

COMMERCIAL
RESEARCH



OFFICE TRACTION @ GLANCE

National Capital Region
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MARKET OVERVIEW

The NCR office market showed steady absorption levels in H1 FY13 followed by a dip in H2 FY13. The city's office market clocked absorption of approximately 5.8 mn.sq.ft. during FY13, falling short by 25% compared to FY12.

National Capital Region

The National Capital Region (NCR) is one of the most sought after office destinations in the country. Availability of skilled manpower and developed infrastructure drew a number of corporates to this market. The NCR office market has evolved largely from mixed use type of commercial developments in Connaught Place to state-of-the-art office buildings in Gurgaon and Noida. Traditionally, office space demand was driven by government departments and private companies looking for a presence in the central part of the city for good connectivity. However, post the IT/ITeS boom in India a steep upsurge in office space demand was observed. Secondary and Peripheral Business Districts emerged to accommodate the fast paced growth in office demand. Multinational companies entered the NCR market with specific requirements in terms of type and size of office spaces. Developers were able to grab this opportunity and a bulk of commercial projects was launched. Nearly 39mn.sq.ft. of incremental office space entered the NCR market in the preceding five years, making it the largest office market in terms of stock.

The NCR office market showed steady absorption levels in H1 FY13 followed by

a dip in H2 FY13. The city's office market clocked absorption of approximately 5.8 mn.sq.ft. during FY13, falling short by 25% compared to FY12. Impending uncertainties over the global economic scenario have lent a cautious outlook to the market and office space demand has been restrained in FY13 compared to FY12 in most major cities of the country, NCR being no exception. While the NCR market has a well-diversified office occupier base, the IT/ITeS sector contributes to about 42% of the total office demand. Hence, a slowdown in the IT/ITeS industry has adversely impacted demand.

Market Activity

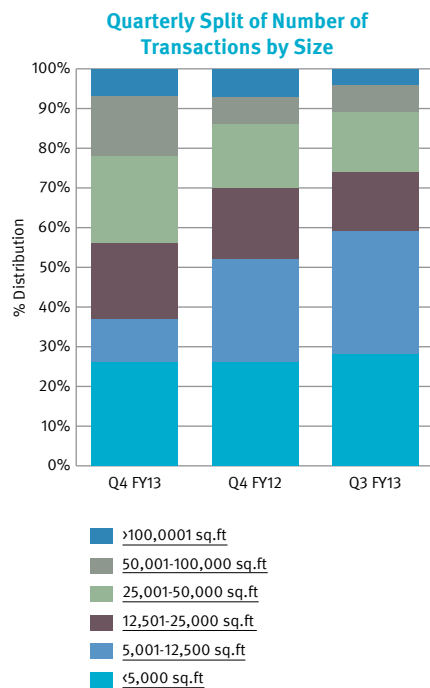
Transaction activity remained subdued due to prevailing cautious sentiments. Leasing activity by the IT/ITeS sector which is a big driver industry has shown a downward trend in the NCR office market, resulting in reduced office space take ups during Q4 FY13. According to Knight Frank Research, 1.07 mn.sq.ft. of office space was transacted in Q4 FY13, thus showing a fall of 11% compared to the same quarter last year. 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 24% fall in Q4 FY13 from the preceding quarter.

Table 1: Comparison of Lease Transactions:

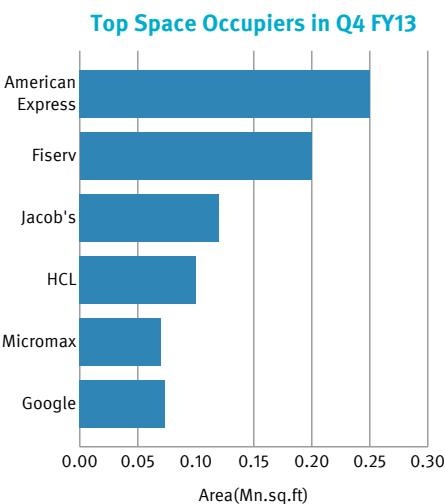
Lease Transactions	Q4 FY13	Q4 FY12	Q3 FY13
Total Area Transacted (mn.sq.ft.)	1.07	1.2	1.35
No. of Transactions	27	45	53
Average Rate (INR/sq.ft./month)	69	64	48

Source: Knight Frank Research

The IT/ITeS sector has been the largest contributor to the overall office absorption pie in the NCR office market. However, its share came down to 35% in Q4 FY13 showing a drastic dip compared to the same quarter last year.



Source: Knight Frank Research



Source: Knight Frank Research

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

Source: Knight Frank Research

According to Knight Frank Research, 1.07 mn.sq.ft. of office space was transacted in Q4 FY13, thus showing a fall of 11% compared to the same quarter last year.

A total of 27 transactions were recorded during Q4 FY13 as against 45 transactions noted in the same quarter in FY12. Weighted average rental value stood at INR 69/sq./ft. which is nearly 7% higher compared to Q4 FY12. Despite the fact that the average size of transaction increased from 26,000 sq.ft. to 39,000 sq.ft. between Q4 FY12 and Q4 FY13, the average transacted rentals have gone up primarily due to a drop in IT/ITeS transactions. Quite a number of transactions were recorded in CBD-Delhi leading to an increase in weighted average rentals.

Table 2. Distribution of Office Space Absorption across broad Industry Sectors

	Q4 FY13	Q4 FY12	Q3 FY13
BFSI	23%	2%	2%
IT/ITeS	35%	61%	49%
Manufacturing	17%	4%	22%
Other Service Sector	25%	33%	27%

Source: Knight Frank Research

Sectoral Analysis

The IT/ITeS sector has been the largest contributor to the overall office absorption pie in the NCR office market. However, its share came down to 35% in Q4 FY13 showing a drastic dip compared to the same quarter last year. A number of IT/ITeS companies have put their expansion plans on hold, new hiring is also muted considering the global economic slowdown resulting in a slowdown in absorption. Some of the key space occupiers in Q4 FY13 include companies like HCL, Google, Fiserv and ebay.

The share of other service sector has gone down, thereby taking the absorption share from 33% in Q4 FY12 to 25% in Q4 FY13. This sector primarily includes companies like media, telecom, Healthcare, Travel and Aviation, Consulting and Logistics. Prominent occupiers in this segment include Jacob's, Xerox, Salient, I Pod Hotels and Indigo. These companies accounted for 48% of the total space absorbed in this segment in Q4 FY13.

Traditionally the BFSI Sector had a significant share in the office space demand, contributing nearly 10-15% of the quarterly

Table 3: Average Transacted Rental Values in the NCR (INR/sq.ft./month)

Micro-markets	Q4 FY12	Q4 FY13
CBD Delhi	155	160
SBD Delhi	130	140
PBD Gurgaon	72	72
PBD Noida	39	42

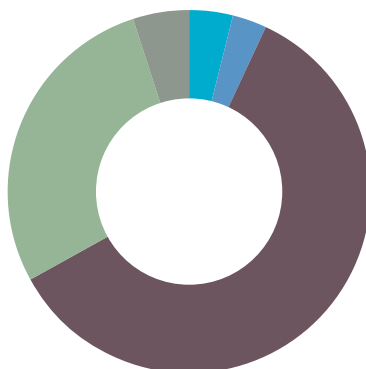
Source: Knight Frank Research

absorption in FY10. This sector has been losing share since the past couple of quarters as its share has ranged between 2-5% of the overall absorption in the NCR market. However, Q4 FY13 was an exceptional quarter for the BFSI sector, contributing nearly 23% of the total absorption primarily due to American Express taking up about 0.25mn.sq.ft. in DLF Cyber City.

Although the market share of the manufacturing sector has risen considerably in Q4 FY13 compared to the Q4 FY12, it falls short of the absorption witnessed during Q3 FY13. Micromax, Otis, HCL and KK Spun were among the active companies in the manufacturing sector. These companies accounted for over 70% of the total space absorbed by this sector.

American Express, Fiserv, Jacob's, HCL, Micromax and Google were the top space occupiers in Q4 FY13 and accounted for approximately 75% of the office absorption. While American Express took up space in the IT SEZ building in Gurgaon, Jacob's, Google and Micromax signed deals in Udyog Vihar, Gurgaon. HCL and Fiserv preferred Noida over other micro-markets and took up office space in Sector 1 and Sector 62 respectively.

Micro-market Split of Transactions in Q4 FY13



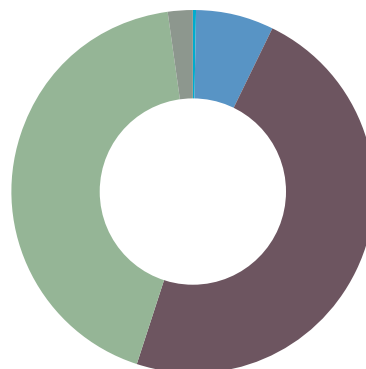
- CBD Delhi - 4%
- SBD Delhi - 3%
- PBD Gurgaon - 60%
- PBD Noida - 28%
- PBD Faridabad - 5%

Source: Knight Frank Research

Geographical Analysis

Transaction activity continues to be largely concentrated in the Peripheral Business District of Noida and Gurgaon. Both these locations offer ample options to tenants looking for large and contiguous office spaces, coupled with a wide range of amenities in the premises. Good connectivity, planned infrastructure and most of all ample residential options for employees are some of the key contributing factors to the growing demand. In Q4 FY13, about 89% of the total office space transacted in the NCR was taken up in Gurgaon and Noida.

Micro-market Split of Transactions in Q4 FY12



- CBD Delhi - 0%
- SBD Delhi - 7%
- PBD Gurgaon - 48%
- PBD Noida - 43%
- PBD Faridabad - 2%

Source: Knight Frank Research

Gurgaon witnessed office space leasing of approximately 0.65 mn.sq.ft. in Q4 FY13, amounting to 60% of the overall absorption in the NCR. This has gone up compared to the same quarter last year, where Gurgaon contributed to 48% of the overall absorption. Although Gurgaon's share in the overall office space absorption is trending upward, majority of this has been contributed by non IT/ITeS companies. Most of the transactions were seen in micro-markets of DLF Cyber City, Sohna Road and Udyog Vihar. Building no. 5 DLF Cyber City, Bestech Park and Platinum Towers were some of the prominent buildings where transactions took place in Q4 FY13.

Table 4: Select Transactions in the NCR market Q4 FY13

Location	Building	Company	Area(sq.ft)
Sector 62, Noida	DLF IT Park	Fiserv	200,000
Sohna Road, Gurgaon	Bestech Park	Xerox	40,000
Udyog Vihar, Gurgaon	Platinum Towers	Jacob's	116,000
Udyog Vihar, Gurgaon	Rolta Towers	Google	70,000
Faridabad	Vatika Mindscapes	KK Spun	20,000
Faridabad	Vatika Mindscapes	HPL	30,000
Minto Road, Delhi	Konnectus	Ipod Hotels	28,000
Udyog Vihar, Gurgaon	Pasco Building	Micromax	70,000
MG Road, Gurgaon	Global Business Park	Indigo	13,000
Sector 1,Noida	Independent Building	HCL	98,000
Cyber City, Gurgaon	Building No.5	American Express	250,000

Source: Knight Frank Research

Weighted average rental value stood at INR 69/ sq./ft. which is nearly 7% higher compared to Q4 FY12.

Even though Gurgaon has a significantly larger stock compared to the peripheral business district of Noida, supply in Noida is fast catching up. PBD-Noida is expected to witness new office space completions to the tune of 17mn.sq.ft. by the end of year 2015. Even in terms of leasing activity, Noida is the second most favourable location contributing about 28% to overall absorption in Q4 FY13. This has gone down significantly compared to Q4 FY12, where Noida contributed to nearly 43% of the overall absorption. Limited leasing activity was observed on the Noida- Greater Noida Expressway.

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, leading to limited number of transactions. CBD Delhi contributed to nearly 4% of the total absorption in Q4 FY13. Around 33,000 sq.ft. of office space leasing took place in the Secondary Business District (SBD), mainly in Mohan Cooperative and Nehru Place. Even though the vacancy levels in the SBD-Delhi market range between 12-15%, there is a limitation of options for corporates. SBD's share in the total absorption pie has been coming down, as corporates are able to get better deals with more options at competitive rentals

and ample scope for expansion in the PBD markets.

Table 3 highlights the weighted average of rental values across micro-markets. Not much variation in rental ranges has been observed in Q4 FY12 and Q4 FY13 across all micro-markets in the region.

Outlook

Global economic and financial conditions have a major consequence on commercial real estate market. Cautious business sentiments have affected demand across the country. The NCR office market also witnessed a dip in absorption, primarily because of the slowdown in the IT/ITeS sector. Corporate leasing activity is expected to remain muted in the coming quarters. Majority of the office space demand is expected to come from relocation and consolidation as companies are deferring their expansion plans. IT/ITeS giants are concentrating on their existing real estate portfolio and working towards improving the current space efficiencies. Supply is expected to be constrained as there are delays in the execution of commercial projects in the Peripheral Business Districts of Noida and Gurgaon, leading to limited options for tenants. Consequently certain established micro-markets within Noida and Gurgaon are expected to witness rental appreciation in the coming quarters.

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