Office absorption records 18% jump QoQ: Colliers Report: The Economic Times

India Office market remained strong in Q2 2016 with 10.4 million sq ft of office absorption totaling to about 19.2 million sq ft YTD. The office absorption recorded an 18% increase QoQ, with Bangalore being the top contributor with a 30% share, followed by NCR (21%), Hyderabad (20%), Chennai (15%), Mumbai (8%), Pune (5%) and Kolkata (1%).

The leading transactions included expansion by TCS, leasing of over 4,00,000 sq ft in Noida and 3,75,000 sq ft in Bengaluru. IBM and Value Labs have expanded their footprint in Hyderabad by leasing about 3,00,000 sq ft and 2,20,000 sq ft respectively in Western suburbs. Noida established its position as an Electronic manufacturing hub with leading mobile manufacturers like Vivo Mobile and Oppo Mobile taking up 2,50,000 and 1,60,000 sq ft of office space respectively. This quarter about 7 million sq ft was added to India's total Grade A office inventory; limited supply addition in most of the cities resulted in increase in rental values in the preferred micro markets across India.

"At the macro economy level, couple of concerns were raised in Q2 2016, such as uncertainty in direction of monetary policy on account of recent change in leadership at RBI and international happenings such as BREXIT. Although, both these changes were unexpected, the impact on the business outlook in India is likely to be miniscule. However, in last couple of months, increased input costs contributed to the softer growth rate recorded in manufacturing production and services activity. Owing to this, we ought to alter our strong outlook for office market a little and expect marginal improvement in leasing activities for rest of the year. New supply is likely to remain restricted in most of the cities which will put an upward pressure on asking rents in preferred micro markets", says Surabhi Arora, Senior Associate Director, Research at Colliers India.

Bengaluru's total office sector leasing stood at 3.6 million sq ftregistering a hefty appreciation on the back of continued demand momentum across major sectors. In line with the trend witnessed in Q1 2016, IT/ITeS sector accounted for a majority share (71%) in the overall leasing followed by BFSI (17%). Another significant trend that emerged was that while ORR remained the top preferred micro market, its share decreases in overall leasing activity, while it picked up in areas like Whitefield and North Bengaluru.

NCR came the next (by clocking an overall absorption of 2.11million sq ft). Gurgaon office property market witnessed about 1.02 sq ft of office absorption this quarter, which was a QoQincrease of 46%. For Delhi the second quarter of 2016 saw softer leasing demand for Grade A office premises with total absorption recorded at 0.09 million sq ft down from 0.34 million sq ft in the last quarter. Noida recorded significant transaction volume with absorption being registered at about 1.0 million sq ft in Q2.

During Q2 2016, Hyderabad witnessed about 1.9 million sq fttotal absorption across the city as healthy leasing by Technology firms increased office absorption by 50% QoQ. Prominent tenants such as IBM leased nearly 300,000 sq ft in Phoenix Avances in HITEC City, while Value Labs also took up almost 220,000 sq ft in Lanco Hills in Manikonda.

Keeping up with trends in previous quarters, IT/ITeS sector was a frontrunner in the Pune office market, with 56% share in overall leasing volume followed by BFSI (22%), Engineering &Manufacturing (11%) and others (11%). The city absorption was about 51% lower in Q2 2016 when compared to last quarter. The total office absorption recorded this quarter was 0.6 million sq ft.

Mumbai office absorption at 0.71 million sq ft has witnessed a downward spiral with a 23% decrease in total absorption since Q1 2016 as mostly mid-sized transactions have occurred in Q2 2016.IT/ITeS, Engineering & Manufacturing and BFSI remained primary drivers of this demand with 25%, 23% and 23% share respectively.

During Q2 2016, Chennai witnessed substantial gross leasing of nearly 1.3 million sq ft as the commercial office sector rebounded post state elections recently. This was primarily due to stable macroeconomic fundamentals coupled with pent-up demand which led occupiers to execute expansion strategies in the city. OMR Pre - Toll remained the most preferred micro market and accounted for 43% share in total leasing volume followed by CBD and Mount Poonamalle Road sharing 21% and 17% respectively.

In the last two quarters, Kolkata market has seen marginal improvement in enquiries mostly into Non-IT segment for expansion requirements. However, with an average deal size of 7500 sq ft the overall leasing volume was unable to pick up this quarter as well. We recorded about 0.12 million sq ft of office absorption this quarter totalling to about 0.3 million sq ft YTD.