



APRIL 2012

OFFICE TRACTION @ GLANCE

Knight Frank

Hyderabad

Market Review

Hyderabad office market has witnessed considerable demand for office space in the past financial year (FY 2012). The city has consolidated its position as one of the most preferred destinations for IT/ITeS operations in the country, with factors like availability of skilled manpower and proactive government policies working in its favour. Another prime aspect of Hyderabad's office market attractiveness lies in the fact that while realty is reasonably priced and competitive as compared to other metros, the city offers relatively better infrastructure as well. Besides, various new developments such as the metro rail project and the construction of Outer Ring Road, are expected to make the city more viable to the prospective occupier as well as investor in the forthcoming years.

VARIOUS NEW DEVELOPMENTS SUCH AS THE METRO RAIL PROJECT AND THE CONSTRUCTION OF OUTER RING ROAD, ARE EXPECTED TO MAKE THE CITY MORE VIABLE TO THE PROSPECTIVE OCCUPIER AS WELL AS INVESTOR IN THE FORTHCOMING YEARS

In the past one year, despite political agitations in the region, the office market has firmed up and has continued to attract newer occupiers. Around 5.4 mn.sq.ft. of office space was absorbed in FY 2012 in

Micro-markets	Locations
Central Business District(CBD)	Begumpet, SP Road, Punjagutta, Somajiguda, Ameerpet
Off CBD	Banjara Hills, Jubilee Hills
Suburban Business District (SBD)	Hitech City, Madhapur, Kondapur, Manikonda
Peripheral Business District (PBD)	Gachibowli, Nanakramguda, Uppal, Pocharam

Hyderabad. The first half of FY 2012 (April-September) witnessed hectic activity in the office space market, leading the city to record an absorption level of around 3 mn.sq.ft. during the period. However, the subsequent months saw a decline in demand for office space as a number of companies postponed their establishment or expansion plans owing to global economic slowdown, local political instability and domestic economic uncertainties.

AROUND 5.4 MN.SQ.FT. OF OFFICE SPACE WAS ABSORBED IN FY 2012 IN HYDERABAD

As a result, the momentum that was anticipated in view of the high absorption level in the first half of the year could not be sustained and the second half of FY 2012 (October-March) saw a reduced transaction volume of 2.4 mn.sq.ft. Interested parties in office space largely adopted a cautious approach and stayed away from making

Table 1: Transaction Summary in H1 FY12 (Apr-Sep) and H2 FY12 (Oct-Mar)

Transaction Summary	H1 FY 12 (Apr-Sep)	H2 FY 12 (Oct-Mar)
Lease transactions		
Total area transacted	3 mn.sq.ft.	2.4 mn.sq.ft.
Weight Average Rental Value	Rs.33/sq.ft./month	Rs.35/sq.ft./month

Source: Knight Frank Research

any commitment. Moreover, the political upheavals during this period also disrupted the registration of deals in the city, which further contributed to the reduced market activity.

THE MOMENTUM THAT WAS ANTICIPATED IN VIEW OF THE HIGH ABSORPTION LEVEL IN THE FIRST HALF OF THE YEAR COULD NOT BE SUSTAINED AND THE SECOND HALF OF FY 2012 (OCTOBER-MARCH) SAW A REDUCED TRANSACTION VOLUME

The weighted average rental value across office micro-markets during H1 FY12 stood at INR 33/sq.ft. per month, while the weighted average rental value during H2 FY12 was observed at INR 35/sq.ft per month. As a whole, contrary to the expectation brought about by the high level of office space absorption in the first half of the year, the average rental values remained fairly stable due to subdued leasing activity in the latter half thereby restricting escalation in rentals.

Sectoral Analysis

The IT/ITeS sector has been contributing significantly to the economic growth of the region in the past few years.



The sector has been responsible for occupying the largest quantum of space on a year-on-year basis, thereby influencing the total office space absorption in the city.

Table 2: Distribution of office space across sectors in H1 FY12 (Apr-Sep) and H2 FY12 (Oct-Mar)

Sectors	H1 FY12 (Apr-Sep)	H2 FY12 (Oct-Mar)
IT/ITeS	78%	88%
BFSI	4%	2%
Consulting	11%	Nil
Infrastructure	2%	Nil
Manufacturing	1.6%	2%
Telecom	0.4%	3%
Others	3%	6%

Source: Knight Frank Research

In H1 FY12, this sector was responsible for around 78% of the total area transacted during that period. This amounted to approximately 2.3 mn.sq.ft. and constituted of companies like Facebook, Convergys, Cognizant, IBM, etc.

Despite uncertainty amongst potential occupiers in the wake of global financial turmoil, the share of the IT/ITeS sector in office space absorption went up in H2 FY12 and was recorded at 88% of the total transacted area, amounting to around 2.1 mn.sq.ft. Key transactions were led by companies such as Genpact, Google India,

DESPITE UNCERTAINTY AMONGST POTENTIAL OCCUPIERS IN THE WAKE OF GLOBAL FINANCIAL TURMOIL, THE SHARE OF THE IT/ITES SECTOR IN OFFICE SPACE ABSORPTION WENT UP IN H2 FY12

Amazon, DuPont and Cognizant.

Although the IT/ITeS sector continued to be the key demand driver, interest was seen from other sectors such as BFSI, consulting and manufacturing as well. The BFSI sector occupied around 4% of the total space

leased out in H1 FY12, which reduced to 2% of the total transacted space in H2 FY12. Some of the prominent BFSI companies which took up office space in the city during the period H1 FY12 include Bank of America in Raheja Mindspace and First America in Ascendas IT Park, both located in Hitech City, and ICICI Lombard in ICICI Towers, located in Gachibowli. During the second half of FY 2012, office space transactions regarding BFSI sector included Standard Chartered Bank taking up space in Jubilee Hills and State Bank of India occupying space in Hitech City.

Other sectors, besides IT/ITeS, which have strived to gain foothold in the city's office market in FY 2012 are the manufacturing and telecom sector. The manufacturing industry occupied around 1.6% of the total office space leased out in H1 FY12 and continued to maintain its stand at 2% of the total transacted area in H2 FY12. The telecom

OTHER SECTORS, BESIDES IT/ITES, WHICH HAVE STRIVED TO GAIN FOOTHOLD IN THE CITY'S OFFICE MARKET IN FY 2012 ARE THE MANUFACTURING AND TELECOM SECTOR

industry, on the other hand, increased its share from a minimal 0.4% of the total office space absorbed in H1 FY12 to around 3% in H2 FY12.

Meanwhile, sectors like consulting and infrastructure have been observed to have lost their sheen in H2 FY12 as compared to H1 FY12, inferred from Table 2. However, the declining figures in H2 FY12 do not necessarily depict the sector's flagging interest in the city's office market.

Sectors with nominal office space presence, which have been clubbed under the section 'Others' include pharmaceuticals, energy, media, etc. Table 3 lists out some of the prominent office space transactions that took place in FY 2012.

Geographic Analysis

The period FY 2012 witnessed a consistent demand for office space across most major office markets of the city. Majority of the leasing transactions were observed in the suburban regions of the city. The location-wise share in office space absorption during the period H1 FY12 and H2 FY12 has been depicted in Chart 1.

As is evident from Chart 1, the CBD and Off-CBD locations witnessed relatively lesser volume of office space transacted as compared to the SBD and PBD locations.

Table 3: Select transactions in Hyderabad office market in FY12

Building	Occupier	Location	Approx Area (sq.ft.)
Raheja Mindspace	Bank of America	Hitech City	45,641
DLF	Cognizant	Gachibowli	350,000
Divyasree Orion	IBM	Manikonda	220,000
Meenakshi	Deloitte	Hitech City	450,000
NSL SEZ	Sentini	Uppal	12,000
Fortune 9	ADP	Somajiguda	60,000
Unnamed Building	Cambridge Technologies	Jubilee Hills	16,000
White House	Grant Thornton	Begumpet	10,000
Reliance Humsafar	Bharat Petroleum	Banjara Hills	10,000
White House	Mafoi Randstad	Begumpet	7,000
Divyasree Omega	Google India Pvt Ltd	Kondapur	117,575
Q City	Amazon	Nanakramguda	86,000

Source: Knight Frank Research

India Research

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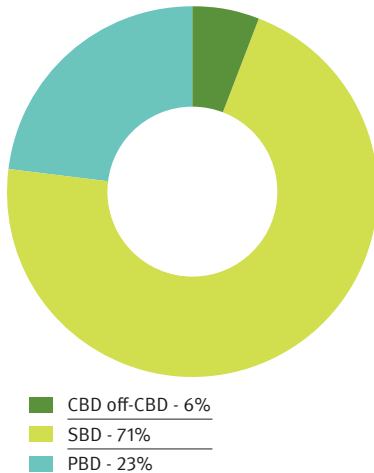
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Chart 1: Location wise share in office transactions in Hyderabad

Location-wise share in H1 FY 12 (Apr-Sep)

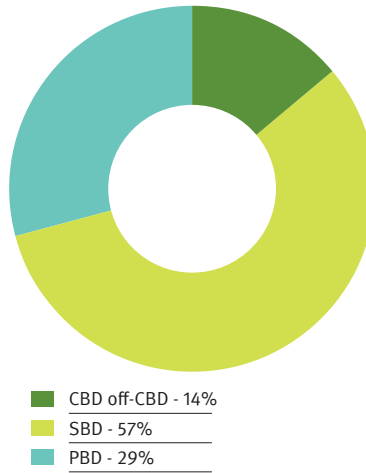


Source: Knight Frank Research

While H1 FY12 saw the CBD and Off-CBD micro-markets, contributing to 6% of the total office space transacted in the city, the share increased to 14% in H1 FY12. This positive trend of preferring centrally located office spaces has given rise to several new developments of smaller office sizes in these locations, which have been finding acceptance amongst the non-IT/ITeS sectors. Some of the key tenants who took up space in the CBD and Off-CBD micro-markets in FY 2012 include Feedback Ventures and Naukri. Com in Begumpet, Rockwell Automation in Ameerpet, Lonza Pharma in Banjara Hills, Cannon on Raj Bhavan Road and Ozonetel in Somajiguda.

THIS POSITIVE TREND OF PREFERRING CENTRALLY LOCATED OFFICE SPACES HAS GIVEN RISE TO SEVERAL NEW DEVELOPMENTS OF SMALLER OFFICE SIZES IN THESE LOCATIONS, WHICH HAVE BEEN FINDING ACCEPTANCE AMONGST THE NON-IT/ITES SECTORS

Location-wise share in H2 FY 12 (Oct-Mar)



Source: Knight Frank Research

On the other hand, the SBD locations, with their concentration of Grade A office stock, continued to be the most preferred office destination, primarily favoured by the IT/ITeS sector. The SBD office micro-markets of Hitech City, Madhapur, Kondapur and Manikonda have been the prime hubs of office space transaction activity. The SBD micro-markets were responsible for occupying a significant 71% of the total office space transacted in Hyderabad in H1 FY12. With the CBD and Off-CBD locations regaining their stand in the office market, this share reduced to 57% of the total transacted area in H2 FY12. Some major office space occupiers of the region include Knoch and Facebook in Hitech City, Global Data in Madhapur, Keane India in Manikonda and Google India in Kondapur. On a significant note, the suburban micro-market of Hitech City accounted for around 86%

THE SBD LOCATIONS, WITH THEIR CONCENTRATION OF GRADE A OFFICE STOCK, CONTINUED TO BE THE MOST PREFERRED OFFICE DESTINATION, PRIMARILY FAVOURED BY THE IT/ITES SECTOR

share of the total office space absorption in the SBD region in H2 FY12 and around 82% in H2 FY12.

Meanwhile, the PBD office locations of Nanakramguda and Gachibowli have also established themselves as strong contenders for office space in the city. Gachibowli was responsible for the absorption of around 60% of the total office space transacted in the PBD region, while Nanakramguda accounted for 16%.

GACHIBOWLI WAS RESPONSIBLE FOR THE ABSORPTION OF AROUND 60% OF THE TOTAL OFFICE SPACE TRANSACTED IN THE PBD REGION, WHILE NANAKRAMGUDA ACCOUNTED FOR 16%

As depicted in the chart, during H1 FY12 the PBD locations accounted for 23% of the total transacted area, which increased to 29% in H2 FY12. These micro-markets have been attracting a number of IT/ITeS major players and include tenants such as Cognizant, Amazon, CGI Information Systems and Conesco, amongst others. Other non-IT/ITeS sectors have evinced interest in these PBD micro-markets as well, with companies like ICICI Lombard and Caparo setting up their offices in this region.

Table 4 highlights the minimum, maximum and weighted average of rental values across micro-markets for H1 FY12 and H2 FY12. A large variation in rentals ranges has been observed in both these halves across all the micro-markets of the city. This variation is on account of the location of the transacted properties as well as the industry type and the area occupied. It should also be noted that in the SBD and PBD locations, as most of the transactions were in the IT/ITeS sector, the average rentals are more skewed towards the minimum value.



Table 4: Transacted rental values of prominent micro-markets in Hyderabad
(in INR/sq.ft per month)

Micro-markets	H1 FY12 (Apr-Sep)			H2 FY12 (Oct-Mar)		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Central Business District (CBD) & Off-CBD	28	55	40	25	70	42
Suburban Business Districts (SBD)	28	63	35	27	57	38
Peripheral Business Districts (PBD)	27	48	33	23	47	26

Source: Knight Frank Research

Outlook

Hyderabad office market witnessed considerable office space transaction activity in the first half of FY 2012, which got marred to some extent in the second half of the year by the weak sentiments on the global economic front as well as the political agitations in the region. This reflected in the reduced demand and enquiries for office space in the city. However, on a positive note, several new developments of smaller sizes, primarily in the CBD and Off-CBD locations testify to the trend of increasing popularity of the non-IT/ITeS space along with the proliferation of newer sectors into the city. Interest evinced by these emerging sectors is expected to continue over the forthcoming year as well. Also, the fact that Hyderabad has several infrastructure initiatives underway, shall further augment the city's attractiveness to the potential

occupier. An improvement in demand for office space is envisaged with a number of Grade A projects scheduled to become operational by the end of CY 2012.

THE FACT THAT HYDERABAD HAS SEVERAL INFRASTRUCTURE INITIATIVES UNDERWAY, SHALL FURTHER AUGMENT THE CITY'S ATTRACTIVENESS TO THE POTENTIAL OCCUPIER

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