

# New SEZ supply to drive demand

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The Special Economic Zones (SEZs) in Pune are gaining renewed interest among occupiers as new supply comes onstream, especially in locations like Kharadi and Hinjewadi. A few developers have converted earlier launched residential projects into commercial developments. Large occupiers in Pune are looking for pre-commitments in state-of-the-art buildings with modern amenities and facilities for their employees. Hence, we advise developers to collaborate with such occupiers to try to accommodate their requirements in the planning stages, gaining long-term benefits.

## Forecast at a glance



### Demand

Demand to remain upbeat, pre-commitments are likely to continue in upcoming projects due to the low vacancy



### Supply

The city is slated for completion of 9.0 million sq ft (0.8 million sq m) of new Grade A supply over 2018-2020; 30% of new supply will be concentrated in SEZs



### Vacancy rate

Vacancy likely to remain low at 5-6% over next three years due to consistent demand and the level of pre-committed future supply



### Rent

After a double digit increase in rents over last two years, rents are likely to stabilise over 2018; however we expect 8-10% increase in rents over 2018-2020.



### Price

Likely to see upward trend with rising investor interests in the city. We forecast 5-7% increase in prices over 2018-2020



## Kharadi and Hinjewadi to remain preferred among occupiers

Although the Pune office market has seen low vacancy since 2017, the city recorded about 1.8 million sq ft (0.17 million sq m) of gross office absorption in Q1 2018. This is an increase of about 131% in gross absorption YOY. About 57% of total leasing was concentrated in SEZs, driven by a couple of transactions larger than 100,000 sq ft (9290 sq m).

Office demand continued to be driven by technology occupiers with the sector accounting for about 87% of the total leasing volume in the city. Companies like Credit Suisse Services, Tata Consultancy Services (TCS), Deutsche Bank and Bajaj Finserve leased large office spaces for expansion purposes in Q1 2018. We expect the leasing momentum to continue with the influx of new supply.

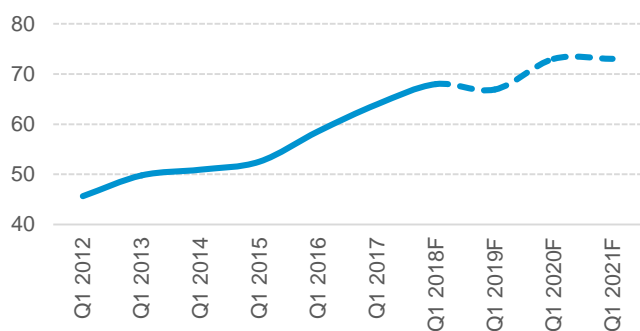
We expect Kharadi and Hinjewadi to remain the most popular locations among occupiers. In our opinion, new supply should continue to entice technology occupiers' focus towards micromarkets such as Kharadi and Hinjewadi in the next three years.

## Rental Value Trends

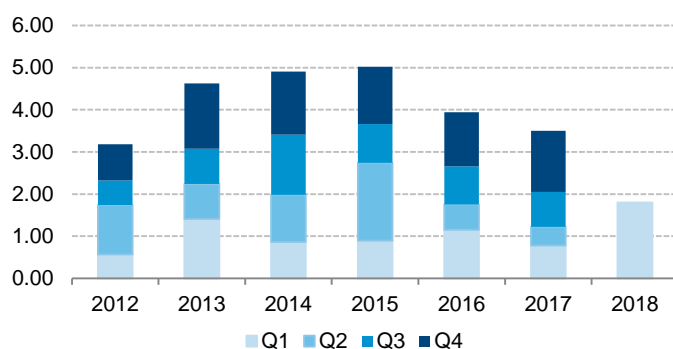
Micromarkets	Rental Values <sup>1</sup>	QOQ Change	YOY Change
Baner	57-65	0.0%	4.3%
Bund Garden	55-70	0.0%	0.8%
Airport Rd/Pune Station	65-90	0.0%	3.3%
Aundh	60-65	0.0%	9.6%
Senapati Bapat Road	65-125	0.0%	2.7%
Bavdhan	45-50	0.0%	3.3%
Kalyani Nagar	55-65	0.0%	2.6%
Nagar Road	55-65	0.0%	2.6%
Hinjewadi	45-55	0.0%	1.0%
Hadapsar/Fursungi	68-75	0.0%	2.1%
Kharadi	55-105	-3.0%	5.3%

Source Colliers International India Research  
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
Credit Suisse Services	EON Phase II	450,000	Kharadi
Tata Consulting Services	ITTP Phase II- Juniper	430,500	Hinjewadi
UBS India	World Trade Centre	120,000	Kharadi
Michelin India	World Trade Centre	100,000	Kharadi
Deutsche Bank	Quadra 1	72,000	Hadapsar

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

**Rents likely to stabilise in 2018**

In line with our projections, about 2.1 million sq ft (0.2 million sq m) of new supply was added to Grade A office stock in Q1 2018 representing a 4% increase in total stock. The new supply was primarily concentrated in existing SEZs located in the Kharadi micromarket. Most of the new supply was pre-committed and was absorbed quickly by the occupiers looking for expansion in the same premises.

We expect the supply scenario to improve in coming years with about 9.0 million sq ft (0.8 million sq m) of projects under construction scheduled for completion over 2018-2020. About 30% of the new upcoming supply is concentrated in SEZs in Kharadi and Hinjewadi. There are several SEZ projects with development potential of about 6.0 million sq ft (0.55 million sq m). Considering the high demand and limited new supply in the city, we think that new occupiers with large size requirements will find it hard to lock in long-term leases. We advise small and mid-size occupiers to consider flexible workspace to exploit their location and ease of operation that it offers.

In our opinion, pre-commitments are likely to continue in upcoming projects due to the low vacancy. Rents should remain firm over 2018 with new supply infusion and also as the market has already witnessed double-digit increases in rents over the last two years. However, we cannot rule out the rental increase of 8-10% over the next three years

**Colliers' View**

Allocation of only INR1.3 bn (USD19 million) for Pune metro rail versus the expected amount of INR16 bn (USD245 million) in the 2018 state budget has created uncertainty among metro rail officials whether progress can be sustained. As some of the infrastructure projects under 'The Smart City' scheme are likely to be delayed (as the proposals are still being prepared for about 22 projects) should to some extent negatively impact the city's real estate in the next three years.

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