



# MAY 2011 OFFICE TRACTION @ GLANCE

## Knight Frank

### NCR

#### Macro environment

Improved macro-economic conditions during 2010 have helped in the recovery of the real estate sector. As per the RBI, real GDP grew by 8.5% during FY 2011, up by a 110 basis points from FY 2010.

Inflation at around 9%, as of March 2011, continues to remain a matter of concern. The high levels of inflation have pushed policymakers towards tightening monetary policy.

Q4 FY11 also witnessed the announcement of Budget 2011. With respect to commercial real estate, Minimum Alternate Tax (MAT) to SEZ developers has been introduced. SEZ developers and units shall be charged with a MAT of 18.5% with effect from 1st April 2011.

The overall revival in the economy and improvement in business sentiment is prompting companies to once again expand their operations, leading to an increase in demand for commercial property.

**HIGH LEVELS OF INFLATION REMAIN A MATTER OF CONCERN AND HAVE PUSHED POLICYMAKERS TOWARDS TIGHTENING MONETARY POLICY**

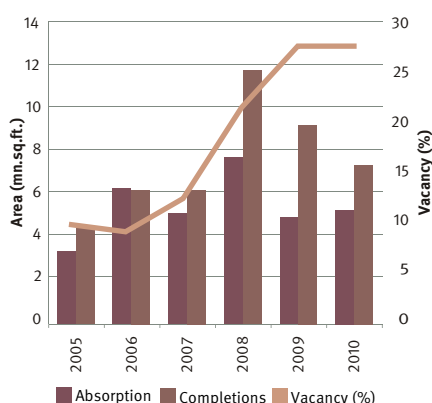
#### Physical market movement

The commercial real estate market in the NCR has been on a road to recovery since 2010. Q4 FY11 has witnessed an active interest by corporates, particularly IT/ ITeS industry.

Approximately 46 mn sq.ft of Grade 'A' office stock has been added between 2005 and 2010. The current vacancy rates across key micro-markets hover in the range of 25 - 27%.

The rentals across micro-markets have stabilized and not shown any further correction since the last two quarters indicating that the demand for office space seems to be on a strong foothold.

#### NCR office market movement



Source: Knight Frank Research

As per Knight Frank Research, Q4 FY11 witnessed approximately 1.69 mn sq.ft of leasing activity across the NCR, marginally higher than 1.42 mn sq.ft transacted during Q4 FY10.

**THE NCR WITNESSED 1.69 MN SQ.FT OF LEASING ACTIVITY DURING Q4 FY11, WITH SEZs ACCOUNTING FOR 61% SHARE**

SEZs accounted for 61% of the overall leasing while the balance leasing activity was spread between IT parks and non-IT buildings.

#### Quoted warm shell rentals during Q4 FY11 (INR/ sq.ft/ month)

Micro-markets	Min	Max	Change since last quarter (%)
CP	170	300	No change
Nehru Place	140	250	No change
Mohan Co-operative	65	85	No change
Jasola	110	140	No change
Saket	140	170	No change
Gurgaon	40	110	No change
Noida	37	80	No change

Source: Knight Frank Research

The number of deals however displayed a different trend. A total of 19 transactions were recorded during Q4 FY11 as against 47 transactions noted during the same quarter of FY10. The average lease rentals in the current quarter stood at INR 47/ sq.ft/ month, down from INR 64/ sq.ft/ month in Q4 FY10. However, this is largely on account of two reasons. One, the average transacted space was significantly higher. The average size of transactions has increased from approximately 30,000 sq.ft to 89,000 sq.ft between Q4 FY10 and Q4 FY11. Second, the bulk of transactions are related to IT/ ITeS space thus averaging out relatively cheaper when compared to Q4 FY10 where a large number of small ticket transactions were witnessed in non IT buildings, which typically command higher rentals.

In comparison to previous the quarter Q3 FY11, market volumes have increased significantly in the current quarter. 0.85 mn sq.ft of leasing activity took place in Q3 FY11 compared to 1.69 mn sq.ft. in Q4 FY11.

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Lease Transactions	Q4 FY11	Q4 FY10	Q3 FY11
Total area transacted	1.69 mn sq.ft	1.42 mn sq.ft	0.85 mn sq.ft
Number of deals	19	47	22
Average Rate	INR 47/ sq.ft/ month	INR 64/ sq.ft/ month	INR 42/ sq.ft/ month

Source: Knight Frank Research

## Geographic analysis

The Peripheral Business District of Gurgaon and NOIDA continue to be the centre of transaction activity in the NCR. Gurgaon witnessed fresh commercial real estate space leasing of approximately 0.95 mn sq.ft. or 57% of overall share of the NCR. Most of the transactions were witnessed in the micro-markets of Dundahera and Gurgaon - Faridabad road. Unitech's Infospace, ASF Insignia and Spaze IT Park were some of the prominent buildings where transactions took place.

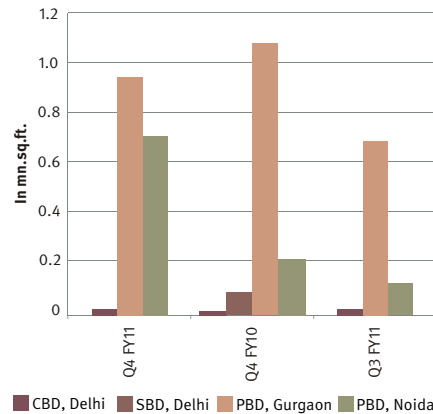
Classification	Locations
Central Business District (CBD), Delhi	Connaught Place, Barakhamba Road, Kasturba Gandhi Marg
Secondary Business District (SBD), Delhi	Nehru Place, Vasant Kunj, Jasola, Saket, Bhikaji Cama Place, Mohan Co-operative Area
Peripheral Business District (PBD), Gurgaon	DLF Cybercity, MG Road, Golf Course Road, Sohna Road, Dundahera
Peripheral Business District (PBD), NOIDA	Sector 16A, 18, 62, 63, Noida – Greater Noida Expressway

Source: Knight Frank Research

The Peripheral Business District of NOIDA also witnessed leasing activity of approximately 0.72 mn sq.ft accounting for

**PBD, GURGAON LEADS WITH 57% MARKET SHARE IN CURRENT QUARTER'S LEASING ACTIVITY FOLLOWED BY PBD, NOIDA WITH A 42% SHARE**

42% of the market share. These transactions were observed in the micro-markets of Sector-62 and Sector -135 primarily in Unitech's Infospace and Stellar IT Park.



The Central Business District of Delhi continues to witness very limited transaction activity. In the current quarter, only two transactions, together totalling 22,400 sq.ft, were noted in Gopal Das Building.

## Sectoral analysis

The commercial real estate market of the NCR continues to be driven by the IT/ITeS and BFSI industry.

As per Knight Frank Research, 85% of the space absorption was contributed by the IT/ITeS industry alone during the quarter. This is in sharp contrast from Q4 FY10 as well as the previous quarter Q3 FY11 where the IT/ITeS industry's share was observed to be 29% and 23% respectively.

Though limited leasing was witnessed by BFSI, manufacturing and other service sectors in the current quarter, these industries have traditionally maintained a healthy share in previous quarters. Consulting, telecom and engineering companies such as IL&FS, Avaya, Siemens, William e Connor and Bharat Forge together accounted for 11% of the current quarters' absorption. The balance 4% was contributed by companies such as British Petroleum and Publicis, a media group.

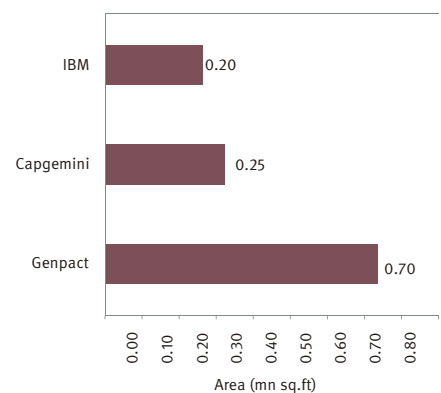
Genpact, Capgemini and IBM were the top space occupiers in Q4 FY11 and accounted for approximately 68% of the space absorption. While Genpact and IBM took up space in IT

Broad Industry Classifications	Q4 FY11	Q4 FY10	Q3 FY11
IT/ITeS	85%	29%	23%
Manufacturing	4%	20%	31%
BFSI	1%	22%	0%
Other Service Sectors	6%	20%	41%
Others	4%	9%	5%
Total	100%	100%	100%

Source: Knight Frank Research

SEZ buildings, Capgemini signed up its deal in an IT Park building in Gurgaon.

## Top 3 space occupiers during Q4 FY11



Source: Knight Frank Research

**GENPACT IN TWO SEPARATE TRANSACTIONS ACCOUNTED FOR 0.7 MN SQ.FT OF LEASING DURING THE QUARTER**

## Market Outlook

Office market of the NCR has started showing strong fundamentals reflected in the revived occupier interest observed during FY 2011. Growth of the IT/ITeS industry, as forecasted by industry analysts, certainly augurs well for the NCR's commercial real estate market.

Seeing revived corporate interest, the developers/landlords may be tempted towards marginally increasing the rentals. The extent of increase in rentals may however, vary between micro-markets. Micro-markets such as DLF Cybercity and Golf Course Road in the PBD, Gurgaon currently have lower



vacancies and thus might see a sharper rise in rentals as compared to most of the micro-markets of PBD, NOIDA which face high level vacancies. The occupiers however, would continue to expand given the rentals are still attractive and low as compared to their peak in 2008.

In the asset market, interest rates play a critical role in the demand for ownership of real estate. The economy is currently grappling with high levels of inflation which has forced the RBI to take monetary policy intervention. Rising interest rates are instrumental in combating an inflationary scenario but also increase the cost of financing for developers and end-users alike. Consequently, development activity could slow down in the near to medium term. However, we believe demand would prove more resilient and vacancy levels would trend lower over the coming quarters.

While the overall sentiments are positive, there are some risks that still loom large under the current market conditions. These include a possible currency appreciation putting pressure on the IT/ITeS industry performance, and risks of liquidity being sucked out of the system due to excessive tightening of credit policy.

**RENTAL VALUES ARE EXPECTED TO INCREASE IN THE SHORT RUN**

Despite the downside risks, the commercial real estate market fundamentals look strong. Our outlook for the NCR office market is positive for the next 3 - 6 months.

Table: Select transactions in NCR office market during Q4 FY11

Location	Building	Company	Approx. Area (sq.ft.)
Sec – 135, NOIDA	Infospace	Genpact	500,000
Sohna Road, Gurgaon	Spaze IT Park	Capgemini	250,000
Gurgaon – Faridabad Road	ASF Insignia	IBM	200,000
Dundahera	Infospace	Genpact	200,000
Udyog Vihar	Standalone	Siemens	80,000
Dundahera	Infospace	Accenture	70,000
Sec – 59, NOIDA	Logix Infotech Park	Headstrong	60,000
Sec – 135, NOIDA	Infospace	Accenture	60,000

Source: Knight Frank Research