



MAY 2012 OFFICE TRACTION @ GLANCE

Knight Frank

Mumbai

Introduction

The Mumbai commercial office space market has been steadily recovering from the worst of the economic slowdown as demand has stayed resilient. Corporate activity which has been picking up traction over the preceding four quarters is a far cry from its 2006 heydays but is still a reliable indicator of the underlying strength of the Mumbai office market. The growing absorption numbers are however yet to overtake the existing supply overhang causing the demand supply gap to widen over the past year and consequently causing rent and vacancy levels to remain under pressure.

THE GROWING ABSORPTION NUMBERS ARE YET TO OVERTAKE THE EXISTING SUPPLY OVERHANG CAUSING THE DEMAND SUPPLY GAP TO WIDEN

Transaction activity is characteristically subdued in the final quarter of the financial year as office expansion activity tends to

be concentrated in the first half of the said period. Hence, absorption numbers show a 27% fall in Q4 FY 12 from the preceding quarter. The fact that absorption has grown in excess of 23% over Q4 FY 11 shows that the market continues to gain momentum.

According to Knight Frank Research, approximately 1.1 mn.sq.ft. was transacted in Q4 FY 12 which saw investment activity in terms of outright sales almost double over the previous reference period. Developers have been more open to diluting equity in recent times due to swelling inventory levels and this has contributed to the increasing number of big ticket outright transactions in the market.

THE FACT THAT ABSORPTION HAS GROWN IN EXCESS OF 23% OVER Q4 FY 11 SHOWS THAT THE MARKET CONTINUES TO GAIN MOMENTUM

Although transacted rentals and capital values have seemingly fallen since Q4 FY 11, the fall is exacerbated due to bulk of

the transactions taking place in lower priced submarkets.

Sectoral Analysis

Table 2.0: Distribution of office space across sectors

Broad Industry Classifications	Q4 FY 12	Q4 FY 11	Q3 FY 12
BFSI	17%	6%	15%
IT/ITeS	20%	42%	10%
Manufacturing	22%	14%	32%
Other Service sectors*	33%	33%	33%
Others	7%	4%	12%

*Service sector companies besides those included in the BFSI and IT/ ITeS category
Source: Knight Frank Research

The BFSI sector has been the primary driver of the office space market in Mumbai and demand from the IT/ITeS sector has been growing in the past few years as well. The market share of the other service sector companies like media, telecom, consulting and logistics has also risen sharply and consistently eclipsed that of the BFSI and IT/ ITeS sectors over the past six quarters.

THE MARKET SHARE OF THE OTHER SERVICE SECTOR COMPANIES LIKE MEDIA, TELECOM, CONSULTING AND LOGISTICS HAS ALSO RISEN SHARPLY AND CONSISTENTLY ECLIPSED THAT OF THE BFSI AND IT/ ITeS SECTORS OVER THE PAST SIX QUARTERS

Table 1.0: A comparison of Sale and Lease transactions:

	Q4 FY 12	Q4 FY 11	Q3 FY 12
Total area transacted	1.04 mn. sq.ft.	0.88 mn. sq.ft.	1.50 mn. sq.ft.
Lease transactions			
Nos.	28	27	26
Total area transacted	0.69 mn. sq.ft.	0.70 mn. sq.ft.	1.30 mn. sq.ft.
Average Rate	INR 111/sq.ft./month	INR 136/sq.ft./month	INR 120/sq.ft./month
Sale transactions			
Nos.	4	23	4
Total area transacted	0.35 mn. sq.ft.	0.18 mn. sq.ft.	0.20 mn. sq.ft.
Average Rate	INR 8,087/sq.ft.	INR 12,374/sq.ft.	INR 15,409/sq.ft.

Source: Knight Frank Research

India Research

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Accounting for approximately 0.35 mn.sq.ft., other service sector companies like IR Class, AZA and Maersk Sealine were among the most active in the market in Q4 FY 12. These companies account for close to 50% of the total space absorbed by this sector.

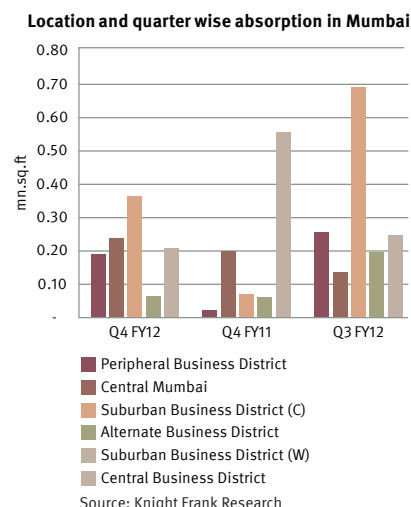
The IT/ITeS sector has been conspicuous due to its lack of activity in Q4 FY 12 as its market share was observed to be on the rise in 2011. This sector had accounted for 0.37 mn.sq.ft in Q4 FY 11 but it barely managed half of that in Q4 FY 12 as worries over the ongoing sovereign debt crisis and downgrading of the erstwhile economic powerhouses of the western world by leading rating agencies hampered expansion activity. IT/ITeS sector companies showed a marked preference for the large format office spaces available in Powai, Airoli and Kurla during Q4 FY 12.

The Manufacturing sector has gained significant ground in the trailing four quarters as its share has grown from 14% in Q4 FY 11 to 22% in Q4 FY 12. Approximately 45% of the area transacted by this sector was located in Lower Parel. With the central government's focus on increasing the share of manufacturing sector in India's GDP, it is likely that this sector's share will stay buoyant.

Geographic Analysis

Transaction activity was more dispersed across micro-markets in Q4 FY 12 compared to the other two reference periods as prospective tenants had a much wider choice

Chart 1.0: Location and quarter wise absorption in Mumbai:



among existing and upcoming office spaces across micro-markets. Also, the incidence of big ticket transactions was lower in Q4 FY 12 which did not skew the picture in favour of a particular micro-market.

Micro Markets	Q4 FY 12	Q4 FY 11	Q3 FY 12
Peripheral Business District	18%	2%	17%
Central Mumbai	22%	22%	9%
Suburban Business District (C)	33%	8%	45%
Alternate Business District	6%	6%	13%
Suburban Business District (W)	20%	61%	16%
Central Business District	1%	1%	1%

The central suburban locations (Suburban Business District (C)) of Kurla, Powai, Vikhroli and the LBS Marg belt have seen a

significant amount of deliveries as quality office properties like Phoenix Market City and Godrej IT Park came online. Consequently, the central suburbs have consistently claimed a larger slice of the transactions pie over the preceding four quarters. The central suburbs experienced bulk of the transaction activity as these locations claimed over a third of the transacted space in Q4 FY 12 due to the quality and variety of product on offer. Approximately 0.26 mn.sq. ft. of office space was leased in Supreme Business Park in Powai and Kohinoor IT Park and Equinox in Kurla in Q4 FY 12. Devon, PricewaterhouseCoopers and Symphony were among the corporates most active in this micro-market.

THE CENTRAL SUBURBS EXPERIENCED BULK OF THE TRANSACTION ACTIVITY AS THESE LOCATIONS CLAIMED OVER A THIRD OF THE TRANSACTED SPACE IN Q4 FY 12 DUE TO THE QUALITY AND VARIETY OF PRODUCT ON OFFER

Over 90% of the transaction activity in Central Mumbai was largely concentrated in Lower Parel as manufacturing, advertising and consulting companies like L'oreal, Flagship Advertising, Aza and Craft foods among others set up shop there. Worli and Prabhadevi accounted for approximately 9% of the total transacted space in this micro-

Table 3.0: Select transactions in the Mumbai Office Market: TBD

Location	Building	Company	Industry	Approx Area (sq ft)	Quarter
Powai	Supreme Business Park	Devon	IT/ITeS	94,000	Q4 FY 12
Lower parel	Marathon Futurex	Loreal	Manufacturing	71,000	Q4 FY 12
Goregaon	Nesco	KPMG	BFSI	55,000	Q4 FY 12
Kurla	Kohinoor IT Park	Tesco	Other Service Sectors	50,000	Q4 FY 12
Thane	Lodha iThink	IR Class	Other Service Sectors	40,000	Q4 FY 12
Lower parel	Peninsula Business Park	Aza	Other Service Sectors	30,000	Q4 FY 12
Thane	Lodha I think	Future Generali	BFSI	27,000	Q4 FY 12
Thane	Lodha I think	Schwing Stetter	Manufacturing	20,000	Q4 FY 12

Source: Knight Frank Research

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Classifications	Locations
Central Business District (CBD)	Nariman Point
Off Central Business District (Off CBD)	Ballard Estate, Cuffe Parade, Fort
Central Mumbai	Mahalaxmi, Lower Parel, Prabhadevi, Dadar
Alternate Business District (ABD)	Bandra Kurla Complex
Suburban Business District (West)	Western micro-markets of Bandra, Kalina, Andheri, Malad, Goregaon and Jogeshwari
Suburban Business District (Central)	Central micro-markets of Kurla, Powai, Vikhroli, Kanjurmarg, Bhandup and Mulund
Peripheral Business District (PBD)	Thane and Navi Mumbai

market and two buildings namely, Lodha Supremus and Lloyd Centre Point saw all the transaction activity.

Andheri and Goregaon were the hot spots along the western suburbs (Suburban Business District (W)) as these locations accounted for over 90% of the activity in this micro-market. Approximately 0.65 mn.sq.ft. of office space came online in these locations and vacancy and rental levels stayed high in spite of the healthy absorption numbers.

ANDHERI AND GOREGAON WERE THE HOT SPOTS ALONG THE WESTERN SUBURBS AS THESE LOCATIONS ACCOUNTED FOR OVER 90% OF THE ACTIVITY IN THIS MICRO-MARKET

Thane and Navi Mumbai in the Peripheral Business District accounted for nearly 0.20 mn.sq.ft., most of which was taken up by the IT/ ITeS sector. Lodha iThink, Lodha Supremus and Dosti Pinnacle were the properties that experienced the most activity in Thane while Reliance Tech Park and Vishwaroop IT Park constituted bulk of the transacted space in Navi Mumbai.

The Central Business District of Nariman Point experienced marginal activity and rental levels are starting to slide as the core of the commercial office space market continues its northward shift. The Alternate Business District of BKC maintained its market share as the BFSI sector and corporate occupiers in general showed a marked preference for the large format premium office properties amply available in this location. Mastercard and Glencore Technologies were among the companies that took up space in this micro-market.

Table 4.0: Average transacted rental values in Mumbai (INR/sq.ft./month)

Micro-markets	Q4 FY 12	Q4 FY 11	Q3 FY 12
Peripheral Business District	41	94	46
Central Mumbai	148	183	113
Suburban Business District (C)	86	85	109
Alternate Business District	245	273	255
Suburban Business District (W)	99	116	145
Central Business District	250	275	250

Source: Knight Frank Research

Outlook

Corporate expansion activity is expected to stay stable in the coming quarters. However, supply should continue to outstrip demand thereby ensuring that rental growth is restricted. The Alternate Business District will continue to attract market players as the CBD slowly loses its sheen. The central government's focus on the Manufacturing sector's growth will likely see its appetite for office space trend upward.

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