



# APRIL 2011

## OFFICE TRACTION @ GLANCE

### Knight Frank

#### Mumbai

#### Introduction

The Mumbai commercial office space market which has been steadily recovering from its 2008 lows lost some momentum in the last two quarters. Demand was muted as corporates stayed away from a market tainted by scams, which have been in media glare since Q4 FY11. Market sentiment continued to be subdued with market players expecting large developers to reduce prices, thereby boosting sales and easing liquidity pressure. Further, an oversupply situation coupled with the postponement of expansion plans by the BFSI and IT/ ITeS sectors continued to exert pressure on vacancy and rental levels which have stagnated over the past four quarters.

As per Knight Frank Research, approximately 0.88 mn.sq.ft. of office space transactions (lease and sale) were recorded during Q4 FY11, considerably lower than the 2.81 mn.sq.ft. transacted in Q4 FY10. However, market volumes have increased since Q3 FY11 when 0.75 mn.sq.ft. of absorption took place. The number of deals transacted has also displayed a similar trend with the quantum of deals in Q4 FY11 having reduced since Q4 FY10 but showing an improvement from Q3 FY11 levels.

The number of deals in the outright sale market has spiked significantly in Q4 FY11 compared to Q4 FY10 and Q3 FY11 which indicate green shoots of recovery in an otherwise lacklustre market. However, outright sale transactions made up 21% of the total transacted area in the current quarter down from 34% in Q4 FY10.

Table 1.: A comparison of Sale and Lease transactions:

	Q4 FY 11	Q4 FY 10	Q3 FY 11
<b>Total area transacted</b>	<b>0.88 mn.sq.ft.</b>	<b>2.81 mn.sq.ft.</b>	<b>0.75 mn.sq.ft.</b>
<b>Lease transactions</b>			
Nos.	28	54	24
Total area transacted	0.699 mn.sq.ft.	1.869 mn.sq.ft.	0.590 mn.sq.ft.
Average Rate	INR 138/sq.ft./month	INR 91/sq.ft./month	INR 144/sq.ft./month
<b>Sale transactions</b>			
Nos.	23	13	6
Total area transacted	0.185 mn.sq.ft.	0.944 mn.sq.ft.	0.162 mn.sq.ft.
Average Rate	INR 12,696/sq.ft.	INR 14,002/sq.ft.	INR 16,325/sq.ft.

Source: Knight Frank Research

The average rental values in the last two quarters show a substantial rise from Q4 FY10 levels but this is due to the fact that most of the transactions were concentrated in relatively higher priced submarkets compared to Q4 FY10. The average price for outright sale transactions in the current quarter stood at INR 12,696/sq.ft., down from INR 14,002/sq.ft. in Q4 FY10.

Traditionally, the BFSI industry has taken up the bulk of space in the Mumbai commercial office market. However its share has plummeted from 47% in Q4 FY10 to 6% in the current quarter. Of late we have observed that demand from the IT/ ITeS industry has been on the rise. It accounted for 42% of the space transacted in Q4 FY11, considerably higher than the 18% share it had in Q4 FY10.

Combined, both sectors accounted for less than 50% of the transacted space in this quarter compared to 65% and 57% in Q4 FY10 and Q3 FY11 respectively. Only two deals have been recorded in the IT/ ITeS sector in the current quarter with one of them accounting for over 89% of the sector's share. Comparatively, among the nine IT/ ITeS deals which were recorded in Q4 FY10, the top two deals accounted for 53% of the sector's share. JP Morgan Chase's 330,000 sq.ft lease in L&T Business Park which accounted for approximately 37% of the transacted space was the largest deal recorded in Q4 FY11. The BFSI and IT/ ITeS sectors showed a marked preference for the western suburbs with most of the transactions concentrated in Andheri (E) and BKC.

#### Sectoral Analysis

Table 2.: Distribution of office space across sectors in Q4 FY11 and Q4 FY10

Broad Industry Classifications	Q4 FY11	Q4 FY10	Q3 FY11
IT/ITeS	42%	18%	50%
Other Service Sectors	33%	17%	29%
Manufacturing	11%	9%	7%
BFSI	6%	47%	7%
Others	7%	10%	7%
	100%	100%	100%

Source: Knight Frank Research

#### India Research

**Samantak Das** National Head - Research  
+91 (022) 6745 0101  
samantak.das@in.knightfrank.com

**KnightFrank.co.in**

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Table 3.: Select transactions in the Mumbai Office Market:

Location	Building	Company	Industry	Approx Area (sq ft)	Quarter
Andheri East	L&T Business Park	J P Morgan Chase	IT/ITeS	333,000	Q4 FY11
Andheri East	Zion Business Park	Viacom	Media	125,000	Q4 FY11
Andheri East	Arena House	Siemens	IT/ITeS	25,000	Q4 FY11
Chandivali	Boomerang	Bbraun	Pharma/Chemicals	5,000	Q4 FY11
Lower Parel	Indiabulls Financial Centre	Grant Thornton	Consulting	15,000	Q4 FY11
Lower Parel	Indiabulls Financial Centre	Contract Advertising	Media	15,000	Q4 FY11
BKC	The Capital	TPG Capital	BFSI	13,000	Q4 FY11
BKC	Platina	TPG Capital	BFSI	12,000	Q4 FY11
Lower Parel	Piramal towers	Diageo	Consumer Goods	12,000	Q4 FY11
Lower Parel	One Indiabulls	Booze & Company	Consulting	12,000	Q4 FY11
Worli	Shivsagar Estate-A	Merck & Co.	Shipping & Logistics	10,000	Q4 FY11

Source: Knight Frank Research

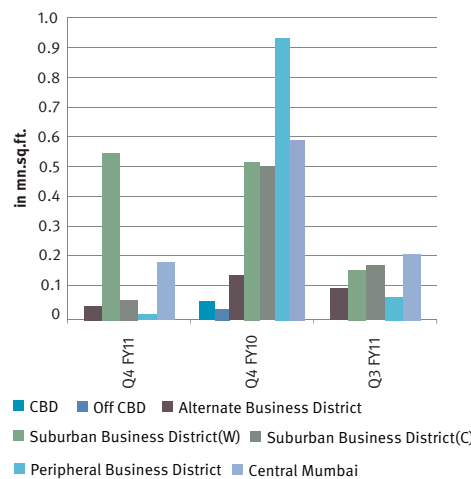
**JP MORGAN CHASE'S 330,000 SQ.FT LEASE IN L&T BUSINESS PARK WHICH ACCOUNTED FOR APPROXIMATELY 37% OF THE TRANSACTED SPACE WAS THE LARGEST DEAL RECORDED IN Q4 FY11**

Other service sectors (besides IT/ ITeS & BFSI) accounted for 33% of the space transacted this quarter, up from 17% in Q4 FY10. A surge in demand was seen in media and consulting companies such as Viacom and Grant Thornton which took up approximately 88% of this pie. Viacom's 125,000 sq.ft. lease at Zion Business Park was the only other deal besides the JP Morgan Chase deal which had a ticket size over 100,000 sq.ft. The manufacturing sectors accounted for 11% of the market up from 9% and 7% in Q4 FY10 and Q3 FY11.

### Geographic Analysis

Few micro-markets prospered against the backdrop of a lacklustre market in Q4 FY11. The Western Suburban Business District accounted for the lion's share of the market in Q4 FY11 with approximately 63% of the total area being transacted in Andheri, Jogeshwari and Goregaon. IT/ ITeS and media

Chart 1. Location and quarter wise absorption in Mumbai



Source: Knight Frank Research

**THE WESTERN SUBURBAN BUSINESS DISTRICT ACCOUNTED FOR THE LION'S SHARE OF THE MARKET IN Q4 FY11 WITH APPROXIMATELY 63% OF THE TOTAL AREA BEING TRANSACTED IN ANDHERI, JOGESHWARI AND GOREGAON**

Classification	Locations
Central Business District (CBD)	Nariman Point
Off Central Business District (Off CBD)	Ballard Estate, Cuffe Parade, Fort
Central Mumbai	Mahalaxmi, Lower Parel, Prabhadevi, Dadar
Alternate Business District (ABD)	Bandra Kurla Complex
Suburban Business District (West)	Western Micromarkets of Bandra, Kalina, Andheri, Malad, Goregaon and Jogeshwari
Suburban Business District (Central)	Central Micro-markets of Kurla, Powai, Vikhroli, Kanjurmarg, Bhandup and Mulund
Peripheral Business District (PBD)	Thane and Navi Mumbai

Source: Knight Frank Research

companies like JP Morgan, Siemens and Viacom which prefer large format office spaces took up 87% of the space transacted in these locations. Most of the deals were transacted in the projects of L&T Business Park, Arena House, Zion Business Park and Boomerang Business in Andheri (E).

Bandra Kurla Complex (BKC) has sustained its market share of 6% in Q4 FY10 in the current quarter as well. The BFSI sector took up almost all of the space transacted in BKC. TPG Capital from the BFSI sector took up 25,000 sq.ft. in two buildings which represented 50% of the total space taken up in the BKC.

### India Research

**Samantak Das** National Head - Research  
+91 (022) 6745 0101  
samantak.das@in.knightfrank.com

**KnightFrank.co.in**

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Both these buildings, The Capital and Platina belong to Wadhwa Developers. Vibgyor by K Raheja Corp., Maker Maxity by Maker Developers and Wockhardt Towers were other buildings in which market activity was observed.

No significant transactions were noted in the premium CBD and Off-CBD micro-markets. Market players who stayed away from Nariman Point, Ballard Estate, Cuffe Parade and Fort in Q3 FY11 continued to do so in the current quarter. Nearly 95% of the space transacted in these locations was taken up by the BFSI sector in Q4 FY10 but absorption in these micro-markets suffered due to its lack of activity in this quarter.

Central Mumbai continued to maintain its market share of 22% and witnessed an increase in office space take up with approximately 56% of the transacted area being in the outright sale market. Media, FMCG and consulting companies within the services sector constituted bulk of the demand. Most of the big ticket deals over 10,000 sq.ft. were concentrated in Mahalaxmi and Lower Parel where space was taken up in premium buildings like Lodha Excellus, Indiabulls Financial Centre, Piramal Towers and One Indiabulls Centre.

Market activity in the central suburbs was subdued this quarter with its share coming down from 18% in Q4 FY10 to 8% in Q4 FY11. However, office space take up was relatively much stronger with all the space transacted in this quarter being on outright basis. All deals were recorded in Kanjurmarg and Chembur with almost 95% of the transacted area coming from two buildings namely Lodha Supremus in Kanjurmarg (E) and Swastik Chambers in Chembur.

The Peripheral Business Districts accounted for just 2% of the transacted area in the current quarter compared to 33% in Q4 FY10. Just one lease deal was recorded compared to 5 five outright deals. Two buildings, Kesar Solitaire in Vashi and Lodha Supremus in Thane accounted for all the activity in this micro-market.

Table 4.: Average transacted rental values in Mumbai (INR/sq.ft./month)

Micromarkets	Q4 FY11	Q4 FY10	Q3 FY11
CBD	NA*	259	NA*
Off CBD	NA*	225	NA*
Alternate Business District	295	323	369
Suburban Business District(W)	118	80	128
Suburban Business District(C)	NA	68	84
Peripheral Business District	94**	43	47
Central Mumbai	185	160	133

Source: Knight Frank Research

\* No Significant transaction was recorded.

\*\* Non-IT premium commercial office space

THE PERIPHERAL  
BUSINESS DISTRICTS  
ACCOUNTED FOR JUST  
2% OF THE  
TRANSACTIONED AREA IN  
THE CURRENT  
QUARTER COMPARED  
TO 33% IN Q4 FY10

### Outlook

Market activity lost momentum in the previous two quarters in an otherwise recovering market. Further, supply is expected to outstrip demand in the short term but an improving economic environment and assertive regulatory monitoring will spur demand in coming quarters. The increasing number of deals in the outright sale market in the current quarter point towards improving market sentiment. JP Morgan Chase's 330,000 sq.ft. lease, signals a recovery in the take up of large format IT/ITeS spaces in Suburban and Peripheral Business Districts where most of the supply is concentrated. These regions can be expected to drive commercial activity in Mumbai once companies start executing their expansion plans.