



# AUGUST 2011 OFFICE TRACTION @ GLANCE

## Knight Frank

### Bangalore

#### Market Review

Bangalore real estate market has observed the largest volume of office space absorption in the country in past few years. The city has continued to remain the most sought after office market, retaining the top slot for the highest office space absorption in the first half of the current calendar year. This may be primarily attributed to the fast paced growth of the IT industry, driving the demand for office space in the city. The fact that the city is home to over 2000 STPI registered companies and employs over 0.5 million people has evidently proven that Bangalore is a preferred IT destination for setting up of a new unit or expansion of existing operations of IT/ITeS companies. Besides, the government has also taken up several proactive industry friendly policies to promote IT and considers the industry as one of the five top priorities by constituting a national task force on IT and software development.

While concern about its infrastructure bottlenecks led to scepticism in the office market, Bangalore has nonetheless been able to maintain its position as the leading office space occupier in the country. Of late, with newer sectors besides IT/ITeS

**BANGALORE HAS GARNERED A SIGNIFICANT ABSORPTION OF APPROXIMATELY 5.46 MN.SQ.FT. IN THE FIRST SIX MONTHS OF CY 2011**

**Table 1: Micromarket classification of Bangalore office market**

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, Airport Road, Old Madras Road
Peripheral Business District (PBD)	Whitefield, Mysore Road, Electronic City, Bannerghatta Road, Outer Ring Road

entering the city's office market, Bangalore has garnered a significant absorption of approximately 5.46 mn.sq.ft. in the first six months of CY 2011.

**Table 2: Type of transactions in Q2 2010 (Apr-Jun) and Q2 2011 (Apr-Jun)**

Transaction Summary	Q2 2010 (Apr-Jun)	Q2 2011 (Apr-Jun)
<b>Lease Transactions</b>		
Total Area Transacted	3.05 mn.sq.ft.	3.40 mn.sq.ft.
Weighted Average Rental Value	Rs.41/sq.ft./month	Rs.40/sq.ft./month

Source: Knight Frank Research

As per Knight Frank Research, approximately 2.09 mn.sq.ft. of office space was absorbed in Q1 2011 and another 3.4 mn.sq.ft. was taken up in Q2 2011. In the same quarter last year, ie in Q2 2010, Bangalore market had witnessed the absorption of around 3.05 mn.sq.ft.

**AS PER KNIGHT FRANK RESEARCH, APPROXIMATELY 2.09 MN.SQ.FT. OF OFFICE SPACE WAS ABSORBED IN Q1 2011 AND ANOTHER 3.4 MN.SQ.FT. WAS TAKEN UP IN Q2 2011**

The weighted average rental value across office micro-markets during Q2 2010 stood at Rs. 41/sq.ft. per month, while the weighted average rental value during Q2 2011 was observed at Rs. 40/sq.ft per month. The marginally lower rentals in Q2 2011, however, do not reflect decline in rental trend, as it takes into account the size of transactions as well. In Q2 2010, the average area transacted per deal was observed at 38,170 sq.ft, whereas in Q2 2011 it was observed at 51,025 sq.ft., thereby reflecting a larger transaction size during that period.

#### Sectoral Analysis

As mentioned earlier, Bangalore office market is primarily dominated by the IT/ITeS sector. In Q2 2010, this sector was responsible for around 62% of the total area transacted.

**THE SHARE OF THE IT/ITES SECTOR IN OFFICE SPACE ABSORPTION WENT UP MARGINALLY IN Q2 2011 AND WAS RECORDED AT 64% OF THE TOTAL TRANSACTED AREA, AMOUNTING TO AROUND 2.14 MN.SQ.FT**

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**Table 3: Distribution of office space across sectors in Q2 2010 (Apr-Jun) and Q2 2011 (Apr-Jun)**

Sectors	Q2 2010 (Apr-Jun)	Q2 2011 (Apr-Jun)
IT/ITeS	62%	64%
BFSI	1%	11%
Consulting	3%	11%
Healthcare/Pharma	2%	8%
Engineering	1%	4%
Consumer Durables	2%	1%
Education	13%	Nil
Telecom	9%	Nil
Others	8%	2%

Source: Knight Frank Research

This amounted to approximately 1.89 mn.sq. ft. and constituted of companies like Oracle, Accenture, Mu Sigma, Magna Infotech, Global Logic and Cross Domain.

The share of the IT/ITeS sector in office space absorption went up marginally in Q2 2011 and was recorded at 64% of the total transacted area, amounting to around 2.14 mn.sq.ft.. Key transactions were led by companies such as Intel, HCL, Zynga, Siemens, AMD, Cisco and Sapient.

Significantly, much variation is seen in the type of non-IT companies which took up office space in Q2 2010 with those in Q2 2011. While the education sector and telecom sector occupied 13% and 9% respectively of the total space leased out in Q2 2010, these sectors did not take part in the office space absorption scenario in Q2 2011. On the contrary, it was the BFSI sector and the consulting sector that featured prominently in Q2 2011, accounting for around 11% each of the total office space leased out. These sectors were responsible for only 1% and 3% respectively of the total transacted space in Q2 2010. Thus, it can be inferred that barring the IT/ITeS sector, there is no constant sector in Bangalore which occupies the most office space on quarter-on-quarter basis.

Some of the prominent consulting companies which took up office space in the city during the period April – June 2011 include PWC on Outer Ring Road, KPMG

**Table 4: Select transactions in Bangalore office market in Q2 2011 (Apr-Jun)**

Building	Occupier	Location	Approx Area (sq.ft.)
Embassy Paragon	Intel	Whitefield	130,000
SJR Equinox	HCL	Electronic City	125,000
Manyata Embassy Business Park	L&T	Outer Ring Road	100,000
Vrindavan Tech Village	Cisco	Outer Ring Road	230,000
Brigade Metropolis (Summit-2)	E&Y	Whitefield	160,000
Salarpuria GR Tech Park	Goldman Sachs	Whitefield	41,200
Prestige Corniche	Tata capital	Richmond Road	8,884
Logus Building	Zynga	MG Road	45,500
Prestige Blue Chip Tech Park	Voltas Limited	Koramangala	20,000
Bagmane Commerz-2	Informatica Business Solutions	CV Ramannagar	120,000
Standalone Building (by Kalyani Builders)	Honeywell	Bannerghatta Road	39,800
Brigade World Trade Centre	KPMG	Rajajinagar	40,000

Source: Knight Frank Research

in Rajajinagar and E&Y and Goldman Sachs both in Whitefield. Meanwhile, BFSI companies like Tata Capital and Fidelity leased out office space in Richmond Road and Whitefield respectively. Table 4 lists out some of the prominent office space transactions that took place in Q2 2011.

### Geographic Analysis

The consistent demand for IT space as well as for other emerging sectors have led to absorption levels picking up across all the micro-markets in Bangalore. Consequently, there has been dearth of quality office

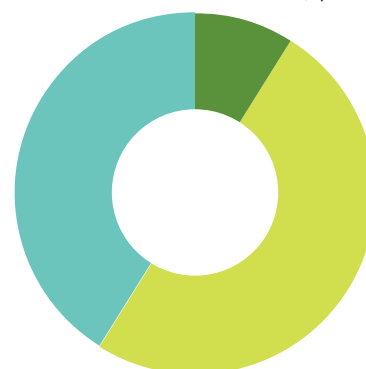
space in the central locations as well as in micro-markets like Sarjapur Outer Ring Road. This has led companies to explore peripheral markets like Whitefield which has considerable office space supply.

The location-wise share in office space absorption during the period Q2 2010 and Q2 2011 has been depicted in Chart 1.

Around 0.16 mn.sq.ft was transacted in the CBD and Off-CBD locations in Q2 2010 while Q2 2011 saw approximately 0.27 mn.sq.ft. of office space being leased out in these micro-markets.

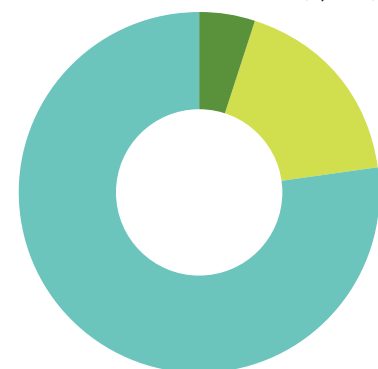
**Chart 1: Location wise share in office transactions in Q2 2010 (Apr-Jun) and Q2 2011 (Apr-Jun)**

Location-wise share in Q2 2010 (Apr-Jun)



■ CBD & Off CBD - 9%  
■ SBD - 50%  
■ PBD - 41%

Location-wise share in Q2 2011 (Apr-Jun)



■ CBD & Off CBD - 5%  
■ SBD - 18%  
■ PBD - 77%

Source: Knight Frank Research

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**THE CONSISTENT DEMAND FOR IT SPACE AS WELL AS FOR OTHER EMERGING SECTORS HAVE LED TO ABSORPTION LEVELS PICKING UP ACROSS ALL THE MICRO-MARKETS IN BANGALORE**

Although a larger volume of space was absorbed in Q2 2011 as compared to the previous year's quarter, the percentage share dipped from 9% in Q2 2010 to 5% in Q2 2011, thereby emphasizing the fact that the CBD and off-CBD office markets have less space to offer to interested parties. Some of the key tenants who took up space in these locations in Q2 2011 include Herbal Life on Residency Road, Zynga on MG Road and Gallup on Murphy Road.

Another significant geographical variation that was observed between Q2 2010 and Q2 2011 was the focus of office space absorption in Bangalore. While Q2 2010 saw majority of the office space transactions take place in the SBD micro-markets, to the tune of around 50%, the PBD locations accounted for 77% of the transacted space in Q2 2011. The suburban micro-market of Koramangala was amongst the most preferred office destinations in Q2 2010 while the PBD of Whitefield was the focus of office space absorption in Q2 2011.

**THE SUBURBAN MICRO-MARKET OF KORAMANGALA WAS AMONGST THE MOST PREFERRED OFFICE DESTINATIONS IN Q2 2010 WHILE THE PBD OF WHITEFIELD WAS THE FOCUS OF OFFICE SPACE ABSORPTION IN Q2 2011**

**Table 5: Transacted rental values of prominent micro-markets in Bangalore (in Rs./sq.ft./month)**

Micro-markets	Q2 2010 (Apr-Jun)			Q2 2011 (Apr-Jun)		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Central Business District (CBD) & Off-CBD	55	80	63	75	90	79
Suburban Business Districts (SBD)	30	72	40	40	63	48
Peripheral Business Districts (PBD)	26	55	38	20	54	28

Source: Knight Frank Research

Some of the companies which leased space in the PBD locations in Q2 2011 include HCL in Electronic City, Cisco on Outer Ring Road, AMD in Whitefield and Sparsh BPO on Hosur Road.

Table 5 highlights the minimum, maximum and the weighted average of rental values across micro-markets for Q2 2010 and Q2 2011. A large variation in rentals ranges has been observed in Q1 2010 and Q2 2011 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. For instance, an IT/ITeS sector transaction took place at PBD location of Electronic City at Rs.22/sq.ft. per month for an area of 125,000 sq.ft., while a company belonging to the BFSI sector took up space in another PBD location of Whitefield at Rs.50/sq.ft. per month for an area of 87,000 sq.ft. It should also be noted that in the PBD locations, as most of the transactions were in the IT/ITeS sector, the average rentals are more skewed towards the minimum value.

**Outlook**

With the expansion of existing operations in the IT sector and the entry of newer sectors due to the renewed optimism in the market, the city is further expected to see improved uptake of office space in the next two quarters this year. With the revival in demand, developers who had earlier postponed their office projects have started their construction activities and have also witnessed pre-commitments from interested parties. Most of these projects are slated to enter the market in the next two years.

Till then, availability of quality office space options in select micro-markets is expected to remain under pressure. In the forthcoming quarters, peripheral micro-markets like Whitefield and Electronic City are expected to dominate the office space transaction scenario due to their new office space supply and better leasing options. At the same time, in order to maintain the city's attractiveness to the potential occupier, it is essential that efforts should be made on an urgent basis to improve the infrastructure development in the city.

**WITH THE EXPANSION OF EXISTING OPERATIONS IN THE IT SECTOR AND THE ENTRY OF NEWER SECTORS DUE TO THE RENEWED OPTIMISM IN THE MARKET, THE CITY IS FURTHER EXPECTED TO SEE IMPROVED UPTAKE OF OFFICE SPACE IN THE NEXT TWO QUARTERS THIS YEAR**