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OFFICE TRACTION @ GLANCE

Knight Frank

Pune

Introduction

Pune city is one of the leading software exporters in India and the pace at which the IT/ITeS industry has grown, coupled with the growth in the manufacturing sector has sparked off a flurry of construction activity in the grade A office space market over the past decade. The real estate office space market that has been recovering from the worst of the economic downturn saw resurgence in demand in 2010. The momentum was carried well into the following year and culminated in a total absorption of approximately 3.8mn.sq.ft in 2011, 1.03 mn.sq.ft. of which was accounted for in the quarter ending December, 2011 (Q3 FY 11-12).

Table 1.0: A summary of Lease Transactions

	Q3 FY 11-12	Q3 FY 10-11	Q2 FY 11-12
Total area transacted	1.03 mn.sq.ft.	0.98 mn.sq.ft.	0.43 mn.sq.ft.
Lease transactions			
Nos.	30	25	19
Total area transacted	1.01 mn.sq.ft.	0.91 mn.sq.ft.	0.42 mn.sq.ft.
Average Rate for IT/ITeS transactions	INR 35/sq.ft./month	INR 33/sq.ft./month	INR 34/sq.ft./month

Source: Knight Frank Research

Transaction activity has usually been observed to be concentrated in the first three quarters of the financial year as location planning and budgeting activities tend to limit the number of transactions in the last quarter. Over one mn.sq.ft. was absorbed during Q3 FY 11-12, which is a healthy 10% growth over Q3 FY 10-11 but more than twice

Table 2.0: Average prices in the outright sale market:

Sale transactions in Q3 FY 11-12 (psf rates)	CBD	PBD	SBD
IT/ITeS	INR. 6,500 - INR. 7,500	INR. 3,800 - INR. 4,300	INR. 3,400 - INR. 3,700
Non-IT/ITeS	INR. 8,000 - INR. 10,000	INR. 5,500 - INR. 7,500	INR. 4,500 - INR. 5,500

Source: Knight Frank Research

RENTALS AND CAPITAL VALUES HAVE HELD STRONG AND CONTINUED TO TREND UPWARD DESPITE THE LULL IN THE FIRST HALF OF THE CURRENT FINANCIAL YEAR

the total area transacted in Q2 FY 11-12. The first two quarters of the financial year were affected by the global economic turmoil as the sensitive IT/ITeS sector treaded cautiously in anticipation of an upswing in the business cycle. This latent demand coupled with the large number of deliveries resulted in strong uptake in Q3 FY 11-12.

Sectoral Analysis

Traditionally, the IT/ITeS sector which on an average accounts for 85% of the space transacted has dominated the Pune commercial office market while the Manufacturing and BFSI sectors vie for second place a long distance behind. The IT/ITeS sector accounted for 0.98 mn.sq.ft. in Q3 FY 11-12 and 0.93 mn.sq.ft. in Q3 FY 10-11

but worries over the sovereign debt crisis and business sentiment at large limited the expansion activities of this sector as it took up only 0.39 mn.sq.ft. in Q2 FY 11-12. The largest transaction in Q3 FY 11-12 was by Symantech that had indicated an intention to lease approximately 500,000 sq.ft. at Eon in Kharadi and has taken up close to 170,000 sq.ft. in part. The top five transactions during Q3 FY 11-12 were accounted for by the IT/ITeS sector and constituted approximately half of the total absorption during the period.

THE LARGEST TRANSACTION IN Q3 FY 11-12 WAS BY SYMANTECH THAT TOOK UP CLOSE TO 170,000 SQ.FT AT EON IN KHARADI

Manufacturing sector has shown tremendous amount of growth in the last five years in and around Pune city limits. Prolific expansion of automotive giants like Volkswagen, Mercedes, Mahindra, Hyundai etc. has resulted in their vendor companies setting up factories in Pune. This has generated huge demand for industrial land in locations like Chakan, Rajangaon, Talegaon and in new industrial locations like Shirvaletc. Most of these companies have taken up offices in the CBD and PBD locations for design centres and sales and service offices. Few of such recent transactions are by Forton, John Deere, Hyflux etc. Owing to this growth in the manufacturing sector, the demand for grade A commercial office space is set to improve in the short term.

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Table 3.0: Distribution of office space across sectors:

Broad Industry Classifications	Q3 FY 11-12	Q3 FY 10-11	Q2 FY 11-12
BFSI	6%	4%	-
IT/ITeS	85%	79%	89%
Manufacturing	9%	8%	11%
Other Service sectors*	-	8%	-
Others	-	1%	-

*Service sector companies besides those included in the BFSI and IT/ITeS category

Source: Knight Frank Research

Other service sector organisations such as consulting and advisory companies were conspicuous by their absence in Q3 FY 11-12 since their share exceeded the BFSI sector's share and rivalled that of the manufacturing sector in Q3 FY 10-11.

Geographic Analysis

The Secondary Business District (SBD) micro-market that accounted for 52% or 0.52 mn.sq.ft. of the transacted space was the preferred destination for most companies due to its proximity to the central areas. This is a massive jump over the 26% share this micro-market clocked during Q3 FY 10-11. Commerzone and Binarius

in Yerwada and Cybercity in Magarpatta accounted for nearly 80% or 0.40 mn.sq.ft. of the space transacted in the SBD. Rental values remained strong on the back of high transaction volumes and limited number of deliveries.

The Peripheral Business District (PBD) which experienced the bulk of market activity in Q3 FY 10-11 saw a sharp decline in transactions as the IT/ITeS sector showed a marked preference for the SBD. Occupiers, although unwilling to enter pre-commitments with developers, were

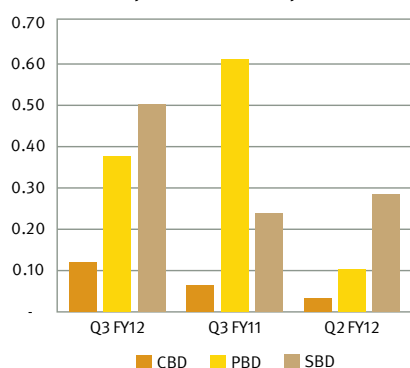
COMMERZONE AND BINARIUS IN YERWADA AND CYBERCITY IN MAGARPATTA ACCOUNTED FOR NEARLY 80% OR 0.40 MN.SQ.FT. OF THE SPACE TRANSACTED IN THE SBD

was accounted for by two properties of EON at Kharadi and DLF Akruti at Hinjewadi.

Q3 FY 11-12 saw the CBD absorption numbers exceeding the aggregate of the other two reference periods. Approximately 0.12 mn. sq.ft. was absorbed in the CBD during Q3 FY 11-12

Commerzone at Yerwada, EON at Kharadi and DLF Akruti at Hinjewadi featured prominently during Q3 FY 12 as they saw a total absorption of nearly 0.54 mn. sq.ft. which made up approximately 53% of the total area

Location and quarter wise absorption in Pune



Source: Knight Frank Research

Micro-markets	Locations
Central Business District(CBD)	Shivaji Nagar, Deccan, Wakdewadi, Dhole Patil Road, Bund Garden Road, MG Road, Koregaon park, Swargate
Suburban Business District (SBD)	Kalyani Nagar, Viman Nagar, Nagar Road, Aundh, Baner, Pashan Kothrud, Hadapsar, Satara Road
Peripheral Business District (PBD)	Phursungi, Kharadi, Hinjewadi, Wakad Bavdhan, Pimpri Chinchwad, Talawade

more inclined towards taking up ready-to-occupy office spaces abundantly available in this micro-market which is also an attractive destination for IT SEZ occupiers. Approximately 0.33mn. sq.ft. or 87% of the total transacted space in this micro-market

absorbed in this period. Also interesting to note is that close to 45% of the transacted space was in IT SEZ properties. This clearly depicts a definite preference of the IT/ITeS players towards IT SEZ office space owing to the tax benefits provided for the export oriented businesses.

Table 4.0: Select transactions in the Pune Office Market:

Location	Building	Company	Industry	Approx Area (sq ft)	Quarter
Kharadi	EON	Symantech	IT/ITeS	170,000	Q3 FY 11-12
Hinjewadi	DLF Akruti	Barclays Tech	IT/ITeS	114,000	Q3 FY 11-12
Yerwada	Binarius	Tibco	IT/ITeS	89,000	Q3 FY 11-12
Hadapsar	Magarpatta	EXL Service	IT/ITeS	88,000	Q3 FY 11-12
Wakdewadi	Bajaj Brand View	MWH	IT/ITeS	53,000	Q3 FY 11-12
Yerwada	Commerzone	Triple point	IT/ITeS	50,000	Q3 FY 11-12
Hadapsar	DLF Akruti	eClerx	IT/ITeS	45,000	Q3 FY 11-12

Source: Knight Frank Research

Outlook

Commercial office space market is expected to stay robust as expansion plans of the corporate and industrial sector will ensure that rents continue to have a stable to upward bias in the following two quarters. The fact that new entrants like UPS, Metro and Hitachi are setting up design and development centres in the city and existing

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Table 5.0: Average transacted rental values in Pune (INR/sq.ft./month)

Micromarkets	Q3 FY 11-12	Q3 FY 10-11	Q2 FY 11-12
CBD	60	55	60
PBD	38	37	37
SBD	34	32	33

Source: Knight Frank Research

large players like IBM, TCS, Cognizant etc continue to add to their real estate portfolio will ensure market health. Vacancy levels will likely not be tested and would vary between 22 - 24 %. The SEZ space accounted for the bulk of transacted area in 2011 and has left very limited inventory in this category. The trend will continue in FY 12 -13 and will in turn result in firming up the rentals in SEZ space in the short term. Few large scale projects both in SEZ and Commercial space are expected to hit the market before the end of the year. This will ensure that rental levels do not face any significant downward pressure in the short term.

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