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OFFICE TRACTION @ GLANCE

Knight Frank

Chennai

Introduction

Chennai office market endeavoured to maintain a steady absorption in the face of global uncertainties engulfing the corporate occupiers for the better part of the Calendar Year 2012. While the previous year, 2011, recorded the highest quantum of office space absorption post the economic recession, the momentum could not be sustained on the same level in 2012. The prevailing global economic slowdown led a number of IT/ITeS firms, the prime demand driver for office space in the city, to postpone their expansion plans and modify their revenue and employment projections for the year. On the positive side, the restraint shown by the IT/ITeS sector resulted in a diversified occupier base for the city's office market as newer sectors emerged to take up office space across various micro-markets.

With an inventory of around 49 mn.sq.ft. of office space currently operational in the city, Chennai 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

Micro-markets	Locations
Central Business District (CBD) & 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, Mount Poonamallee Road, Guindy, Anna Nagar, Adyar
Peripheral Business District (PBD)	Old Mahabalipuram Road (OMR), Velachery, GST Road, Ambattur

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.

CHENNAI OFFICE MARKET WITNESSED MODERATE DEMAND IN H2 2012 WITH OFFICE SPACE ABSORPTION OF 2.1 MN.SQ.FT., AS COMPARED TO 2.4 MN.SQ.FT. IN H2 2011

Chennai office market witnessed moderate demand in the second half of Calendar Year 2012 (H2 2012), characterized by consistent rental values. While the initial months of H2 2012 had begun on a strong note with a number of transactions taking place during the period July-September 2012, it somewhat toned down in the last month of December. Around 2.1 mn.sq.ft. of office space, excluding pre-committed space, was transacted in H2 2012. In contrast,

approximately 2.4 mn.sq.ft. of office space had been absorbed in the corresponding period in 2011. The decrease in absorption depicts the cautiousness in the market brought about by the global economic slowdown on the city's office market in 2012.

Table 1: Transaction Summary

Transaction Summary	H1 FY 2012 (Apr-Sep)	H1 FY 2013 (Apr-Sep)
Lease Transactions		
Total Area Transacted	2.4 mn.sq.ft.	2.1 mn.sq.ft.
Weighted Average Value	INR 47 sq.ft./month	INR 44 sq.ft./month

Source: Knight Frank Research

The weighted average rentals in H2 2012, too, witnessed a decline of 6% over the values in H2 2011. The lower rentals, however, do not reflect decline in rental trend during 2012. This development is mainly due to the fact that more transactions took place in the peripheral and suburban office locations where the rentals are much lower than the central office locations. Demand for office space emanated mostly from the IT/ITeS sector and was absorbed mainly by the projects in the micro-markets of Manapakkam, Guindy, OMR and Ambattur.



Table 2: Distribution of office space across sectors

Sectors	H1 CY 2011 (Jul-Dec)	H1 CY 2012 (Jul-Dec)
IT/ITeS	61%	55%
BFSI	11%	15%
Consulting	11%	3%
Healthcare/Pharma	5%	3%
Manufacturing	7%	4%
Other Service Sectors	5%	20%

Source: Knight Frank Research

Sectoral Analysis

Although the IT/ITeS sector continued to be the prime demand driver of office space in Chennai, the inability of the economies of the North American and European countries to revive as per expectations has affected the growth of the sector. In H2 2012, out of the total 2.1 mn.sq.ft. absorbed, about 55% was absorbed by the IT/ITeS sector, depicting a decline of almost 10% over the share in H2 2011. Some of the key IT/ITeS companies that took up space in the city in H2 2012 include TCS eServe, CSS Corp, Aricent and Capgemini.

An analysis of the sectoral distribution showed much variation among the share of sectors in the total space absorbed in both the halves of 2011 and 2012. While H1 2011 saw 11% of the total office space transacted being occupied by the Consulting sector, this figure reduced drastically to a mere 3% in H2 2012. Decline was also witnessed in sectors such as Manufacturing and Healthcare/Pharma in H2 2012. However, several prominent transactions took place during H2 2012 despite the decrease in share of these sectors. A mention can be made of transactions like Apollo Hospitals and GVK Bio in the Healthcare/Pharma sector, and St. Gobain in the Manufacturing sector.

Meanwhile, the BFSI sector saw an increase in its footprints in H2 2012 as compared to the corresponding period in 2011. The

Table 3: Select transactions in Chennai office market in H2 2012 (July-December)

Building	Occupier	Location	Approx. Area (sq.ft.)
TVH Agnito	GE Capital	Perungudi, OMR	58,000
Tek Tower	Sutherland	Thoraipakkam	33,000
Prestige Polygan	RR Donnelley	Teynampet	100,000
TVH Belicia	Spio Inspire	MRC Nagar	40,000
TVH Agnito	St Gobain	Perungudi, OMR	60,000
DLF IT Park	Barclays Shared Services	Porur	69,000
Prince Infocity 2	Thinksoft	OMR	33,870
RMZ Millenia	World Bank	Kandhanchavadi	21,815
SP InfoCity	Tech Affinity	Perungudi, OMR	10,000

Source: Knight Frank Research

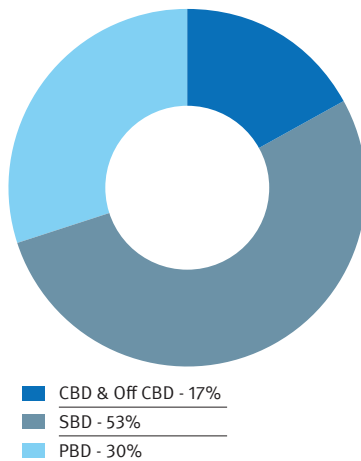
office space leased by this sector increased from 11% in H2 2011 to 15% in H2 2012. Prominent BFSI firms like Kotak, Barclays, World Bank and Mizuho were responsible for contributing towards the increase in office space absorption.

Other sectors like media, telecom, aviation, automobile and internet retailing firms together contributed about 20% in H2 2012, which is a significant increase over the share in H2 2011. This shows the proliferation and consequent strengthening of newer sectors into the city's office market.

Some of the key office transactions in Chennai in Q1 FY 2013 have been depicted in Table 3.

Geographic Analysis

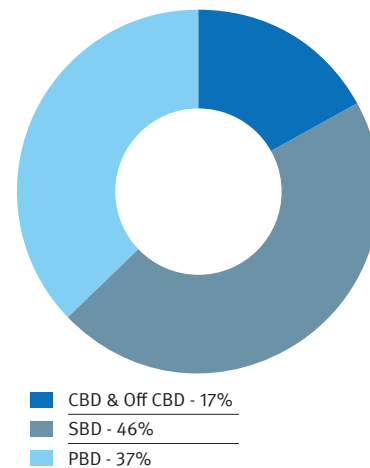
Location-wise Share in H2 CY 2011 (Jul-Dec)



Source: Knight Frank Research

The CBD of the city maintained its share of 17% of the total office space transacted in both the halves of 2011 and 2012. Mainly preferred by non-IT companies, the CBD micro-markets continued to offer smaller office configurations to firms opting to be centrally located. Some of the key occupiers in the CBD include companies such as Yamaha, Ramco Cements, Aon Hewitt and Spio Inspire.

Location-wise Share in H2 CY 2012 (Jul-Dec)



Source: Knight Frank Research

THE SBD OF THE CITY REMAINS THE MOST PREFERRED OFFICE DESTINATION IN BOTH 2011 AND 2012.



The SBD of the city remains the most preferred office destination in both 2011 and 2012. The region witnessed several large sized transactions in H2 2011, accounting for around 53% of the total office space transacted. This figure reduced to 46% in H2 2012. While 2011 saw majority of the transactions take place in the suburban micro-market of Taramani, locations such as Manapakkam, Guindy and projects along the peripheral OMR were more preferred in H2 2012. Major occupiers in these SBD micro-markets include Sutherland, Philtron, TNT and Tech Affinity.

As is evident from the chart given, the contribution of the PBD towards office space absorption has increased by 23% in H2 2012 as compared to the same period in 2011. The region, which boasts of several advantages like availability of quality office spaces with large floor plates and state-of-the-art amenities, is mostly preferred by the IT/ITeS sector due to their large space requirements. Competitive rentals offered by these peripheral micro-markets have attracted many firms to relocate here.

Projects like Shriram Gateway, Prince Infocity and TVH Agnito, all located on the OMR were responsible for majority of the office space transactions in the PBD region in H2 2012. Some of the notable occupiers in the region include companies like GE Capital, Kotak and Episource.

Table 4 highlights the minimum, maximum and the weighted average of rental values across micro-markets for Q1 FY 2012 and Q1 FY 2013. A wide variation in rental ranges has been observed in both the periods across all the micro-markets. This variation is on account of the location of the transacted properties as well as the grade of the project. It has also been observed that average rentals during H2 2012 remained almost constant due to subdued demand

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

Micro-markets	H2 2011 (Jul-Dec)			H2 2012 (Jul-Dec)		
	Min	Max	Ave	Min	Max	Ave
CBD & Off CBD	45	75	60	40	85	61
SBD	35	65	55	37	70	52
PBD	30	50	45	30	45	40

Source: Knight Frank Research

that dampened market sentiments, barring the CBD micro-markets and the suburban location of Guindy that saw rental appreciation in the range of 3-5% owing to limited new office space. The lack of movement in rentals can also be attributed to the delay in decisions regarding deal closures as occupiers chose to move cautiously amidst continued turbulence in the global economy.

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Outlook

The Chennai office market has managed to keep its head out of water with a healthy absorption level in 2012, given the present economic conditions. While the IT/ITeS sector will continue to drive office space demand, the emergence of newer sectors bodes well for the city’s office market. Rental values are expected to remain constant in most micro-markets, although marginal appreciation is envisaged in projects

which are witnessing occupier interest. Going forward, office projects in Porur and Ambattur as well as the micro-markets along the OMR and GST Road will witness the maximum amount of absorption as most of the new completions will come up in these markets. IT/ITeS sector will be the driving force of office space demand here. However, CBD will continue to remain an important market in terms of value with BFSI and manufacturing sectors expected to drive the office space demand here.

GOING FORWARD, OFFICE PROJECTS IN PORUR AND AMBATTUR AS WELL AS THE MICRO-MARKETS ALONG THE OMR AND GST ROAD WILL WITNESS THE MAXIMUM AMOUNT OF ABSORPTION AS MOST OF THE NEW COMPLETIONS WILL COME UP IN THESE MARKETS.