

Infrastructure needs to improve

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We expect demand to solidify in the long term. The massive outlays for infrastructure projects in the Union and state budget should ensure Mumbai's appeal among occupiers, however timely completion of these projects is key. We strongly recommend all involved stakeholders to push the state government for faster completion of these projects.

Forecast at a glance



Demand

Likely to improve with several occupiers looking for new space primarily in technology and financial sector



Supply

We project a supply pipeline of 9-10 million sq ft (0.8-0.9 million sq m) over 2018-2020. Of this total, we project 2.1 million sq ft (0.2 million sq m) to materialise by end- 2018



Vacancy rate

We expect the vacancy level to drop from the current 13% to 9-10% by end-2020



Rent

We expect rents to rise by 4-5% over 2018-2020 in preferred micromarkets such as BKC, Andheri and Lower Parel



Price

We expect capital values to edge up due to increased interest from occupiers to buy offices

Leasing activity likely to pick up

Gross absorption in Q1 2018 amounted to 1.1 million sq ft (0.1 million sq m) in Mumbai. Although about 37% YOY decline was noted in absorption, we witnessed several high-value outright purchases indicating continued investor confidence in the Mumbai office market. Notable transactions included the purchase of 60,000 sq ft (5,575 sq m) by Manappuram Finance in Wallstreet in Andheri. Also, Mahindra & Mahindra purchased two floors in Worli-based Mahindra Towers.

The demand was driven by the financial sector, accounting for about 28% of the gross absorption followed by flexible workspace on 19%, engineering and manufacturing on 14%, healthcare on 13% and others on 26%. Driven by affordable rents, Andheri took the lion's share of office leasing on 23%, closely followed by BKC on 21%, Central Suburbs on 20%, Navi Mumbai and the Western Suburbs on 16% each. The flexible workspace operators have started spreading in Peripheral Business District (PBD). In Q1 2018, the large international flexible workspace operator, WeWork, leased 0.12 million sq ft (0.01 million sq m) of office space in Commerz II in Goregaon. We expect, restricted new supply to further push the demand for flexible workspace in preferred locations.

Rental Values

Micromarkets	Rental Values ¹	QOQ change	YOY change
CBD	200-250	0.0%	0.0%
Andheri East	90-130	0.0%	0.0%
BKC	225-330	0.0%	1.8%
Lower Parel	140-195	0.0%	0.0%
Malad	80-100	0.0%	0.0%
Navi Mumbai	70-100	0.0%	0.0%
Powai	110-130	0.0%	-4.0%
Worli/Prabhadevi	170-210	0.0%	-2.6%
Goregaon / JVLR	100-130	0.0%	-6.5%
Kalina	150-180	0.0%	-5.8%
Thane	70-80	0.0%	-3.3%
LBS	95-125	0.0%	-3.4%

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)

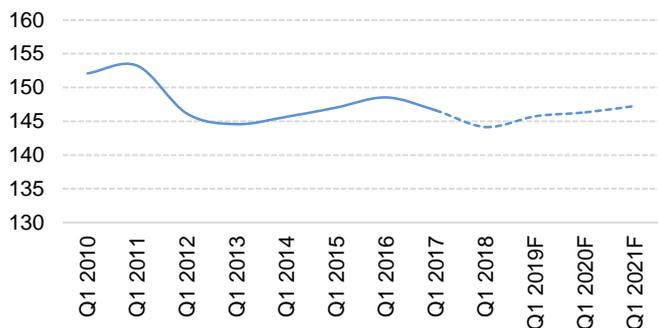
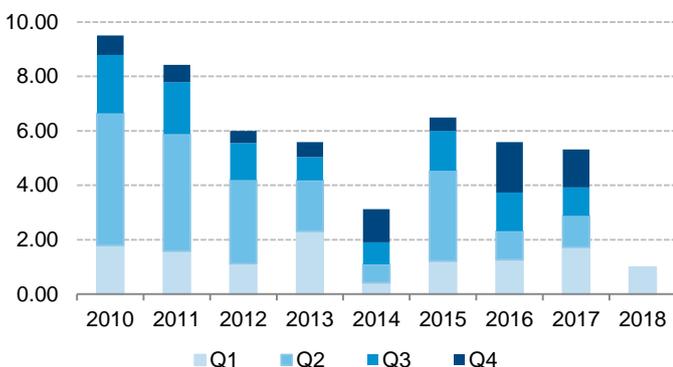


Fig 2. Gross Office Absorption (million sq ft)



Major Lease Transactions in Q1 2018

Client	Building Name	Area (sq ft)	Location
WeWorks	Commerze II	125,000	Goregaon
Novartis	Inspire	110,000	BKC
GEP	Gigaplex	65,000	Airoli
GPRO Services	Prudential	65,000	Powai
Schindler	Chemtex House	58,000	Powai

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

Limited new supply to push up rents

No new supply was infused into Mumbai's Grade A office inventory in Q1 2018. With a few projects slated for completion, we can see a supply pipeline of 2.1 million sq ft (0.2 million sq m) in 2018. Most of this supply is concentrated in Western Suburbs locations such as Andheri (E) and Navi Mumbai. We foresee completion of 9-10 million sq ft (0.8-0.9 million sq m) of new supply in total over 2018-2020.

Although most premium establishments are unwilling to compromise on asking rents, we expect average rents to remain largely stable over 2018. We expect average rents to rise by 4-5% over 2018-2020 in the main Mumbai city. Satellite towns in the periphery of Mumbai such as Navi Mumbai and Thane are likely to witness more demand from technology occupiers in view of a robust supply pipeline and affordable rents.

Colliers' View

In the long term, we foresee a significant infrastructure improvement in Mumbai. The Union and state budget 2018-2019 have allocated funds for infrastructure projects such as the metro, the construction of the Worli-Hajiali and Bandra-Versova sea-link and improvement of suburban rail connectivity. These projects are likely to produce pressure on existing infrastructure, ease the traffic congestion and further fuel the real estate market in Mumbai. Phase Two of the monorail between Wadala and Jacob Circle is slated to start in H1 2018. With an ambitious completion timeline of one year finally, we have seen the commencement of the construction of Navi Mumbai International Airport. In our opinion, timely completion of these projects is key. Therefore, we strongly recommend all involved stakeholders to push the government for faster completion of these projects.

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