



JUNE 2012 OFFICE TRACTION @ GLANCE

Knight Frank

National Capital Region

MARKET OVERVIEW

The National Capital Region (NCR) has been one of the prime office markets of the country. In terms of office stock, the NCR is the biggest market in the country with nearly 85 mn.sq.ft of office space under operation. Vacancy levels range between 20-25% across various micro markets in the NCR. The region has seen tremendous development in the past 5 years. Fast paced growth in the IT/ITeS sector has contributed hugely to the demand. Most of the 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 fresh office supply to the tune of 48mn.sq.ft in the coming three years.

IN TERMS OF OFFICE STOCK, THE NCR IS THE BIGGEST MARKET IN THE COUNTRY WITH NEARLY 85 MN.SQ.FT OF OFFICE SPACE UNDER OPERATION.

Gurgaon contributes to nearly 43% of the upcoming supply. Most of the IT/ITeS companies in Gurgaon are presently concentrated in DLF Cybercity while other locations like Sohna Road and Golf Course

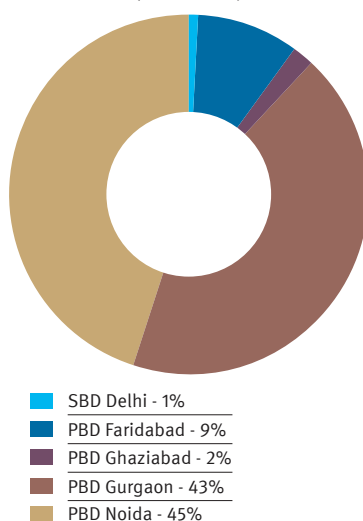
THE NCR IS EXPECTED TO WITNESS FRESH OFFICE SUPPLY TO THE TUNE OF 48 MN.SQ.FT IN THE COMING THREE YEARS.

are essentially commercial and non-IT in nature. However, owing to constrained infrastructure especially road network in DLF Cybercity, employees face several problems on a day-to-day basis including losing precious man-hours in traffic jams. Further, high real estate rentals for IT/ITeS space in DLF Cybercity have resulted in companies looking out for newer alternatives for office space.

GURGAON CONTRIBUTES TO NEARLY 43% OF THE UPCOMING SUPPLY.

A bulk of supply is planned in Noida and Greater Noida as well. Rentals are nearly 50% lower in Greater Noida compared to Gurgaon. This has been the biggest pull factor for companies looking to set up big campuses here. Good connectivity, planned infrastructure and ample affordable housing options for employees are some of the

Micro-market Split of Upcoming Supply (2012-2014)



Source: Knight Frank Research

key contributing factors to the growing commercial developments in Greater Noida. The proposed metro will further boost the real estate development in this region.

DEMAND AND TAKE UPS

Occupier demand remained restrained due to prevailing cautious sentiments resulting in a dip in absorption compared to Q4 FY 11. Leasing activity by IT/ITeS companies which is such a big demand driver has shown a downward trend in the NCR. Companies have adopted a wait and watch policy as caution prevails amidst the ongoing volatility in global financial markets. Expansion plans have been delayed, companies have put a freeze on hiring and BFSI companies have also witnessed job cuts due to the economic slowdown.

ACCORDING TO KNIGHT FRANK RESEARCH, APPROXIMATELY 0.9 MN.SQ.FT WAS TRANSACTED IN Q4 FY 12, THUS SHOWING A 25% FALL COMPARED TO THE SAME QUARTER LAST YEAR

According to Knight Frank Research, approximately 0.9mn.sq.ft was transacted in Q4 FY 12, thus showing a 25% fall compared to the same quarter last year. However there is an indication of an upsurge in demand as about 0.9mn.sq.ft of office space absorption is already recorded in Q1 FY 13 based on information collected till May.

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It is observed that the transaction activity is subdued in the final quarter of the financial year as office expansion activity tends to be concentrated in the first half. Hence absorption numbers show a 56% fall in Q4 FY 12 from the preceding quarter. Even though it seems like a steep fall, it is not alarming as Q3 FY 12 was an exceptional quarter for take-ups. About 2.2 mn.sq.ft of office space absorption was recorded in Q3 FY 12, this is much above the average quarterly absorption of the NCR market which ranges anywhere between 1mn.sq.ft to 1.5 mn.sq. ft. Some of the prominent transactions that took place in Q3 FY 12 were McKinsey, Ericsson, Income Tax Department, Samsung Electronics, Dafodill Software, Wipro and KPMG. These constitute nearly 1.1 mn.sq.ft of the total office space absorption.

Considering the level of pre commitments and the fact that transaction activity is typically conservative in the final quarter of the financial year, demand is expected to improve in the latter half of the year.

Table 1.0: Comparison of Lease Transactions.

Lease Transactions	Q4 FY 11	Q4 FY 12	Q3 FY 12
Total area transacted mn. sq.ft.	1.2	0.9	2.2
No. of Transactions	51	43	90
Average Rate (INR/sq.ft/month)	63	66	61

Source: Knight Frank Research

A total of 43 transactions were recorded during Q4 FY 12 as against 90 transactions noted in the preceding quarter. Average lease rentals in Q4 FY 12 stood at INR 66/sq.ft./month which is nearly 8% higher than Q3 FY 12. This is largely on account of two reasons. First, the average size of transaction decreased from 25,000 sq.ft to 23,000 sq.ft between Q3 FY 12 and Q4 FY 12. Second quite a number of transactions took place in non IT buildings which command higher rentals.

Sectoral Analysis

Traditionally, the IT/ITeS and BFSI industry has taken up the bulk of space in the NCR commercial office market. However there

Table 2.0: Distribution of office space across broad industry sectors

	Q4 FY 11	Q4 FY 12	Q3 FY 12
BFSI	2%	4%	2%
Consulting	26%	21%	18%
IT/ITeS	40%	29%	11%
Manufacturing	12%	12%	27%
Other Service Sector	19%	34%	27%
Others	0%	0%	15%

Source: Knight Frank Research

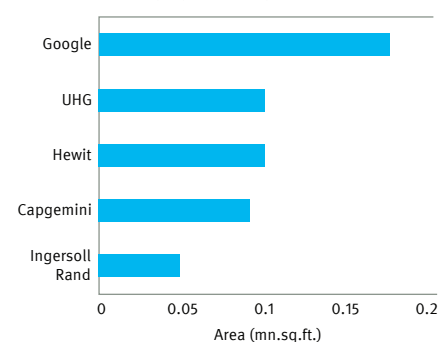
is a shift in the trend since the past couple of quarters as market share of the BFSI has been going down continuously. IT/ITeS has gained momentum in Q4 FY12 compared to the previous quarter, but it is still quite low compared to Q4 FY 11. As per Knight Frank research 29% of the absorption was contributed by the IT/ITeS industry which accounted for 0.33 mn.sq.ft. of office space in Q4 FY 12. Some of the prominent IT/ITeS companies that took up office space in the region during the period Q4 FY 12 include Google, Capgemini and Amtex. Other sectors besides IT/ITeS that have gained foothold in the NCR market are other service sectors and consulting. The other service sectors contributed to nearly 34% of the overall absorption in Q4 FY 12. Some of the prominent companies in this sector are Snap Deal and United Health Group which took up space in Okhla and Noida respectively.

AS PER KNIGHT FRANK RESEARCH 29% OF THE ABSORPTION WAS CONTRIBUTED BY THE IT/ITES INDUSTRY WHICH ACCOUNTED FOR 0.33 MN.SQ.FT. OF OFFICE SPACE IN Q4 FY 12

The manufacturing sector has been losing sheen in the NCR market as its share has gone down steeply in Q4 FY 12 compared to the preceding quarter and contributed to 12% of the overall absorption in Q4 FY 12.

THE MANUFACTURING SECTOR HAS BEEN LOSING SHEEN IN THE NCR MARKET AS ITS SHARE HAS GONE DOWN STEEPLY IN Q4 FY 12 COMPARED TO THE PRECEDING QUARTER AND CONTRIBUTED TO 12% OF THE OVERALL ABSORPTION IN Q4 FY 12.

Top Space Occupiers in Q4 FY 12

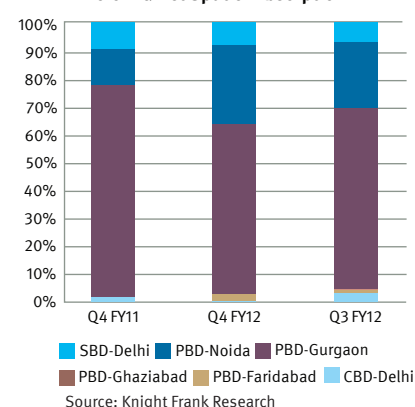


Source: Knight Frank Research

Google, United Health Group, Hewitt, Capgemini and Ingersoll Rand were the top space occupiers in Q4 FY 12 and accounted for approximately 52% of the office space absorption. While Capgemini, Ingersoll Rand took up place in IT SEZ buildings in Gurgaon, Google signed up a deal in a non IT stand alone building in Gurgaon. Hewitt and United Health Group preferred Noida over other micro-markets.

Geographical Analysis

Micro-market Split of Absorption



Source: Knight Frank Research

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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 Q4 FY 12, about 89% of the total office space transacted in the NCR was taken up in Gurgaon and Noida.

IN Q4 FY 12, ABOUT 89% OF THE TOTAL OFFICE SPACE TRANSACTED IN THE NCR WAS TAKEN UP IN GURGAON AND NOIDA.

Gurgaon witnessed fresh office space leasing of approximately 0.60 mn.sq.ft in Q4 FY 12, amounting to 60% of the overall absorption in the NCR. This has come down as compared to the same quarter last year, where Gurgaon contributed to 76% of the overall absorption. Most of the transactions were seen in micro-markets of DLF Cyber City, NH8, Udyog Vihar and Sohna Road. Building no. 5 DLF Cyber city, Spaze IT Park were some of the prominent buildings where transactions took place in Q4 FY 12.

Even though Gurgaon has significantly larger stock compared to the peripheral business

Micro-markets	Locations
Central Business District (CBD), Delhi	Connaught Place, Barakhamba Road, Kasturba Gandhi Marg
Secondary Business District (SBD), 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, Dundaheera, Manesar, NH-8, Udyog Vihar
Peripheral Business District (PBD), Noida	Sector 16, 18, 62, 63, Greater Noida Expressway

district of Noida, supply in Noida is fast catching up. About 17mn.sq.ft. of fresh office supply is expected to enter the Noida market by the end of year 2014. Even in terms of leasing activity, Noida is the second most favourable location contributing about 29% to overall office take-ups in Q4 FY 12. Most of the transactions took place on the Noida-Greater Noida expressway.

ABOUT 17 MN.SQ.FT. OF FRESH OFFICE SUPPLY IS EXPECTED TO ENTER THE NOIDA MARKET BY THE END OF YEAR 2014.

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 Q4 FY 12. Around 78,000 sq.ft. of office space leasing took place in the Secondary Business District (SBD), mainly in Jasola, Okhla and Nehru Place. Even though the SBD locations like Jasola and Saket are preferred by companies due to better infrastructure, there is limited availability in this micro-market with vacancy levels as low as 15% and there are not many options available.

Table 3 highlights the weighted average of rental values across micro-markets. Not much variation in rental ranges has been observed in Q4 FY 12 and Q4 FY 11 across all micro-markets in the region.

Table 3.0: Average transacted rental values in the NCR (INR/sq.ft./month)

Micro-markets	Q4 FY 11	Q4 FY 12
CBD Delhi	155	160
SBD Delhi	133	129
PBD Gurgaon	72	80
PBD Noida	39	40

Table 4.0: Select Transactions in the NCR market Q4 FY 12

Location	Building	Company	Area(sq.ft.)
Sector 10, Noida	Stand Alone	Halcrow	52,000
DLF Cyber City, Gurgaon	DLF Building No 5A	Ingersoll Rand	49,000
DLF Cyber City, Gurgaon	DLF Building No 5A	Rio Tinto	40,600
Sector 127, Greater Noida Expressway	3Cs, Tower-B, Sec-127	Hewitt	100,000
DLF Cyber City, Gurgaon	DLF Building No 5C	Expedia	41,942
Sec-62, Noida	Unitech Infospace	Barclays shared services	25,480
Sector-15, NH-8	Signature Tower II	Google	175,000
Sector 144, Greater Noida Expressway	3C Oxygen, Sec-144	UHG	100,000
DLF Cyber City, Gurgaon	DLF 9A	Group M	23,144
DLF Cyber City, Gurgaon	DLF 8A, 3rd floor	AECOM	27,000
Sohna Road, Gurgaon	Spaze iTech Park	Capgemini	80,000

Source: Knight Frank Research



OUTLOOK

It has been observed that global economic and financial conditions have substantial impact upon the commercial real estate development of a region. Thus, with reference to the present economic scenario, cautious business sentiments will largely influence the demand for office space in the NCR. However, looking at the level of pre-commitments, corporate leasing activity is expected to improve in the forthcoming quarters. Bulk of the upcoming supply is slated to enter the NCR market by early 2013, primarily in the Peripheral Business Districts of Noida and Gurgaon which may put a downward pressure on the rentals. On the other hand, rental values in locations across the CBD and SBD Delhi are expected to witness appreciation owing to anticipated office space demand and lack of fresh supply in these micro-markets.

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