



JANUARY 2012 OFFICE TRACTION @ GLANCE

Knight Frank

Bangalore

Market Review

Known for its vibrant office space market, Bangalore has consistently topped the absorption charts in the past few years. The IT/ ITeS industry which dominates and drives demand in the market continues to thrive and grow, albeit at a slower pace in the face of a global economic slowdown. The fact that the city is home to over 2000 STPI registered companies and employs over 0.5 million people has evidently proven that Bangalore is a preferred IT destination for setting up of a new unit or expansion of existing operations of IT/ITeS companies. Besides, the government has also taken up several proactive industry friendly policies to promote IT and considers the industry as one of the five top priorities by constituting a national task force on IT and software development.

The slow pace of infrastructural development in the market has long threatened to adversely affect the health of the office market. However, this is yet to affect market growth as the market clocked a strong 29% absorption growth in Q4 2011 over Q4 2010. This indicates an improvement in sentiment as absorption activity usually tapers off during the first and last quarter of the year. Corporates usually execute expansion plans

THE MARKET CLOCKED A STRONG 29% ABSORPTION GROWTH IN Q4 2011 OVER Q4 2010. THIS INDICATES AN IMPROVEMENT IN SENTIMENT AS ABSORPTION ACTIVITY USUALLY TAPERS OFF DURING THE FIRST AND LAST QUARTER OF THE YEAR

in the April-September period as budgets get finalized at the beginning of this period. The fact that rental growth is displaying signs of stabilization also bears testament to the strength of this market.

Table 1: Type of transactions

Transactions Summary	Q4 2010 (Oct-Dec)	Q4 2011 (Oct-Dec)
Lease Transactions	2.0	2.59
Total Area Transacted	mn.sq.ft.	mn.sq.ft.
Weighted Average Rental Value	INR.38/ sq.ft./month	INR .40/ sq.ft./month

Source: Knight Frank Research

The weighted average rental value across office micro-markets increased by 5% from INR.38/sq.ft./month during Q4 2010 to INR.40/sq.ft./month in Q4 2011. The average area transacted per deal was observed at

30,898 sq.ft in Q4 2010, whereas in Q4 2011 it was observed to be approximately 29,760 sq.ft.in Q4 2011.

Sectoral Analysis

Table 2: Distribution of office space across sectors

Sectors	Q4 2010 (Oct-Dec)	Q4 2011 (Oct-Dec)
BFSI	1%	2%
IT/ITeS	82%	70%
Manufacturing	3%	23%
Other Service Sectors	15%	5%

Source: Knight Frank Research

Primarily dominated by the IT/ITeS sector, the Bangalore market saw 70% of the absorption pie taken up by this industry in Q4 2011. The fact that the overall absorption has grown inspite of the IT/ITeS sector share falling bodes well for the market. The IT/ITeS sector accounted for 1.81 mn.sq.ft.in Q4 2011, up 10% from Q4 2010. Approximately half of the space taken up by the IT/ITeS sector was accounted for companies like LG Software, Goodrich, Citrix, Infosys and Mind Tek.

Significantly, much variation is seen in the type of non-IT companies which took up office space in Q4 2011 with those in Q4 2010. The Manufacturing sector took a quantum leap as its share of absorption

PRIMARILY DOMINATED BY THE IT/ITES SECTOR, THE BANGALORE MARKET SAW 70% OF THE ABSORPTION PIE TAKEN UP BY THIS INDUSTRY IN Q4 2011

Micro-markets	Locations
Central Business District(CBD) and Off-CBD	MG Road, Residency Road, Cunningham Road, Lavelle Road, Richmond Road, Infantry Road
Suburban Business District	Indiranagar, Koramangala, Airport Road, Old Madras Road
Peripheral Business District	Whitefield, Mysore Road, Electronic City, Bannerghatta Road, Outer Ring Road

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Table 3: Select transactions in Bangalore office market in Q4 2011 (Oct-Dec)

Building	Company	Location	Approx Area (sq.ft.)
Embassy Tech Square	LG Soft	Marathahalli	312,900
Prestige Shanthiniketan	Hindustan Unilever Limited	Whitefield	184,000
WTC (Bagmane)	Ericsson	Sir C V Raman Nagar	159,000
Netra Tech Park	Good Rich	Whitefield	110,000
Prestige Dynasty 2	Citrix	Ulsoor Road	110,000
WTC (Bagmane)	Infosys	Sir C V Raman Nagar	102,000
Venkatadri IT Park	Mind Tek	Richmond Road	95,883
Manyata Embassy Business Park	Target	Hebbal	61,110
ITPB	Capital one	Whitefield	60,000
Vaishnavi Summit	Flipkart.com	Koramangala	53,000

Source: Knight Frank Research

jumped nearly 10 times to 0.59 mn.sq.ft. in Q4 2011 compared with the previous period. Just two transactions inked by Hindustan Unilever Ltd. and Ericsson constituted 58% of the total space taken up by this sector. Other service sectors like Consulting and Education which account for bulk of the absorption share among Other Service Sector companies largely stayed away from the market effecting a near 60% drop in absorption numbers from the 0.3 mn.sq. ft in Q4 2010. The only notable transaction among the Other Service Sector companies was the 53,000 sq.ft. deal inked by Flipkart.

MUCH VARIATION IS SEEN IN THE TYPE OF NON-IT COMPANIES WHICH TOOK UP OFFICE SPACE IN Q4 2011 WITH THOSE IN Q4 2010. THE MANUFACTURING SECTOR TOOK A QUANTUM LEAP AS ITS SHARE OF ABSORPTION JUMPED NEARLY 10 TIMES TO 0.59 MN.SQ.FT. IN Q4 2011 COMPARED WITH THE PREVIOUS PERIOD

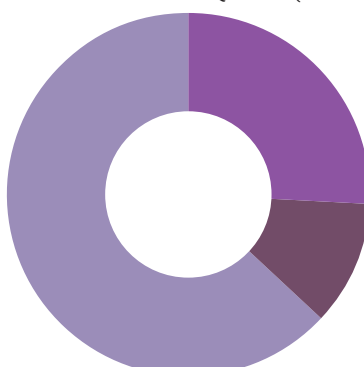
Geographical Analysis

Over the past few years, Bangalore real estate market has observed consistent demand for IT space as well as for other emerging sectors across all the micro-markets. As a result, there has been dearth of quality office space in the central locations as well as in a few suburban micro-markets of the city. This has led companies to explore peripheral markets like Electronic City, Whitefield and Outer Ring Road which has considerable new office space supply.

The location-wise share in office space absorption during the period Q4 2010 and Q4 2011 has been depicted in Chart 1.

Chart 1: Location wise share in office transactions

Location-wise share in Q4 2010 (Oct-Dec)

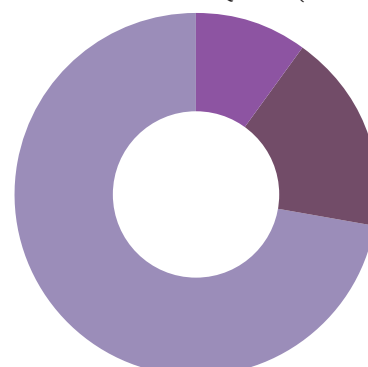


■ CBD & Off CBD - 26%
■ SBD - 11%
■ PBD - 63%

THE PBD MICRO-MARKETS WITNESSED MAJORITY OF THE OFFICE SPACE TRANSACTIONS THAT TOOK PLACE IN BANGALORE IN BOTH THE FOURTH QUARTERS OF 2010 AND 2011. PERIPHERAL LOCATIONS LIKE WHITEFIELD, ELECTRONIC CITY, OUTER RING ROAD AND BANNERGHATTA ROAD WERE PRIMARILY RESPONSIBLE FOR THE HIGH TAKE-UP IN THE REGION.

Around 0.52 mn.sq.ft was transacted in the CBD and Off-CBD locations in Q4 2010 while Q4 2011 saw approximately 0.27 mn.sq.ft. of office space being leased out in these micro-markets, the share thereby reducing from 26% in 2010 to 10% in 2011. This emphasizes the fact that in recent months the CBD and off-CBD office markets have had less space to offer to interested parties. Some of the key tenants who took up space in these CBD and Off CBD locations in Q4 2011 include IMS

Location-wise share in Q4 2011 (Oct-Dec)



■ CBD & Off CBD - 10%
■ SBD - 18%
■ PBD - 72%

Source: Knight Frank Research

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Table 4: Transacted rental values of prominent micro-markets in Bangalore (in Rs./sq.ft./month)

Micro-markets	Q4 2010 (Oct-Dec)		Q4 2011 (Oct-Dec)	
	Min	Max	Min	Max
Central Business District (CBD) & Off-CBD	70	110	80	110
Suburban Business Districts (SBD)	45	60	45	55
Peripheral Business Districts (PBD)	25	30	26	30

Source: Knight Frank Research
Health India on Murphy Road and GXS on Lavelle Road.

Another significant geographical variation that was observed between Q4 2010 and Q4 2011 was the focus of office space absorption in Bangalore. While Q4 2010 saw a minimal amount of office area being taken up in the SBD micro-markets, to the tune of around 11%, this share increased to 18% in Q4 2011, translating to an area of 0.46 mn.sq. ft. Some notable transactions in Q4 2011 in the suburban micro-markets include office space taken up by Ingersoll Rand in an independent project in Indiranagar while Meru Network took space in Salarpuria Adonis located on Old Madras Road.

Meanwhile, the PBD micro-markets witnessed majority of the office space transactions that took place in Bangalore in both the fourth quarters of 2010 and

2011. Peripheral locations like Whitefield, Electronic City, Outer Ring Road and Bannerghatta Road were primarily responsible for the high take-up in the region. In Q4 2010, Whitefield contributed to around 54% of the total space absorbed in the PBD region, followed by Electronic City at 15% and Bannerghatta Road at 12%. Key tenants that occupied office space in the peripheral micro-markets include in Q4 2011. Target in Manyata Embassy Business Park and Genpact in Pritech Park both located on the Outer Ring Road, and SAP in SJR iPark in Whitefield.

Table 4 highlights the minimum, maximum rental values across micro-markets for Q4 2010 and Q4 2011. A large variation in rental ranges has been observed in Q1 2010 and Q4 2011 primarily across the CBD and Off-CBD micro-markets of the city. This variation is on account of the location of the transacted properties as well as the industry type and

the area occupied. It should also be noted that in the PBD locations, as most of the transactions were in the IT/ITeS sector, the average rentals are more skewed towards the minimum value.

Outlook

With the expansion of existing operations in the IT sector and the entry of newer sectors due to the renewed optimism in the market, the level of absorption of office spaces have been consistently on a high note. However, this positive trend of high office space absorption is likely to slow down in 2012 due to reduced demand on the face of increased global uncertainties. Considering the constricted floating demand for space in the forthcoming months, the impetus in deal closures witnessed during 2011 is unlikely to be sustained through 2012. The city is thus estimated to witness cautious delivery of projects in 2012. Meanwhile, rentals are expected to remain stable on account of the subdued global economic conditions observed during the previous quarter, thereby leading companies to contemplate over their expansion plans.

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