

# HYDERABAD | OFFICE

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Accelerating success.

## Flexible workspace to gain popularity in 2018

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**Although the Hyderabad office market continued to witness positive demand, low vacancy levels in Grade A office space remained a challenge. We noted high demand for flexible office space due to the space crunch in preferred micromarkets. With deferment expected in a few projects, we expect about 7 million sq ft (0.6 million sq m) of new supply to see completion over 2018. We advise developers to track occupiers' changing needs and keep to planned timelines. As flexible workspace is gaining traction, developers should lead the way in adopting new strategies in flexible offices and provide premium amenities to guard against the competition in future.**

### Forecast at a glance



#### Demand

Cheaper rents, occupier-friendly state government policies and robust supply pipeline are likely to invite cost-conscious occupiers to Hyderabad



#### Supply

Scheduled completions of 33 million sq ft (3.1 million sq m) over 2018-2020 looks hard to achieve



#### Vacancy rate

Overall vacancy rate is at an all-time low at 6% in Q1 2018. The vacancy rate is likely to increase sharply to 15% over the next three years.



#### Rent

Looking the robust upcoming supply, average rents are likely see only a marginal 2-3% rise over 2018-2020



#### Price

Falling strata sales volume in commercial buildings likely to keep capital values stable across micromarkets



### Space crunch leads to demand for flexible workspace

In Q1 2018, the gross absorption was recorded as 0.5 million sq ft (0.05 million sq m), almost the same as in Q1 2017. The SBD micromarket remained the preferred location among occupiers and grabbed the maximum share of about 91% in total office leasing in Q1 2018. Other micromarkets such as the Central Business District (CBD) and Off-CBD accounted for a 5% and a 3% share of total leasing respectively.

Due to continuous expansion by Information Technology and Information Technology Enabled Services (IT-ITeS) companies, the sector contributed about 62% of the total office demand in Q1 2018. Flexible workspace operators such as Table Space, Isprout and Workafella accounted for about 35% of total office absorption.

In our opinion, the increasing footprint of the flexible workspace sector is likely to persist in Hyderabad over 2018. This reflects the lack of readily available Grade A office space for immediate occupancy. We have seen limited transactions of large floor plates above 50,000 sq ft (4600 sq m) in Q1 2018 primarily due to low vacancy levels. The average deal size came down to 22,000 sq ft (2000 sq m) in Q1 2018 compared to the annual average of 40,000 sq ft (3,700 sq m) in 2017.

We expect occupiers to be proactive in 2018 as a few IT-ITeS companies are already planning to pre-commit large office spaces in key upcoming new projects. Therefore, we advise developers to expedite construction of ongoing projects, in order to gain maximum benefit from present low vacancy levels.

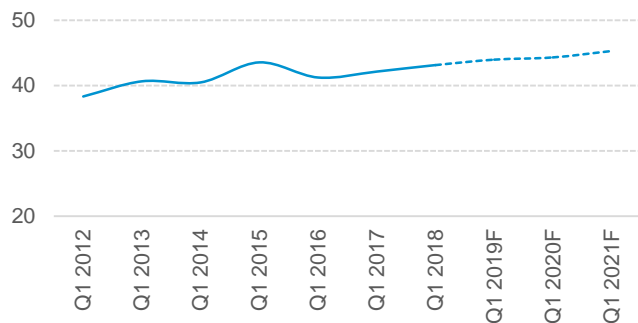
#### Rental Value Trends

Micromarkets	Rental Values <sup>1</sup>	QOQ Change	YOY Change
CBD	45 - 50	0.0%	0.0%
Off-CBD	45 - 50	0.0%	0.0%
SBD	58 - 65	2.5%	10.8%
PBD	25 - 30	0.0%	0.0%

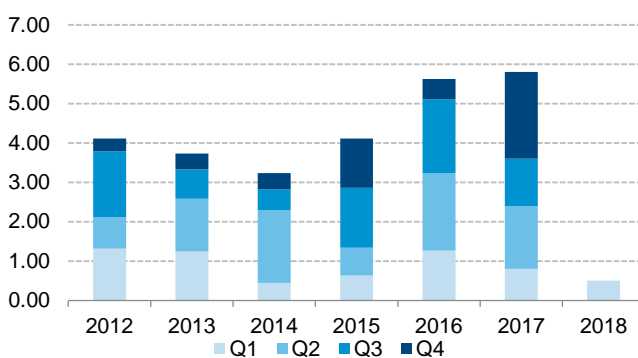
Source: Colliers International India Research

<sup>1</sup>Indicative 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 Lease Transactions in Q1 2018**

Client	Building Name	Area (sq ft)	Location
Table Space	Western Aqua	100,000	Hitech City
Prime Era	CV Towers	70,000	Kavuri Hills
Isprout	Purva Summit	42,000	Hitech City
Girish Global Holdings	Mahveer Towers	38,000	Madhapur
Karvy	Independent Building	30,000	Madhapur

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

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**Upcoming supply completions likely to be deferred slightly**

The low vacancy rate of 6% remains a big challenge for occupiers looking to take up space for immediate needs. Based on the construction schedule of developers, about 33 million sq ft (3.1 million sq m) of Grade A supply is due to be completed over the next three years. Rightly targeting the increasing demand developers are primarily building in SBD, resulting in 95% of the total upcoming supply concentration in this micromarket.

However, with only 1.1 million sq ft (0.1 million sq m) of space completed in Q1, the scheduled completion of 33 million sq ft (3.2 million sq m) over 2018-2020 looks challenging. In our opinion, only 7 million sq ft (0.6 million sq m) of new supply is likely to see completion by end-2018 against the scheduled completion of 12 million sq ft (1.1 million sq m).

Looking the robust upcoming supply, average annual rents are likely see only a marginal 2-3% rise over 2018-2020. Owing to limited Grade A options readily available in SBD, we expect an uptick of about 3% in SBD rents in 2018.

**Colliers' View**

Rising traffic congestion remains a major challenge for occupiers in the SBD micromarket. To address the rising concerns, Telengana's state government is strengthening the infrastructure developments in and around the key IT destinations in the SBD with construction of flyovers, underpasses and a cable-bridge. In the State Budget 2018, the state government allocated more than INR10 billion (USD0.15 billion) of funds to infrastructure developments such as metro rail connectivity to the airport, the Multi-Modal Transport System (MMTS) and revamping major roads in Hyderabad. We expect that these initiatives will ease the challenges and further enhance the investment climate in the city in the medium to long term.