Colliers Quarterly
Q1 2018

CHENNAI | OFFICE

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New supply to drive demand

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In line with our forecasts in 2017, the Old Mahabalipuram Road (OMR) post-toll micromarket has started enticing occupiers' interest in 2018. Considering the upcoming new supply and its advantageous location, Mount Poonamalle High (MPH) Road is also likely to emerge as another key growth corridor over the next three years. We recommend that occupiers looking for large floor plates start engaging with developers in these emerging micromarkets.

Forecast at a glance

Demand
Likely to shift to alternative micromarkets like OMR post-toll including Pallavaram Thoraipakkam Road (PTR), MPH Road and Off CBD

Supply
About 13 million sq ft (1.2 million sq m) of Grade A supply to see completion over 2018-2020, representing a 24% increase in total stock; however, some projects may get deferred due to the sand crisis

Vacancy rate
Overall city vacancy rate to remain about 10% in 2018. OMR pre-toll likely to see the lowest vacancy rate of less than 4% due to a lack of new supply until Q4 2019.

Rent
Overall average annual rent likely to increase 3-4% over the next three years

Price
Capital Values should see steady increase in line with rents and consistent demand

Low vacancy levels likely to hold down the demand for OMR pre-toll

In Q1 2018, Chennai recorded about 1 million sq ft (0.09 million sq m) of gross office leasing, a similar trend to that seen in Q1 2017. While office demand in Chennai was driven by relocations and expansion in 2017, Q1 2018 witnessed an increase in the number of new entrants from the IT-ITeS, BFSI and automobile sectors. Many market entrants have taken space in new Grade A buildings in micromarkets such as OMR post-toll, MPH Road and Off CBD. Special Economic Zones (SEZs) in the city's south and west precincts retained consistent traction due to high demand.

In line with our earlier forecasts, occupiers started shifting their focus towards OMR post-toll owing to the rising rents and limited space availability in the OMR pre-toll micromarket. In Q1 2018, OMR post-toll contributed to the highest share (23%) of total office leasing followed by OMR pre-toll accounting for 19%, Off CBD 16%, GST Road 15%, CBD 13%, MPH Road 12% and Ambattur 2%.

In our opinion, OMR pre-toll is likely to witness limited transaction volume in 2018 due to absence of any immediate new supply and the lower vacancy levels. Guindy in Off CBD should entice occupiers looking for small to medium floor plates. OMR post-toll and MPH Road to remain in preference for occupiers looking for large office spaces due to the upcoming new supply scheduled for completions.

Rental Value Trends

Micromarkets	Rental Values[1]	QOQ Change	YOY Change
CBD	70 - 90	0.0%	0.0%
Off-CBD	60 - 75	0.0%	0.0%
GST Road	35 - 45	0.0%	0.0%
MPH Road	50 - 65	0.0%	0.0%
OMR Pre-Toll	55 - 80	1.5%	5.5%
OMR Post-Toll	30 - 42	2.9%	2.9%
Ambattur	30 - 45	0.0%	0.0%

Source: Colliers International India Research
[1]Indicative Grade A (non SEZ) rentals in INR per sq ft per month

Fig 1. Rental Value Trend (INR per sq ft per month)

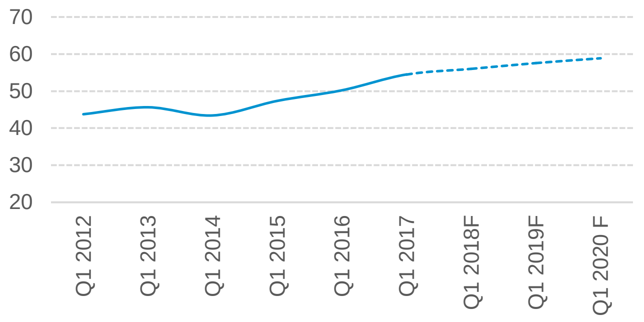
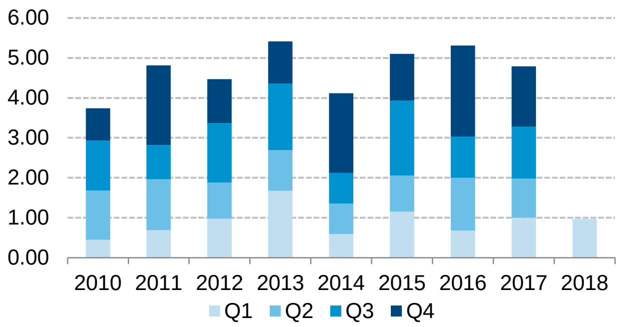


Fig 2. Gross Office Absorption (million sq ft)



Major Lease Transactions in Q1 2018

Client	Building Name	Area (sq ft)	Location
Accenture	Gateway office parks	150,000	Perungulathur
DHL	Chennai One	93,000	Pallavaram Thoraipakkam Road
TransUnion	DLF Cybercity	88,000	Manapakkam
Double Negative	Tek Meadows	41,500	Sholinganallur
Workenstein	Tek Meadows	41,000	Sholinganallur

Source: Colliers International Research

Note: All figures are based on market information as on 25 March 2018

Special Economic Zones (SEZs) gaining supply momentum

A few projects deferred in 2017 were completed in Q1 2018 and about 0.7 million sq ft (0.07 million sq m) of new Grade A supply was added to the market. Nearly 78% of the new supply was concentrated in Special Economic Zones (SEZs) in Grand Southern Trunk (GST) Road and MPH Road.

Based on the scheduled timelines of Grade A developers in the city, we expect about 13 million sq ft (1.2 million sq m) of new supply to see completion over 2018-2020, which will increase the city's total stock by 24%. However, considering the challenges faced in construction activities due to the sand crunch in Chennai as a result acute scarcity of river sand, we believe some projects may suffer delays.

OMR pre-toll is expected to remain with the present quoting rents over 2018. However, overall city rents are likely to increase steadily till 2020; we forecast a 3-4% annual increase in overall average rents over the next three years.

Colliers' View

While premium commercial developers have recently been showing interest in Chennai, the lack of adequate infrastructure remains a challenge in most of the key micromarkets. The 2018 Tamil Nadu State Budget has proposed various initiatives to boost the infrastructure including the Metro rail phase 2, Peripheral Ring Road and flood mitigation measures. Although the proposed measures are likely to boost the city's economy in the long term, a favourable investment environment can be achieved only if the state can establish a stable political climate in the near future. This in turn will make Chennai more attractive in competing with the other fast developing cities in India.

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