACTIVITY

Leasing activity in NOIDA has gathered pace as tech occupiers and manufacturing companies lease space on the expressway. The market recorded gross absorption of 779,611 sq feet (72,428 sq metres) in Q3 2018. Compared to the same period last year, leasing has increased by 30% as the average deal size expanded three times to 70,874 sq feet (6,584 sq metres).

Q3 2018 saw leasing activity spread across various sectors. The engineering and manufacturing sector was the leading occupier with 38.5% of gross absorption followed by technology occupiers on 32.1%, and the banking, financial services and insurance sector (BFSI) on 23.5%.

The NOIDA expressway micromarket continued to dominate the leasing activity accounting for 61.2% of demand in Q3 2018. We expect this micromarket to remain the preferred destination amongst occupiers looking for consolidation and expansions across NOIDA due to the availability of Grade A office space and the excellent connectivity with Delhi. This dominance was primarily supported by technology-related occupiers, which concluded a few large deals in excess of 100,000 sq feet. The industrial sectors (57 to 60 and 63 to 65) and institutional sectors accounted for 32.1% and 6.7% of the leasing volume respectively.

We expect that the completion of the Delhi Metro Rail Corporation (DMRC) Blue Line extension from the existing City Centre metro station to sector 62 should further improve occupier confidence in the institutional and industrial micromarkets by year-end. Currently, the Blue Line metro rail, which connects central and south-west Delhi with NOIDA terminates at the NOIDA City Center station. The elevated metro-rail corridor is scheduled to have six metro stations - NOIDA Sector 34, NOIDA Sector 52, NOIDA Sector 61, NOIDA Sector 59, NOIDA Sector 62 and NOIDA Electronic City. This metro-line extension is also planned to offer better connectivity to nearby areas of Ghaziabad.

Gross effective rental values

	Q3 2018 (INR psf pm)	Q3 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
Commercial Sectors ¹	65 – 90	0.9 – 1.2	0.0%	5.3%
Institutional Sectors ² (NON IT)	75 – 85	1.0 – 1.1	0.0%	4.0%
Institutional Sectors (IT) ²	35 – 45	0.5 – 0.6	0.0%	4.5%
Industrial Sectors (IT) ³	35 – 45	0.5 – 0.6	0.0%	0%
NOIDA Expressway	55 – 60	0.7 – 0.8	0.0%	4.5%

Source Colliers International India Research

¹Sector 18 (hotels, shopping centres, banks, cinemas)

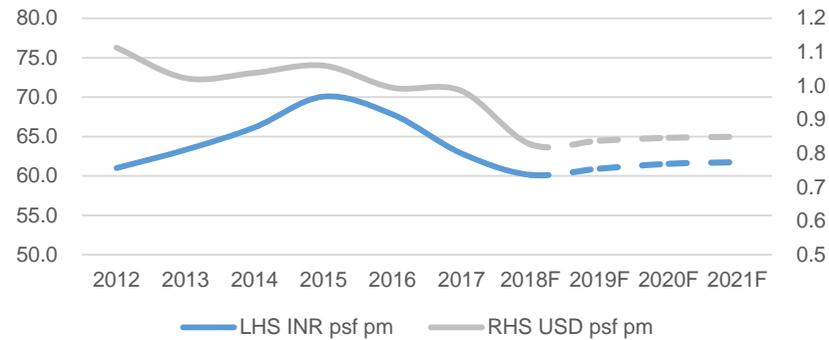
²Sector 16 A,62, 125,126,127,132,135,136,142,143,144,153,154

³Sector 1-9,57-60, 63-65 (factories, warehouses and IT services)

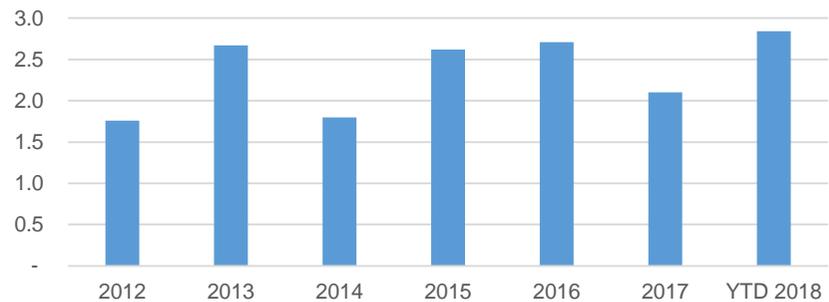
In addition, two-sections of the Pink Line metro of DMRC are scheduled to be operational from December 2018. This should further facilitate commuting between West Delhi, South Delhi and NOIDA by reducing the travel time. The improved communication is likely to improve talent mobility from other parts of the city to NOIDA.

In our opinion, the completion of various metro-rail networks in and around NOIDA should give a fillip to the leasing activity in the coming three years. The upcoming NOIDA - Greater NOIDA metro line is planned to improve the connectivity of the NOIDA Expressway and Greater NOIDA micromarkets. We expect this factor to work as a catalyst for demand in areas adjacent to the metro. Similarly, the Blue Line extension should increase demand by technology and manufacturing occupiers in the industrial and institutional sectors.

Rental trend



Gross office absorption (million sq ft)



Source: Colliers International India Research | YTD: Year-to-date - January to September

Major leasing transactions in Q3 2018

Client	Building Name	Area (sq ft)	Location
GE	Nirmal Sadan	300,000	Expressway
MCM	D-195	150,000	Industrial Sector
Paytm	VJ Tower	100,000	Expressway
Chetu	H/95	80,000	Industrial Sector

Source: Colliers International India Research

Note: All figures are based on market information on 25 September 2018.

VACANCY RATE TO SURGE IN 2019 AMID INCREASE IN GRADE A SUPPLY

NOIDA witnessed new supply of 390,000 sq feet (36,232 sq metres), noting a decline of 34% over the quarter. Despite infusion of new supply only in the NOIDA expressway micromarket, rents remained stable across all major micromarkets during the quarter owing to high vacancy levels. However, high quality Grade A developments in Commercial sectors and NOIDA expressway will command a premium over market rents

In our opinion, only about 15.6 million sq feet (1.4 million sq metres) of Grade A office supply is likely to be completed by 2021. This is despite the fact that around 26.6 million sq feet (2.5 million sq metres) of new supply is scheduled for completion by 2021. Our expectation is that 42% of this supply is likely to be deferred, as developers are likely to remain cautious about adding new supply amid the persistently high vacancy rates.

We expect the NOIDA Expressway micromarket to gain prominence over the coming years due to the infusion of high quality supply and improved connectivity. According to the developer's construction schedule, 84% of the total supply over the period of 2019-2021 is scheduled to be concentrated in this micromarket.

We expect leasing activity to reach a new high of 3.4 million sq feet (315,870 sq metres) in 2018 led by technology and manufacturing occupiers. If achieved, this will set a record for leasing over the last eight years. Despite healthy absorption recorded this year, the vacancy rate has continued to rise to 32.6% due to new office supply addition. Colliers International forecasts that the vacancy level in NOIDA will stay in a range of 30-35% over the next three years.

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