

Demand for Grade A buildings

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Tenants whose lease expiry is underway are exploring grade A premium buildings in decentralised locations for relocation and consolidation to hedge against the increase in market rents. With substantial new supply scheduled for completion along Golf Course Extension Road over 2018-2020, we expect this corridor to become the next hotspot for Information Technology and Information Technology enabled Service (IT-ITeS) occupiers. We recommend big occupiers looking for large floor plates in Special Economic Zones (SEZs) to consider this micromarket for future expansion.

Forecast at a glance



Demand

Demand set to remain firm with several occupiers looking for new space primarily in the technology sector



Supply

11 million sq ft (1 million sq m) of office space should be added to Grade A inventory over 2018-2020 representing a 14% increase in the total grade A stock



Vacancy rate

Vacancy likely to remain high above 25% with significant supply pipeline in peripheral micromarkets over 2018-2020



Rent

Rents likely to remain under pressure in decentralised locations, while premium locations may see 4-5% increase over 2018 to 2020



Price

Capital Values may go up slightly 4-5% over 2018-2020 due to increased interest from Institutional Investors

Robust absorption in Q1 indicates healthy market outlook

Demand for office space has regained momentum and the overall gross office uptake stood at 1.72 million sq ft (0.16 million sq m) in Q1 2018. Expansionary office space requirements primarily drove the leasing demand. Occupiers' interest remained tilted towards Grade A buildings. However, occupiers were exploring options in Off-CBD micromarkets such as Sohna Road and Golf Course Extension Road to consolidate and optimise their real estate portfolio. In our opinion, more tenants started to feel the pressure from increasing rents in the CBD and other preferred locations. We expect the relocation trend across Gurugram to continue in 2018. The Golf Course Extension Road is becoming more widely accepted due to factors such as the significant cost savings from the huge rental gap 25%-35%, and limited availability for expansion space in preferred micromarkets.

In Q1 2018, Gurugram witnessed one of the largest land deals when DLF bought an 11.76-acre plot for INR15 billion (USD235 million). The land parcel is strategically located near Cyber City, one of the preferred business destinations in Gurugram. (Source: ET Realty | 27, Feb 2018). Once developed, this project should entice occupiers looking for prime office space in this low vacancy micromarket.

Rental Values

Micromarkets	Rental Values ¹	QOQ Change	YOY Change
MG Road	105 - 140	0.0%	6.5%
Golf Course Road	110-200	0.0%	10.7%
Institutional Sectors (Sectors 44, 32 and 18)	60 - 90	0.0%	0%
Golf Course Extension/Sohna Road	45 - 75	0.0%	-7.7%
National Highway 8	40 - 130	0.0%	5.6%
Udyog Vihar and Industrial Sectors	50 - 70	0.0%	5.9%
Manesar	25 - 35	0.0%	-8.7%
DLF Cyber City (IT)	118 - 120	2.6%	5.8%

Source Colliers International India Research

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

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

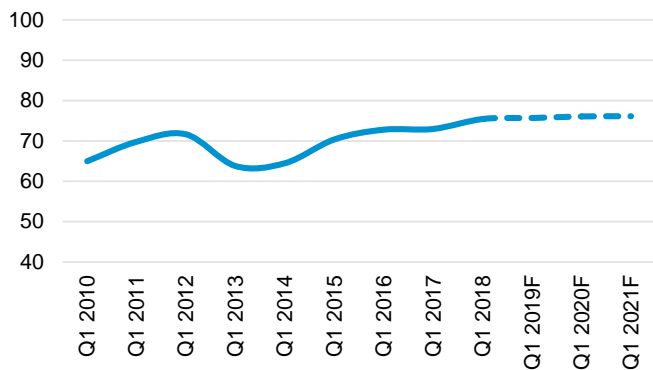
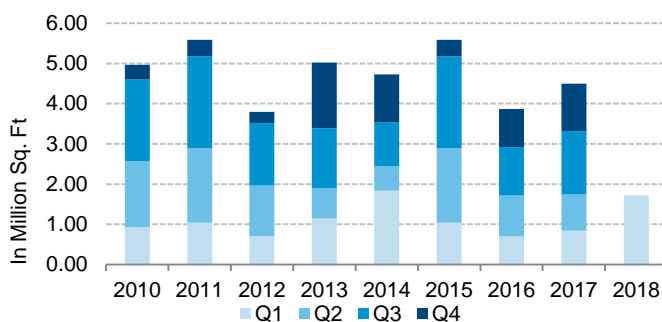


Fig 2. Gross Office Absorption (million sq ft)



Major Transactions in Q1 2018

Client	Building Name	Area (sq ft)	Location
Xcedence	Candor Techspace	100,000	Sohna Road
One.com	DLF Cyber city	100,000	Cyber City
Dentsu	Individual	96,000	Huda Sector
Saxo Bank	Candor Techspace	90,000	Sohna Road
Prius	DLF Cybercity	90,000	Cyber City

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

Rents to remain under pressure in high vacancy micromarkets

As projected in our Q4 2017 report, rents witnessed an average decline of about 7-9% YOY in Q1 2018 in high vacancy micromarkets such as Golf Course Extension Road, Sohna Road and Manesar. Rents in the preferred markets such as MG Road and Cyber City inched up by 5-7% YOY due to limited vacancy (5-10%) and popularity among occupiers.

In our opinion, premium buildings in preferred locations such as Cyber City, MG Road, Golf Course Road will continue to command premium rents and may see 4 to 5% increase in rents over 2018-2020. In contrast, rents will remain under pressure especially in grade B buildings due to high vacancy levels and robust under-construction developments in the pipeline, especially in micromarkets such as Sohna Road, Southern Peripheral Road, Golf Course Extension Road and NH-8. We advise property owners to remain flexible in negotiations to kick-start leasing in newly completed buildings.

Colliers' View

We expect demand to remain strong in the coming quarters backed by Technology and BFSI firms. Tenants' demand is likely to remain tilted towards grade A buildings. We recommend big occupiers looking for large floor plates in Special Economic Zones (SEZs) to consider this Golf Course Extension Road for future expansion. Although Gurgram has about 11 million sq ft (1 million sq m) of new supply in the pipeline, we do not expect vacancy to increase further. This is because we expect developers to remain cautious about adding more speculative supply given the current high vacancy rate of about 28%. The improved road infrastructure will help Gurugram to continue dominating the NCR market in coming years.

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