Colliers Quarterly
Q1 2018

DELHI | OFFICE
30 April 2018

Accelerating success.

Constrained activity due to narrowing space

Saif Lari Assistant Manager | NCR

Delhi witnessed a gross absorption of only 0.26 million sq ft (0.02 million sq m) with no new supply addition in Q1 2018. Amid low vacancy and higher rents, we advise occupiers to hasten their deal closure to secure space at their preferred assets in the Central Business District (CBD) and Aerocity. Developers should understand the pulse of the market and subsequently redevelop their obsolete office spaces in prime micromarkets to take advantage of the high demand for such assets.

Forecast at a glance

Demand
Absorption likely to be remain stable due to dearth of large floorplates.

Supply
With little supply in the sight in the short term, we predict an inventory influx of about 3 million sq ft (0.3 million sq m) over 2018-2020

Vacancy rate
Vacancy rate likely to remain in the range of 10-11% over 2018-2020

Rent
RENT

Rents of premium building to increase by 5% annually over the next three years. However, average rents are likely to remain stable over 2018-2020

Price
Capital values look set to remain stable as there is hardly any retail and instituition investment sales activity

Demand remains concentrated in CBD and Aerocity

Leasing activity remained subdued during Q1 2018, as only 0.26 million sq ft (0.02 million sq m) of gross absorption was recorded marking a 21% decline YOY. The reduction in the absorption levels can be attributed to the limited Grade A space in key micromarkets like the CBD and Aerocity as well as higher rents in Grade A and well-located buildings.

Breaking the conventional trend, the Engineering & Manufacturing Sector took up most of the office space, accounting for a 38% share of the total leasing volume, wheras the traditional office demand driver, Banking, Financial Services and Insurance (BFSI), became the second highest source of leased office space with a 28% share. Finance was followed by IT-ITeS on 9%, and the rest was represented by various other sectors. The premium office space market of Delhi relies highly on the CBD and Aerocity micromarkets, which cumulatively gathered a share of about 40% in the total office transactions. Most of the deals in Q1 were a mix of small to mid-sized transactions, with an average transaction size of 12,000 sq ft (1,100 sq m).

We foresee that the vacancy levels in the preferred developed micromarkets will go down further due to consistent demand and limited new supply for Grade A office space. The continued interest from occupiers may allow rents of premium building to increase by 5% annually over the next three years. However, average rents are likely to remain stable over 2018-2020.

Rental Values

Micromarkets	Rental Values[1]	QOQ Change	YOY Change
Connaught Place (CBD)	140 - 425	0%	10.8%
Nehru Place	150 - 200	0%	-2.8%
Saket	110 - 180	0%	-6.5%
Jasola	80 - 115	0%	2.6%
Okhla	40 - 87	1.6%	10.4%
Aerocity	180 - 200	9%	11.8%

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

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

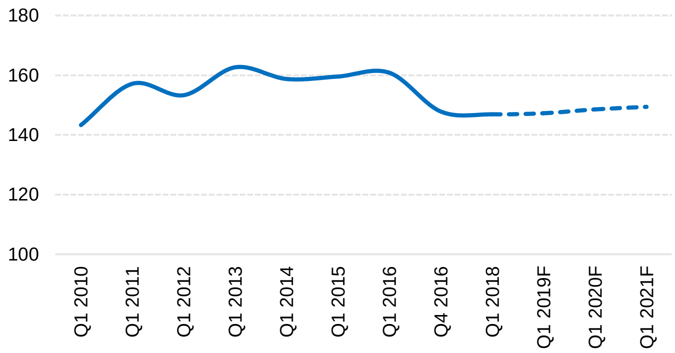
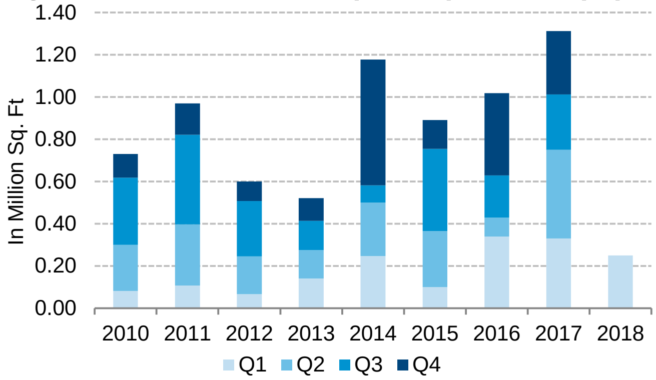


Fig 2. Gross Office Absorption (million sq ft)



Major Lease Transactions in Q1 2018

Client	Building Name	Area (sq ft)	Location
Mitsubishi	Bharti Worldmark	60,000	Aerocity
Rotary India	Caddie	15,000	Aerocity
Kart Rocket	Individual	13,000	Delhi Other
Azure Power	Bharti Worldmark	10,000	Aerocity
AWFIS	Great Eastern Center	8,600	Nehru place

Source Colliers International India Research
Notes: All figures are based on market information as on 25th March 2018

We expect the commercial office space market will remain favourable for developers especially in Grade A properties. In the recently announced fiscal budget 2018-19 for the National Capital, the government focused on the construction of an underpass connecting Aerocity with Mahipalpur and an elevated flyover running parallel to the Yamuna River to decongest the traffic. The Delhi government proposes to digitise land records of 192 villages situated within the border of Delhi to resolve the persisting issue of land titles in the unregulated areas.

Limited supply may lead to occupier drain to neighbourhoods

The shortage of quality office space continues even in the Q1 of 2018, with no new addition to the existing stock. We expect new supply momentum to pick up only after the completion of NBCC's Nauroji Nagar redevelopment of commercial buildings which is in various stages of construction. However, as most of this space has already been acquired by government, semi-government and public-sector units, it may not help in addressing the supply crunch in the long term.

Colliers View

We expect leasing activity to remain constrained due to the constantly declining space available in Grade A buildings. Interestingly, we noted that most of the occupiers taking up space in Q1 were domestic enterprises, implying that the demand from MNCs seems to be shifting towards the neighbouring cities in search of large contiguous Grade A space. We recommend the landlords to redesign office spaces to attract those occupiers rushing towards peripheral cities. In light of single digit vacancy rates in Aerocity and the CBD, we advise occupiers to close deals in their preferred assets quickly. Our outlook for the office market in the long term for Delhi is positive due to constant demand from the occupiers.

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

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

Statesman House, 4th Floor
Barakhamba Road,
Connaught Place,
New Delhi 110001
India