



FEBRUARY 2013 OFFICE TRACTION @ GLANCE

Knight Frank

National Capital Region

MARKET OVERVIEW

The National Capital Region (NCR) has witnessed considerable growth in commercial real estate development during the last few years. Fast paced growth in the IT/ITeS sector has contributed hugely to office space demand in the NCR. The region is one of the prime office destinations for major national and international companies looking to set up their offices in the northern part of the country. In terms of office stock, the NCR is the biggest market in the country with nearly 88 mn.sq.ft of office space under operation. Vacancy levels range between 20-25% across various micro-markets in the NCR. Most of the office supply has come up in the peripheral business districts of Gurgaon, Noida, Greater Noida and secondary business districts of Saket and Jasola. The NCR is expected to witness new office space completions to the tune of 45 mn.sq.ft in the coming three years. PBD-Gurgaon is one of the most sought after destination in the NCR, contributing nearly 43% of this supply.

Most of the IT/ ITeS companies in Gurgaon are presently concentrated in DLF Cyber city. Despite criticism due to poor infrastructure in terms of connectivity and high rentals, DLF Cyber city still remains the preferred location for international companies wanting to set up their offices in Gurgaon. Progress on infrastructure initiatives such as rapid metro has also worked in favour

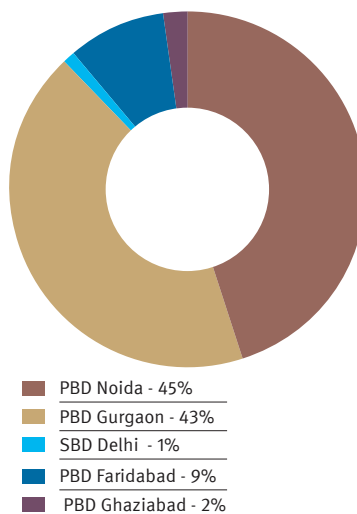
| Micro-markets | Locations |
|---|---|
| Central Business District (CBD), Delhi | Connaught Place, Barakhamba Road, Kasturba Gandhi Marg |
| Secondary Business District (PBD), Delhi | Nehru Place, Saket, Jasola, Bikaji Cama Place, Mohan Co-operative Area |
| Peripheral Business District (PBD), Gurgaon | DLF Cybercity, MG Road, Golf Course Road, Sohna Road, Dundahera, Manesar, NH-8, Udyog Vihar |
| Peripheral Business District (PBD), Noida | Sector 16, 18, 62,63, Greater Noida Expressway |

Source: Knight Frank Research

of this micro-market. Golf Course road mainly has commercial and non IT nature developments. Sohna road and Golf Course extension road are the other locations that have seen extensive activity in terms of supply. Sohna road witnessed good traction from companies due to its cost advantage when compared to other micro-markets in Gurgaon. Further, availability of affordable residential options and ample retail development add to the marketability of the commercial projects in this location.

The micro-markets of Noida and Greater Noida have gained a lot of momentum in recent years. A bulk of supply has been planned in these markets as well. Noida Expressway in particular witnessed a lot of activity both in terms of new office supply and absorption in 2012. Good connectivity, planned infrastructure and ample affordable housing options for employees are some of the key contributing factors to the growing commercial developments in this location. The proposed metro rail connecting Noida with Greater Noida will further enhance the connectivity of the sectors on the expressway and Greater Noida. Lower rentals compared to Gurgaon and SBD Delhi locations have also lured the companies looking to set up big campuses here.

Chart 1: Micro-market split of supply (2013-2015)



Source: Knight Frank Research

NOIDA EXPRESSWAY IN PARTICULAR WITNESSED A LOT OF ACTIVITY BOTH IN TERMS OF NEW OFFICE SUPPLY AND ABSORPTION IN 2012.

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DEMAND AND TAKE UPS

OCCUPIER DEMAND REMAINED SUBDUED IN THE NCR OFFICE MARKET, RESULTING IN A DIP IN OFFICE SPACE TAKE UPS DURING Q3 FY13. ACCORDING TO KNIGHT FRANK RESEARCH, APPROXIMATELY 1.35MN.SQ.FT WAS TRANSACTED IN Q3 FY 13, THUS SHOWING A 39% FALL COMPARED TO THE SAME QUARTER LAST YEAR AND 4% COMPARED TO THE PRECEDING QUARTER.

Looming uncertainties over the global economic scenario have lent a cautious outlook to the market and office space demand has been restrained in FY 13 compared to FY 12 in most of the major cities of the country. Occupier demand remained subdued in the NCR office market, resulting in a dip in office space take ups during Q3 FY13. According to Knight Frank Research, approximately 1.35mn.sq.ft was transacted in Q3 FY 13, thus showing a 39% fall compared

DURING THE FIRST THREE QUARTERS OF FY 13 AROUND 4.7MN. SQ.FT OF OFFICE SPACE ABSORPTION WAS OBSERVED IN THE NCR MARKET. AS PER OUR ESTIMATES, TOTAL ABSORPTION FOR THE PRESENT FINANCIAL YEAR IS LIKELY TO BE IN THE RANGE OF 5.7-6.3 MN.SQ.FT.

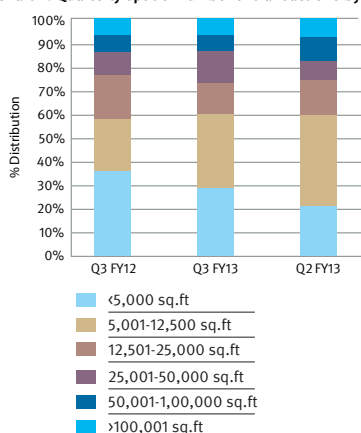
Table 1: Comparison of Lease Transactions.

| Lease Transaction | Q3 FY 12 | Q3 FY 13 | Q2 FY 13 |
|-------------------------------|---------------|----------------|---------------|
| Total area transacted | 2.2 mn.sq.ft. | 1.35 mn.sq.ft. | 1.4 mn.sq.ft. |
| No. of Transactions | 90 | 54 | 48 |
| Average Rate INR/sq.ft./month | 61 | 48 | 45 |

Source: Knight Frank Research to the same quarter last year and 4% compared to the preceding quarter. Even though 39% seems like a drastic dip, it's not alarming as Q3 FY12 was an exceptional quarter for office space take-ups. About 2.2mn.sq.ft of absorption was recorded in Q3 FY12, this is much above the average quarterly absorption of the NCR market which ranges around 1.5mn.sq.ft.

During the first three quarters of FY 13 around 4.7mn.sq.ft of office space absorption was observed in the NCR market. As per our estimates, total absorption for the present financial year is likely to be in the range of 5.7-6.3 mn.sq.ft. Even if the NCR office market manages to clock total absorption of 6.3 mn.sq.ft in FY 13, it falls short by about 11% compared to FY 12. However it is commendable given the weak economic conditions on the global front.

Chart 2: Quarterly split of number of transactions by size



Source: Knight Frank Research

WEIGHTED AVERAGE RENTAL VALUE STOOD AT INR 48/SQ./FT. WHICH IS NEARLY 21% LOWER THAN Q3 FY12.

A total of 54 transactions were recorded during Q3 FY13 as against 90 transactions noted in the same quarter in FY12. Weighted average rental value stood at INR 48/sq.ft. which is nearly 21% lower than Q3 FY12. The reason for such a drastic dip is the size and nature of transactions. A bulk of transactions in Q3 FY12 took place in non IT buildings which typically command higher rentals. A comparison of take-ups by size shows that nearly 35% companies took up office space with area less than 5000sq.ft. in Q3 FY12. Smaller transactions, taking place in commercial buildings had heightened the average rate of transactions to INR 61/sq. in Q3 FY12.

Table 2: Distribution of office space across broad industry sectors

| | Q3 FY 12 | Q3 FY 13 | Q2 FY 13 |
|----------------------|----------|----------|----------|
| BFSI | 3% | 2% | 2% |
| Consulting | 18% | 6% | 13% |
| IT/ITeS | 12% | 49% | 44% |
| Manufacturing | 27% | 22% | 10% |
| Other Service Sector | 27% | 19% | 30% |
| Others | 15% | 2% | 1% |

Source: Knight Frank Research

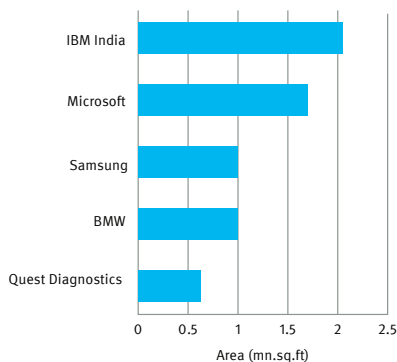
Sectoral Analysis

The commercial real estate market of the NCR continues to be driven by the IT/ITeS sector. As per Knight Frank Research nearly 49% of the absorption was contributed by the IT/ITeS sector which accounted for 0.66 mn.sq. ft of office space. Some of the key space occupiers in Q3 FY13 include companies like Microsoft, IBM and Hewitt.

AS PER KNIGHT FRANK RESEARCH NEARLY 49% OF THE ABSORPTION WAS CONTRIBUTED BY THE IT/ITES SECTOR WHICH ACCOUNTED FOR 0.66 MN.SQ.FT OF OFFICE SPACE.



Chart 3: Top Space Occupiers in Q3 FY13



Source: Knight Frank Research

Traditionally BFSI Sector had a substantial share in the office space absorption, contributing nearly 10-15% of the quarterly absorption in FY10. However BFSI has been losing sheen since the past couple of quarters as its share has ranged between 2-5% of the overall absorption in the NCR market.

Although the market share of the manufacturing sector has risen considerably in Q3 FY13 compared to the preceding quarter, it falls short of the take-ups witnessed during Q3 FY12.

The share of other service sector companies has gone down, thereby taking up absorption share from 27% in Q3 FY12 to 19% in Q3 FY13. This sector primarily includes companies like media, telecom and logistics. Discovery, Mudra Communications and Geodus Logistics were some of the active companies in this sector in Q3 FY13.

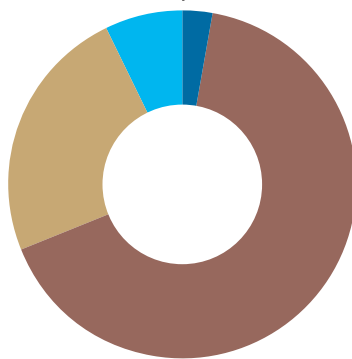
IBM, Microsoft, BMW and Samsung were the top space occupiers in Q3 FY13 and accounted for approximately 43% of the office absorption. While Microsoft took up space in the IT SEZ building in Gurgaon, BMW signed a deal for a built to suit building in sector 75, Gurgaon. Samsung and IBM preferred Noida over other micro-markets and took up office space in Sector 142 and Sector 62 respectively.

Geographical Analysis

Peripheral business districts of Noida and Gurgaon still continue to be the preferred locations for companies. Both Noida and Gurgaon have seen ample office supply

in the last few years. Office buildings in these locations not only offer large and contiguous floor plates, but also have wide range of amenities within the premises. In Q3 FY13, about 94% of the total office space transacted in the NCR was taken up in Gurgaon and Noida.

Chart 4: Micro Market split of transactions in Q3 FY12

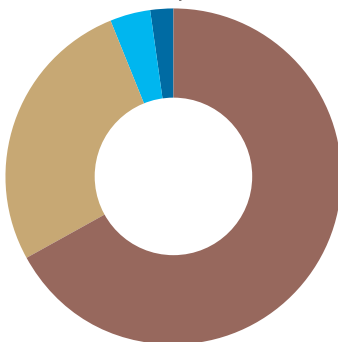


- PBD Gurgaon - 66%
- PBD Noida - 24%
- SBD Delhi - 7%
- CBD Delhi - 3%

Source: Knight Frank Research

Gurgaon witnessed office space leasing of approximately 0.90 mn.sq.ft in Q3 FY13, amounting to 67% of the overall absorption in the NCR. This has remained stable compared to the same quarter last year, where Gurgaon contributed to 66% of the overall absorption. Most of the transactions were seen in micro-markets of DLF Cyber city, Sohna road, and Sector 39. Building no. 5 DLF Cyber city, Spaze IT Park and Unitech Cyber Park were some of the prominent buildings where transactions took place in Q3 FY13.

Chart 5: Micro Market split of transactions in Q3 FY13



- PBD Gurgaon - 67%
- PBD Noida - 27%
- SBD Delhi - 4%
- CBD Delhi - 2%

Source: Knight Frank Research

Even though Gurgaon has significantly larger stock compared to the peripheral business district of Noida, supply in Noida is fast catching up. PBD-Noida is expected to witness new office space completions to the tune of 17mn.sq.ft by the end of year 2015. Even in terms of leasing activity, Noida is the second most favourable location contributing about 27% to overall office take-ups in Q3 FY13. Most of the transactions took place on the Noida-Greater Noida expressway and Sector 62.

ALTHOUGH THE MARKET SHARE OF THE MANUFACTURING SECTOR HAS RISEN CONSIDERABLY IN Q3 FY13 COMPARED TO THE PRECEDING QUARTER, IT FALLS SHORT OF THE TAKE-UPS WITNESSED DURING Q3 FY12.

Table 3: Average transacted rental values in the NCR (INR/sq.ft./month)

| Micro-markets | Q3 FY12 | Q3 FY13 |
|---------------|---------|---------|
| CBD Delhi | 155 | 160 |
| SBD Delhi | 133 | 130 |
| PBD Gurgaon | 72 | 79 |
| PBD Noida | 39 | 42 |

Source: Knight Frank Research

In Delhi, the Central Business District (CBD) comprising Connaught Place, Barakhamba Road and K.G. Marg has been the core of transaction activity. 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. There has been no addition to the office stock here during the past couple of years and vacancy levels are very low due to which limited number of transactions took place in Q3 FY 13. Around 59,000 sq.ft of office space leasing took



Table 4: Select Transactions in the NCR market Q3 FY13

| Location | Building | Company | Area(sq.ft.) |
|-------------------------|--------------------------|-------------|--------------|
| DLF Cyber City, Gurgaon | DLF Building No. 5 | Microsoft | 170,000 |
| Sector 142, Noida | Advant IT Park | Samsung | 100,000 |
| Sctor 75, Gurgaon | Innovative Techno Park | BMW | 100,000 |
| DLF Cyber City, Gurgaon | DLF Building No. 5 | Hewit | 49,000 |
| DLF Cyber City, Gurgaon | DLF Building No. 9A | Discovery | 21,000 |
| DLF Cyber City, Gurgaon | DLF Cyber Greens | RPG Group | 50,000 |
| DLF Cyber City, Gurgaon | DLF Building No. 9A | KEC | 51,000 |
| Sohna Road, Gurgaon | Park View Business Tower | ACS Xerox | 40,000 |
| Saket, New Delhi | DLF South Court | Gap | 50,000 |
| Minto Road, New Delhi | Konnectus | Thales | 18,000 |
| Sector 39, Gurgaon | Unitech Cyber Park | Yatra | 14,000 |
| Sector-26, Gurgaon | DLF Plaza Tower | Ciena | 35,000 |
| Sector 62, Gurgaon | Assotech One | Benare | 12,500 |
| Sector 26, Gurgaon | DLF Plaza Tower | Master Card | 14,000 |

Source: Knight Frank Research

place in the Secondary Business District (SBD), mainly in Saket and Okhla.

Table 3 highlights the weighted average of rental values across micro-markets. Not much variation in rental ranges has been observed in Q3 FY12 and Q4 FY13 across all micro-markets in the region.

IN Q3 FY13, ABOUT 94% OF THE TOTAL OFFICE SPACE TRANSACTED IN THE NCR WAS TAKEN UP IN GURGAON AND NOIDA.

OUTLOOK

Commercial market activity is clearly driven by the global economic and financial situation. Cautious business sentiments have influenced office space demand in the NCR as well. Corporates have deferred their expansion plans and are exploring alternate options to accommodate growth in headcounts. Even though sentiments remain

cautious in the wake of the global economic scenario, we expect some green shoots of recovery considering the consolidation of domestic economic fundamentals and initiation of reforms. NCR is expected to witness steady absorption levels in the coming quarters. Supply will be constrained as there are delays in execution of the commercial projects in Peripheral Business Districts of Noida and Gurgaon. Hence select locations within these micro-markets are expected to witness rental appreciation in H1 FY14.

EVEN THOUGH SENTIMENTS REMAIN CAUTIOUS IN THE WAKE OF THE GLOBAL ECONOMIC SCENARIO, WE EXPECT SOME GREEN SHOOTS OF RECOVERY CONSIDERING THE CONSOLIDATION OF DOMESTIC ECONOMIC FUNDAMENTALS AND INITIATION OF REFORMS. NCR IS EXPECTED TO WITNESS STEADY ABSORPTION LEVELS IN THE COMING QUARTERS.

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