

Grade A supply to drive demand

Surabhi Arora | Sr. Associate Director | India

The addition of Grade A office supply supported by infrastructure developments should drive occupiers' interest in NOIDA market in coming years. The market is likely to remain dominated by back-end Information Technology occupiers, however, upcoming Grade A supply is likely to attract corporate occupiers in NOIDA market. We advise developers to focus on improving the building quality and property management to attract large multinational occupiers.

Forecast at a glance



Demand

Demand set to improve with a few completions of Grade A developments in NOIDA market



Supply

Total stock to be increased by about 45% in next 3 to 5 years, with approximately 13 million sq ft (1.2 million sq m) of new supply pipeline.



Vacancy rate

Vacancy rate set to remain high above 30% with new supply expected to add at already over supplied avenues.



Rent

Stable rents expected; slow moving inventory to keep a check on the rental values.



Price

Likely to stay subdued owing to lesser amount of strata-sale transaction activity.

Soft leasing trends leads to 22% dip YOY in gross absorption

After witnessing a record year in 2016, NOIDA's commercial office market observed softening of leasing activities in 2017. Colliers' database suggests that only about 2.1 million sq ft (0.1 million sq m) was newly leased in 2017 excluding pre-commitments and renewals which represents a 22% dip YOY.

Our deal analysis shows that back-end Technology Services and Banking, Financial Services and Insurance (BFSI) continued to be the two major industries dominating the overall leasing with 51% and 13% share followed by 10% for Engineering and Manufacturing and 9% for Media & Entertainment. Although we expect that back-end Technology Services should remain the key demand driver in the city, there should be increased traction from corporate occupiers as well in the next three years. The upcoming Grade A commercial supply is likely to attract corporate occupiers in NOIDA market.

About 44% of the total absorption was recorded in Sector 62-65 micromarket followed by 26% for NOIDA Expressway and the rest in the smaller micromarkets such as Sector 16A and 18. Improved road connectivity and expected metro completion in 2018 should derive the occupier interest in Industrial and Institutional areas of Sector 62-65 and NOIDA Expressway. However, technology occupiers looking for large floor plates may have limited grade A options in Sector 62-65, thus leasing activities are likely to remain concentrated in NOIDA Expressway in the coming years.

Rental Value Trends

| Micromarkets | Rental Values ¹ | QOQ Change | YOY Change |
|--------------------------------|----------------------------|------------|------------|
| Commercial Sectors | 75 - 105 | -2.7% | 0.0% |
| Institutional Sectors (Non IT) | 75 - 95 | 0.0% | -5.6% |
| Institutional Sectors (IT) | 45 - 80 | 0.0% | 8.7% |
| Industrial Area (IT) | 35 - 45 | -1.2% | -1.2% |

Source Colliers International India Research

¹Indicative Grade A rentals in INR per sq ft per month

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

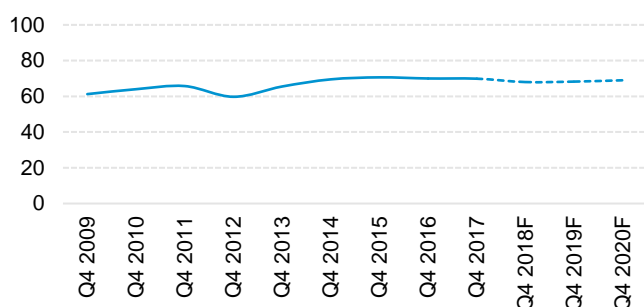
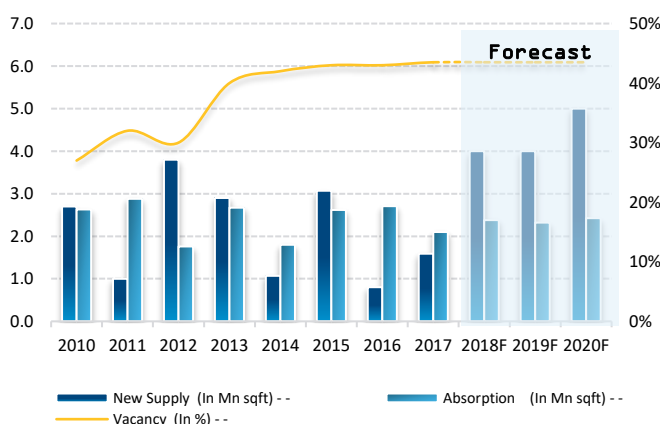


Fig 2. Supply, Absorption & Vacancy Forecast



Major Lease Transactions in 2017

| Client | Building Name | Area (sq ft) | Location |
|------------|----------------------|--------------|------------------|
| Amazon | Brookfield Infospace | 150,000 | Sec-62A |
| Intel | Individual Building | 120,000 | Industrial Noida |
| Ameriprise | Individual Building | 120,000 | Industrial Noida |
| NTT Data | Oxygen Business park | 100,000 | Noida Expressway |
| 3 Pillar | Brookfield Infospace | 60,000 | Sec-62A |

Source Colliers International India Research
 Notes: All figures are based on market information as on 25 Dec 2017

For more information:

Surabhi Arora
 Senior Associate Director |
 Research | India
 +91 98 7175 0808
 surabhi.arora@colliers.com

Sanjay Chatrath
 Executive Director | NCR
 sanjay.chatrath@colliers.com
Vineet Anand
 Director | Office Service | NCR
 vineet.anand@colliers.com

Ritesh Sachdev
 Senior Executive Director |
 Occupier Services | India
 ritesh.sachdev@colliers.com

Regus Assotech Business,
 Cresterra Upper Ground
 Level, Tower 2,
 Sector 135,
 Noida 201301
 India

The investor interest remained tilted towards residential market in NOIDA in 2017 and investors such as Altico Capital, Dalmia Group and Piramal showed keen interest in projects looking for last-mile funding. We have not witnessed any major commercial transaction except for INR200 crore (USD 31.3 million) investment by ASK property investment advisors in a mix-use project by ATS infrastructure.

Ample supply to keep vacancy levels high

We assess that NOIDA's Grade A office market is currently in the period of modest supply addition, with about 2.2 million sq ft (0.2 million sq m) of office space is in an advanced stage of development. In 2017, NOIDA witnessed completion of only 1.59 million sq ft (0.15 million sq m) of office space. We anticipate the total stock of NOIDA market to increase by about 45% in next 3 to 5 years with approximately 13 million sq ft (1.2 million sq m) of supply pipeline.

Colliers' Forecast

Recently, the state government revived the plan to build an international airport in Jewar which should boost the attractiveness of micromarkets such as Expressway & Greater NOIDA. The travel time between NOIDA and the business districts of South Delhi will reduce significantly due to operation of Delhi Metro Magenta line which operates from Botanical Garden to Kalkaji Mandir.

The lack of elite Grade A building and substandard building management is one of the reason why corporates shying away from this city despite lower rentals. Upcoming commercial buildings in Expressway set to change the market perception from IT dependent to a multi-faceted tenant mix commercial destination. However, in our opinion, developers in NOIDA needs to focus on improving the quality of buildings and property management to attract the corporate occupiers.

