



MARCH 2011 OFFICE TRACTION @ GLANCE

Knight Frank

Bangalore

Introduction

Bangalore is one of the key office markets in the southern part of India. Locations like MG Road and Residency Road form the Central Business District (CBD) of the city while other key office markets include Koramangala, Outer Ring Road, Bannerghatta Road and Airport Road. The office market in Bangalore has evolved primarily due to the growth of the IT/ITES sector in the city. While a number of industries like manufacturing and automobile have their stake in the economy of the city, it is the IT/ITES sector that has predominantly been the driving force. Electronic City in the south and Whitefield towards the east are the two prime IT/ITES office markets. Besides these locations, a number of prominent IT projects have come up on the Outer Ring Road as well. Bangalore also has a considerable number of firms in the biotechnology sphere. These varied industries have driven the demand for office space in the city.

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

ELECTRONIC CITY IN THE SOUTH AND WHITEFIELD TOWARDS THE EAST ARE THE TWO PRIME IT/ITES OFFICE MARKETS. A NUMBER OF PROMINENT IT PROJECTS HAVE COME UP ON THE OUTER RING ROAD AS WELL.

sector, in particular, affected the overall office market scenario.

While the past two years saw constricted demand for office space in the city, the last few quarters have seen demand trickling back into the market, thereby lending a positive outlook to the office sector in Bangalore. With the economy gaining more confidence, a number of multinational companies have begun to reconsider their expansion plans in the city, which had been put on hold in the past year.

Leasing activity in Bangalore have been rising gradually, with the IT/ITeS sector seeking out new office space to either initiate or to expand their business operations in the region.

Table 1: Type of transactions in CY 2010 (Jan-Dec) and Q1 2011 (Jan-Mar)

Transaction Summary	H1 2010 (Jan-Jun)	H2 2010 (Jul-Dec)	Q1 2011 (Jan-Mar)
Lease Transactions			
Total Area Transacted	5.12 mn.sq.ft.	5.80 mn.sq.ft.	0.32 mn.sq.ft.
Average Value	Rs.53 /sq.ft./month	Rs.53 /sq.ft./month	Rs.48 /sq.ft./month

Source: Knight Frank Research

As per Knight Frank research, approximately 10.92 mn.sq.ft. of office space (lease) transaction was observed during the four quarters of CY 2010, while the first quarter of 2011 witnessed around 0.32 mn.sq.ft. of office space being leased out. Due to a high preference for rented office space as opposed to outright purchase, around 99% of the total office space absorbed in Bangalore comprised only lease transactions.

AS PER KNIGHT FRANK RESEARCH, APPROXIMATELY 10.92 MN.SQ.FT OF OFFICE SPACE (LEASE) TRANSACTION WAS OBSERVED DURING THE FOUR QUARTERS OF CY 2010, WHILE THE FIRST QUARTER OF 2011 WITNESSED AROUND 0.32 MN.SQ.FT. OF OFFICE SPACE BEING LEASED OUT

Micro-Market Classification	Locations
Central Business District (CBD)	MG Road, Residency Road
Off-CBD	Cunningham Road, Lavelle Road, Richmond Road, Infantry Road
Suburban Business District (SBD)	Indira Nagar, Koramangala, Airport Road, Old Madras Road, Sarjapur
Peripheral Business District (PBD)	Whitefield, Mysore Road, Electronic City, Bannerghatta Road, Outer Ring Road

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Table 2: Distribution of office space across sectors in CY 2010 (Jan-Dec) and Q1 2011 (Jan-Mar)

Sectors	H1 2010 (Jan-Jun)	H2 2010 (Jul-Dec)	Q1 2011 (Jan-Mar)
IT/ITeS	61%	72%	56%
BFSI	4%	3%	11%
Telecom	9%	2%	Nil
Consulting	6%	12%	1%
Consumer Durables	1%	1.7%	5%
Education	9%	0.3%	Nil
Healthcare	1%	2%	10%
Others	9%	7%	16%

Source: Knight Frank Research

Out of the total office space taken up in 2010, around 47% was absorbed in H1 2010 (Jan- Jun) which consisted over 174 lease transactions. The average rental across office micro-markets during H1 2010 stood at Rs. 53/sq.ft. per month.

As compared to H1 2010, the second half of the year witnessed a higher number of transactions. Approximately 5.80 mn.sq.ft of fresh office space was absorbed in Bangalore during this period. This comprised approximately 188 lease transactions. The average rental during H2 2010 remained the same as H1 2010 and stood at Rs. 53/sq.ft per month, whereas capital values for key sale transactions were observed at Rs. 8,760/sq.ft.

Meanwhile, the first three months of 2011 saw around 0.32 mn.sq.ft. of office space being leased out at an average rate of Rs.48/sq.ft. per month. The lower rentals, however, do not reflect decline in rental trend. This development is mainly due to the fact that more transactions took place in the peripheral office locations where the rentals are much lower than the prime office locations.

In H1 2010, the average area transacted per deal was observed at 29,439 sq.ft, whereas in H2 2010 it was observed at 30,829 sq.ft., thereby reflecting a larger transacted size and higher number of transactions in H2 2010. Meanwhile, the average area transacted per deal in Q1 2011 was around 14,416 sq.ft., depicting the fact that fewer large sized transactions took place during the period.

IN 2010, OUT OF THE TOTAL 10.92 MN.SQ.FT. ABSORBED, ABOUT 68% WAS ABSORBED BY THE IT/ITES SECTOR, TOTALING TO MORE THAN 245 TRANSACTIONS

Sectoral Analysis

As mentioned previously, Bangalore office market is primarily dominated by the IT/ITeS sector. In 2010, out of the total 10.92 mn.sq.ft. absorbed, about 68% was absorbed by the IT/ITeS sector, totaling to more than 245 transactions.

In H1 2010, this sector with about 111 transactions was responsible for 61% of the total area transacted. This amounted to approximately 3.14 mn.sq.ft. and constituted of companies like the Oracle, Accenture, Mu Sigma and Via Technologies with transaction size in the range of 39,000 sq.ft. to 250,000 sq.ft.

The share of the IT/ITeS sector in office space absorption went up considerably in H2 2010 and was recorded at being approximately 74% of the total transacted area. Key transactions were led by companies such as Sapient, Wellsfargo, L&T Infotech, TCS, Honeywell Software and Siemens.

Amongst the other major industries to have taken up office space in Bangalore, the emerging sectors of telecommunication and education led the way and absorbed space to the tune of 9% each of the total space leased

out in H1 2010, which subsequently diminished to 2% and 0.3% respectively in the second half of the year.

On the other hand, the consulting sector, contributed about 6% to the total space absorbed in H1 2010, which increased to a significant 12% in H2 2010. Deloitte India's 56,891 sq.ft. of office space was one of the largest consulting transaction witnessed in Bangalore during H1 2010, while another consulting firm Ernst & Young took up around 30,500 sq.ft in H2 2010.

Other sectors like BFSI, consumer durables and healthcare together contributed about 6% in H1 2010 and 7% in H2 2010 towards office space absorption.

In Q1 2011, the IT/ITeS sector was responsible for around 56% of the total office space absorbed, followed a long way off by the BFSI and healthcare sector which contributed about 11% and 10% respectively. Some of the prominent companies which took up space during this quarter include Nova Nordisk, Schindler Electric and iMint with areas in the range of 20,300-55,071 sq.ft.

IN Q1 2011, THE IT/ITES SECTOR WAS RESPONSIBLE FOR AROUND 56% OF THE TOTAL OFFICE SPACE ABSORBED, FOLLOWED A LONG WAY OFF BY THE BFSI AND HEALTHCARE SECTOR WHICH CONTRIBUTED ABOUT 11% AND 10% RESPECTIVELY

Geographic Analysis

The Central Business District (CBD) and the neighbouring areas of Bangalore witnessed a number of transactions, representing varied industries. Around 46 transactions took place in the CBD and Off-CBD locations in 2010, amounting to approximately 0.63 mn sq.ft. of office space.



Table 3: Select transactions in Bangalore office market CY 2010 (Jan-Dec) and Q1 2011 (Jan-Mar)

Building	Company	Industry	Approx Area (sq.ft.)	Period
Pritech Park	Accenture	IT	130000	Q2 2010
Kirloskar Busines Park	Tata Tea	Consumer Durables	38714	Q2 2010
Brigade Software Park	Bateman Engineering	Manufacturing	27000	Q2 2010
Prestige Towers	Bajaj Auto Finance Limited	BFSI	11010	Q1 2010
Prestige Opal	Sparsh Hospital	Health	60000	Q3 2010
Gopalan Axis	L&T Infotech	IT	100000	Q4 2010
Kalyani Magnum	Earnst & Young	Consulting	30500	Q4 2010
Brigade Software Park	Nauvata Engineering	Manufacturing	8000	Q4 2010
Gopalan Axis	TCS	IT	400000	Q4 2010
Prestige Exora	Schindler Electric	IT	55,071	Q1 2011
Prestige Featherlite Tech Park	Nova Nordisk	Health	28,152	Q1 2011

Source: Knight Frank Research
Some of the key tenants who took up space in the CBD and Off-CBD locations include Yes Bank, India Infoline, AMD, Sungard, Bajaj Auto Finance Ltd and Shell.

The Suburban Business Districts (SBD) and the Peripheral Business Districts (PBD) have been the focus of Grade-A office development in Bangalore in the recent past. Due to availability of quality office spaces, with large floor plates and state of the art amenities, a sizeable share of office space transactions has been observed in these regions year on year.

The SBD of Koramangala saw the highest take up of fresh office space in H2 2010, to the tune of around 240,230 sq.ft. and accounting for approximately 39 transactions. Most of the office space transactions in Koramangala were witnessed in projects like KV Reddy Building, Patton House, MP Krishna Mansion and NTR Chambers.

THE SBD OF KORAMANGALA SAW THE HIGHEST TAKE UP OF FRESH OFFICE SPACE IN H2 2010, TO THE TUNE OF AROUND 240,230 SQ.FT. AND ACCOUNTING FOR APPROXIMATELY 39 TRANSACTIONS

WHITEFIELD AND OUTER RING ROAD IN THE PBD EMERGED AS SOME OF THE MOST SOUGHT AFTER OFFICE LOCATIONS IN BANGALORE IN 2010, RECORDING A LARGE NUMBER OF TRANSACTIONS BY THE IT/ITES SECTOR

Whitefield and Outer Ring Road in the PBD emerged as some of the most sought after office locations in Bangalore in 2010, recording a large number of transactions by the IT/ITES sector. While Whitefield had a total of 26 transactions during 2010, amounting to around 1.53 mn.sq.ft of office space, Outer Ring Road had 38 transactions to the tune of about 2.26 mn.sq.ft.

In Q1 2011, transactions were observed to have taken place in SBD locations like Koramangala, JP Road and Old Airport Road while PBD locations like Whitefield, Electronic City, Outer Ring Road and Hosur Road saw a major share of the transactions as well. The CBD witnessed minimal office space take up during the quarter.

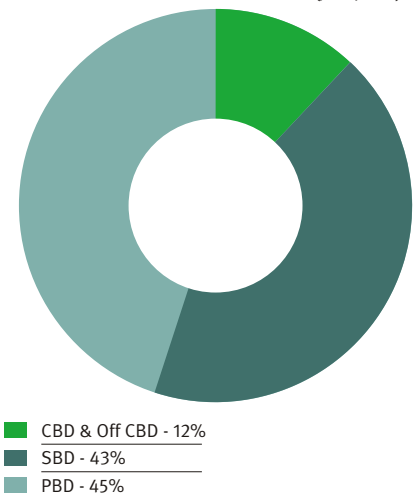
The quarter-wise absorption of office space in Bangalore is depicted in Chart 2.

Table 4 highlights the minimum, maximum and the weighted average of rental values across micro-markets for H1 and H2 2010. A large variation in rentals ranges has been observed in H1 and H2 2010 across all 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 CV Raman Nagar at Rs.40/sq.ft. per month for an area of 17,000 sq.ft., while a consulting company took up space in a relatively prime SBD location of Inner Ring Road at Rs.80/sq.ft. per month for an area of 26,500 sq.ft.

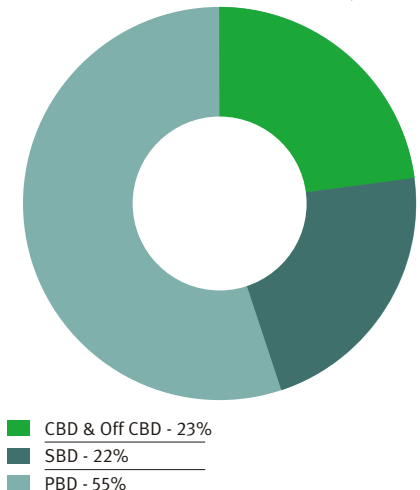
Chart 1: Location wise share in office transactions in CY 2010 (January to December)

Location wise share in H1 2010 (Jan-June)



Source: Knight Frank Research

Location wise share in H2 2010 (July-Dec)





Location wise share in Q1 2011 (Jan-Mar)

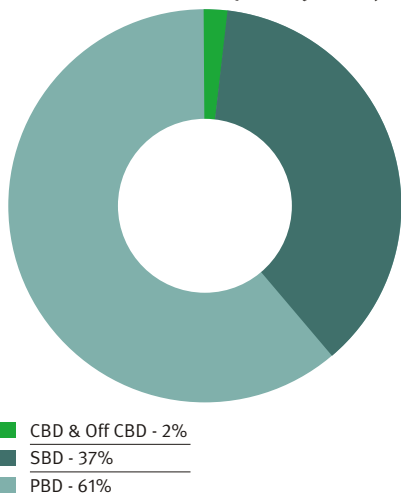
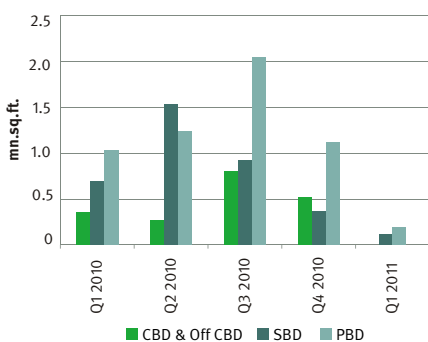


Chart 2: Location and quarter wise absorption in Bangalore



Source: Knight Frank Research

It can also be observed that in the PBD locations, as most of the transactions in 2010 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. While demand from IT/ITeS sector has been regaining ground post recession, the year 2010 also witnessed demand brought about from several other quarters, particularly the BFSI, consulting and healthcare and sectors. Due to growing demand for office space by these varied sectors, the market is expected to strengthen further in 2011.

Besides, with an improving economic environment and growing consumer confidence, the demand for office space is expected to increase, thereby leading the rental values across micro-markets to witness a marginal appreciation during the next one year. As IT/ITeS continues to be the key driver for Bangalore's office market, the micro-markets in the SBD and PBD, where most of these companies are located, are expected to dominate the market in terms of share in office absorption. Locations like Whitefield, Outer Ring Road and Electronic City are expected to further consolidate their position as favourable IT destinations.

LOCATIONS LIKE WHITEFIELD, OUTER RING ROAD AND ELECTRONIC CITY ARE EXPECTED TO FURTHER CONSOLIDATE THEIR POSITION AS FAVOURABLE IT DESTINATIONS

Hyderabad

Introduction

Hyderabad, also known as Cyberabad, is referred to as the second Silicon Valley of India after Bangalore. Besides being a preferred IT/ITeS destination, the other major sectors which have their presence in the city include biotechnology, hardware, pharmaceuticals and telecommunications. With the setting up of the Genome Valley, biotechnology has received a further boost to enhancing biotech research, training and manufacturing activities in the northern part of the city. These industries have primarily driven the demand for office space in Hyderabad.

The Hyderabad office market is classified into different sub-markets. Locations like Begumpet and SP Road form the Central Business District (CBD) while Banjara Hills and Jubilee Hills form the Suburban Business Districts (SBD). Other key micro-markets like Madhapur, Kondapur, Hitech City and Gachibowli which comprise the IT/ITeS hub form the Peripheral Business Districts (PBD). Extensive infrastructure developments like Outer Ring Road and radial roads have further led to the growth of peripheral micro-markets towards the north, east and especially in the western zones of Hyderabad, viz. Shamshabad, Pocharam and other HADA localities. The pace of growth in the city's office market came to a halt with the global economic slowdown. The recession in the country led office demand to decline considerably, thereby leading to a fall in rental values across all micro-markets in the city. Constricted demand from sectors such as IT/ITeS, BFSI and biotech/pharma, considered to be the principle drivers of office space in Hyderabad, affected the overall office market scenario.

Table 4: Average transacted rental values of prominent micro-markets in Bangalore (Rs./sq.ft. per month)

Micro Markets	H1 2010 (Jan - June)			H2 2010 (July - Dec)			Q1 2011 (Jan-Mar)		
	Min	Max	Weighted Average	Min	Max	Weighted Average	Min	Max	Weighted Average
Central Business District (CBD) & Off-CBD	35	100	62	40	100	55	50	60	55
Suburban Business Districts (SBD)	18	110	45	20	130	52	42	76	51
Peripheral Business Districts (PBD)	25	80	41	20	65	36	20	48	36

Source: Knight Frank Research

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Micro-Market Classification	Locations
Central Business District (CBD)	Begumpet, SP Road
Off-CBD	Panjagutta, Somajiguda, Ameerpet
Suburban Business District (SBD)	Banjara Hills, Jubilee Hills
Peripheral Business District (PBD)	Gachibowli, Madhapur, Manikonda, Shamshabad, Pocharam, Nanakramguda

The Indian economy started stabilizing in the early part of 2010, supported by positive sentiments from the investors and end users, leading to a healthy economic outlook. The office market in Hyderabad, too, gradually started to pick up, albeit on a cautious note. During 2010, leasing activity in the Hyderabad was observed to have been rising towards the second half of the year, with demand from the IT/ITeS and BFSI sectors in order to set up their establishments or to expand their business operations in the region. This positive development across micro-markets also led to marginal improvements in rentals as well.

DURING 2010, LEASING ACTIVITY IN THE HYDERABAD WAS OBSERVED TO HAVE BEEN RISING TOWARDS THE SECOND HALF OF THE YEAR, WITH DEMAND FROM THE IT/ITES AND BFSI SECTORS IN ORDER TO SET UP THEIR ESTABLISHMENTS OR TO EXPAND THEIR BUSINESS OPERATIONS IN THE REGION

Table 1: Type of transactions in CY 2010 (Jan-Dec) and Q1 2011 (Jan-Mar)

Transaction Summary	H1 2010 (Jan-Jun)	H2 2010 (Jul-Dec)	Q1 2011 (Jan-Mar)
Lease Transactions			
Total Area Transacted	1.97 mn.sq.ft.	2.23 mn.sq.ft.	1.6 mn.sq.ft.
Average Value	Rs.35 /sq.ft./month	Rs.35 /sq.ft./month	Rs.39 /sq.ft./month

Source: Knight Frank Research

As per Knight Frank research, approximately 4.2 mn.sq.ft of office space transaction was observed during the four quarters of CY 2010 and about 1.6 mn.sq.ft. in Q1 2011. As with most prominent office destinations in the country, it was observed that companies seeking space in the city preferred to enter into lease agreements rather than purchase the space.

AS PER KNIGHT FRANK RESEARCH, APPROXIMATELY 4.2 MN.SQ.FT OF OFFICE SPACE TRANSACTION WAS OBSERVED DURING THE FOUR QUARTERS OF CY 2010 AND ABOUT 1.6 MN.SQ.FT. IN Q1 2011

Out of the total office space taken up, just around 34% was absorbed in H1 2010 (Jan-Jun) which consisted of approximately 29 lease transactions. The average rental across office micro-markets during this period stood at Rs. 35/sq.ft. per month.

As compared to H1 2010, the second half of the year, encompassing the period July-December witnessed significantly larger

Table 2: Distribution of office space across sectors in CY 2010 (Jan-Dec) and Q1 2011 (Jan-Mar)

Sectors	H1 2010 (Jan-Jun)	H2 2010 (Jul-Dec)	Q1 2011 (Jan-Mar)
IT/ITeS	60%	79%	95%
BFSI	19%	3%	Nil
Biotech/Pharma	8%	0.4%	3%
Energy	2%	Nil	Nil
Engineering	5%	4%	Nil
Infrastructure	2%	1.6%	Nil
Manufacturing	Nil	2%	1%
Telecom	2%	3%	1%
Others	2%	6%	Nil

Source: Knight Frank Research

number of transactions. Approximately 2.23 mn.sq.ft of fresh office space was absorbed in the Hyderabad office market, comprising about 65 lease transactions. The average rental during H2 2010 remained the same as H1 2010 and was observed at Rs. 32/sq.ft per month.

Meanwhile, Q1 2011 witnessed a healthy absorption of 1.6 mn.sq.ft. of office space, totaling to about 24 transactions, with increased average rental values of Rs.39/sq.ft. per month.

In H1 2010, the average area transacted per deal was observed at 46,843 sq.ft, whereas in H2 2010 it was observed at 34,333 sq.ft., thereby reflecting a larger transacted size but lower number of transactions in H1 2010. On the other hand, the average area transacted per deal in Q1 2010 was observed to be 68,455, which depicted the fact that most transactions that took place during the quarter were of larger size than the transactions in 2010.

Sectoral Analysis

In the recent years, the Hyderabad office market has primarily been dominated by the IT/ITeS and biotech/pharma sectors. While IT/ITeS continued to dominate the office space absorption in 2010, it was observed that the BFSI sector had started to stake its claim on the city's office market as well. Out of the total 4.2 mn.sq.ft. absorbed in 2010, about 70% was absorbed by the IT/ITeS sector and about 11% by the BFSI sector. The IT/ITeS sector with a total of about 77 transactions was responsible for close to 2.95 mn.sq.ft. of office space absorption.



Some of the major IT/ITeS tenants include companies like Accenture, TCS, IBM, Google, Oracle and Zensar Technologies with transaction size in the range of 20,000 sq.ft to 210,000 sq.ft.

OUT OF THE TOTAL 4.2 MN.SQ.FT. ABSORBED IN 2010, ABOUT 70% WAS ABSORBED BY THE IT/ITES SECTOR AND ABOUT 11% BY THE BFSI SECTOR

The share of the IT/ITeS sector in office space absorption was approximately 60% in H1 2010, which increased to 79% in H2 2010. This reflects a higher dominance of the IT/ITeS sector in the Hyderabad office market, as compared to other sectors. Most of the transactions led by the IT/ITeS sector were noted in Gachibowli and Hitech City.

On the other hand, the BFSI sector contributed about 19% to the total space absorbed in H1 2010, which declined to only 3% in H2 2010. JP Morgan Chases's 350,000 sq.ft in the second quarter of 2010 was one of the largest BFSI transaction witnessed in Hyderabad during the year 2010. Other financial institutions like Basic Microfinance and the Conjoin Group also took up fresh office spaces in the range of 20,000-47,000 sq.ft.

Sectors like biotech/pharma, infrastructure, energy, manufacturing and engineering firms together contributed about 17% in H1 2010 and 8% in H2 2010 towards office space absorption. The share of telecom firms increased from 2% in H1 2010 to about 3% in H2 2010 in terms of transactions. Of this, Avaya was responsible for approximately 75,000 sq. ft towards office space absorption in H2 2010.

Meanwhile, the first three months of 2011 were remarkable for the fact that almost 95% of the total transactions that took place belonged to the IT/ITeS category. This reinstates the resurgence of the sector, after the slowdown in 2008-09. Amongst the major

tenants who took up office space, mention can be made of companies like Amazon, Deloitte, Samsung, AT&T, and CTS with areas in the range of 15,000-650,000 sq.ft.

THE FIRST THREE MONTHS OF 2011 WERE REMARKABLE FOR THE FACT THAT ALMOST 95% OF THE TOTAL TRANSACTIONS THAT TOOK PLACE BELONGED TO THE IT/ITES CATEGORY

Geographic Analysis

In the Hyderabad office market, the CBD and SBD micro-markets had relatively lower contribution towards office space take up. While the CBD contributed only 0.21 mn.sq.ft. to transactions, the SBD micro-markets contributed a higher amount at 0.45 mn.sq.ft.

The peripheral business districts (PBD) of Gachibowli and Hitech City have been the prime focus of GradeA office development in Hyderabad in the last 3-4 years. 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. In 2010, about 71% of the total office space transacted in Hyderabad was taken up at

Table 3: Select transactions in Hyderabad office market CY 2010 (Jan-Dec) and Q1 2011 (Jan-Mar)

Building	Company	Industry	Approx Area (sq.ft.)	Period
Tishman Speyer	TCS	IT/ITES	210000	Q1 2010
Tishman Speyer	Accenture	IT/ITES	150000	Q1 2010
Q City	Caparo Energy	Energy	8000	Q2 2010
JVP Soft	Zensar Technologies	IT/ITES	20000	Q2 2010
Raheja Mindspace	JP Morgan Chase	BFSI	350000	Q2 2010
Lanco Hills	IBM	IT/ITES	13500	Q3 2010
Ascendas	Avaya	Telecom	75000	Q3 2010
Krishnamma House	Adventa Seeds	Biotech/Pharma	10000	Q3 2010
DLF SEZ	Conjoin Group	BFSI	47000	Q4 2010
Divyasree Omega	Google	IT/ITES	180000	Q4 2010
Ananth Tech Park	Oracle	IT/ITES	80000	Q4 2010
Meenakshi Tech Park	Deloitte	Consulting	150000	Q1 2011
Ascendas	AT&T	Telecom	15000	Q1 2011

Source: Knight Frank Research

THE PERIPHERAL BUSINESS DISTRICTS (PBD) OF GACHIBOWLI AND HITECH CITY HAVE BEEN THE PRIME FOCUS OF GRADEA OFFICE DEVELOPMENT IN HYDERABAD IN THE LAST 3-4 YEARS

Gachibowli and Hitech City. Some of the key tenants in these micro-markets include companies like Facebook, Google, Oracle and United Health Group.

Hitech City saw the highest take up of fresh office space in both H1 and H2 2010. Around 1.95 mn.sq.ft. of office space, totaling to 40 transactions, were leased out in the region. Raheja Mindspace emerged as one of the most sought after office projects in Hitech City in 2010, recording a large number of transactions by the IT/ITeS, BFSI, telecom, engineering and biotech/pharma firms. Meanwhile, Gachibowli became the second most favoured office destination amongst the PBD micro-markets, with a transacted area of 1.03 mn.sq.ft., totaling to 21 transactions.

Amongst the other peripheral micro-markets, Nanakramguda emerged as a favourable location in Hyderabad in 2010 contributing 8% to total office space take-ups in 2010.



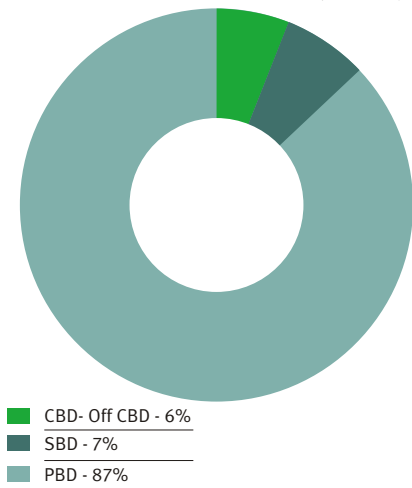
Companies like Amazon, TCS and Caparo Energy have taken up office spaces in this micro-market.

HITECH CITY SAW THE HIGHEST TAKE UP OF FRESH OFFICE SPACE IN BOTH H1 AND H2 2010. AROUND 1.95 MN.SQ.FT. OF OFFICE SPACE, TOTALING TO 40 TRANSACTIONS, WERE LEASED OUT IN THE REGION

In Q1 2011, unlike other quarters, a number of transactions took place in the CBD of Begumpet. Around 80,000 sq.ft of office space was transacted in this region. However, the PBD locations continued to remain the most preferred office destinations in this quarter as well and were responsible for almost 89% of the total transactions.

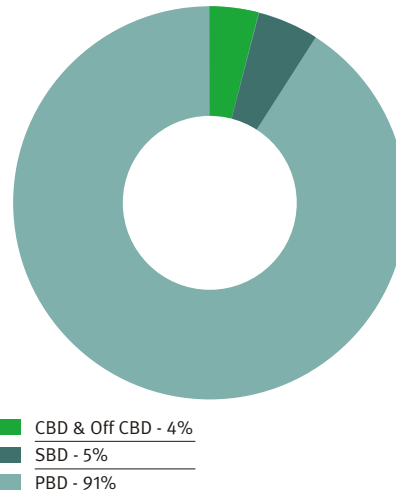
Chart 1: Location wise share in office transactions in CY 2010 (Jan-Dec) and Q1 2011 (Jan-Mar)

Location wise share in H1 2010 (Jan-June)



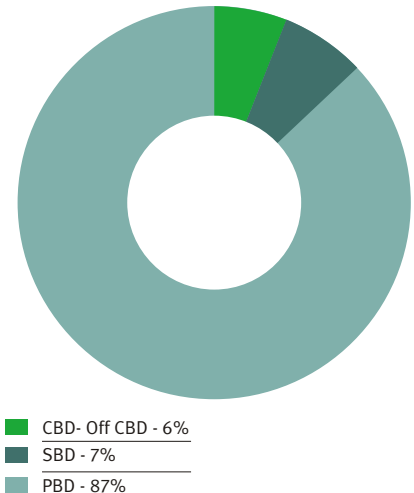
Source: Knight Frank Research

Location wise share in H2 2010 (July-Dec)



Source: Knight Frank Research

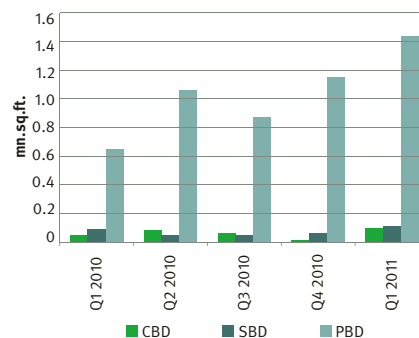
Location wise share in H1 2010 (Jan-Mar)



Source: Knight Frank Research

The quarter-wise absorption of office space in Hyderabad is depicted in Chart 2. It can be observed that the PBD micro-markets witnessed a high demand for office space across all the quarters of 2010 and 2011.

Chart 2: Location and quarter wise absorption in Hyderabad



Source: Knight Frank Research

Table 4 highlights the minimum, maximum and the weighted average of rental values across micro-markets for H1 and H2 2010. A large variation in rentals ranges has been observed in H1 and H2 2010 across all micro-markets of the city. This variation is on account of the location of the transacted properties. For instance, an IT/ITeS sector

transaction took place at PBD location of Serilingampally at Rs.25/sq.ft. per month for an area of 28,000 sq.ft., while another IT/ITeS company took up space in a relatively prime PBD location of Hitech City at Rs.50/sq.ft. per month for an area of 15,000 sq.ft. It can also be observed that in the PBD locations, as most of the transactions in 2010 were in the IT/ITeS sector, the average rentals are more skewed towards the minimum value.

Outlook

The year 2010 has been the year of recovery for most of the office markets in India. While the office space transaction scenario in Hyderabad may not fall in the fully recovered category, it nevertheless has shown some positive signs. From a complete lull in office demand in 2008-09, the city has strived to regain some interest from big players from varied sectors. The office space transactions in Hitech City, Gachibowli and Nankramguda have lent sufficient feel good factor to the city's office market.

Table 4: Average transacted rental values of prominent micro-markets in Hyderabad (Rs./sq.ft. per month)

Micro Markets	H1 2010 (Jan - June)			H2 2010 (July - Dec)			Q1 2011 (Jan-Mar)		
	Min	Max	Weighted Average	Min	Max	Weighted Average	Min	Max	Weighted Average
Central Business District (CBD) & Off-CBD	32	65	47	35	65	49	55	85	59
Suburban Business Districts (SBD)	35	60	48	28	55	38	28	38	33
Peripheral Business Districts (PBD)	22	50	28	24	48	32	25	44	32

Source: Knight Frank Research

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This fairly substantial absorption of office space has, in fact, led to a marginal increase in rental values, thereby reflecting the optimism in the office market in Hyderabad. The demand from the IT/ITeS sector notwithstanding, a growing demand for office space from sectors such as BFSI, engineering, manufacturing and biotech/pharma is envisaged in the future and this bodes well for the office market in Hyderabad in the forthcoming months.

THE DEMAND FROM THE IT/ITES SECTOR NOTWITHSTANDING, A GROWING DEMAND FOR OFFICE SPACE FROM SECTORS SUCH AS BFSI, ENGINEERING, MANUFACTURING AND BIOTECH/PHARMA IS ENVISAGED IN THE FUTURE

Chennai

Introduction

Chennai property market has been considered to be relatively stable when compared to the other Tier I cities in the country. Over the past couple of years, as a consequence of the rise of the IT/ITES industry, the demand for office space had witnessed significant growth which fuelled office space development in the city. Chennai has a strong Central Business District (CBD), comprising micro-markets such as Mount Road and Nungambakkam High Road, while the neighbouring locations of Nandanam, TTK Road and Poonamallee High Road make up the off-CBD market. The city has a smaller Suburban Business District (SBD) in Guindy and Anna Nagar. Of late, the prime focus of office space development has been the Peripheral Business District (PBD) of Old Mahabalipuram Road (OMR), Mount Poonamallee Road and GST Road.

The market downturn in 2009 had a strong effect on the Chennai office space scenario.

Micro-Market Classification	Locations
Central Business District (CBD)	Mount Road, Anna Salai, Nungambakkam High Road and Radha Krishna Road
Off CBD	Nandanam, TTK Road, Egmore, Poonamallee High Road
Suburban Business District (SBD)	Anna Nagar, Guindy
Peripheral Business District (PBD)	Old Mahabhalipuram Road, Mount Poonamallee Road, GST Road

The expected number of IT companies shifting to the city did not take off while major corporates stalled their expansion plans. Limited demand from sectors such as IT/ITeS and BFSI, considered to be the principle drivers of office space in Chennai, severely impacted the city's 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 Chennai, then onwards, has been on a road to recovery. During 2010, leasing activity in Chennai was observed to have been rising, with primarily the IT/ITeS sector taking up new office space. A host of other industries, besides IT/ITeS, have claimed fresh office space in the city as well. Marginal improvements in rentals have also been observed during the year.

Table 1: Type of transactions in CY 2010 (Jan-Dec) and Q1 2011 (Jan-Mar)

Transaction Summary	H1 2010 (Jan-Jun)	H2 2010 (Jul-Dec)	Q1 2011 (Jan-Mar)
Lease Transactions			
Total Area Transacted	1.23 mn.sq.ft.	1.82 mn.sq.ft.	0.74 mn.sq.ft.
Average Value	Rs.41 /sq.ft./month	Rs.50 /sq.ft./month	Rs.48 /sq.ft./month

Source: Knight Frank Research

As per Knight Frank research, approximately 3.10 mn.sq.ft of office space (lease and sale) transaction was observed during the four quarters of CY 2010 and around 0.74 mn.sq.ft. in Q1 2011. As has been the present trend, majority of the companies prefer to sign on lease agreements for office space than go for outright purchase. Not surprisingly, almost 98% of the total office space absorbed in Chennai comprised only lease transactions.

Out of the total office space taken up, around 40% was absorbed in H1 2010 (Jan-Jun) which consisted of 51 lease transactions. The

AS PER KNIGHT FRANK RESEARCH, APPROXIMATELY 3.10 MN.SQ.FT OF OFFICE SPACE (LEASE AND SALE) TRANSACTION WAS OBSERVED DURING THE FOUR QUARTERS OF CY 2010 AND AROUND 0.74 MN.SQ.FT. IN Q1 2011

average rental across office micro-markets during H1 2010 stood at Rs. 41/sq.ft. per month.

As compared to H1 2010, the second half of the year witnessed approximately 1.87 mn.sq.ft of fresh office space being absorbed in Chennai. This relatively higher amount of transacted office space comprised about 58 lease transactions amounting to 1.82 mn.sq.ft. The average rental during H2 2010 stood at Rs. 50/sq.ft per month, whereas capital values were observed at Rs. 8,325/sq.ft.

The first quarter of 2011, meanwhile, saw around 23 transactions take place, amounting to approximately 0.74 mn.sq.ft. The average rental during this period was observed at RS.48/sq.ft. per month. The lower rentals, however, do not necessarily reflect decline in rental trend. This development is mainly due to the fact that more transactions took place in the suburban office locations where the rentals are relatively than the CBD office locations.

In H1 2010, the average area transacted per deal was around 24,818 sq.ft, whereas in H2 2010 it was observed at 32,324 sq.ft., thereby reflecting a larger transacted size as well as a higher number of transactions in H2 2010.

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Table 2: Distribution of office space across sectors in CY 2010 (Jan-Dec) and Q1 2011 (Jan-Mar)

Sectors	H1 2010 (Jan-Jun)	H2 2010 (Jul-Dec)	Q1 2011 (Jan-Mar)
IT/ITeS	55%	54%	83%
BFSI	4%	15%	3%
Telecom	4%	1%	Nil
Media	3%	2%	Nil
Engineering	3%	2%	2%
Healthcare	7%	1%	Nil
Consulting	Nil	6%	4%
Manufacturing	2%	2%	Nil
Automobile	Nil	4%	Nil
Others	22%	12%	8%

Source: Knight Frank Research

This increased transaction activity in H2 2010 led to a considerable increase in average rentals, to the tune of approximately 22% over the rentals in H1 2010.

On the other hand, the average area transacted per deal in Q1 2011 was observed to be around 32,144 sq.ft.

Sectoral Analysis

The Chennai office market has primarily been dominated by the IT/ITeS sector in the recent years. However, an analysis of the sectoral distribution showed the emergence of a number of other industries in the market as well. In 2010, out of the total 3.10 mn.sq.ft. absorbed, about 55% was absorbed by the IT/ITeS sector, totaling to about 41 transactions. The sector was responsible for close to 1.70 mn.sq.ft. of office space absorption. Some of the key IT/ITeS companies who took up space in the city include Saksoft, CSS Corp, Sitel India, Accenture, WNS Global and HP, with office spaces in the range of 24,286 sq.ft. to 150,000 sq.ft.

The share of the IT/ITeS sector in office space absorption was approximately 55% in H1

IN 2010, OUT OF THE TOTAL 3.10 MN.SQ.FT. ABSORBED, ABOUT 55% WAS ABSORBED BY THE IT/ITES SECTOR, TOTALING TO ABOUT 41 TRANSACTIONS

which marginally dipped to 54% in H2 2010. The sector took up majority space in Q1 2011 and was responsible for almost 83% of the total office space transacted. This high percentage of IT/ITeS occupancy reflects a dominance of the sector in the Chennai office market. Most of the transactions led by the IT/ITeS sector were noted in the PBD locations.

THE IT/ITES SECTOR TOOK UP MAJORITY SPACE IN Q1 2011 AND WAS RESPONSIBLE FOR ALMOST 83% OF THE TOTAL OFFICE SPACE TRANSACTED

On the other hand, the healthcare sector, with around 5 transactions contributed about 7% to the total space absorbed in H1 2010, which declined to only 1% in H2 2010. Athena Health's 40,000 sq.ft. was one of the largest healthcare transaction witnessed in Chennai during the year 2010. Meanwhile, the BFSI sector also had substantial presence in office space transaction. The sector's contribution grew from 4% in H1 2010 to 15% in H2 2010. However, in Q1 2011, it again declined to about 3% of the total space transacted during that period. Amongst the BFSI tenants who took up space, mention can be made of companies like HSBC, Bank of America and BNP Paribas with office space areas in the range of 15,000 sq.ft. To 205,389 sq.ft.

Other sectors like telecom, media, engineering, manufacturing, consulting and automobile firms together contributed about 11% in H1 2010, 18% in H2 2010 and 6% in Q1 2011 towards office space absorption.

Geographic Analysis

The CBD of the city witnessed a number of transactions in 2010, though they were comparatively smaller in size. There were in total around 45 transactions and amounted to about 0.62 mn.sq.ft. of transacted space.

Table 3: Select transactions in Bangalore office market CY 2010 (Jan-Dec) and Q1 2011 (Jan-Mar)

Building	Company	Industry	Approx Area (sq.ft.)	Period
Express Avenue	Bank of Tokyo & Mitsubishi	BFSI	10000	Q 1 2010
Pacifica	Petronash	Mfrg	28000	Q 1 2010
DLF	CTS	IT/ITES	300000	Q 2 2010
SP Infocity	HAPAG LLOYD	Engineering	13000	Q 2 2010
SP Infocity	HSBC	BFSI	205,389	Q3 2010
Express Avenue	Bank of America	BFSI	15000	Q3 2010
Lohitia Towers	O & M	Media	10000	Q3 2010
Tamarai Tech Park	Mott MacDonald	Consulting	35000	Q3 2010
ASV Ramana Towers	Renault Nissan	Consulting	45000	Q4 2010
AMBIT	Perot Systems	Mfrg	15000	Q4 2010
Shriram The Gateway -IT SEZ	Accenture	IT/ITES	137000	Q4 2010
TRIL Info Park - Ramnujam IT SEZ	Hewlett Packard - HP	IT/ITES	7400	Q4 2010
DLF IT SEZ Park	Cognizant Technology Solutions	IT/ITES	200000	Q1 2011
TIDEL Park	Ernst & Young	Consulting	28000	Q1 2011

Source: Knight Frank Research

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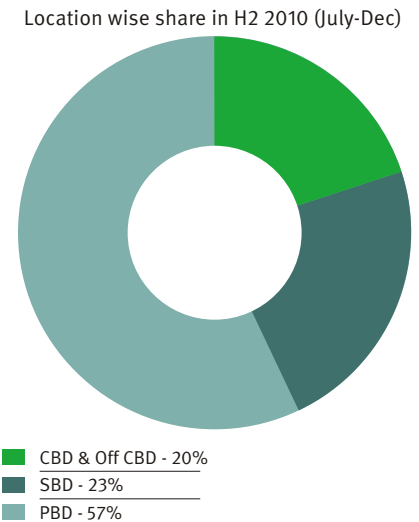
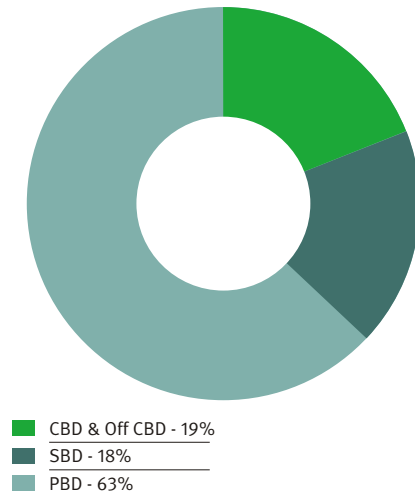
The companies who set up their office in this region represented varied industry backgrounds, and not solely IT/ITeS sector. As compared to 2010, the first quarter of 2011 observed a fewer number of transactions in the CBD region and amounted to only 98,200 sq.ft. of office space.

The SBD of the city did not have many transactions in 2010, but the larger size of the transactions made up for the lack of numbers. There were only 19 transactions that took place in the region and amounted to around 0.67 mn.sq.ft. of office space which was higher than the area transacted in the CBD. However, Q1 2011 witnessed a healthy absorption of office space in the SBD locations. Around 0.57 mn.sq.ft. of office space, totaling to about 13 transactions, were transacted alone in the first three months of 2011. Majority of the transactions took place in Poonamallee High Road.

A large quantum of the transactional activity took place in the peripheral business districts (PBD) of OMR which has been the hub of GradeA office development in Chennai in the recent years, accounting for almost 25% of the total office space transacted in 2010. Due to several advantages like availability of quality office spaces with large floor plates and state of the art amenities, a sizeable

A LARGE QUANTUM OF THE TRANSACTIONAL ACTIVITY TOOK PLACE IN THE PERIPHERAL BUSINESS DISTRICTS (PBD) OF OMR WHICH HAS BEEN THE HUB OF GRADEA OFFICE DEVELOPMENT IN CHENNAI IN THE RECENT YEARS, ACCOUNTING FOR ALMOST 25% OF THE TOTAL OFFICE SPACE TRANSACTED IN 2010

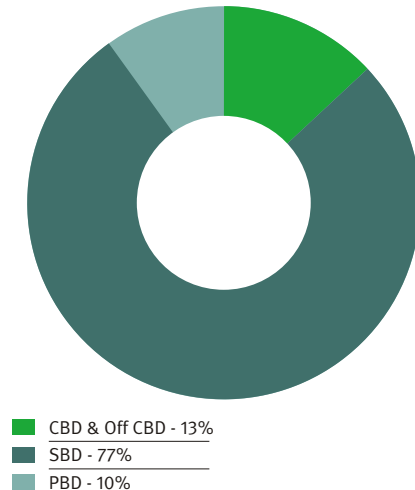
Chart 1: Location wise share in office transactions in CY 2010 (Jan-Dec) and Q1 2011 (Jan-Dec)



Source: Knight Frank Research

Source: Knight Frank Research

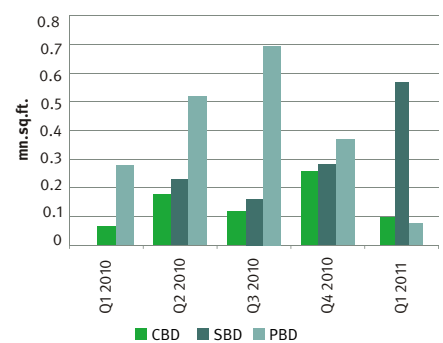
Location wise share in Q1 2011 (Jan-Mar)



share of office space transactions has been observed in this region. In 2010, about 47% of the total office space transacted in Chennai was taken up at the PBD locations.

Projects like DLF IT Park, located on Mount Poonamallee Road, Shriram Gateway on GST Road and SP Infocity, located on OMR, emerged as some of the most sought after office projects in Chennai in 2010, recording a large number of transactions by the IT/ITeS, consulting, telecom, BFSI, engineering and media firms. While DLF IT Park had names like Petronash, iGate and Boeing amongst its tenants, Shriram Gateway had tenants like Accenture, IBSN and Redington. SP Infocity, on the other hand, had tenants such as Standard Microsystems, Novatium and Future Media Works.

Chart 2. Location and quarter wise absorption in Chennai



Source: Knight Frank Research

The quarter-wise absorption of office space in Chennai is depicted in Chart 2. It can be observed that the PBD markets witnessed a high demand for office space across all the quarters of 2010, while the SBD markets scored high in Q1 2011.

Table 4 highlights the minimum, maximum and the weighted average of rental values across micro-markets for H1 and H2 2010. A variation in rentals ranges has been observed in H1 and H2 2010 in the CBD and Off-CBD markets. This variation is on account of the location of the transacted properties. It can also be observed that in the PBD locations the average rentals are more skewed towards the minimum value owing to the fact that most of the transactions in 2010 were in the IT/ITeS sector.



Table 4: Average transacted rental values of prominent micro-markets in Chennai (Rs./sq.ft. per month)

Micro Markets	H1 2010 (Jan - June)			H2 2010 (July - Dec)			Q1 2011 (Jan-Mar)		
	Min	Max	Weighted Average	Min	Max	Weighted Average	Min	Max	Weighted Average
Central Business District (CBD) & Off-CBD	32	70	53	48	110	67	55	87	55
Suburban Business Districts (SBD)	22	42	28	32	55	39	36	48	40
Peripheral Business Districts (PBD)	27	43	34	25	50	35	35	43	38

Source: Knight Frank Research

Outlook

The year 2010 has been a positive period for most office markets across India, post the economic recession.

While the growth in the Chennai market has been relatively stable, a substantial absorption of office space and a marginal increase in rental values reflects an optimistic state of the office market in Chennai. Due to a growing demand for office space by the IT/ITeS, BFSI, automobile, media, engineering and consulting firms the market is expected to strengthen further in 2011.

As IT/ITeS continues to be the key driver for Chennai's office market, the PBD location of OMR, where most of these companies are located, is expected to dominate the market in terms of share in office absorption in the forthcoming months.

THE PBD LOCATION OF OMR, WHERE MOST OF THESE COMPANIES ARE LOCATED, IS EXPECTED TO DOMINATE THE MARKET IN TERMS OF SHARE IN OFFICE ABSORPTION IN THE FORTHCOMING MONTHS

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