

COMMERCIAL
RESEARCH



OFFICE TRACTION @ GLANCE

Bengaluru
April 2013

MARKET OVERVIEW

Bengaluru's office market clocked an absorption of approximately 9.6 mn.sq.ft. during 2012, falling short of the absorption in 2011 by 17%.

The Bengaluru office market was marked by a cautious occupier approach in 2012 owing to the economic uncertainty in the European zone and western markets. The IT/ITeS industry continued to dominate the office space absorption in the city, albeit at a slower pace as the slowdown in these economies forced several firms to delay their expansion plans. The city's office market clocked an absorption of approximately 9.6 mn.sq.ft. during 2012, falling short of the absorption in 2011 by 17%. Bengaluru continued to occupy the top slot for the highest office space absorption in 2012. Despite the relative decline in absorption levels, it remains one of the most preferred office space destinations in the country.

Over the past decade, Bengaluru has come to be known as a mature office market with fairly stable prices and consistent absorption trends. The IT/ITeS sector has been primarily responsible for the city's high absorption levels, thereby leading developers to depend heavily on it for their office projects. Thus, with the sector having hit a rough patch lately, it has impacted the city's office market as well.

The restraint displayed by potential occupiers in 2012 also reflects the slackening of the city's office market growth as leasing activity typically indicates business sentiment. In the case of developers, most of them have been able to gauge the office real estate market conditions, taking into consideration the global economic slowdown, and have striven to adjust the completion schedule and launch of their office projects.

Transaction Summary	2011	2012
Lease Transactions	11.5	9.6
Total Area Transacted	mn.sq.ft.	mn.sq.ft.
Weighted Average Rental Value	INR 43/ sq.ft./month	INR 44/ sq.ft./month

Source: Knight Frank Research

The year 2011 had witnessed an increase of around 14% over the previous year and achieved absorption of 11.5 mn.sq.ft. of office space. This was largely due to the renewed optimism perceived in the market, post the economic recession in the country. The city's office market had also received an additional boost with the advent of a number of new service sectors in Bengaluru. However, 2012 again saw cautiousness replace optimism, thus reducing the office space absorption to 9.6 mn.sq.ft.

However, there was no drastic correction in rental values and they remained fairly consistent. The weighted average rental value during 2012 increased marginally by 2% from INR 43/sq.ft. per month in 2011 to INR 44/sq.ft. per month across office micro-markets.

Sector Analysis

Despite the slowdown, the IT/ITeS sector continues to be primarily responsible for occupying a major part of the absorption pie in the Bengaluru office market. While 2011 saw the sector size up a considerable 67% of the total office space transacted in the city, its share declined to 57% in 2012. The fact that the absorption by the IT/ITeS sector has waned, signifies the adverse impact felt by the sector owing to the uncertainty prevailing in global economic conditions.

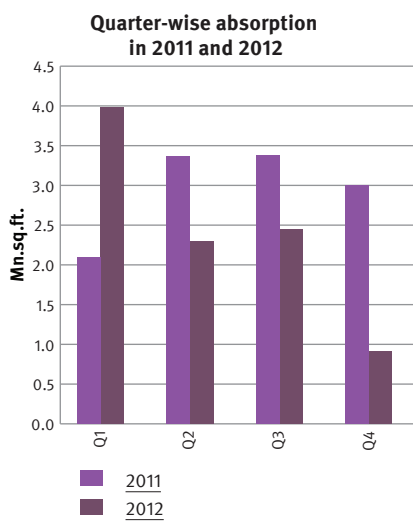
Bengaluru has observed consistent office space demand across most micro-markets with Whitefield and Outer Ring Road (ORR) being the more preferred office destinations due to considerable new office space supply and competitive rentals here.

Micro-market Classification	Locations
Central Business District (CBD) and Off-CBD	MG Road, Residency Road, Cunningham Road, Lavelle Road, Richmond Road, Infantry Road
Suburban Business District (SBD)	Indiranagar, Koramangala, Old Airport Road, Old Madras Road
Peripheral Business District (PBD)	Whitefield, Mysore Road, Electronic City, Bannerghatta Road
Outer Ring Road (ORR)	KR Puram ORR, Marathalli ORR, Sarjapur Road ORR

Distribution of office space absorption across sectors in 2011 and 2012

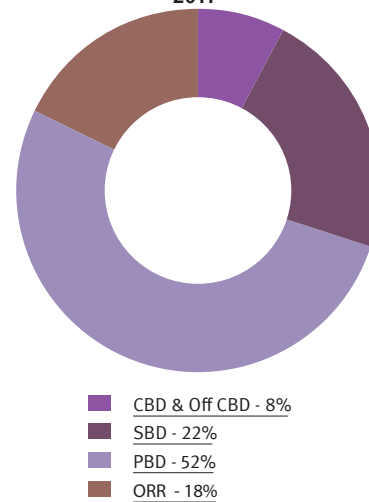
Sectors	2011	2012
IT/ITeS	67%	57%
BFSI	10%	18%
Manufacturing	16%	15%
Other Service Sectors	7%	10%

Source: Knight Frank Research

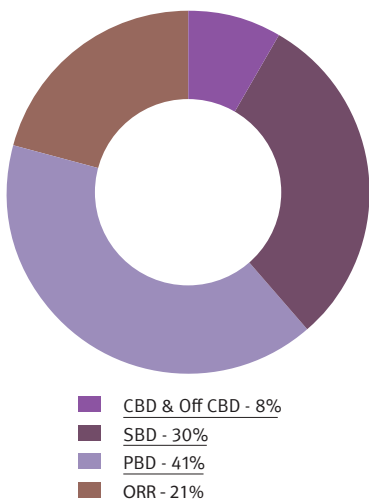


Source: Knight Frank Research

Micro-market wise share in absorption 2011



2012



Source: Knight Frank Research

Despite the slowdown, the IT/ITeS sector continues to be the main sector responsible for occupying a major part of the absorption pie in the Bengaluru office market.

Some of the key space occupiers in 2012 include companies like Texas Instruments, Infosys, Oracle, Quintiles, Adobe and SLK Software.

The IT/ITeS sector is followed by the Banking Financial Services and Insurance (BFSI) sector, accounting for 18% of the total absorption in 2012. This has been an improvement over the absorption share of 10% in 2011. Of the BFSI sector occupiers, a mention can be made of Societe Generale, Muthoot Finance, First American (India) and Citibank. Another notable sector that has managed to make its presence felt in the city's office market is the manufacturing industry. While it occupied around 16% of the total absorption in 2011, it slightly relinquished its share to 15% in 2012.

There has been an increase in the number of companies comprising the category 'Other Service Sectors' that have taken up office space, thereby taking up the absorption share from 7% in 2011 to 10% in 2012. These primarily include the pharmaceutical and healthcare sector, travel and aviation, consulting and telecommunication companies. Prominent occupiers in this segment include companies such as Indegene, XL Health, R-Logic and BCD Travel.

Geographical Analysis

Bengaluru has observed consistent office space demand across most micro-markets with Whitefield and Outer Ring Road (ORR) being the more preferred office destinations due to considerable new office space supply and competitive rentals here.

The CBD and Off-CBD office markets have typically been preferred by companies looking for smaller office configurations. These markets of the city have a strong presence of occupiers from the manufacturing, consulting and BFSI sectors, as well as IT/ITeS companies with smaller set-ups. The region contributed to 8% of the total office space absorption in 2011 as well as 2012. Around 0.92 mn.sq.ft was transacted in the CBD and Off-CBD locations in 2011 while 2012 saw approximately 0.81 mn.sq.ft. of office space being leased out in these micro-markets. Some of the key tenants that took up space in these CBD and Off-CBD locations in 2012 include PwC on Lavelle Road, Otis in Langford Town and Groupon on Thimmaiah Road.

Contrary to the smaller office space offered by the CBD micro-markets, suburban office markets like Koramangala and Indiranagar are characterized by standalone office projects that are occupied by mid-sized IT/ITeS, manufacturing, healthcare and BFSI companies. The SBD markets are generally sought after by companies looking for office space in prime locations, that are in the vicinity of residential markets. 2011 witnessed around 2.53 mn.sq.ft. of office area being taken up in the SBD micro-markets, to the tune of 22%. It increased

significantly to 30% in 2012, translating to an area of 2.93 mn.sq.ft. This can be due to a larger quantum of new office space supply entering the suburban micro-markets in 2012. Notable transactions in 2012 in these SBD micro-markets include office space taken up by Thompson Reuters on Old Airport Road, VMware in JP Nagar and Dexler in Koramangala.

The PBD micro-markets accounted for most of the office space transactions that took place in Bengaluru, in both 2011 and 2012, owing to advantages like ready office space availability and lower rentals. Peripheral locations like Whitefield, Electronic City and Bannerghatta Road were primarily responsible for the high take-up in the region. While around 52% of the office space absorption in 2011 belonged to the PBD region, its share declined sharply to 41% in 2012. This can be attributed to the lack of substantial office space supply in select peripheral markets. Key tenants that occupied office space in the peripheral micro-markets during 2012 include Capgemini in Whitefield, Carl Zeiss in Electronic City and Castle Rock Research on Bannerghatta Road.

Of late, ORR has emerged as one of the most preferred office destinations in Bengaluru. The office markets along the ORR came into prominence due to several factors like proximity to the CBD and major residential markets, access to large talent pools, availability of contiguous land parcels, connectivity to the airport and presence of hotel and retail projects. Besides, there are several infrastructure projects underway in the region that aim to turn the ORR into a signal free corridor. The region's share in office space absorption in 2011 was pegged at 18% which increased to 21% in 2012. Some of the prominent occupiers in 2012 include Ebay in Pritech Park on Marathalli ORR and Samsung in Bagmane World Technology Centre on KR Puram ORR.

Bengaluru office market is envisaged to witness an optimistic yet cautious delivery of projects in the short term on account of the present economic uncertainty.

Select transactions in Bengaluru office market in 2012

Building	Company	Location	Approx Area (sq.ft.)
Bagmane World Technology Centre	Samsung	KR Puram ORR	450,000
E City	On Mobile	Electronic City	128,616
HM Infocity	Carls Zeiss	Electronic City	140,000
Pritech Park	Ebay	Marathalli ORR	126,000
Kalyani Magnum	Oracle	JP Nagar	500,000
Manyata Embassy Business Park	Indegene	Nagavara	83,000
RMZ Eco Space	Robert Bosch	Marathalli ORR	128,000
Whitefield Palms	Mercedes Benz	Whitefield	240,000

Source: Knight Frank Research

Transacted rental values of prominent micro-markets (in INR/sq.ft./month)

Micro-markets	2011			2012		
	Minimum	Maximum	Weighted Average	Minimum	Maximum	Weighted Average
Central Business District (CBD) & Off-CBD	55	100	78	55	110	79
Suburban Business Districts (SBD)	43	60	55	40	65	58
Peripheral Business Districts (PBD)	30	45	36	30	50	39
Outer Ring Road (ORR)	40	65	48	40	68	51

Source: Knight Frank Research

Rental Trend

A large variation in rental ranges has been observed across the CBD and Off-CBD 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.

Bengaluru witnessed a fairly steady office market in terms of rentals in 2012. While the uncertain economic conditions led to a subdued demand, cautiousness on the part of developers in scheduling project completions and new launches has largely kept the rental movement within a consistent band. However, relatively strong demand observed in office projects located in select markets such as Whitefield and the KR Puram ORR and Sarjapur ORR stretch saw rental appreciation in the range of 6-8% during 2012.

Outlook

Going forward, Bengaluru office market is envisaged to witness an optimistic yet cautious delivery of projects in the short term on account of the present economic uncertainty. The city will be infused with substantial office space supply periodically in the next five years. Demand is also likely to be relatively subdued, compared to the past three years, with corporates contemplating over their expansion plans. As a result of these factors, rentals are expected to remain stable, with a few markets witnessing upward revision in the short term. Nevertheless, the entry of newer sectors in the city's office market has lent a positive outlook.

Whitefield and the ORR stretch between Marathalli and Sarjapur Road will dominate as preferred office destinations due to attractive lease rentals, presence of social infrastructure and residential developments in the vicinity of the office projects

Meanwhile, Whitefield and the ORR stretch between Marathalli and Sarjapur Road will dominate as preferred office destinations due to attractive lease rentals, presence of social infrastructure and residential developments in the vicinity of the office projects. Also, consolidation of office spaces by most large sized companies will continue to be the norm, in spite of the uncertainty in European markets.

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