



Diksha Gulati

Manager | Research | Mumbai
+91 77 0090 1826
diksha.gulati@colliers.com

HIGH GROWTH IN GROSS ABSORPTION

Summary & Recommendations

Pune witnessed gross absorption of 1.8 million sq ft (167,200 sq m) in Q3 2018, more than double the absorption in Q2 2018. The leasing activity is driven by absorption of pre-committed spaces by technology occupiers and flexible workspace operators. Despite significant new supply, rental values appreciated 3-6% QOQ in select micromarkets including Nagar Road, Baner and Kharadi.

- > We advise occupiers to consider pre-committing to space as there is limited availability of quality spaces in completed developments.

		Q3 2018	Full Year 2018	2018-21 Annual Average
 Demand	> We expect gross absorption to remain stable at current levels till 2021; pre-commitments in IT-SEZs are likely to continue.	1,766,100 sq ft	5,420,300 sq ft	4,660,000 sq ft
 Supply	> About 13 million sq ft (1.2 million sq m) of new supply, an increase of 29% citywide, is due to appear in 2019-2021. However, a portion of the new supply may be deferred.	968,800 sq ft	5,785,200 sq ft	4,640,000 sq ft
		End Q3/QOQ	End 2018/YOY	End 2021/ Annual Average Growth 2018-21
 Rent	> We expect overall rents to strengthen at a CAGR of 2% over 2018-2021; the key micromarkets of Baner, Bund Garden and Kalyani Nagar are likely to witness the fastest growth.	3.0% INR69.0	7.0% INR70.0	2.0% INR77.0
 Vacancy	> We expect steady leasing activity to keep the vacancy rate at around 6% till 2021.	-0.2pp 6.2%	0.2pp 6.2%	0.0pp 6.2%

Source: Colliers International India Research

Note: Demand represents gross leasing; 1 sq m = 10.76 sq ft; pp: percentage point; USD1 = INR72.71 as on 25 September 2018

DESPITE SIGNIFICANT NEW SUPPLY, RENTAL VALUES APPRECIATE IN SELECT MICROMARKETS

In Q3 2018, Pune witnessed the infusion of around 1.0 million sq feet (92,900 sq metres) of new supply, almost half of the new supply registered in Q2 2018. Of this total, 44% is concentrated in Bavdhan, 23% in Kharadi and 13% in Senapati Bapat Road (Shivaji Nagar). The remaining 20% is spread across the micromarkets of Nagar Road, Baner and Hinjewadi.

More than half of the new supply, 56%, constitutes non-IT developments, coming onstream with rental values higher than the current market average, resulting to increase in average rents for most micromarkets in the city. For example, Nagar Road noted a change of 5.8%, Baner noted a 5.6% increase and Kharadi witnessed an increase of 3.1%, driven by infusion of new supply in Q3 2018, all of it comprising of non-IT developments.

Based on developers' construction schedules, we expect new Grade A supply of 13.0 million sq feet (1.2 million sq metres) over 2019-2021, adding a significant 29% to existing stock. The majority of the planned supply is concentrated in three micromarkets namely Kharadi (34%), Baner (27%) and Airport Road/Pune Station (20%). Of this new supply, 47% is IT developments, 29% is Non-IT developments and the remaining 23% is in Special Economic Zones (SEZ).

While we expect deferment of some supply to later years, we recommend developers to adhere to their construction plans in order to capitalise on positive occupier sentiment in the market.

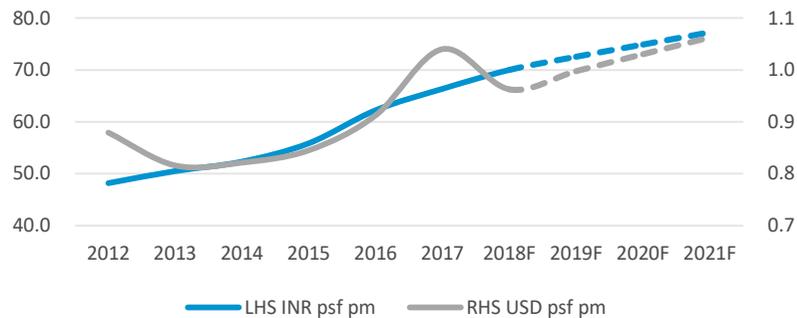
Despite the significant supply infusion in Q3 2018, the overall city vacancy rate declined by 0.2 percentage points to 6.2%. This was led by declines of 0.8-4.1 percentage points in the vacancy rate of various micromarkets including Baner, Nagar Road, Kharadi and Senapati Bapat Road. These declines were driven primarily by absorption of pre-committed spaces in newly completed developments.

Gross effective rental values

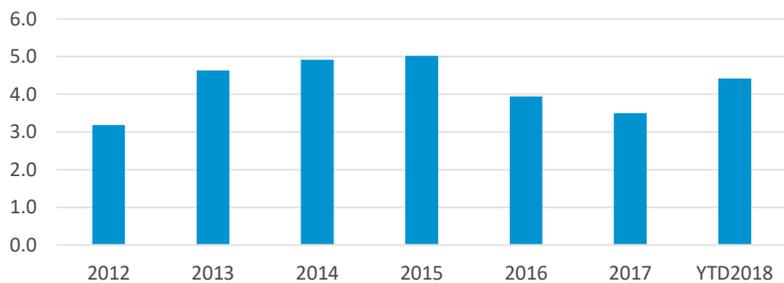
	Q3 2018 (INR psf pm)	Q3 2018 (USD psf pm)	QOQ Change (%)	YOY Change (%)
Baner	60 - 72	0.8 - 1.0	5.6%	8.2%
Bund Garden	60 - 75	0.8 - 1.0	3.8%	8.0%
Airport Road/Pune Station	68 - 97	0.9 - 1.3	5.1%	10.0%
Aundh	63 - 66	0.9 - 0.9	0.8%	7.5%
Senapati Bapat Road	65 - 125	0.9 - 1.7	0.0%	2.7%
Bavdhan	50 - 52	0.7 - 0.7	3.0%	7.4%
Kalyani Nagar	60 - 68	0.8 - 0.9	4.9%	9.4%
Nagar Road	60 - 67	0.8 - 0.9	5.8%	5.8%
Hinjewadi	45 - 59	0.6 - 0.8	0.0%	5.1%
Hadapsar/Fursungi	70 - 78	1.0 - 1.1	0.0%	5.7%
Kharadi	60 - 105	0.8 - 1.4	3.1%	8.6%

Source: Colliers International India Research
Note: Indicative Grade A rentals

Rental trend



Gross office absorption (million sq ft)



Source: Colliers International India Research | YTD: Year-to-date - January to September

Major lease transactions in Q3 2018

Client	Building Name	Area (sq ft)	Location
Infosys Ltd.	ITPP - Cypress	401,300	Hinjewadi
FIGmd India Pvt Ltd.	Symphony IT Park B1	141,700	Bavdhan
eClerx Services Limited	The Quadron Business	129,200	Hinjewadi
Accenture Solution Pvt Ltd.	SP Infocity Block 5A	79,200	Fursungi

Source: Colliers International India Research

Note: All figures are based on market information as on 25 September 2018.

ROBUST ABSORPTION ACTIVITY TO CONTINUE; IT-SEZ(s) PREFERRED BY OCCUPIERS

In Q3 2018, Pune recorded gross absorption of 1.8 million sq feet (167,200 million sq metres), more than double the absorption in Q2 2018, due to absorption of pre-committed space. Most of the absorption activity was concentrated in three micromarkets, Hinjewadi (39%), Hadapsar/Fursungi (17%) and Bavdhan (11%).

For the second consecutive quarter, technology occupiers remained the major demand driver in Q3 2018, constituting 71% of the total leasing activity. Other sectors leasing space in Q3 included consulting, Banking and Financial Services Institutions (BFSI), flexible workspace operators and engineering & manufacturing companies. Occupiers continued to prefer taking space in Special Economic Zones (SEZs), as the quarter witnessed 69% leasing in IT-SEZ developments.

We expect steady absorption activity to continue, and forecast about 14.0 million sq feet (1.3 million sq metres) of cumulative gross absorption from Q4 2018 to 2021. Gross absorption so far in 2018 has already surpassed the last two years' average annual absorption. Hence, we expect 2018 to be a record year and to witness the highest absorption activity in the last five years, primarily driven by absorption of pre-committed spaces by technology and flexible workspace operators.

While we expect significant supply to come onstream during 2019, we predict that rent will strengthen by 4-5% due to consistent demand, especially in SEZ developments. Hence, we expect the vacancy rate to remain subdued in a range of 6-7%.

Primary Author:

Diksha Gulati

Manager | Research | Mumbai

+91 77 0090 1826

diksha.gulati@colliers.com

For further information, please contact:

Ritesh Sachdev

Senior Executive Director | Occupier Services | India

+91 99 4569 7377

ritesh.sachdev@colliers.com

Animesh Tripathi

Director | Office Services | Pune

+91 98 8188 2303

animesh.tripathi@colliers.com

Surabhi Arora

Senior Associate Director | Research | India

+91 98 7175 0808

surabhi.arora@colliers.com

Megha Maan

Senior Associate Director | Research | India

+91 96 6718 8334

megha.maan@colliers.com

About Colliers International Group Inc.

[Colliers International](#) Group Inc. (NASDAQ: CIGI) (TSX: CIGI) is a top tier global real estate services and investment management company operating in 69 countries with a workforce of more than 12,000 professionals. Colliers is the fastest-growing publicly listed global real estate services and investment management company, with 2017 corporate revenues of \$2.3 billion (\$2.7 billion including affiliates). With an enterprising culture and significant employee ownership and control, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide, and through its investment management services platform, has more than \$25 billion of assets under management from the world's most respected institutional real estate investors.

Colliers professionals think differently, share great ideas and offer thoughtful and innovative advice to accelerate the success of its clients. Colliers has been ranked among the top 100 global outsourcing firms by the International Association of Outsourcing Professionals for 13 consecutive years, more than any other real estate services firm. Colliers is ranked the number one property manager in the world by Commercial Property Executive for two years in a row.

Colliers is led by an experienced leadership team with significant equity ownership and a proven record of delivering more than 20% annualized returns for shareholders, over more than 20 years.

For the latest news from Colliers, visit our [website](#) or follow us on   

Copyright © 2018 Colliers International

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

