Colliers Radar

PUNE | OFFICE

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Slower take-up amid low vacancy

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Chronically short stock of Grade A commercial assets is making commercial leasing harder in the Pune market. The market for existing commercial office assets has been a developer market for nearly two years with less than 5% vacancy on hand. While the completion of a handful of Grade A commercial properties may ease some of the pressure, we do not expect the situation to reverse any time soon. This will limit the upside to the leasing market's contribution to overall commercial market growth in 2018. In view of the restricted supply, we advise tenants to look for pre-commitments in upcoming projects to support their expansion plans.

Forecast at a glance

Demand
Likely to remain concentrated in micro markets such as Hinjewadi and Kharadi; technology companies continue to drive demand

Supply
Supply likely to remain restricted; about 11 million sq ft (1.02 million sq m) is schedule for completion between now and 2020 but completions may be deferred

Vacancy rate
Inventory pressure unlike to ease soon; vacancy set to remain below 5% in Grade A developments

Rent
We expect an average 5-6% upward movement in rents YOY in 2018 due to restricted new supply and lower vacancy levels

Price
Likely to witness upward pressure with increasing activity by investors

Inventory pressure unlikely to reverse anytime soon

In line with our forecast, the overall leasing volumes have dwindled further in 2017 due to the scarcity of quality supply. The total gross absorption excluding renewals and pre-commitments amounted to only 3.5 million sq ft (0.3 million sq m) in 2017, i.e. about 11% lower than in 2016 and almost 30% below the level of 2015. Notwithstanding the supply issues, the availability of a large talent pool has helped to sustain occupier interest in the Pune market, and so far we have not witnessed any significant relocation from the city.

However, in our view, the ongoing leasing squeeze in Pune is structural in nature, and any further delay in completion of current under-construction projects will hamper occupiers' sentiment. Considering the limited new supply pipeline and low vacancy rate, we expect the absorption level in 2018 to remain at par with 2017. Technology firms are likely to remain the leading demand driver; they contributed about 72% of the overall transaction volumes in 2017. We expect more traction in coming years from flexible workspace operators which made their debut in the Pune market in 2017 with a 1.1% share of overall leasing transactions.

2017 witnessed the vacancy level drop to 5.0% from 9.8% in 2016. Despite sustained demand, new supply totalled only 2.0 million sq ft (0.18 million sq m) in 2017. Most of this supply was pre-committed by the existing

Rental Value Trends

Micromarkets	Rental Values[1]	QOQ Change	YOY Change
Baner	57-65	0.0%	8.0%
Bund Garden	55-70	0.0%	0.8%
Airport Rd/Pune Station	65-90	3.3%	3.3%
Aundh	60-65	4.2%	9.6%
Senapati Bapat Road	65-125	2.7%	8.6%
Bavdhan	45-50	0.0%	6.7%
Kalyani Nagar	55-65	2.6%	2.6%
Nagar Road	55-65	0.0%	2.6%
Hinjewadi	45-55	1.0%	1.0%
Hadapsar/Fursungi	68-75	2.1%	12.6%
Kharadi	55-110	8.6%	14.6%

Source Colliers International India Research
[1]Indicative Grade A rentals in INR per sq ft per month

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

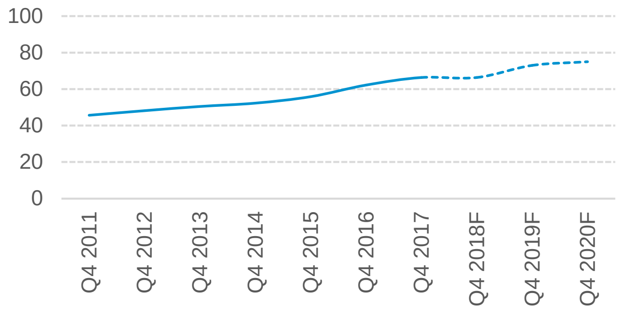
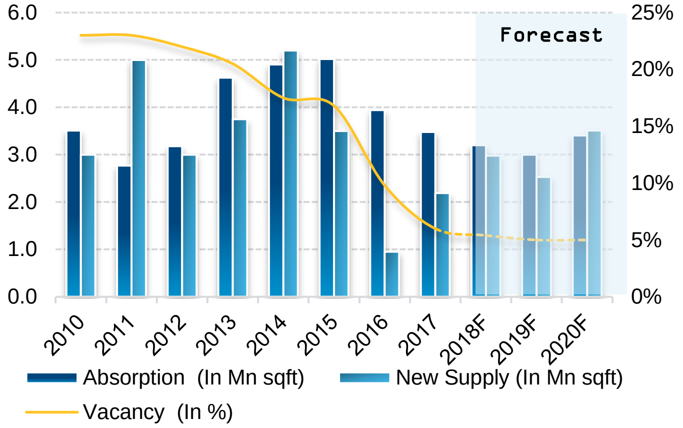


Fig 2. Supply Absorption & Vacancy Forecast



Major Lease Transactions in 2017

Client	Building Name	Area (sq ft)	Location
TIAA Global Business Services	World Trade Centre	195,000	Kharadi
Barclays Technology Centre	EON Free Zone	100,000	Kharadi
HSBC Software Development	Manikchand Icon Wing- B	90,000	Yerwada
Microland LTD	Blue Ridge	88,700	Hinjewadi-1
HSBC Software Development	Manikchand Icon Wing- B	80,000	Dhole Patil Road

Source: Colliers International Research

Note: All figures are based on market information as on 25 Dec 2017

occupiers for their expansion purposes such as Northern Trust (Operating Services Pvt Ltd) pre-committed about 450,000 sq ft (41,800 sq m) in EON SEZ in 2017. In 2018, we expect about 2.9 million sq ft (0.27 million sq m) of Grade A office space to be completed towards the end of the year. About 80% of new supply is concentrated in Hinjewadi, Kharadi and Nanded City. We expect demand to follow supply, so the above locations should remain the most active in 2018. Although Colliers' research database suggests a supply pipeline of about 11.0 million sq ft (1.02 million sq m) between now and 2021, we are sceptical about the completion of projects on time because several projects have not even broken ground and work has stalled in a couple of them. Thus, we do not expect inventory pressure to reverse any time soon in Pune.

Lower vacancy to push rents upward

Rents remained on an upward path in 2017, rising by 6% from 2016. This was a smaller YOY increase than 13% in 2016. We expect upward pressure on rents to persist in 2018 and beyond due to restricted supply. However, in our opinion, the rent increase should remain relatively low, at 5-6% YOY. This is because the rents in most micromarkets in Pune are in the range of INR45 to INR65 per sq ft per month which is almost the same as in the other IT-ITeS cities. Any significant increase in rents may lead to a trend where occupiers will start looking into other competing cities. Thus, we advise developers to expedite the completion of the existing under construction projects and launch new projects.

Colliers' Forecast

Amid lower vacancy and rising rents, investors have remained positive about the Pune market. Investors such as Ascendas-Singbridge, CPPIB (Canada Pension Plan Investment Board) and Milestone Capital Advisors made strategic investments in Pune in 2017. We expect investors to remain active in the Pune market in coming years. Flexible working operators are likely to expand; and due to the supply crunch the space that they offer is likely to remain in high demand.

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