



JUNE 2011

OFFICE TRACTION @ GLANCE

Knight Frank

Pune

Introduction

Pune, traditionally known as the Detroit of India for its stronghold on the automobile industry has of late emerged as a preferred IT/ITES destination of India. The city is reputed for its educational institutions and is the eighth largest urban agglomeration in India. Its proximity to India's financial capital Mumbai has led to substantial spillover of real estate demand in the city, thereby accelerating activity in the region. The Mumbai-Pune expressway, which connects both the destinations, has made Pune a much sought after destination for out of town investors.

In present times, Pune is one of the leading software exporters in India. These factors have fueled the development of Grade-A office space in the region. To meet this growing demand, developers have undertaken considerable construction activity across various micro markets and are now providing world-class office space.

Locations like MG Road, Deccan, Camp and Bund Garden Road form the Central Business District (CBD) of the city while other key office markets include Kalyani Nagar, Viman Nagar, Aundh, Kothrud and Baner in the suburbs. The central locations have numerous, fragmented development catering to small corporate office requirements. Very few Grade-A premises exist here. New office developments are being witnessed in peripheral and suburban locations providing quality built up space, which includes column-less spaces, large floor plates, ample parking area, etc.

The office market in Pune has evolved primarily due to the growth of the IT/ITES sector in the city. While a number of industries like manufacturing and engineering have their stake in the economy of the city, it is the IT/ITES sector that has predominantly been the driving force. Hinjewadi in the west, and Viman Nagar and Hadapsar towards the east are some of the prime IT/ITES office markets in Pune. Besides these locations, a number of prominent IT projects have come up in regions like Baner, Kharadi, Phursungi and Bavdhan as well.

THE OFFICE MARKET IN PUNE HAS EVOLVED PRIMARILY DUE TO THE GROWTH OF THE IT/ITES SECTOR IN THE CITY. HINJEWADI IN THE WEST, AND VIMAN NAGAR AND HADAPSAR TOWARDS THE EAST ARE SOME OF THE PRIME IT/ITES OFFICE MARKETS IN PUNE.

The office market of the city had to face adverse conditions during the year 2009 owing to the economic slowdown. The negative impact of the global recession led to dampening office space demand which

in turn led to decline in rental values and an increase in vacancy rates across micro-markets. Reduced demand from the IT/ITES sector, in particular, affected the overall office market scenario.

With the Indian economy becoming stable since the early part of 2010, the real estate market, too, have started gradually on a northward bound trajectory. The office market in Pune, then onwards, has been on a road to recovery. During 2010, leasing activity in Pune was observed to have been rising, with primarily the IT/ITES sector taking up new office space. A healthy absorption rate across micro-markets has led to marginal improvements in rentals as well.

Table 1: Type of transactions in CY 2010 (Jan-Dec) and H1 2011 (Jan-Jun)

Transaction Summary	H1 2010 (Jan-Jun)	H2 2010 (Jul-Dec)	H1 2011 (Jan-Jun)
Lease Transactions			
Total Area Transacted	2.12 mn.sq.ft.	1.42 mn.sq.ft.	1.58 mn.sq.ft.
Weighted Average Rental Value	Rs.33/sq.ft./month	Rs.30/sq.ft./month	Rs.34/sq.ft./month

As per Knight Frank research, approximately 3.54 mn.sq.ft of office space (lease) transaction was observed during the four quarters of CY 2010, while the first two quarters of 2011 witnessed around 1.58 mn.sq.ft. of office space being leased out.

Micro-market Classification	Locations
Central Business District (CBD)	Shivaji Nagar, Deccan, Wakdewadi, Dhole Patil Road, Bund Garden Road, MG Road, Camp
Suburban Business District (SBD)	Kalyani Nagar, Viman Nagar, Nagar Road, Aundh, Baner, Kothrud
Peripheral Business District (PBD)	Kharadi, Hadapsar, Phursungi, Hinjewadi, Bavdhan, Pimpri Chinchwad

Source: Knight Frank Research

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APPROXIMATELY 3.54 MN.SQ.FT OF OFFICE SPACE (LEASE) TRANSACTION WAS OBSERVED DURING THE FOUR QUARTERS OF CY 2010, WHILE THE FIRST TWO QUARTERS OF 2011 WITNESSED AROUND 1.58 MN.SQ.FT. OF OFFICE SPACE BEING LEASED OUT

It has been observed that majority of the companies preferred to sign on lease agreements for office space than go for outright purchase.

Out of the total office space taken up in 2010, around 60% was absorbed in H1 2010 (Jan – Jun). The weighted average rental across office micro-markets during H1 2010 stood at Rs. 33/sq.ft. per month. This increased transaction activity and renewed momentum in demand depicted the return of market confidence after the recession.

On the other hand, the second half of the year witnessed a relatively lower number of transactions. Approximately 1.42 mn.sq.ft of fresh office space was absorbed in Pune during this period. The weighted average rental during H2 2010 was observed at Rs. 30/sq.ft per month. The lower rentals, however, do not reflect decline in rental trend, as it takes into account the size of transactions as well. In H1 2010, the average area transacted per deal was observed at 35,336 sq.ft, whereas in H2 2010 it was observed at 40,785 sq.ft., thereby reflecting a larger transacted size during that period.

Meanwhile, the first six months of 2011 saw around 1.58 mn.sq.ft. of office space being leased out at an weighted average rate of Rs.34/sq.ft. per month. The average area transacted per deal during this period was around 39,585 sq.ft.

Table 2: Distribution of office space across sectors in CY 2010 (Jan-Dec) and H1 2011 (Jan-Jun)

Sectors	H1 2010 (Jan-Jun)	H2 2010 (Jul-Dec)	H1 2011 (Jan-Jun)
IT/ITeS	72.1%	79.9%	73.3%
BFSI	1.3%	2.9%	1.9%
Media	1.7%	1.8%	NA
Telecom	5.7%	NA	NA
Consulting	6.0%	7.5%	2.5%
Consumer Durables	3.2%	0.4%	0.3%
Manufacturing	3.1%	NA	8.5%
Pharma	0.1%	2.0%	NA
Engineering	2.4%	2.6%	8.6%
Others	3.6%	3.1%	4.8%

Source: Knight Frank Research

Sectoral Analysis

As mentioned previously, Pune office market is primarily dominated by the IT/ITeS sector. In 2010, out of the total 3.54 mn.sq.ft. absorbed, about 77% was absorbed by the IT/ITeS sector.

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In H1 2010, this sector was responsible for 72% of the total area transacted. This amounted to approximately 1.52 mn.sq.ft. and constituted of companies like Cognizant, Sungard, Amdocs, WNS, Tieto, L&T infotech. and Accenture.

The share of the IT/ITeS sector in office space absorption went up considerably in H2 2010 and was recorded at being approximately 80% of the total transacted area of 1.42 mn.sq.ft.. Key transactions were led by companies such as Synechron, Persistent, Tech Mahindra, HCL and Syntel.

Amongst the other major industries to have taken up office space in Pune, the emerging sectors of consulting and telecom led the way and absorbed space to the tune of 6% and 5.7% respectively of the total space leased out in H1 2010. Some of the prominent consulting companies which

took up office space in the city in the recent months include PWC in Yerawada, KPMG in Bund Garden Road and Capstone on Airport Road. However, in case of the telecom industry, no substantial space was taken up in the subsequent months.

On the other hand, the engineering sector contributed about 2.4% to the total space absorbed in H1 2010, which increased to a significant 8.6% in H1 2011.

In H1 2011, the IT/ITeS sector was responsible for around 73% of the total office space absorbed, followed a long way off by the manufacturing and engineering sector which contributed about 8.5% and 8.6% respectively. Some of the prominent companies which took up space during this period include Mahindra Satyam, Cognizant and Yardi with areas in the range of 50,000-250,000 sq.ft.

Geographic Analysis

The proliferation of small and medium enterprises in Pune has generated a growing demand for non-IT office space. These companies have leased out office space in the CBD and off-CBD locations of Boat Club Road, Shivaji Nagar, Wakdewadi, Shanker Sheth Road and Koregaon Park. Around 0.28 mn.sq.ft was transacted in the CBD and Off-CBD locations in 2010 and approximately 94,500 sq.ft. was leased out in H1 2011.



Table 3: Select transactions in Pune office market – CY 2010 (Jan-Dec) and H1 2011 (Jan-Jun)

Company	Building	Location	Approx Area (sq.ft.)	Period
Capstone	Commerzone	Airport Road	25000	Q1 2010
Taviska Solutions	City Point	Bund Garden Road	11000	Q1 2010
Vodafone	EON	Kharadi	60000	Q2 2010
Cognizant	DLF	Hinjewadi	250,000	Q2 2010
HCL	Magarpatta	Hadapsar	44000	Q3 2010
Syntel	SP Infocity	Phursungi	50000	Q3 2010
PWC	Tech park	Yerawada	12000	Q4 2010
Sungard	Westend center	SB Road	223,000	Q4 2010
WNS	Magarpatta	Hadapsar	80000	Q1 2011
Cummins	DTC	Kothrud	83000	Q1 2011
Crest Premedia	Magarpatta	Hadapsar	22000	Q2 2011
Metro	EON	Kharadi	35000	Q2 2011

Source: Knight Frank Research

Some of the key tenants who took up space in these locations include India Infoline, Bosch, Du Pont, Way To Wealth and SG Electronics. It was observed that the transactions that took place in these locations have been relatively fewer as compared to the number of transactions in the SBD and PBD locations.

The SBD and the PBD have been the focus of Grade-A office development in Pune in the recent past. Due to the availability of quality office spaces, with large floor plates and

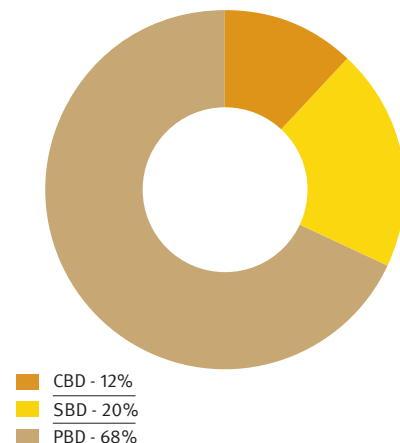
state of the art amenities, a large quantum of office space transactions has been observed in these micro-markets. Particularly, the eastern part of the city encompassing PBD locations such as Hadapsar and Kharadi, is much preferred owing to the availability of large land parcels that make it possible to launch projects with large floor plates. Besides, this region enjoys better connectivity and social infrastructure.

Meanwhile, the SBD of Yerawada saw significant amount of fresh office space take-up in 2010, to the tune of around 275,400 sq.ft. Most of the office space transactions in Yerawada were witnessed in projects like Commerzone, Tech Park and Mutha Towers.

Hadapsar and Hinjewadi in the PBD emerged as some of the most sought after office locations in Pune in 2010 and H1 2011, recording a large number of transactions by the IT/ITeS sector. While Hadapsar had transactions amounting to around 0.96 mn.sq.ft of office space, Hinjewadi had transactions to the tune of about 1.97 mn.sq. ft. The concentration of office space in these regions emphasizes the fact that demand for SEZ has been on a rise owing to sunset of STPI policy in 2010 and the tax exemptions under the SEZ policy. This impact has been clearly visible with the amount of space

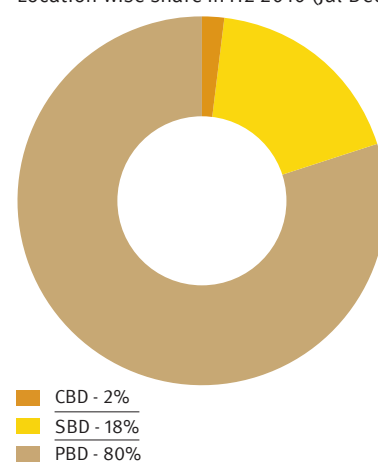
Chart 1: Location wise share in office transactions in CY 2010 (January to December) and H1 2011 (Jan-Jun)

Location-wise share in H1 2010 (Jan-Jun)



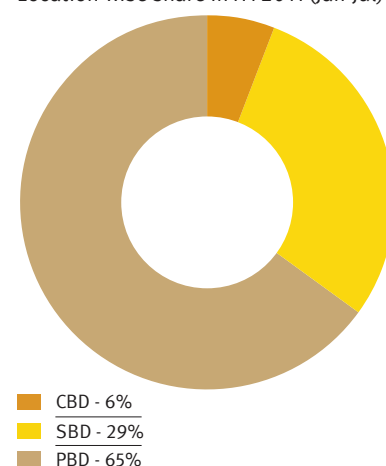
Source: Knight Frank Research

Location-wise share in H2 2010 (Jul-Dec)



Source: Knight Frank Research

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



Source: Knight Frank Research

THE SBD AND THE PBD HAVE BEEN THE FOCUS OF GRADE-A OFFICE DEVELOPMENT IN PUNE IN THE RECENT PAST. DUE TO THE AVAILABILITY OF QUALITY OFFICE SPACES, WITH LARGE FLOOR PLATES AND STATE OF THE ART AMENITIES, A LARGE QUANTUM OF OFFICE SPACE TRANSACTIONS HAS BEEN OBSERVED IN THESE MICRO-MARKETS



transacted in the SEZ projects located in Hinjewadi, Hadapsar and Kharadi.

As compared to the SBD and PBD locations, it has been observed that the CBD locations had marginal amount of office space absorbed over the quarters, while the PBD locations towered above the others. The quarter-wise absorption of office space in Pune is depicted in Chart 2.

Chart 2: Location and quarter wise absorption in Pune

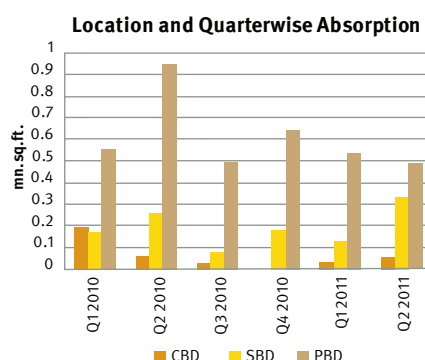


Table 4 highlights the minimum, maximum and the weighted average of rental values across micro-markets for H1 2010, H2 2010 and H1 2011. A large variation in rentals ranges has been observed in H1 and H2 2010 across all the micro-markets of the city. This variation is on account of the location of the transacted properties as well as the industry type and the area occupied. For instance, an IT/ITeS sector transaction took place at SBD location of Yerawada at Rs.28/sq.ft. per month for an area of 27,000 sq.ft., while a banking company took up space for back office purpose in another SBD location of SB Road at Rs.60/sq.ft. per month for an area of 10,500 sq.ft. It can also be observed 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

The year 2010 has witnessed substantial momentum in office market demand. Demand from IT/ITeS sector has been regaining ground post recession and is

Table 4: Average transacted rental values of prominent micro-markets in Pune

Micro-markets	H1 2010 (Jan-Jun)			H2 2010 (Jul-Dec)			H1 2011 (Jan-Jun)		
	Weighted			Weighted			Weighted		
	Min	Max	Average	Min	Max	Average	Min	Max	Average
Central Business District (CBD)	45	75	50	51	80	53	40	90	47
Suburban Business Districts (SBD)	28	50	46	27	65	37	27	65	40
Peripheral Business Districts (PBD)	27	40	29	25	40	27	25	35	29

Source: Knight Frank Research

expected to strengthen across markets, along with an increase in SEZ absorption.

Besides, with the withdrawal of the Minimum Alternate Tax and Dividend Distribution Tax under DTC, many developers will strive to get their SEZ projects operational by 2014 which may stimulate the office market further. This development may result in escalation of rental values in the near future.

The peripheral micro-markets of Kharadi and Hadapsar, with the maximum number of SEZ projects, are likely to benefit the most with further supply in the pipeline. The SBD locations, on the other hand, has a significant share of ready-to-occupy as well as under-construction projects located in various STPI units. These projects are expected to contribute largely towards the overall absorption levels in the city in the forthcoming months.

With many companies now looking towards pre-commitment of office space in order to take advantage of viable commercial terms proposed by the developers, the city is expected to witness an increase in demand in the next few quarters.

THE PERIPHERAL MICRO-MARKETS OF KHARADI AND HADAPSAR, WITH THE MAXIMUM NUMBER OF SEZ PROJECTS, ARE LIKELY TO BENEFIT THE MOST WITH FURTHER SUPPLY IN THE PIPELINE