



MARCH 2013

OFFICE TRACTION @ GLANCE

Knight Frank

HYDERABAD

Introduction

The Hyderabad office market witnessed a contraction in absorption levels in the current financial year as the impact of unfavourable global economic conditions and regional political upheaval were felt across sectors. Occupiers remained cautious about their expansion plans and refrained from making fresh investments. Consequently, market Vacancy level has inched up to 14% in Q3 FY 2013 compared to 13% in Q2 FY 2012.

THE FIRST THREE QUARTERS OF FY 2013 SAW ABSORPTION NUMBERS FALL ALMOST 30% COMPARED TO THE SAME PERIOD IN THE PREVIOUS FINANCIAL YEAR. Q3 FY 2013 DID NOT FARE MUCH BETTER AS TRANSACTION ACTIVITY DIPPED APPROXIMATELY 26% YOY TO 0.43 MN.SQ. FT..

The first three quarters of FY 2013 saw absorption numbers fall almost 30% compared to the same period in the previous financial year. Q3 FY 2013 did not fare much better as transaction activity dipped approximately 26% YOY to 0.43 mn.sq.ft.. This is also a substantial drop from Q2 FY 2013 that saw almost 1.17 mn.sq.ft. of office

Business District	Micro-markets
Central Business District & Off- Central Business District (CBD & Off-CBD)	Banjara Hills, Jubilee Hills, Begumpet, Ameerpet, Somajiguda, Himayat nagar
Secondary Business District (SBD)	HITEC City, Kondapur, Madhapur, Manikonda, Kukatpally
Peripheral Business District - West (PBD (W))	Gachibowli, Kokapet, Madinaguda, Nanakramguda, Serilingampally
Peripheral Business District - East (PBD (E))	Uppal, Pocharam

space transacted. This can be explained to a large extent as transaction activity characteristically tends to be concentrated during the first half of the financial year when companies endeavour to execute their budgeted expansion plans. However, the decline in transactions has not affected rentals yet as the weighted average rental rates have stayed sticky over the past year.

The Hyderabad office market is classified in to different micro-markets. Locations like Begumpet, Ameerpet, Somajiguda, Banjara Hills and Jubilee Hills form the CBD & Off-CBD office micro-market. Other key locations like Madhapur, Kondapur and HITEC City form the SBD micro-market and the primary IT/ITeS hub within Hyderabad. Another key IT/ITeS hub, Gachibowli, forms a part of the PBD (W) micro-market. Locations such as Uppal and Pocharam towards the east

which have the lowest rents in Hyderabad constitute the PBD (E) micro-market. Extensive infrastructure developments like Outer Ring Road and radial roads have further led to office space development in peripheral locations like Shamshabad and other HADA localities.

Table 1 : A summary of lease transactions:

Lease Transaction	Q3 FY 13	Q3 FY 12	Q2 FY 13
Total area transacted	0.43 mn.sq.ft.	0.54 mn.sq.ft.	1.17 mn.sq.ft.
Average Rate/ sq.ft./month	INR 39	INR 38	INR 38

Source: Knight Frank Research

Sectoral Analysis

The IT/ITeS sector has been the primary driver of the office space market in Hyderabad and it accounted for approximately 0.25 mn.sq.ft in Q3 FY 2013. This sector forms the backbone of the Hyderabad office space market and consistently takes up the lion's share of the transactions pie. IT/ITeS sector companies such as Zensar Technologies and Hinduja Global Solutions were among the companies that took up large format office spaces during this quarter.

THE DECLINE IN TRANSACTIONS HAS NOT AFFECTED RENTALS YET AS THE WEIGHTED AVERAGE RENTAL RATES HAVE STAYED STICKY OVER THE PAST YEAR.



Table 3 : Select transactions in the Hyderabad Office Market:

Location	Building	Company	Industry	Area(sq.ft.)
Gachibowli	DLF Cyber City	Hinduja Global Solutions	IT/ITeS	60,000
Gachibowli	DLF Cyber City	Zensar Technologies	IT/ITeS	60,000
Hitech City	I Labs	Harsco	Manufacturing	29,000
Hitech City	Ascendas IT Park	Kofax	IT/ITeS	14,564
Banjara Hills	Anewa	Cyber Spazzio	IT/ITeS	12,900
Hitech City	My Home Hub	Celkon Mobiles	Manufacturing	10,000
Begumpet	APDL Estates	L & T Finance	BFSI	10,000
Banjara Hills	Sanali Info Park	Walt Disney	Other service sectors	6,000

Source: Knight Frank Research

The manufacturing sector has gained significant ground over 2012 as its share has grown from 10% in Q3 FY 2012 to 15% in Q3 FY 2013 which translates to approximately 64,500 sq.ft. of office space. The bulk of the space transacted by this sector was concentrated in the SBD. A 28,000 sq.ft. lease inked by industrial services major, Harsco at I Labs in HITEC City was among the most prominent deals signed in Q3 FY 2013. With the central government's focus on increasing the share of the manufacturing sector in India's GDP, it is likely that this sector's share will stay buoyant.

The market share of the BFSI and other

Table 2 : Distribution of office space absorption across sectors

	Q3 FY 13	Q3 FY 12	Q2 FY 13
BFSI	5%	3%	5%
IT/ITeS	72%	78%	75%
Manufacturing	15%	10%	13%
Other Service Sectors*	8%	9%	7%

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

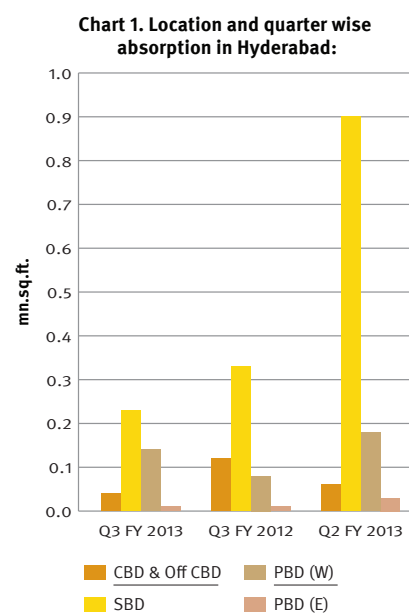
Source: Knight Frank Research

services sector has stayed stable over the analysis period as they accounted for approximately 60,000 sq.ft. in Q3 FY 2013. L&T Finance and Walt Disney were among the prominent BFSI and other service sector companies respectively, that were active in the market during Q3 FY 2013.

Geographic Analysis

Transaction activity was more dispersed across micro-markets in Q3 FY 2013

compared to Q2 FY 2013 as PBD (W) locations like Gachibowli claimed a larger share of the overall pie compared to previous periods. Also, the incidence of big ticket transactions was lower in Q3 FY 2013 which did not skew the picture in favour of a particular micro-market.



Source: Knight Frank Research

The SBD has established itself as the most important IT/ITeS office destination in Hyderabad and as is evident from chart 2.0, it also attracts the bulk of office space transactions. Office space occupiers in this micro-market form the cream of IT/ITeS sector companies like Velocity Networks in Hitech City and AMD and Micro Excel in Madhapur. Pharmaceutical majors like Novartis have also set up shop in SBD locations like Madhapur. However, it has

lost some ground to a fast growing PBD (W) micro-market during Q3 FY 2013. Locations like Gachibowli on the western periphery of Hyderabad have seen large scale development of quality office spaces that rival the best of what the SBD has to offer. This has given occupiers an extremely viable alternative to higher priced SBD locations due to the significant discounts that are available in similar properties in the PBD (W) micro-market. The SBD and PBD (W) micro-market together accounted for a massive 87% of the total transacted space during Q3 FY 2013. DLF Cybercity in Gachibowli featured prominently as two of the most significant leases during the Q3 FY 2013 quarter were inked here.

THE SHARE OF THE CBD AND OFF CBD MICRO-MARKET LOCATIONS HAS FALLEN CONSISTENTLY FROM Q3 FY 2012 WHEN IT CORNERED 22% OF THE TRANSACTED SPACE TO UNDER 10% LEVELS IN Q3 FY 2013. THIS MICRO-MARKET HAS BEEN LOSING FAVOUR AS ITS DESIRABILITY AS A PREMIUM OFFICE SPACE DESTINATION HAS REDUCED CONSIDERABLY OVER TIME.

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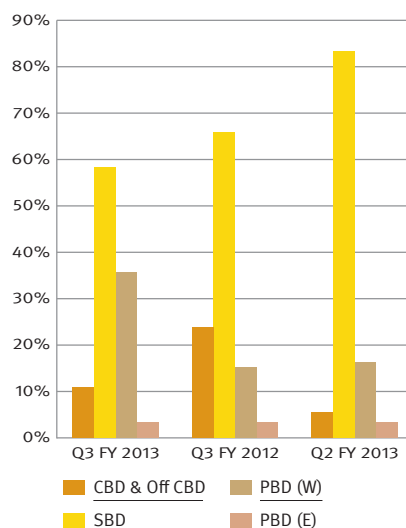
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Chart 2. Location and quarter wise share of absorption in Hyderabad:



Source: Knight Frank Research

The share of the CBD and Off CBD micro-market locations has fallen consistently from Q3 FY 2012 when it cornered 22% of the transacted space to under 10% levels in Q3 FY 2013. This micro-market has been losing favour as its desirability as a premium office space destination has reduced considerably over time. Occupiers have shifted to comparatively lower priced options in the SBD that today offer similar market dynamics as the erstwhile CBD & Off-CBD. Amway, Marico, Cyber Spazio, Walt Disney and L&T Finance were companies most active in this micro-market. Office buildings such as Anewa, and Sanali Info Park at Banjara Hills and Belvedere Towers and APDL estates at Somajiguda and Begumpet respectively saw most of the action.

SUBDUED GROWTH FROM THE IT/ITES INDUSTRY WHICH IS THE PRIMARY DEMAND DRIVER IN HYDERABAD WILL RESULT IN STRONG HEADWINDS AGAINST RENTAL GROWTH DURING THE COMING FOUR QUARTERS.

Although occupiers evinced interest for locations such as Uppal and Pocharam in the PBD (E) micro-market, this did not convert to transactions in Q3 FY 2013 in spite of these locations offering the lowest rents in the Hyderabad office space market.

OUTLOOK

THE SBD WILL CONTINUE TO CONSOLIDATE ITS STANDING AS THE NEW COMMERCIAL CORE OF HYDERABAD AND SEE BULK OF THE ACTION GOING FORWARD.

Subdued growth from the IT/ITES industry which is the primary demand driver in Hyderabad will result in strong headwinds against rental growth during the coming four quarters. The sensitive political scenario also adds an element of risk which will not encourage corporates to make fresh investments in Hyderabad. Expansion activity from corporates already having a footprint in Hyderabad and for whom relocation is a harder option to exercise, will sustain the market but be hard pressed to stop vacancy levels from rising in the face of increasing supply. Nearly 6.44 mn.sq. ft. of office space is expected to come online during 2013, almost half of which is concentrated in the SBD.

The SBD will continue to consolidate its standing as the new commercial core of Hyderabad and see bulk of the action going forward. However, the quality of office space available in the peripheral western locations like Gachibowli coupled with their lower rents will be hard to compete against, given that the overall absorption pie is not expected to grow significantly in coming quarters.