



NCR
OFFICE TRACTION@GLANCE
December 2013

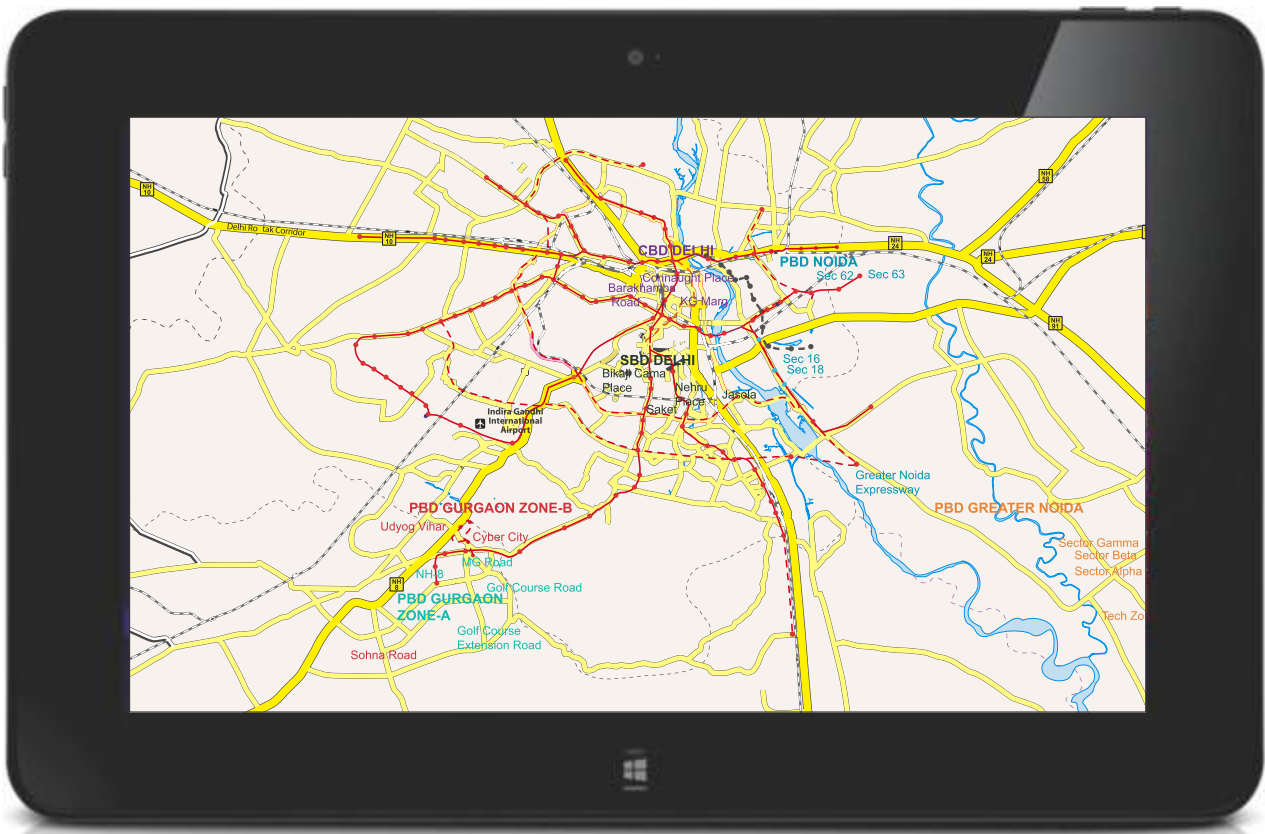
The Office Traction@Glance series analyses the office market of a city with regard to new supply, vacancy trends, key transactions, industry wise absorption, micro-market split of absorption, rental trend and future outlook.

MAIN HIGHLIGHTS OF THE REPORT

- NCR Office market exhibits strong traction despite economic uncertainties
- Total absorption for the current year to marginally exceed the 2012 level
- Gurgaon remains at the forefront of both new office space and absorption in the market

NCR is the largest office market in the country with an operational stock of 118 mn.sq.ft. of which 93 mn.sq.ft. is occupied, resulting in a vacancy of 21%. An upward movement in vacancy is observed mainly due to an additional 20 mn.sq.ft. of office space in the year 2010 and 2011

The urban agglomeration of NCR has been a hotspot of commercial activity since years now. Growing from Connaught Place to the peripheral areas of Gurgaon and Noida, it is today one of the most sought after business centres in India and the world over. NCR is the largest office market in the country with an operational stock of 118 mn.sq.ft. of which 93 mn.sq.ft. is occupied, resulting in a vacancy of 21%. For the past five years the vacancy levels have moved narrowly between 17-20% and although they have peaked this year they are not distressingly high. This upward movement in vacancy is observed mainly due to an additional 20 mn.sq.ft. of office space in the years 2010 and 2011. Absorption volumes could not keep pace with new supply in the subsequent years, increasing the vacancy level.



Fast paced growth in the IT/ITeS sector has contributed largely to the office space demand. Most of the recent supply has come up in the peripheral business districts of Gurgaon, Noida, Greater Noida and the secondary business districts of Saket and Jasola. The NCR is expected to witness fresh office supply to the tune of 34 mn.sq.ft. in the coming four years.

Despite being an attractive office destination and having the highest office stock in the country, the NCR stands third in terms of yearly office space take-ups. Absorption levels in the market have been ranging between 6.0-7.5 mn.sq.ft. since the past three years which is a tad lower than Mumbai and Bengaluru. As per our estimates about 6.5 mn.sq.ft. of office space will be absorbed by the end of 2013, which is comparable with the 2010 levels.

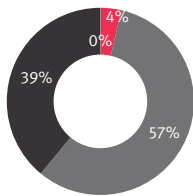
BUSINESS DISTRICTS IN NCR

Micro-markets	Sub-markets
Central Business District (CBD), Delhi	Connaught Place, Barakhamba Road, Kasturba Gandhi Marg, Minto Road
Secondary Business District (SBD), Delhi	Nehru Place, Saket, Jasola, Bikaji Kama Place, Mohan Co-operative area, Aerocity
Peripheral Business District (PBD), Gurgaon	DLF Cyber City, MG Road, Sohna Road, Golf Course Road, Dundaheera, Manesar, NH-8, Udyog Vihar
Peripheral Business District (PBD), Noida	Sector 16, 18, 62, 63, Greater Noida Expressway

Source: Knight Frank Research

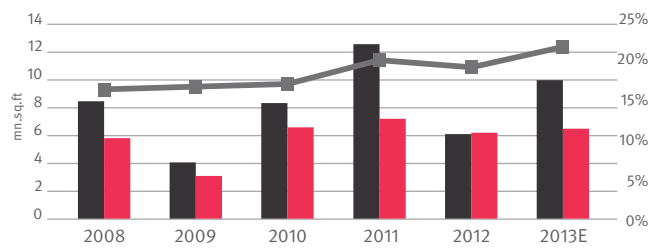
COMMERCIAL RESEARCH

BUSINESS DISTRICT-WISE SPLIT OF UPCOMING OFFICE SUPPLY (2014-17)



● CBD-Delhi ● SBD-Delhi ● PBD-Gurgaon ● PBD-Noida
Source: Knight Frank Research

NEW SUPPLY AND ABSORPTION TREND OF OFFICE SPACE IN NCR (2008-2013 E)



● New Supply ● Absorption — Vacancy (RHS)
Source: Knight Frank Research

Market Activity

TRANSACTION SUMMARY

	Jan-Sept 2011	Jan-Sept 2012	Jan-Sept 2013
Lease Transactions (No.)	204	163	173
Total Area Transacted (mn.sq.ft)	5.8	4.8	4.9
Average Transacted Rental (₹/sq.ft./month)	49	56	53

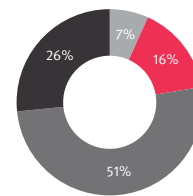
Source: Knight Frank Research

The NCR office market has remained rock solid amidst economic woes. The fact that office space take-up during the first nine months of 2013 has marginally exceeded that of the same period in 2012 clearly indicates strong fundamentals in the NCR office market. About 4.9 mn.sq.ft. of office space was absorbed during January-September period in 2013. A quarterly analysis of transaction activity also demonstrates a similar trend. Considering the current run rate of transactions and the level of pre-commitments, total absorption for the current year is likely to be in the range of 6.3-6.8 mn.sq.ft. This is commendable given the weak global and domestic economic scenario.

Even though there has been remarkable improvement in occupiers' interest this year, absorption levels still fall short by 20% compared to 2011. Nearly 5.8 mn.sq.ft. of office space was transacted in January-September 2011, mainly driven by the IT/ITeS sector.

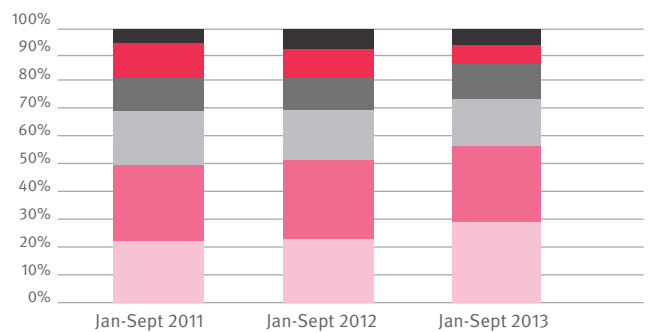
A total of 173 transactions were recorded during January-September 2013 as against 163 transactions during the same period in 2012. Weighted average rental value stood at ₹53/sq.ft. showing minimal deviation as compared to 2012 and 2011. The fact that corporates are taking up bigger spaces to consolidate their operations corroborates well with an increase in the number of transactions with area more than 1,00,000 sq.ft. Majority of these big transactions took place in Gurgaon, clearly showing a preference for the market. Simultaneously there was a notable rise in the number of smaller transactions with an area less than 5,000 sq.ft. due to increasing non-IT transactions.

BUSINESS DISTRICT-WISE SHARE OF OFFICE STOCK



● CBD-Delhi ● SBD-Delhi ● PBD-Gurgaon ● PBD-Noida
Source: Knight Frank Research

SPLIT OF NUMBER OF TRANSACTIONS BY SIZE



● <5,000 sq.ft. ● 5,001-12,500 sq.ft. ● 12,501-25,000 sq.ft. ● 25,001-50,000 sq.ft. ● 50,001-100,000 sq.ft. ● >100,001 sq.ft.
Source: Knight Frank Research

DURING JANUARY-SEPTEMBER 2013 THE SHARE OF OTHER SERVICE SECTOR HAS EXCEEDED THAT OF IT/ITES AND CONTRIBUTED ABOUT 32% TO THE OVERALL TRANSACTIONS PIE. THE SECTOR'S SHARE HAS ALMOST DOUBLED WHEN COMPARED TO 2011, CONSULTING AND MEDIA COMPANIES HAVE CONTRIBUTED HUGELY TO THIS UPSURGE.

Sectoral Analysis

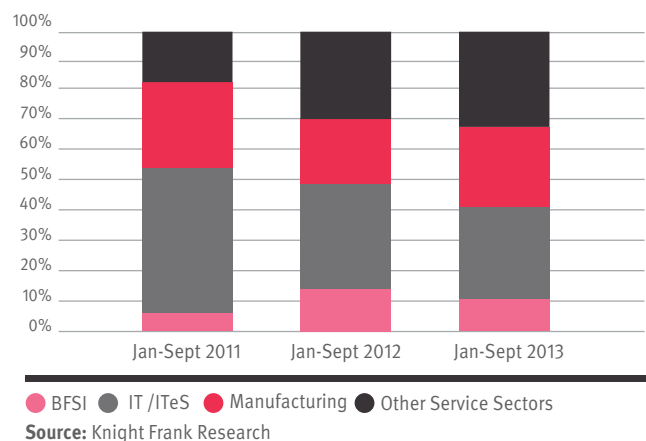
IT/ITeS sector has been the primary driver of office space take-up in the NCR market. The beginning of the year showed a drastic dip in the sector's share. A meagre 0.2 mn.sq.ft. of IT/ITeS space was transacted in Q1 2013 exhibiting a dip of 75% compared to Q1 2012. However, demand picked up during the next two quarters as a number of deals were pushed for closure by multinationals in order to take advantage of the weakened rupee. As per our estimates nearly 30% of the absorption was contributed by the IT/ITeS sector which accounted for 1.5 mn.sq.ft. of office space during the first nine months of 2013. Hence showing a substantial dip of 51% compared with the same period in 2011. Manufacturing and other service sector companies have increased their footprints in the NCR market, consequently diversifying the sector share. Some of the recent key space occupiers in the IT/ITeS sector include companies like John Keels, Aon Hewit and Accenture.

The market share of other service sector companies like media, telecom, consulting and logistics has risen consistently over the years. During January-September 2013 the share of other service sector marginally exceeded that of IT/ITeS and contributed about 32% to the overall transactions pie. The sector's share has almost doubled as compared to 2011; consulting and media companies have contributed hugely to this upsurge. Nearly 1.7 mn.sq.ft. of office space was absorbed by the other service sector during January-September 2013. Deloitte, Jacob's Engineering and Interglobe were some of the prominent occupiers in this sector.

Market share of the manufacturing sector had plummeted to 21% in 2012. This year has seen some revival with companies like Samsung, Michelin and GSK contributing largely to the office space take-up. Traditionally the BFSI sector had a substantial share in the office space absorption, contributing nearly 10-15% of the quarterly

absorption. However, the BFSI sector lost sheen in 2011 and its share came down to nearly 6%. This year it moved up to 11% during January-September 2013. Majority of the BFSI transactions took place in CBD and SBD Delhi. Yes Bank, Axis Bank and Union Bank were some of the key occupiers.

SHARE OF OFFICE SPACE ABSORPTION ACROSS SECTORS



THE NCR OFFICE MARKET HAS REMAINED ROCK SOLID AMIDST THE ECONOMIC WOES. THE FACT THAT OFFICE SPACE TAKE-UP DURING THE FIRST NINE MONTHS OF 2013 HAVE MARGINALLY EXCEEDED THOSE OF THE SAME PERIOD IN 2012 CLEARLY INDICATES STRONG FUNDAMENTALS IN THE NCR OFFICE MARKET. ABOUT 4.9 MN.SQ.FT. OF OFFICE SPACE WAS ABSORBED DURING JANUARY-SEPTEMBER PERIOD IN 2013.

SELECT TRANSACTIONS IN NCR OFFICE MARKET DURING JANUARY-SEPTEMBER 2013

Business District	Building	Company	Area
PBD-Gurgaon	Unitech Infospace, Tikri	Aon Hewitt	400,000
PBD-Noida	Plot No. 2A, Sector 126	Samsung	500,000
PBD-Noida	DLF IT Park	Fiserv	200,000
PBD-Gurgaon	DLF Atria	Cairn India	200,000
PBD-Gurgaon	RK Four Square	Reliance 4G	80,000
PBD-Gurgaon	Bestech Business Tower	Convergys	220,000
PBD-Noida	Green Boulevard, Tower C	Tata Consulting Engineers	150,000
PBD-Gurgaon	DLF Building 5	American Express	250,000

Geographical Analysis

Peripheral business districts of Noida and Gurgaon still continue to be the preferred locations for occupiers. Both these markets claimed nearly 90% of the total transacted space during January-September 2013. Their share has been moving upwards with each passing year, primarily due to ample available office space with affordable rentals. Lack of additional office supply in the CBD and SBD locations of Delhi also acts as a deterrent to these locations, as the vacancy levels are already quite low in these markets leaving the occupiers with no choice. Aerocity is the only addition to the SBD offering which is expected to witness some traction going forward.

Gurgaon remains at the forefront of both new office space and absorption in the NCR market. Nearly 19 mn.sq.ft. of office space is expected to enter the Gurgaon market by the end of 2017. Most of the IT/ ITeS companies in Gurgaon are presently concentrated in DLF Cybercity while other locations like MG Road and Golf Course are essentially commercial and non-IT in nature. Opening of the rapid metro has mitigated the connectivity issues which DLF Cybercity faced last year and has pushed the rentals upwards. Sohna Road has emerged as an affordable office destination within Gurgaon with a well-developed residential infrastructure. PBD-Gurgaon alone contributed to nearly 66% of the overall transactions pie during the first nine months of 2013. Approximately 3.2 mn.sq.ft. of office space leasing took place in Gurgaon showing an increase of 12% compared to January-September 2012. Despite a dip in the number of transactions its share in terms of space has increased manifold this year, largely because of big ticket deals. DLF Cybercity, Sohna Road and Udyog Vihar were some of the preferred locations within Gurgaon.

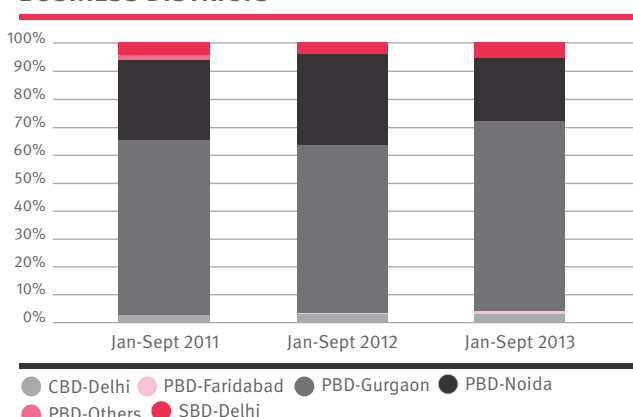
CONSIDERING THE CURRENT RUN RATE OF TRANSACTIONS AND THE LEVEL OF PRE-COMMITMENTS TOTAL ABSORPTION FOR THE CURRENT YEAR IS LIKELY TO BE IN THE RANGE OF 6.3-6.8 MN.SQ.FT.

PBD-Noida has had moderate year in terms of absorption volume. Its share in the overall transaction pie has almost reduced by 25% compared to 2012. The fact that the Noida market is entirely dependent on the IT/ITeS sector unlike Gurgaon which has a balanced mix of IT and non IT occupiers makes it more vulnerable. Reduction in the number of IT/ITeS transactions and limited expansion activities by existing occupiers like Accenture, HCL, IBM and TCS led to a slump. Noida-Greater Noida Expressway and Sector-62 remained the favoured markets within Noida this year.

CBD and SBD Delhi contributed to a meagre 9% of the overall transacted space during January-September 2013. Although in terms of space the contribution of these two markets is quite low, the importance cannot be undermined. Out of the total pie of the number of transactions during January-September 2013, around 50 were in CBD and SBD Delhi. However, most of these were smaller transactions ranging between 5000-12500 sq.ft. Dominated mostly by the BFSI, engineering, electronic and aviation sectors, the CBD commands premiums in terms of rental values due to its location and connectivity advantage. SBD-Delhi on the other hand saw tremendous activity in 2010. However, a rise in asking and limited options with large floor plates compelled the occupiers to explore other options.

Rental levels in the NCR office space market have moved in narrow ranges during the past two years with select business districts faring much better than the others. PBD-Gurgaon has seen the maximum increase in terms of rental values at 9% and current weighted average rentals stand at ₹75/sq.ft./month.

SHARE OF OFFICE SPACE ABSORPTION ACROSS BUSINESS DISTRICTS



Source: Knight Frank Research

AVERAGE RENTAL VALUES IN BUSINESS DISTRICTS

Micro-markets	Jan-Sept 2013 (₹/sq.ft./month)	Jan-Sept 2012 (₹/sq.ft./month)
CBD-Delhi	200	195
SBD-Delhi	134	130
PBD-Gurgaon	75	69
PBD-Noida	42	39

Source: Knight Frank Research

Outlook

The NCR office market clearly shows strong fundamentals, as the transaction activity observed during the first nine months of this year has been quite encouraging. In spite of a slump in the first quarter the market managed to pick up with abundant demand from the IT/ITeS sector. Presently the NCR office market is optimistic, and is driven by strategic expansion plans of companies keeping long term goals and resultant headcount growth in mind. Considering robust occupiers' interest and the level of pre-commitments we expect the total absorption for the current year to marginally exceed the 2012 level. Going forward, leasing activity is expected to witness moderate improvement as corporates align their real estate strategies towards consolidation and relocation for cost benefits. Looking at the pipeline of new office space and the demand scenario we expect the vacancy levels to hover around 20% for the next three years. Rental values are expected to move in narrow ranges as demand remains buoyant and supply is constrained especially in select micro-markets of Gurgaon.

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