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OFFICE TRACTION @ GLANCE

Knight Frank

Chennai

Introduction

The year 2011 has proved to be the most successful period for the Chennai office market post the economic recession. Despite restricted supply in the first quarter, significant demand for office space was witnessed in most micro-markets across the city from both IT/ITeS and non-IT sectors.

The city has a strong Central Business District (CBD), comprising micro-markets such as Mount Road, Nungambakkam High Road, Nandanam and TTK Road while the neighbouring locations of Nelson Manickam Road and Poonamallee High Road make up the off-CBD market. The Suburban Business District (SBD) in Chennai encompasses locations like Adyar, Guindy, Mount Poonamallee Road and Anna Nagar, as well as Taramani, which is located on the Old Mahabalipuram Road (OMR). The OMR, further down, becomes a part of the Peripheral Business District (PBD) and is presently the prime focus of most IT/ITES office transactions. Besides the OMR, micro-markets like Ambattur and GST Road, too, form the PBD of the city.

The market downturn in 2009 had a strong effect on the Chennai office space scenario. As a result, limited demand from sectors

such as IT/ITeS and BFSI, considered to be the principal drivers of office space in Chennai, severely impacted the city's office market scenario. However, with the Indian economy becoming stable since the early part of 2010, leasing activity in Chennai has been on a rise. Around 3.10 mn.sq.ft. of office space was absorbed in 2010 with marginal improvements in rentals also observed during the year.

Table 1: Type of transactions in CY 2011 (Jan-Dec) in Chennai

Transactions Summary	H1 2011 (Jan-Jun)	H2 2011 (Jul-Dec)
Lease Transactions	1.89	2.68
Total Area Transacted	mn.sq.ft.	mn.sq.ft.
Weighted Average Value	Rs. 42/sq.ft./month	Rs. 48/sq.ft./month

Source: Knight Frank Research

As per Knight Frank research, Chennai witnessed the absorption of around 4.57 mn.sq.ft. of office space in CY 2011. Approximately 1.89 mn.sq.ft. of office space was observed to have been transacted during the first two quarters of 2011 (Jan - Jun) and around 2.68 mn.sq.ft. was transacted in H2 2011 (Jul-Dec). The average rental across office micro-markets during H1 2011 stood at Rs. 42/sq.ft. per month while it increased to Rs.48/sq.ft. per month in H2 2011.

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As compared to H1 2011, the second half of the year witnessed a larger volume of office space absorption. While dearth of supply in the first quarter of 2011 restricted the number of transactions, the pace began to pick up after the first quarter and continued to increase in the subsequent months. This positive development may be attributed to the renewed interest in commercial office space in Chennai. Besides, the right rentals also aided in attracting occupiers, thereby leading to active absorption.

Sectoral Analysis

The Chennai office market has primarily been dominated by the IT/ITeS sector in the recent years. However, an analysis of the sectoral distribution showed the emergence of a number of other industries in the market as well.

Micro-markets	Locations
Central Business District(CBD) and Off-CBD	Mount Road, Anna Salai, Nungambakkam, TTK Road, RK Salai, Egmore, Greams Road, Nandanam, Poonamallee High Road, Nelson Manickam Road
Suburban Business District (SBD)	Taramani (OMR), Mount Poonamallee Road, Guindy, Anna Nagar, Adyar
Peripheral Business District (PBD)	Old Mahabalipuram Road (OMR), Velachery, GST Road, Ambattur

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Table 2: Distribution of office space across sectors in CY 2011 (Jan - Dec) in Chennai

Sectors	H1 2011 (Jan-Jun)	H2 2011 (Jul-Dec)
IT/ITeS	75%	50%
BFSI	3%	9%
Engineering	Nil	7%
Healthcare	Nil	8%
Consulting	3%	18%
Manufacturing	1%	2%
Others	18%	7%

Source: Knight Frank Research

THE CHENNAI OFFICE MARKET HAS PRIMARILY BEEN DOMINATED BY THE IT/ITES SECTOR IN THE RECENT YEARS.

In 2010, out of the total 3.10 mn.sq.ft. absorbed, about 55% was absorbed by the IT/ITeS sector which in 2011 marginally increased to about 60% of the 4.57 mn.sq. ft. of office space absorbed. Some of the key IT/ITeS companies who took up space in the city in 2011 include Cognizant, Verizon, L&T Infotech, Siemens, Oracle, Mphasis and Infosys BPO, with office spaces in the range of 7,000 sq.ft. to 200,000 sq.ft.

The share of the IT/ITeS sector in office space absorption was at a remarkable figure of 75% in H1 2011 which dipped to 50% in H2 2011. This decline in IT/ITeS sector absorption may be primarily attributed to the inability of the economies of the North American and European countries to revive as per expectations. While early 2010 had infused hope into the domestic economy as well as in the economies of the aforementioned regions, whose financial conditions are interlinked with those of the IT/ITeS sector's growth plans, it did not take off in the desired direction. Consequently, the growth of the sector was hindered and H2 2011 did not see as many transactions as in H1 2011.

Besides the IT/ITeS sector, a number of consulting firms took up considerable office

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space in both the halves of the year 2011. While H1 2011 saw around 3% of the total office space transacted being occupied by the consulting sector, this figure rose to 18% in H2 2011. Some of the key consulting firms who took up office space in the city include Ernst & Young at Tidel Park and Mindtree at Ramanujan IT City, both projects being located in Taramani, and PwC at Prestige Palladium located on Greams Road.

Meanwhile, the healthcare sector contributed about 8% to the total space absorbed in H2 2010, while no significant transaction in the sector was recorded in H1 2011. Fortis Hospital's 100,000 sq.ft was the largest healthcare transaction witnessed in the Chennai during the year 2011, with other notable transactions being those by Apollo and Hospira Healthcare.

The BFSI sector also has substantial presence in the city's office space transaction scenario. The sector's contribution tripled from 3% in H1 2011 to 9% in H2 2011. Amongst the BFSI tenants who took up space, mention can be made of companies like Merrill Lynch at Express Avenue located on Anna Salai, and BNP Paribas at Ascendas Phase 3 located in Taramani (OMR). These BFSI firms have occupied office space areas in the range of 10,000 sq.ft. to 75,000 sq.ft.

THE BFSI SECTOR ALSO HAS SUBSTANTIAL PRESENCE IN THE CITY'S OFFICE SPACE TRANSACTION SCENARIO. THE SECTOR'S CONTRIBUTION TRIPLED FROM 3% IN H1 2011 TO 9% IN H2 2011

Other sectors like telecom, shipping, energy, aviation, automobile firms, etc. together contributed about 18% in H1 2011 and 7% in H2 2011 towards office space absorption.

Table 3: Select transactions in Chennai office market in CY 2011 (Jan-Dec)

Building	Occupier	Location	Approx Area (sq.ft.)
DLF IT SEZ	Cognizant Technology Solutions	Mt. Poonamallee Road	300000
Ramanujam IT City	Infosys BPO	OMR, Taramani	500000
TIDEL Park	Ernst & Young	OMR, Taramani	55000
Express Avenue	Merill Lynch	Anna Salai	10000
SP Infocity	Amazon	OMR, Perungudi	20000
Agnitio IT Park	Texas Instruments	OMR, Perungudi	20000
Ambit IT Park	Siestema	Ambattur	27000
RMZ Millenia 4B	Capgemini	OMR, Kandanchavadi	41000
KGN Towers	Wells Fargo	Egmore	24000
Prestige Palladium	ABB Ltd	Greams Road	16000
DLF Tech Park 4	L&T Infotech	Mt. Poonamallee Road	50000
Ramanujan IT City	Mindtree	OMR, Taramani	75000
Ascendas Phase 3	BNP Paribas	OMR, Taramani	70000
Prestige Palladium	Siemens	Greams Road	81000
Express Avenue	Mizuho Corporation Bank	Anna Salai	14400

Source: Knight Frank Research



Some of the key office transactions in Chennai in 2011 have been depicted in Table 3

Geographic Analysis

The CBD of the city witnessed a fewer number of transactions in 2011, as compared to the other business districts. The companies who set up their office in this region represented varied industry backgrounds, majority of them being from the BFSI sector. However, the second half of the year witnessed more office space transactions, to the tune of around 22% of the total office space absorbed in the year, as against only 11% in H1 2011. This may be due to the increased availability of smaller and older Grade B & C office spaces within the city. Also, steps have been taken towards rehabilitating older buildings, which makes way for more office space in the central areas of the city. Some of the key occupiers in the CBD region include companies such as Ansaldo, Vascon Engineering, Oracle and ABB Ltd.

The SBD of the city was responsible for several large sized transactions during the year 2011. The region witnessed a large quantum of the transactional activity,

AMONGST THE SUBURBAN MICRO-MARKETS, MAJORITY OF THE TRANSACTIONS HAVE TAKEN PLACE ON MOUNT POONAMALLEE ROAD AND TARAMANI. WHILE MOUNT POONAMALLEE ROAD CONTRIBUTED TOWARDS 37% OF THE TOTAL OFFICE SPACE TRANSACTED IN THE SBD REGION, TARAMANI WAS RESPONSIBLE FOR A GREATER SHARE OF 43%.

accounting for around 64% of the total office space transacted in H1 2011 and 53% in H2 2011. Amongst the suburban micro-markets, majority of the transactions have taken place on Mount Poonamallee Road and Taramani. While Mount Poonamallee Road contributed towards 37% of the total office space transacted in the SBD region, Taramani was responsible for a greater share of 43%. Major occupiers in these micro-markets include Sitel BPO, Dell Perot Systems, Foster Wheeler and Philtron.

DUE TO SEVERAL ADVANTAGES LIKE 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 THE PBD REGION.

Meanwhile, the contribution of OMR, which has been the hub of Grade-A office development in Chennai in the recent years, towards the total office space transacted in the PBD region remained constant at 25% in

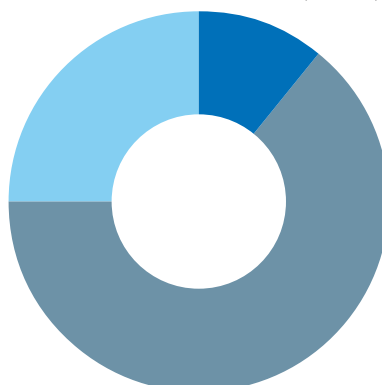
PERUNGUDI, ON OMR, WAS RESPONSIBLE FOR ATTRACTING A LARGE NUMBER OF MNC OCCUPIERS, INCLUDING COMPANIES LIKE AMAZON, ALCATEL CDOT, QUALCOMM AND TEXAS INSTRUMENTS

both the halves of the year. Due to several advantages like 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 this region. Projects like RMZ Millenia, Agnitio IT Park and SP Infocity, all of them located on OMR, and Ambit IT Park in Ambattur, emerged as some of the most sought after office projects in Chennai in 2011, recording a large number of transactions by the IT/ITeS, consulting, telecom, BFSI, engineering and media firms. Perungudi, on OMR, was responsible for attracting a large number of MNC occupiers, including companies like Amazon, Alcatel CDot, Qualcomm and Texas Instruments.

Chart 1 shows the percentage share of the various micro-markets in total office space absorption in H1 2011 and H2 2011.

Chart 1: Location wise share in office transactions in CY 2011 (Jan-Dec) in Chennai

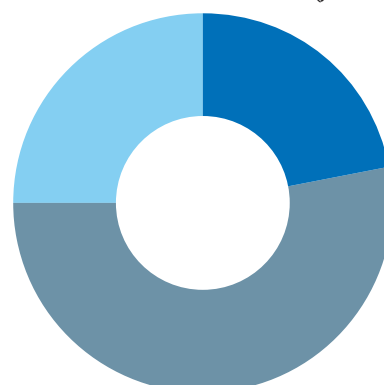
Location-wise share in H1 2011 (Jan-Jun)



■ CBD & Off CBD - 11%
■ SBD - 64%
■ PBD - 25%

Source: Knight Frank Research

Location-wise share in H2 2011 (Jul-Dec)



■ CBD & Off CBD - 22%
■ SBD - 53%
■ PBD - 25%



Table 4: : Rental values of office space transactions in prominent micro-markets of Chennai in CY 2011 (in Rs./sq.ft/month)

Micro-markets	H1 2011 (Jan-Jun)			H2 2011 (Jul-Dec)		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Central Business District (CBD) & Off-CBD	65	87	72.5	45	75	60
Suburban Business Districts (SBD)	36	48	40	36	63	50
Peripheral Business Districts (PBD)	30	43	32	28	42	34

Source: Knight Frank Research

Table 4 highlights the minimum, maximum and the weighted average of rental values across micro-markets for H1 and H2 2011. A variation in rentals ranges has been observed in H1 and H2 2011 in the micro-markets. This variation is on account of the location of the transacted properties as well the grade of the project. It can also be observed that in the PBD locations the average rentals are more skewed towards the minimum value owing to the fact that most of the transactions in the region were in the IT/ITeS sector.

Outlook

The year 2011 has been a positive period for most office markets across India, post the economic recession. Substantial absorption of office space in Chennai during this period and a marginal increase in rental values reflects an optimistic state of the office market in Chennai. Due to a growing

demand for office space by sectors other than the IT/ITeS sector, such as consulting, healthcare and engineering firms the market is expected to strengthen further in 2012, although the uncertainty over the economic conditions of North American and European countries still loom large on the horizon. As a result of the cautiousness prevailing in the market, rental values are expected to remain

stable across most major micro-markets in the forthcoming months.

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