

New investments to drive demand

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We expect the office market to gain momentum in the next 3-5 years majorly driven by government's policies. The ease of doing business, increased focus on infrastructure development and renewed private investment are likely to boost the expansion of the commercial office market in the city. Due to the high vacancy levels in peripheral locations, we advise developers to remain flexible in rents and leasing terms to retain and attract new occupiers.

Forecast at a glance



Demand

Demand looks promising over the next 3-5 years due to an expected increase in investments driven by proactive government policies



Supply

We project a supply pipeline of 2.2 million sq ft (0.2 million sq m) over 2018-2020



Vacancy rate

Average city-level vacancy rate set to remain high in the range of 25%-28% over the next 3 years.



Rent

High vacancy rates to keep rents stable in most micromarkets except the CBD which is likely to see annual average increase of 2-3% over 2018-2020



Price

Capital values likely to see a 4-5% increase over 2018-2020 due to renewed interest from the domestic investors

Despite restricted supply in coming quarters, rents to remain stable

In Q1 2018, Kolkata's office market maintained the status quo with 0.2 million sq ft (18,000 sq m) of gross absorption, similar to absorption in Q4 2017. We observed a marginal improvement in enquiries mostly by domestic occupiers for their expansion requirements. Occupier demand was largely driven by relocations and expansion in the peripheral areas. The bulk of leasing volume, 60%, was concentrated in Sector V while New Town and Rajarhat accounted for a 36% share. The remaining 4% of the transaction volume was observed in CBD locations. In Q1 2018, Banking, Finance and Insurance Services (BFSI) dominated the overall leasing market, accounting for 44%. The Information Technology sector accounted for a 26% share followed by Engineering and Manufacturing (17%), Healthcare and Pharmaceutical (12%) sectors.

In the recently held Bengal Investment Summit 2018, the state of West Bengal received a huge INR2,200 billion (USD33.8 billion) worth of overall investment proposals from various industries. Prominent companies including Reliance Industries and Adani Group promised to invest INR 50 billion (USD764 million) and INR15 billion (USD230 million) respectively. These future investments are expected to positively impact the office market over the next 3-5 years.

Rental Values

Micromarkets	Rental Values ¹	q-o-q Change	y-o-y Change
CBD ²	80 - 110	0%	-5%
SBD ³	60 - 70	0%	0%
Sector V	40 - 45	6%	14%
PBD ⁴	28 - 32	0%	1%

Source Colliers International India Research

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

²Park Street, Camac Street, Chowranghee Road, AJC Bose Road

³EM Bypass, Topsia, Ruby

⁴Salt Lake, New Town, Rajarhat

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

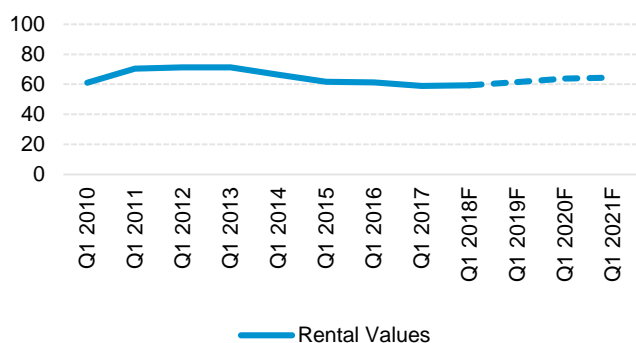
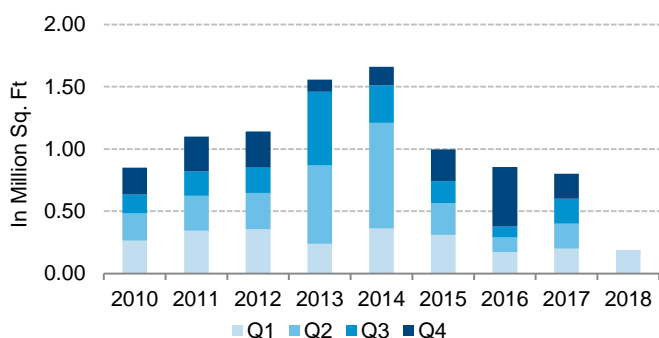


Fig 2. Gross Office Absorption (million sq ft)



Major Transactions in Q1 2018

Client	Building Name	Area (sq ft)	Location
Tega Industries	Godrej Waterside	40,000	Sector V
BYJU	Srijan IT park	16,000	Rajarhat
Chaeil	DLF IT park 1	6,500	New Town

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

Rents to remain stable in view of high vacancy rate

No major Grade A supply witnessed completion in Q1 2018. We project a meager new supply of around 0.3 million sq ft (0.03 million sq m) in 2018. Around 2.2 million sq ft (0.2 million sq m) of new supply is likely to add to the city's Grade A inventory over 2018-2020. Most of the new supply will be in peripheral micromarkets such as Sector V, New Town and Rajarghat.

With increased enquiries in Kolkata, we expect demand to pick up in coming quarters. Hence, we advise landlords to remain flexible on rents to close deals and boost occupancy levels in their respective assets. Peripheral locations are driving the growth in the office leasing market. However, sustained transaction volume should maintain the average city vacancy at 25%. Rents and capital values should not change significantly owing to stable demand.

Colliers' View

The West Bengal government has shown signs of being proactive and the private sector seems to be responding to it optimistically. In the recent "Ease of Doing Business" report published by the World Bank, West Bengal bagged the topmost spot among the 29 states and 7 Union territories. We see this as a positive outcome of the recent policy initiatives taken by the state government. The ease of doing business, increased focus on infrastructure development via the construction of three flyovers connecting major micromarkets and renewed private investments in the city give high hopes for the expansion of the commercial market in the city.

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