



AUGUST 2012 OFFICE TRACTION @ GLANCE

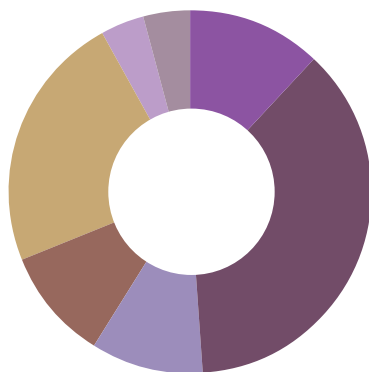
Knight Frank

Pune

Market Review

Pune city is among the top ten largest metropolitan economies in terms of Nominal GDP and per capita income in the country. It has evolved as an industrial destination, as the Automobile and Pharmaceutical industries set up shop here in a big way. However, the IT/ITeS sector has in recent times dominated its economy and Pune is today among the leading software exporters in India. The pace at which the IT/ITeS industry has grown, coupled with the growth in the manufacturing sector has sparked off a flurry of construction activity in the grade A office space market over the past decade. The eastern and north-western locations where the IT/ITeS sector has proliferated have the largest chunk of office space in Pune.

Chart 1.0: Regional share of Office Space:



- PMR Central - 12%
- PMR East - 37%
- PMR North - 10%
- PMR North East - 10%
- PMR North West - 23%
- PMR South - 4%
- PMR West - 4%

Source: Knight Frank Research

Table 1.0: A summary of Lease transactions:

Lease Transaction	Q1 FY 2013	Q1 FY 2012	Q4 FY 2012
Nos	23	27	23
Total area transacted	0.68 mn.sq.ft.	0.9 mn.sq.ft.	0.81 mn.sq.ft.
Average Rentals for IT/ITes transactions	INR 38/ sq.ft./ month	INR 28/ sq.ft./ month	INR 34/ sq.ft./ month

Source: Knight Frank Research
Average annual absorption numbers have rebounded almost 60% since their 2009 lows, however an uninspiring global economic environment has been causing expansion activity to stagnate and regress even. The IT/ITeS sector which is especially sensitive to global economic cues, has been trading cautiously and suspending expansion plans while waiting for the business cycle to turn. Absorption numbers in Q1 FY 2013 have fallen almost 24% from Q1 FY 2012 and 15% from the preceding quarter. This is a poor indicator of market traction as transaction activity is largely cyclical in nature since the initial few months of the financial year experience bulk of the action as location planning and budgeting activities tend to concentrate the quantum of office space transactions in this period.

Sectoral Analysis

Traditionally, the IT/ITeS sector which accounts for majority of the space transacted has dominated the Pune office market while the Manufacturing and BFSI sectors vie for second place a long distance behind. The IT/

Table 2.0: Average prices in the outright sale market:

Sale transactions in Q1 FY 2013 (psf rates)	CBD	PBD	SBD
IT/ITeS	INR. 6,500 - INR. 7,500	INR. 3,800 - INR. 4,300	INR. 3,400 - INR. 3,700
Non-IT/ITeS	INR. 8,000 - INR. 10,000	INR. 5,500 - INR. 7,500	INR. 4,500 - INR. 5,500

Source: Knight Frank Research

ABSORPTION NUMBERS IN Q1 FY 2013 HAVE FALLEN ALMOST 24% FROM Q1 FY 2012 AND 15% FROM THE PRECEDING QUARTER

ITeS sector accounted for 0.48 mn.sq.ft. in Q1 FY 2013, down from the 0.60 mn.sq.ft. in Q1 FY 2012. Over half of the space transacted by the IT/ITeS sector was concentrated in Hinjewadi and Hadapsar. The top five transactions during Q1 FY 2013 were accounted for by this sector and constituted approximately a third of the total absorption during the period.

OVER HALF OF THE SPACE TRANSACTED BY THE IT/ITES SECTOR WAS CONCENTRATED IN HINJEWADI AND HADAPSAR. THE TOP FIVE TRANSACTIONS DURING Q1 FY 2013 WERE ACCOUNTED FOR BY THIS SECTOR AND CONSTITUTED APPROXIMATELY A THIRD OF THE TOTAL ABSORPTION DURING THE PERIOD



Table 3.0: Distribution of office space across sectors:

Broad Industry Classifications	Q1 FY 2013	Q1 FY 2012	Q4 FY 2012
BFSI	15%	3%	-
IT/ITeS	70%	67%	76%
Manufacturing	9%	21%	15%
Other Service sectors*	6%	4%	8%
Others	-	4%	-

*Service sector companies besides those included in the BFSI and IT/ITeS category
Source: Knight Frank Research

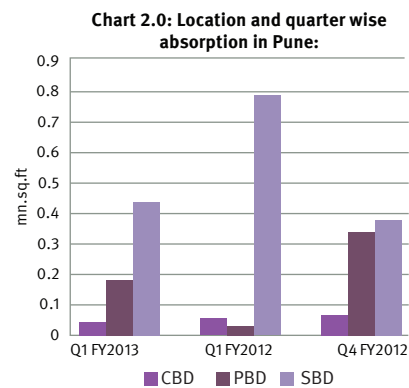
Q1 FY 2013 saw the BFSI sector share jump five-fold to 15% of the total transacted space thanks largely to a 0.1 mn.sq.ft. lease inked by Citibank in Eon at Kharadi.

Q1 FY 2013 SAW THE BFSI SECTOR SHARE JUMP FIVE-FOLD TO 15% OF THE TOTAL TRANSACTED SPACE THANKS LARGELY TO A 0.1 MN.SQ.FT. LEASE INKED BY CITIBANK IN EON AT KHARADI

Demand from the manufacturing sector has been steady and is providing a fillip to the health of the Pune office market as a whole. It has experienced a tremendous amount of growth in the last five years in and around Pune city limits. Prolific expansion of automotive giants like Volkswagen, Mercedes, Mahindra and Hyundai has resulted in their vendor companies setting up factories in Pune. This has generated huge demand for industrial land in locations like Chakan, Rajangaon, Talegaon and in new industrial locations like Shirval. Most of these companies have taken up offices in the CBD and PBD locations for design centres and sales and service offices. Few of such recent transactions are by Konecranes, Prime Surgical & Pharma among others. The fact that the growth in the manufacturing sector is not as sensitive to global economic cues as the IT/ITeS sector, is a significant

positive for the Pune office space market. Other service sector organisations such as consulting and advisory companies have maintained their market share over the analysis period.

Geographic Analysis



Source: Knight Frank Research

The Secondary Business District (SBD) micro-market has claimed the lion's share of the transacted space over the three reference periods but its dominance has receded in recent quarters. The SBD accounted for 66% of the transacted space and was the preferred destination for most companies due to its proximity to central areas. However, this is still a steep drop over the massive 90% share this micro-market clocked during Q3 FY 10-11 as corporates have taken up space in the Peripheral Business District (PBD) locations like Hinjewadi, Pimpri and Bavdhan. Hadapsar, Kharadi and Baner accounted for nearly 50% of the transacted space in the SBD. Magarpatta in Hadapsar, EON in Kharadi and Amar Paradigm in Baner had nearly 0.3 mn.sq.ft. of office space taken up between them.

The PBD locations have experienced increased traction since the past few quarters and their share has grown manifold

HADAPSAR, KHARADI AND BANER ACCOUNTED FOR NEARLY 50% OF THE TRANSACTED SPACE IN THE SBD

since Q1 FY 2012 as buildings such as Blue Ridge and Embassy Techzone in Hinjewadi among others have seen increased take-up from corporates over the past four quarters. IT/ITeS companies such as Cisco Systems, Tata Technologies and Sears Holdings have taken up space in Blueridge at Hinjewadi during Q1 FY 2013 and have accounted for approximately 90% of the space transacted in this micro-market

CISCO SYSTEMS, TATA TECHNOLOGIES AND SEARS HOLDINGS HAVE TAKEN UP SPACE IN BLUERIDGE AT HINJEWADI DURING Q1 FY 2013 AND HAVE ACCOUNTED FOR APPROXIMATELY 90% OF THE SPACE TRANSACTED IN THIS MICRO-MARKET

The Central Business District (CBD) witnessed absorption of approximately 46,000 sq.ft. which was slightly lower than the other two reference periods. Bajaj Brand view in Wakadewadi, Pride Silicon Plaza on SB Road and Parekh House on Bund Garden Road experienced most of the transaction activity. Rental values have stayed firm in this micro-market due to limited availability and little chance of any new deliveries.

Micro-markets	Locations
Central Business District (CBD)	Shivaji Nagar, Deccan, Wakadewadi, Dhole Patil Road, Bund Garden Road, MG Road, Koregaon park, Swargate
Secondary Business District (SBD)	Kalyani Nagar, Viman Nagar, Nagar Road, Aundh, Baner, PashanKothrud, Kharadi, Hadapsar, Satara Road
Peripheral Business District (PBD)	Phursungi, Hinjewadi, Wakad Bavdhan, Pimpri Chinchwad, Talawade



Table 4.0: Select transactions in the Pune Office Market:

Location	Building	Company	Industry	Approx. Area (sq.ft.)	Quarter
Kharadi	Eon	Citibank	BFSI	100,000	Q1 FY 2013
Hinjewadi	Blue Ridge	Cisco	IT/ITeS	96,000	Q1 FY 2013
Hadapsar	Magarpatta	Zento	IT/ITeS	44,000	Q1 FY 2013
Hinjewadi	Blue Ridge	Sears Holdings	IT/ITeS	35,000	Q1 FY 2013
Baner	Amar Paradigm	Pubmatic	IT/ITeS	35,000	Q1 FY 2013
Hinjewadi	Blue Ridge	Tata technologies	IT/ITeS	35,000	Q1 FY 2013
Yerwada	Binerius	Bristlecone	Other Service sectors	35,000	Q1 FY 2013

Source: Knight Frank Research

Blue Ridge in Hinjewadi, Eon in Kharadi and Magarpatta in Hadapsar featured prominently during Q1 FY 2013 as they saw a total absorption of nearly 0.38 mn.sq.ft. which made up approximately 55% of the total area absorbed in this period. It was also observed that over 50% of the transacted space was in IT SEZ properties which clearly depicts a definite preference of the IT/ITeS players toward IT SEZ office space.

Outlook

The lull in the commercial office space market is expected to persist over the near term as the corporate and industrial sector exercise caution with their expansion plans. Approximately 4 mn.sq.ft. of office space is expected to come online toward the latter part of FY 2013, which coupled with the moderation in transaction activity

Table 5.0: Average transacted rental values in Pune (INR/sq.ft./month)

Micromarkets	Q1 FY 2013	Q1 FY 2012	Q4 FY 2012
CBD	55	52	55
PBD	32	32	32
SBD	38	35	36

Source: Knight Frank Research

is likely to put pressure on rental levels in most locations. Vacancy levels will be under pressure and would vary between 23%-25%. The SEZ space accounted for the bulk of transacted space in the past six quarters and has left very limited inventory in this category. The trend will continue in the remaining part of FY 2013 and will in turn result in firming up rentals in the SEZ space in the near term. The fact that new entrants like UPS, Metro and Hitachi are setting up design and development centres in the city

and existing large players like IBM, TCS and Cognizant are looking to add to their real estate portfolio will support market health.

THE LULL IN THE COMMERCIAL OFFICE SPACE MARKET IS EXPECTED TO PERSIST OVER THE NEAR TERM AS THE CORPORATE AND INDUSTRIAL SECTOR EXERCISE CAUTION WITH THEIR EXPANSION PLANS

APPROXIMATELY 4 MN.SQ.FT. OF OFFICE SPACE IS EXPECTED TO COME ONLINE TOWARD THE LATTER PART OF FY 2013, WHICH COUPLED WITH THE MODERATION IN TRANSACTION ACTIVITY IS LIKELY TO PUT PRESSURE ON RENTAL LEVELS IN MOST LOCATIONS

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