



# FEBRUARY 2011 OFFICE TRACTION @ GLANCE

## Knight Frank

### National Capital Region (NCR)

#### Introduction

The National Capital Region (NCR) has been one of the prime office markets of the country. Traditionally, micro-markets like Connaught Place, Bhikaji Cama Place and Nehru Place have dominated the NCR market in terms of office space absorption. A growing demand for office space by the IT/ITeS sector and lack of fresh supply in the traditional office location, have led to the emergence of peripheral micro-markets like Gurgaon and Noida and new office locations within Delhi such as Jasola and Saket in South Delhi.

Due to the slump in demand that was attributed to the crisis in global markets and slowdown of the Indian economy, office sector in the NCR witnessed a decline in rental values and an increase in vacancy

**A GROWING DEMAND FOR OFFICE SPACE BY THE IT/ITES SECTOR AND LACK OF FRESH SUPPLY IN THE TRADITIONAL OFFICE LOCATION, HAVE LED TO THE EMERGENCE OF PERIPHERAL MICRO-MARKETS LIKE GURGAON AND NOIDA AND NEW OFFICE LOCATIONS WITHIN DELHI SUCH AS JASOLA AND SAKET**

rates across micro-markets from mid 2008 till end 2009. Constricted demand from sectors such as IT/ITeS and BFSI, considered to be the principle drivers of office space in the NCR, affected the overall office market scenario.

After almost two years of the economic slowdown, the Indian economy began stabilizing in the first half of 2010 (H1), supported by positive sentiments from the investors and end users, leading to a healthy office market outlook. Since then, the office market in the NCR has been on a road to recovery. During 2010, leasing activity in the NCR was observed to have been rising, with the IT/ITeS and BFSI sectors seeking out new office space to either initiate or expand their business operations here. A healthy absorption across micro-markets also led to a marginal improvement in the rentals.

Table 1. Type of transactions in 2010 (January to December)

Transaction Summary	H1 2010 (Jan - June)	H2 2010 (July - Dec)
<b>Total Area Transacted</b>	2.97 mn.sq.ft	2.35 mn.sq.ft
<b>Lease Transactions</b>		
Nos	76	37
Total Area Transacted	2.87 mn.sq.ft	2.11 mn.sq.ft
Average Rate	Rs. 57 /sq.ft./month	Rs. 49 /sq.ft./month
<b>Sale Transaction</b>		
Nos	1	3
Total Area Transacted	0.1 mn.sq.ft	0.24 mn.sq.ft
Average Rate	Rs. 11000 /sq.ft	Rs. 8884 /sq.ft

Source: Knight Frank Research

As per Knight Frank Research approximately 5.32 mn.sq.ft. of office space (lease and sale) transactions were observed during the four quarters of 2010. Due to a high preference for rented office space as opposed to outright purchase, around 94% of the total office

space absorbed in the NCR comprised only lease transactions.

**AS PER KNIGHT FRANK RESEARCH APPROXIMATELY 5.32 MN.SQ.FT. OF OFFICE SPACE (LEASE AND SALE) TRANSACTIONS WERE OBSERVED DURING THE FOUR QUARTERS OF 2010**

Out of the total office space taken up, a major share of around 56% was absorbed in H1 (Jan June) 2010 which consisted of 76 lease and one sale transactions. The average rental across office micro-markets during H1 2010 stood at Rs. 57/sq.ft./month, whereas capital values were observed at Rs. 11,000/sq.ft.

In comparison to H1 2010, H2 2010 witnessed approximately 2.35 mn.sq.ft. of fresh office space being absorbed in the NCR. This comprised about 37 lease transactions amounting to 2.11 mn.sq.ft. and 3 sale transactions amounting to 0.24 mn.sq.ft.

In H1 2010, the average size of office space transactions was observed at 38,571 sq.ft. whereas in H2 2010, it was observed at 58,750 sq.ft. reflecting a higher transaction size in H2 2010. The average rental during H2 2010 stood at Rs. 49/sq.ft./month, whereas capital values were observed at Rs. 8,884/sq.ft. Due to an increase in share of Noida in total office space transactions in H2 2010 and an increase in transaction sizes in the NCR, the average transacted rental in the NCR declined by about 13.5%.



IN H1 2010, THE AVERAGE SIZE OF OFFICE SPACE TRANSACTIONS WAS OBSERVED AT 38,571 SQ.FT. WHEREAS IN H2 2010, IT WAS OBSERVED AT 58,750 SQ.FT. REFLECTING A HIGHER TRANSACTION SIZE IN H2 2010

## Sectoral Analysis

Table 2. Distribution of office space across sectors in 2010 (January to December)

Sectors	H1 2010 (Jan - June)	H2 2010 (July - Dec)
IT/ITeS	54%	64%
BFSI	14%	1%
Telecom	5%	6%
Pharmaceutical	4%	5%
Consulting	3%	9%
Others	21%	16%

Source: Knight Frank Research

Since the last 4-5 years, the NCR's office market has been dominated primarily by the IT/ITeS and BFSI sectors. In 2010, out of the total 5.32 mn.sq.ft. absorbed, about 58% was absorbed by the IT/ITeS sector and about 8% by the BFSI sector. The IT/ITeS sector with a

IN 2010, OUT OF THE TOTAL 5.32 MN.SQ.FT. ABSORBED, ABOUT 58% WAS ABSORBED BY THE IT/ITES SECTOR AND ABOUT 8% BY THE BFSI SECTOR. THE IT/ITES SECTOR WITH A TOTAL OF ABOUT 30 TRANSACTIONS CONSTITUTED CLOSE TO 3.1 MN.SQ.FT. OF OFFICE SPACE ABSORPTION

total of about 30 transactions constituted close to 3.1 mn.sq.ft. of office space absorption. Companies like the EXL, Accenture, Global Logic, IBM, Fidelity Information and Steria with transaction sizes in the range of 0.25 to 0.55 mn.sq.ft. constituted approximately 60% of the total IT/ITeS transactions.

The share of the IT/ITeS sector in office space absorption was approximately 54% in H1 2010 and 64% in H2 2010. This reflects a high dominance of the IT/ITeS sector in the NCR's office market. Most of the transactions led by the IT/ITeS sector were noted in Gurgaon and Noida.

THE SHARE OF THE IT/ITES SECTOR IN OFFICE SPACE ABSORPTION WAS APPROXIMATELY 54% IN H1 2010 AND 64% IN H2 2010. THIS REFLECTS A HIGH DOMINANCE OF THE IT/ITES SECTOR IN THE NCR'S OFFICE MARKET

On the other hand, the BFSI sector, with close to 11 transactions contributed about 14% to the total office space absorbed in H1 2010. However in H2 2010, not many BFSI transactions were recorded. The Royal Bank of Scotland's 3,00,000 sq.ft. was the largest BFSI transaction witnessed in the NCR during the year 2010. Other financial institutions like the Citibank, Kotak and Fire Capital also took up fresh office spaces in the range of 10,000 - 11,000 sq.ft.

Sectors like telecom, pharmaceutical along with consulting firms together contributed about 12% in H1 2010 and 20% in H2 2010 towards office space absorption. In 2010, around 16 transactions, with office space sizes ranging from 7,000 - 2,00,000 sq.ft. were recorded for the telecom, pharmaceutical and consulting firms. The share of consulting firms increased from 3%

in H1 2010 to about 9% in H2 2010 in terms of office space transactions. Of this, KPMG was responsible for 2,00,000 sq. ft. towards office space absorption in H2 2010.

## Geographic Analysis

The Peripheral Business Districts (PBD) of Noida and Gurgaon have been the focus of Grade A office development in the NCR in the last 4-5 years. Due to availability of quality office spaces, with large floor plates and state-of-the-art amenities, a sizeable share of office space transactions has been observed in these regions year-on-year. In 2010, about 94% of the total office space transacted in the NCR was taken up at Gurgaon and Noida.

Gurgaon saw the greatest take up of fresh office space in both H1 and H2 2010. Most of the office space transactions in Gurgaon were witnessed in micro-markets like M.G. Road, DLF Cyber City, Golf Course Road and Dundaheera. Of the total absorption in Gurgaon, the IT/ITeS sector contributed the highest, to the tune of approximately 1.04 mn.sq.ft.

MOST OF THE OFFICE SPACE TRANSACTIONS IN GURGAON WERE WITNESSED IN MICRO-MARKETS LIKE M.G. ROAD, DLF CYBER CITY, GOLF COURSE ROAD AND DUNDAHERA

DLF Cyber City emerged as one of the most sought after office locations in Gurgaon in 2010, recording a large number of transactions by the IT/ITeS, consulting, automobile, BFSI, engineering and electronic firms. The share of Gurgaon in total office absorption was observed at 54% in H1 and 53% in H2 2010 respectively.

The PBD of Noida emerged as the second most favourable location in the NCR in 2010 contributing 38% and 45% to total office space take-ups in H1 and H2 2010 respectively.

## India Research

**Samantak Das** National Head - Research  
+91 (022) 6745 0101  
samantak.das@in.knightfrank.com

**KnightFrank.co.in**

This report is published for general information only. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no legal responsibility can be accepted by Knight Frank Research or Knight Frank for any loss or damage resultant from the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is allowed with proper reference to Knight Frank Research.



Table 3: Select transactions in the NCR office market 2010 (January to December)

Location	Building	Company	Industry	Approx Area (sq ft)	H1/H2 2010
Gurgaon	Unitech Infospace	Royal Bank of Scotland	BFSI	300,000	H1
Gurgaon	Unitech Commercial Towers	Adidas	Retail	75,000	H1
Noida	Unitech Infospace	IBM	IT/ITeS	75,000	H1
Gurgaon	DLF Square	Quippo	Telecom	60,000	H1
Gurgaon	Cyber Greens	Nokia Siemens	Telecom	38,000	H1
Gurgaon	DLF Building No. 5	BMR Advisors	Consulting	30,000	H1
Gurgaon	DLF Building No. 6	Information Mosaic	IT/ITeS	30,000	H1
Noida	Knowledge Boulevard	Ericsson	Telecom	20,000	H1
Noida	Oxygen IT SEZ	EXL	IT/ITeS	250,000	H1
Noida	Unitech Infospace	Accenture	IT/ITeS	250,000	H1
Noida	Oxygen IT SEZ	Global Logic	IT/ITeS	250,000	H1
Noida	Knowledge Boulevard	ACS	IT/ITeS	100,000	H1
Delhi	Omaxe Citadel	Wipro	IT/ITeS	70,000	H1
Noida	Unitech Infospace	Steria	IT/ITeS	550,000	H2
Gurgaon	BPTP I Park	Fidelity Information	IT/ITeS	300,000	H2
Noida	DLF 3C Galaxy	CSC	IT/ITeS	150,000	H2
Noida	Advant IT Park	India Mart	IT/ITeS	125,000	H2
Gurgaon	DLF Building No. 10	KPMG	Consulting	200,000	H2
Gurgaon	Uniworld	Infosys	IT/ITeS	125,000	H2
Gurgaon	DLF Building No. 5	Exxon Mobil	Oil & Gas	43,000	H2
Delhi	Mira Suites	Samsung	Electronics	5,845	H2
Delhi	Stand Alone	Videojet	Manufacturing	5,000	H2

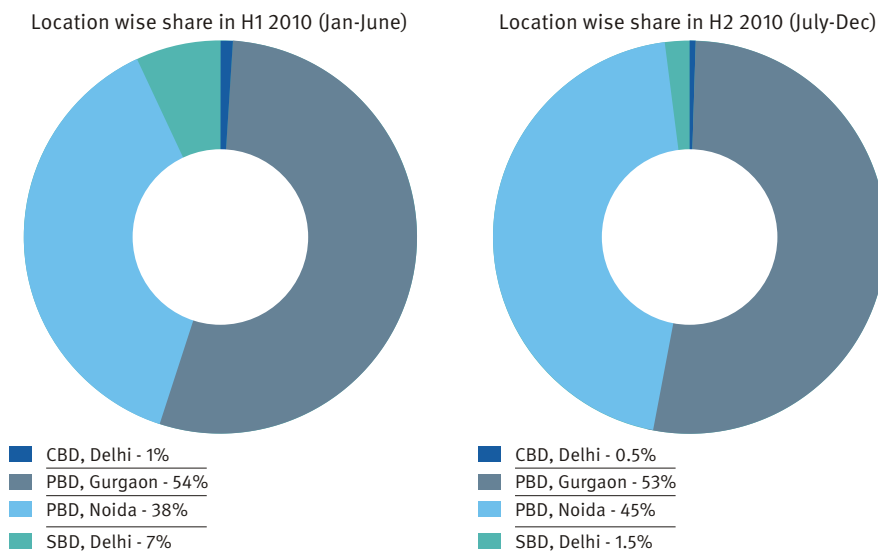
Source: Knight Frank Research

Micro-markets like Sector 62 and Noida-Greater Noida expressway emerged as key locations for acquiring office space in 2010. Competitive IT rentals and availability of office spaces in IT-SEZ buildings motivated major IT players like IBM, EXL, CSC, Oracle and Steria to take up fresh office space in Noida ranging between 75,000 sq.ft. and 5,50,000 sq.ft.

During 2010 around 1.96 mn.sq.ft. of IT/ITeS office space was transacted in Noida. Besides IT/ITeS, sectors like BFSI, Consulting, Telecom and PR/Advertising, also contributed towards office space absorption, opting for spaces ranging between 8,000 sq.ft. and 1,30,000 sq.ft. Projects like Unitech Infospace, Oxygen IT SEZ, Advant IT Park and Knowledge Boulevard witnessed most of the office transactions in Noida in 2010.

In Delhi, the Central Business District (CBD) comprising Connaught Place, Barakhamba Road and Kasturba Gandhi Marg has been the core of business activity in the region.

Chart 1. Location wise share in office transactions in 2010 (January to December)



Source: Knight Frank Research

Micro-Market Classification	Locations
Central Business District (CBD), Delhi	Connaught Place, Barakhamba Road, Kasturba Gandhi Marg
Secondary Business District (SBD), Delhi	Nehru Place, Vasant Kunj, Jasola, Saket, Bhikaji Cama Place, Mohan Cooperative area
Peripheral Business District (PBD), Gurgaon	DLF Cybercity, M.G. Road, Golf Course Road, Sohna Road, Dundaheera
Peripheral Business District (PBD), Noida	Sector 16A, 18, 62, Noida - Greater Noida Expressway

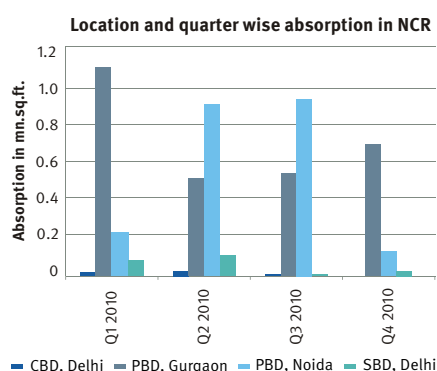


Dominated mostly by the BFSI, Engineering, Electronic and Aviation sectors, CBD commands premium in terms of rental values due to its location and connectivity advantage. Due to dearth of fresh supply of office space and low vacancy levels, the CBD of Delhi witnessed limited transactions in 2010. Around 54,750 sq.ft. of office space was transacted in 2010. Firms like Accenture, Kotak, BAE Systems and Global Energy were key contributors to this fresh office space demand in CBD, opting for office sizes in the range of 3,000 sq.ft. to 16,000 sq.ft.

The quantum of transactions in the Secondary Business Districts (SBD) of Delhi was observed at 0.24 mn.sq.ft. in 2010. Most of the transactions were concentrated in Nehru Place, Jasola, Mohan Co-operative Area, Saket and Vasant Kunj, wherein companies such as Wipro, BT India, Hero Honda, Neo Sports, Bhushan Steel, Ingersoll Rand and Smith Detection took up new office spaces in the range of 2,200 sq.ft. to 70,000 sq.ft.

The quarter-wise absorption of office space in the NCR is depicted in Chart 2. It can be observed that PBD Gurgaon witnessed a high demand for office space across all the quarters of 2010, whereas PBD Noida witnessed a high concentration of office transactions in Q2 and Q3 2010.

Chart 2. Location and quarter wise absorption in the NCR



Source: Knight Frank Research

Table 4 highlights the minimum, maximum and weighted average of rental values across micro-markets for H1 and H2 2010. A variation in rentals has been observed in H1 and H2 2010 in SBD Delhi. This variation is on account of the location of the transacted properties.

Table 4: Average transacted rental values of prominent micro-markets in the NCR

Micro Markets	H1 2010 (Jan - June)			H2 2010 (July - Dec)		
	Min	Max	Average	Min	Max	Average
Central Business District (CBD), Delhi	150	350	228	N.A	N.A	300
Secondary Business District (SBD), Delhi	90	250	132	60	180	127
Peripheral Business District (PBD), Gurgaon	40	130	56	45	132	57
Peripheral Business District (PBD), Noida	32	57	36	27	42	39

Source: Knight Frank Research

N.A. represents lack of multiple transactions to determine the minimum and maximum rentals for that micro-market

Rental values in Nehru Place, Jasola and Saket have been observed to be higher than locations like Mohan Co-operative Area, which is also categorised as SBD Delhi. It can also be observed that in Gurgaon as most of the transactions in 2010 were in the IT/ITeS sector, the average rentals in Gurgaon are more skewed towards the minimum value.

### Outlook

As the Indian economy is projected to grow by around 9% in FY 2011-12, the demand for office space in the NCR is expected to remain buoyant in the coming quarters. Sectors such as the ITeS, BFSI, automobile, pharmaceutical and consulting are expected to continue dominating the NCR's office space absorption.

In micro-markets such as PBD Gurgaon and PBD Noida there could be a downward pressure on rentals due to a substantial amount of fresh supply expected to become operational in 2011, whereas locations across CBD and SBD Delhi are expected to witness marginal appreciation owing to anticipation of demand and lack of fresh supply in these micro markets.

IN MICRO-MARKETS SUCH AS PBD GURGAON AND PBD NOIDA THERE COULD BE A DOWNWARD PRESSURE ON RENTALS DUE TO A SUBSTANTIAL AMOUNT OF FRESH SUPPLY EXPECTED TO BECOME OPERATIONAL IN 2011, WHEREAS LOCATIONS ACROSS CBD AND SBD DELHI ARE EXPECTED TO WITNESS MARGINAL APPRECIATION OWING TO ANTICIPATION OF DEMAND AND LACK OF FRESH SUPPLY IN THESE MICRO MARKETS