

New supply to support demand

Diksha Gulati Manager

We expect significant new supply of 12.0 million sq ft (1.1 million sq m), amounting to 18% addition to existing stock, to be infused over 2018-2021 as developers are starting to realise the need to expedite construction. We advise developers to revisit their construction plans and expedite completion of under-construction developments to capitalise on positive occupier sentiment in the market.

Forecast at a glance



Demand

Demand to remain strong, especially in micromarkets such as Kharadi and Hinjewadi; pre-commitments likely to continue



Supply

Approximately 12 million sq ft (1.1 million sq m) of new supply is planned to be infused over 2018-2021, however, a portion of this may be deferred.



Vacancy rate

We expect vacancy to remain low at the current level of around 6% till 2021



Rent

Overall city rents are likely to strengthen by about 7-8% over 2018-2021



Price

Likely to appreciate in line with rental growth; increasing government bond yields may keep a check on the rate of increase of capital values.

Healthy absorption, driven by technology occupiers

Pune recorded gross absorption of 0.8 million sq ft (70,000 sq m) during Q2 2018, which is about the same YOY. Owing to the robust absorption in Q1 2018, the half-year absorption stood at 2.7 million sq ft (250,000 sq m). Fifty per cent of the half-yearly leasing was driven by technology occupiers, while the remainder comprised Banking and Financial Services Institutions, manufacturing and flexible workspace operators. The Q2 absorption was concentrated in the Kharadi and Hinjewadi micromarkets, together accounting for half of the pie. Continued interest was witnessed in Special Economic Zones projects that accounted for the remaining 50% share.

We expect leasing activity to be driven by technology occupiers. However, due to the low vacancy in the existing stock, pre-commitments are likely to retain the current healthy pace of absorption in H2 2018.

The city witnessed new supply of 1.8 million sq ft (0.17 million sq m) in Q2 2018, of which 28% was pre-committed. Despite significant quarterly supply infusion, overall vacancy dropped marginally to 6% at the end of June 2018.

Micromarkets	Rental Values ¹	QOQ Change	YOY Change
Baner	58 - 67	2.5%	6.8%
Bund Garden	58 - 72	4.0%	4.8%
Airport Rd/Pune Station	67 - 90	1.3%	4.7%
Aundh	62 - 66	2.4%	11.3%
Senapati Bapat Road	65 - 125	0.0%	2.7%
Bavdhan	47 - 52	4.2%	7.6%
Kalyani Nagar	57 - 65	1.7%	4.3%
Nagar Road	55 - 65	0.0%	2.6%
Hinjewadi	45 - 59	4.0%	5.1%
Hadapsar/Fursungi	70 - 78	3.5%	5.7%
Kharadi	55 - 105	0.0%	5.3%

Source Colliers International India Research

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

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

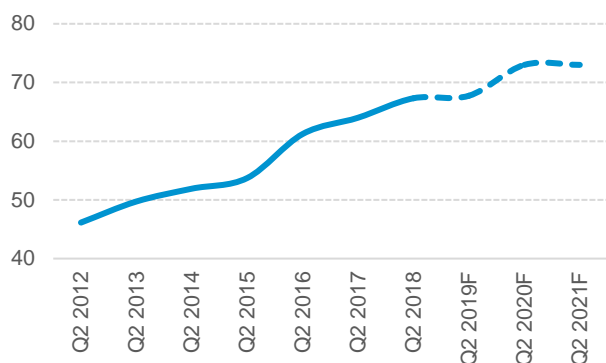
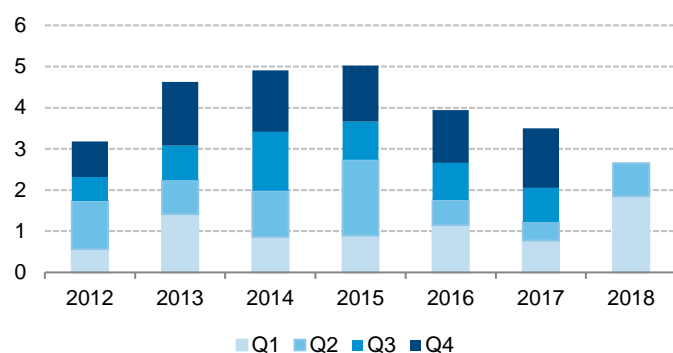


Fig 2. Gross Office Absorption (million sq ft)



Major Lease Transactions in Q2 2018

Client	Building Name	Area (sq ft)	Location
UBS Business Solutions	EON Phase II	142,900	Kharadi
Allianz Technology Services	EON Phase II	71,400	Kharadi
L&T Infotech	Blue Ridge Phase II	51,400	Hinjewadi
EFC India	E Park	45,000	Kharadi

Source: Colliers International Research

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

Upcoming supply likely to be deferred

In line with our forecast, average rents in the city witnessed a marginal increase of around 2% QOQ with the highest increase of 4% and more witnessed in Bavdhan, Hinjewadi and Bund Garden, due to strong occupier demand. We expect the rents to continue moving upwards at 7-8% over the next three years as vacancy levels should remain low.

We expect approximately 12 million sq ft (1.1 million sq m) of new supply to be completed over the next three years through 2021 according to developers' construction schedules. However, as suggested by actual construction progress, we expect only three-quarters of this to hit the market within the stipulated timelines as most projects under-construction in the city are stalled either because of regulatory approvals or a lack of commitment from occupiers. We advise developers to revisit their construction schedules and expedite completion of their developments under-construction to capitalise on positive occupier sentiment in the market.

Colliers' View

With the healthy economic forecast, we expect the current trend of healthy demand to continue over 2018-2021. Despite the projected new supply, an increasing focus on pre-commitments is likely to keep vacancy levels flat, which should strengthen rents. We advise small and mid-size occupiers to look for spaces offered by flexible workspace operators in times of space crunch in the city. The construction of the metro line is in full swing around the city and once operational it should improve connectivity between Pune city and business hubs in Pimpri and should strengthen commercial rents in these micromarkets.

For more information:

Surabhi Arora
Senior Associate Director
Research | India
+91 98 7175 0808
Surabhi.arora@colliers.com

Animesh Tripathi
Director | Office Services
Pune
animesh.tripathi@colliers.com

Ritesh Sachdev
Senior Executive Director
Occupier Services | India
ritesh.sachdev@colliers.com

5th Floor, Suyog
Platinum Tower,
Naylor Road, Off
Mangaldas Road
Pune - 411001
India

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.



Accelerating success.