



# JULY 2012

## OFFICE TRACTION @ GLANCE

### Knight Frank

#### Bangalore

##### Market Review

Bangalore retained the top slot for the highest office space absorption in the country in FY 2012 despite global uncertainties looming large in the horizon. The city's office market clocked an absorption of almost 12 mn.sq.ft. during FY 2012, translating into an increase of 10% over the absorption witnessed in FY 2011. The IT/ ITeS industry which has been responsible for the rise in Bangalore's office market remained the key demand driver for office space during this year as well. With an inventory of around 90 mn.sq.ft. of office space currently operational, Bangalore remains one of the most preferred office space destinations in the country.

The level of absorption observed in FY 2012 can be attributed to the revived demand witnessed in the first two quarters of the year, resulting in the office space transaction of 6.75 mn.sq.ft., while the second half of the year witnessed a more restrained activity of 5.25 mn.sq.ft.

**BANGALORE MARKET CLOCKED AN ABSORPTION OF ALMOST 12 MN.SQ.FT. DURING FY 2012, WHICH TRANSLATES INTO AN INCREASE OF 10% OVER THE ABSORPTION WITNESSED IN FY 2011.**

The weighted average rental value across office micro-markets increased marginally by 3% from INR.43.50/sq.ft. per month during

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

H1 FY 2012 to INR.45/sq.ft. per month in H2 FY 2012.

**Table 1: Type of transactions in H1 FY 2012 and H2 FY 2012**

Transaction Summary	H1 FY 12 (Apr-Sep)	H2 FY 12 (Oct-Mar)
Lease transactions		
Total area transacted	6.75 mn.sq.ft.	5.25 mn.sq.ft.
Weight Average Rental Value	INR 43.50/sq.ft./month	INR Rs.45/sq.ft./month

Source: Knight Frank Research

##### Sectoral Analysis

**Table 2: Distribution of office space across sectors in H1 FY 2012 and H2 FY 2012**

Sectors	H1 FY12 (Apr-Sep)	H2 FY12 (Oct-Mar)
IT/ITeS	74%	70%
BFSI	3%	3%
Consulting	6%	3%
Healthcare/Pharma	4%	0%
Engineering	2%	1%
Manufacturing	4%	13%
Other Service Sectors	7%	10%

Source: Knight Frank Research

As seen in the past, the IT/ITeS sector has been responsible for occupying a greater part of the absorption pie in the Bangalore office market. The first half of FY 2012 saw the sector taking up 74% of the total office space transacted in the city, while the latter part of the year garnered around 70%. The fact that the absorption by the IT/ ITeS sector

has remained almost constant inspite of the global economic situation bodes well for the market. Some of the key space occupiers include companies like Intel, Cisco, HCL, Sapient, Genpact and McAfee.

Significantly, much variation is seen in the type of non-IT companies which took up office space in H1 FY 2012 with those taking up space in H2 FY 2012. The manufacturing sector took a quantum leap as its share of absorption jumped from a mere 4% of the total office space absorbed in H1 FY 2012 to 13% in H2 FY 2012.

This can be attributed to transactions such as those inked by Hindustan Unilever, Ericsson, Xerox and Robert Bosch. On the other hand, the healthcare/pharma sector, which saw some activity in H1 FY 2012, did not have a quantifiable presence in the latter half of the year. The category 'Other service sectors' which accounted for 7% of the office space absorbed in H1 FY 2012 and 10% on the second half of the year consisted of companies from the media arena, aviation industry, telecom, FMCG sector, etc.

Some of the transactions take took place in the Bangalore office market has been presented in Table 3.

##### Geographical Analysis

Bangalore has observed consistent office space demand from the IT/ ITeS sector as



**Table 3: Select transactions in Bangalore office market in FY 2012**

Building	Company	Location	Approx Area (sq.ft.)
Prestige Emerald	GXS	Madras Bank Road	29,850
Brigade Metropolis (Summit 2)	GE Health Care	Whitefield	40,000
Prestige Exora	PWC	Outer Ring Road	39,770
Logos Building	Zynga Game Network	MG Road	45,500
Salarpuria Windsor	Bombardier Inc	Ulsoor Road	10,490
Brigade World Trade Centre	KPMG	Rajajinagar	40,000
Brigade Metropolis (Summit 2)	E&Y	Whitefield	160,000
Salarpuria GR Tech Park	Goldman Sachs	Whitefield	41,200
Velankani Tech Park	Deutsche Bank	Electronic City	35,000
IBC Knowledge Park	Red Hat	Bannerghatta Road	40,500
L & T Cyber Park	Robert Bosch	Electronic City	20,000

Source: Knight Frank Research

well as from other emerging sectors across all the micro-markets. Due to the dearth of quality office space in the central locations as well as in a few suburban micro-markets of the city, companies had to explore peripheral markets like Electronic City, Whitefield and Outer Ring Road which have considerable new office space supply.

The location-wise share in office space absorption during the period H1 FY 2012 and H2 FY 2012 has been depicted in Chart 1.

locations in H1 FY 2012 while H2 FY 2012 saw approximately 0.37 mn.sq.ft. of office space being leased out in these micro-markets, the share thereby increasing marginally from 4% to 7%. Some of the key tenants who took up space in these CBD and Off CBD locations in FY 2012 include Tata Capital on Richmond Road, Vestian Global and Zynga Game Network on MG Road, Toyota Financials on Langford Road and Just Dial on Palace Road.

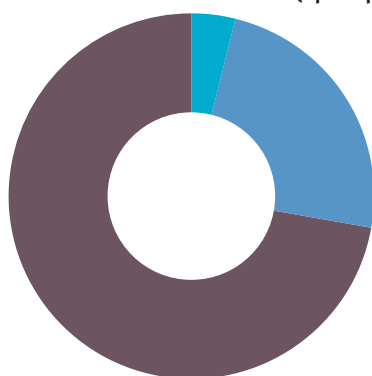
Another significant geographical variation that was observed between H1 FY 2012 and

declined to 18% in the latter two quarters of the year, translating to an area of 0.94 mn.sq.ft. This can be due to the limited availability of quality office space in the suburban micro-markets as well as the fact that PBD locations like Whitefield, Outer Ring Road and Electronic City had more office spaces available at relatively lower lease values. Notable transactions in FY 2012 in these suburban micro-markets include office space taken up by Flipkart in Khyka Chambers on Inner Ring Road while KPMG, Siemens and Amazon took space in Brigade World Trade Centre located at Rajajinagar.

The PBD micro-markets accounted for most of the office space transactions that took place in Bangalore in both the halves of FY 2012. Share of office space absorption in this region increased from 72% in H1 FY 2012 to 75% in H2 FY 2012, altogether adding up to an area of around 8.8 mn.sq.ft. Peripheral locations like Whitefield, Electronic City, Outer Ring Road and Bannerghatta Road were primarily responsible for the high take-up in the region. Key tenants that occupied office space in the peripheral micro-markets during the year include Fidelity in SJR iPark in Whitefield, Cisco in Vrindavan Tech Village on Outer Ring Road, Biocon in Semicon Park at Electronic City and Honeywell in Commerce@Mantri on Bannerghatta Road.

**Chart 1: Location wise share in office transactions in H1 FY 12 and H2 FY 12**

**Location-wise share in H1 FY 12 (Apr-Sep)**

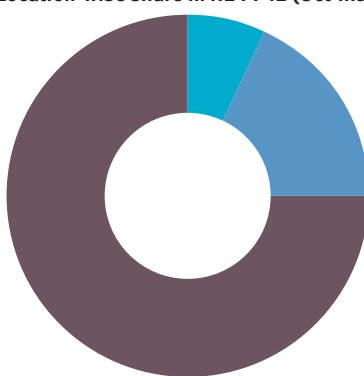


CBD - 4%  
SBD - 24%  
PBD - 72%

Source: Knight Frank Research

Generally, the CBD and off-CBD office markets are preferred by companies, mostly non-IT in nature, looking for smaller office configurations. Around 0.27 mn.sq.ft was transacted in the CBD and Off-CBD

**Location-wise share in H2 FY 12 (Oct-Mar)**



CBD - 7%  
SBD - 18%  
PBD - 75%

Source: Knight Frank Research

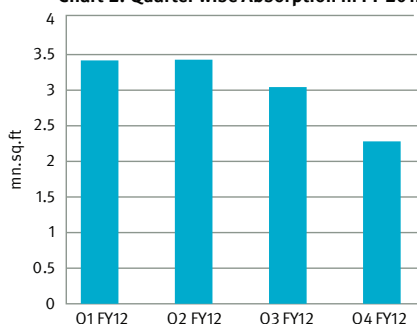
H2 FY 2012 was the focus of office space absorption in Bangalore. While the first two quarters of FY 2012 saw around 1.62 mn.sq.ft. of office area being taken up in the SBD micro-markets, to the tune of 24%, this share

**SHARE OF OFFICE SPACE ABSORPTION IN THE PBD REGION INCREASED FROM 72% IN H1 FY 2012 TO 75% IN H2 FY 2012, ALTOGETHER ADDING UP TO AN AREA OF AROUND 8.8 MN.SQ.FT**

Quarter-on-quarter absorption analysis shows that while the first two quarters of FY 2012 reflected optimism in the office market with around 6.75 mn.sq.ft. of space being leased out altogether, the subsequent period has not been as impressive. There was a decline of 11% in the office space



Chart 2: Quarter wise Absorption in FY 2012



Source: Knight Frank Research

absorbed in Q3 FY 2012 over the previous quarter, which further depreciated by 25% in Q4 FY 2012 over the absorption witnessed in Q3 FY 2012. This can be primarily attributed to the uncertainty prevailing in the IT/ITeS sector as well as in the other emerging sectors, directly impacting their growth and expansion plans.

**A DECLINE OF 11% WAS WITNESSED IN THE OFFICE SPACE ABSORBED IN Q3 FY 2012 OVER THE PREVIOUS QUARTER, WHICH FURTHER DEPRECIATED BY 25% IN Q4 FY 2012 OVER THE ABSORPTION WITNESSED IN Q3 FY 2012**

This slowdown in the Bangalore office market witnessed due to the cautiousness shown by potential occupiers persisted in the new financial year as well. Q1 FY 2013 saw a mere 1.1 mn.sq.ft. of office space being transacted, depicting a significant drop of around 67% compared to the absorption of 3.37 mn.sq.ft. in Q1 FY 2012.

Table 4 highlights the minimum and maximum rental values across micro-markets for H1 FY 2012 and H2 FY 2012. A large variation in rental ranges has been observed 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. During FY 2012, rental escalations to the tune of 10-18% were witnessed in certain micro-markets in the CBD due to an increase in demand coupled with constricted supply. Suburban micro-markets like Koramangala and peripheral micro-markets like Outer Ring Road, too, saw rental appreciation in the

range of 5-10% during the year.

**Outlook**

Going forward, Bangalore office market will witness a cautious delivery of projects in FY 2013 on account of the present economic scenario. Projects which have already seen pre-commitments or confirmed interest from companies, are expected to be taken up by developers on a priority basis while going slow on launching newer projects. Demand is also likely to be subdued with corporates contemplating over their expansion plans. As a result of these factors, rentals are expected to remain stagnant in the forthcoming quarters. In terms of market trend, smaller office sizes in the range of 8000-12000 sq.ft., mostly favoured by non-IT companies, will continue to being in demand. Further, Whitefield and Outer Ring Road will continue to be preferred office market destinations due to Grade A space availability and competitive values in the leasing market.

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

Micro-markets	H1 FY12 (Apr-Sep)		H2 FY12 (Oct-Mar)	
	Weighted Average		Weighted Average	
	Min	Max	Min	Max
Central Business District (CBD) & Off-CBD	75	110	80	110
Suburban Business Districts (SBD)	43	55	45	55
Peripheral Business Districts (PBD)	25	30	26	30
PBD – Outer Ring Road	40	45	42	50

Source: Knight Frank Research

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