

COMMERCIAL
RESEARCH



OFFICE TRACTION @ GLANCE

Mumbai
May 2013

MARKET OVERVIEW

Mumbai's commercial office space market has been showing signs of firming up over the four quarters ending Q4 FY 2013 (January - March, 2013). Absorption levels have been observed to be trending up towards the end of the financial year as FY 2013 ended on a strong note.

Mumbai, the financial capital of India is at the forefront of the country's economic activity and among the most vibrant office markets in the country. This distinction also makes Mumbai an important city from the global economic perspective. Besides, being the state capital, the city also serves as the headquarters for the political and administrative machinery of the state government of Maharashtra. Driven by companies from the Banking, Financial Service, Insurance (BFSI), IT/ITeS and other service sectors, Mumbai is the base for corporate headquarters of Indian as well as multi-national companies. Availability of talent, a conducive business environment, international air connectivity and quality office space stock are among the factors that have aided the commercial office market in the city. However, the presence of prominent stock & commodity exchanges, regulators and headquarters of several banks has helped in making Mumbai the most preferred location for occupiers from the BFSI sector.

Mumbai's commercial office space market has been showing signs of firming up over the four quarters ending Q4 FY 2013 (January - March, 2013). Corporate activity which had been fairly sluggish due to an uninspiring global and local environment had resulted in a significant fall in office space take-up in first half of 2012. However, absorption levels have been observed to be trending up towards the end of the financial year as FY 2013 ended on a strong note. Asking rent and vacancy levels that were stagnating either remained stable or trended up in select micro-markets.

Transaction activity tends to be concentrated in the first half of the financial year as expansion plans are inclined to be executed in that period. However, the fact that Q4 FY 2013 showed a 26% rise in transacted volumes Year-on-Year and almost 57% compared to the preceding quarter, bodes well for the market. According to Knight Frank Research, approximately 1.30 mn.sq.ft. was transacted in Q4 FY 2013 which saw investment activity in terms of outright sales also rise almost 17% over the previous reference period.

Table 1: A comparison of Sale and Lease transactions:

Total area transacted	Q4 FY 2013	Q4 FY 2012	Q3 FY 2013
Lease transactions	1.30 mn.sq.ft.	1.04 mn.sq.ft.	0.83 mn.sq.ft.
Total area transacted	0.95 mn.sq.ft.	0.74 mn.sq.ft.	0.66 mn.sq.ft.
Average Rate	INR 100/sq.ft./month	INR 93/sq.ft./month	INR 97/sq.ft./month
Sale transactions			
Total area transacted	0.35 mn.sq.ft.	0.30 mn.sq.ft.	0.17 mn.sq.ft.

Source: Knight Frank Research

The BFSI sector has been the primary driver of the office space market in Mumbai and claimed the largest share of the transactions pie during Q4 FY 2013. It accounted for approximately 0.63 mn.sq.ft. as banks and non-banking finance sector companies from the BFSI pack such as Axis Bank, Barclays and Universal Sampo played an active role during this quarter.

Business District	Micro-markets
Central Business District & Off Central Business District (CBD & Off CBD)	Nariman Point, Cuffe Parade, Ballard Estate, Fort, Mahalaxmi, Worli
Alternate Business District (ABD)	BKC, Bandra (E), Kalina and Kalanagar
Central Mumbai	Parel, Lower Parel, Dadar, Prabhadevi
Suburban Business District - West (SBD West)	Andheri, Jogeshwari, Goregaon, Malad
Suburban Business District - Central (SBD Central)	Kurla, Ghatkopar, Vikhroli, Kanjurmarg, Powai, Bhandup, Chembur
Peripheral Business District (PBD)	Thane, Airoli, Vashi, Ghansoli, Rabale, Belapur

Source: Knight Frank Research

Sectoral Analysis

Table 2: Distribution of office space across sectors

Broad Industry Classifications	Q4 FY 2013	Q4 FY 2012	Q3 FY 2013
BFSI	49%	11%	23%
IT/ITeS	16%	16%	17%
Manufacturing	15%	27%	31%
Other Service sectors*	20%	46%	29%

* 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 claimed the largest share of the transactions pie during Q4 FY 2013. It accounted for approximately 0.63 mn.sq.ft. as banks and non-banking finance sector companies from the BFSI pack such as Axis Bank, Barclays and Universal Sampo played an active role during this quarter. A 0.18 mn.sq.ft. lease at Nirlon Knowledge Park, Goregaon East inked by insurance brokers Jardine Lloyd Thompson India Pvt.Ltd. was the largest lease transaction during Q4 FY 2013. Axis Bank's 0.30 mn.sq.ft. acquisition at Gigaplex, Airoli was the largest sale transaction recorded during this quarter.

The market share of other service sector companies like media, telecom, consulting

and logistics has risen consistently over the years and on occasions eclipsed that of the BFSI and IT/ ITeS sectors. Q4 FY 2013 saw a drop in this sector's share of the transactions pie as other service sector companies took up approximately 0.26 mn.sq.ft. during Q4 FY 2013, nearly half the number they clocked in Q4 FY 2012. UTV-Disney, Mid-Day, Group M, and automobile portal Carwale were the most active among other service sector companies during Q4 FY 2013. These companies accounted for over 60% of the total space absorbed by this sector.

The IT/ ITeS sector has maintained its market share in Q4 FY 2013 compared to the previous reference period and accounted for 0.21 mn.sq.ft.. However, worries over an uncertain global economy and the looming threat of sanctions being imposed against outsourcing have hampered expansion activity of the IT/ITeS industry. IT/ITeS sector companies showed a marked preference for the large format office spaces available in Andheri East, Powai and Airoli in Navi Mumbai during Q4 FY 2013.

The manufacturing sector that had seen its market share increase over the past eight

quarters lost traction during Q4 FY 2013 as its share has slipped from 27% in Q4 FY 2012 to 15% in Q4 FY 2013. The bulk of the space transacted by this sector was concentrated in SBD West locations of Andheri and Goregaon. Colgate Palmolive, Monsanto and Havells India were among the manufacturing companies active during Q4 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 recover and stay buoyant.

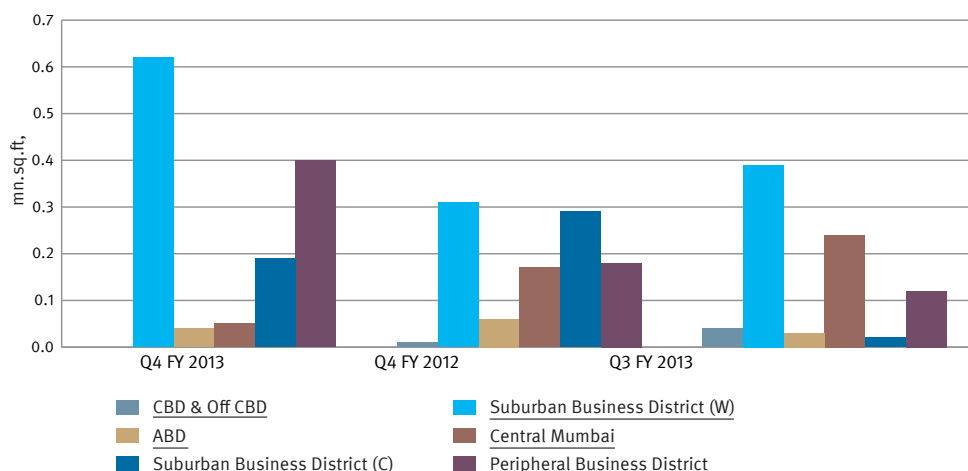
Geographic Analysis

Transaction activity was largely concentrated in SBD West and the PBD in Q4 FY 2013 compared to Q4 FY 2012 as these two business districts accounted for approximately 78% of the total transactions in this quarter. This was also due to the fact that the incidence of big ticket transactions was higher in Q4 FY 2013 compared to Q4 FY 2012 which skewed the picture in favour of a particular business district.

Almost half of the transaction activity in Q4 FY 2013 took place in the SBD West locations. Andheri East and Goregaon East accounted for a massive 92% of the transactions in this market as BFSI, media and consulting companies like Axis Bank and UTV Disney among others set up shop here. Nirlon Knowledge Park in Goregaon East featured prominently in Q4 FY 2013 and accounted for more than a third of the transacted space in the SBD West market. Vacancy levels in this business district have stayed doggedly high at 26% despite the increased absorption levels due to the large quantum of deliveries this market has seen over the past few quarters.

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 recover and stay buoyant.

Location and Quarter wise Absorption in Mumbai:



Source: Knight Frank Research

The central suburban locations (SBD Central) of Kurla, Powai, Vikhroli and the LBS Marg belt have seen a significant amount of deliveries during 2012 as quality office properties like Phoenix Market City and Godrej IT Park hit the market. Consequently, the central suburbs claimed a larger slice of the transactions pie in the first half of 2012. However, occupier interest has been observed to be on the decline from the second half of 2012. The central suburbs almost halved their market share in Q4 FY 2013 as occupiers perceived better value in office properties located in SBD West locations like Andheri and Goregaon. Nearly 64% of the total transactions in this market took place in Powai as GE Capital, Mid-Day, Deloitte and Magma Fincorp were among the corporates most active in this micro-market.

Central Mumbai had an inordinately weak quarter in terms of absorption volumes. However, we believe that absorption numbers will rebound as most corporates that evinced interest in Q4 FY 2013 will be converted in the subsequent quarter. Also, the fact that Q3 FY 2013 saw the Central Mumbai business district claim 29% of the total transaction pie bears testament to its underlying strength. Vacancy levels stayed relatively high at approximately 20% as absorption numbers have not kept up with large number of deliveries in this micro-market.

Thane and Navi Mumbai in the Peripheral

Business District accounted for nearly 0.40 mn.sq.ft. and saw its market share jump from 18% in Q4 FY 2012 to 31% in Q4 FY 2013. Almost 83% of the transacted office space was accounted for by the BFSI sector. Gigaplex in Airoli and Sigma IT Park in Rabale experienced the most activity in the PBD market. Vacancy levels are highest in this market at approximately 36% as several large format office projects completed in the past two years lie unoccupied.

The CBD & Off-CBD market experienced marginal transaction activity and rental levels in this micro-market continued their decline. The core of the commercial office space market has continued its northward shift as BKC and Lower Parel have practically established themselves as the new CBDs.

Transaction activity was largely concentrated in SBD West and the PBD in Q4 FY 2013 compared to Q4 FY 2012 as these two business districts accounted for approximately 78% of the total transactions in this quarter.

However, vacancy levels have sustained at relatively tight 15% levels as it is a supply constrained market.

Table 3: Select transactions in the Mumbai Office Market:

Location	Building	Company	Industry	Approx. Area (sq.ft.)	Quarter
Goregaon East	Nirlon Knowledge Park	Barclays	BFSI	180,000	Q4 FY 2013
Andheri East	Solitaire -14	UTV-Disney	Other service sectors	90,000	Q4 FY 2013
Andheri East	L&T Business Park	Colgate Palmolive	Manufacturing	70,000	Q4 FY 2013
Powai	Spectra	Wipro	IT/ITES	65,000	Q4 FY 2013
Andheri East	Symphony	Aditya Birla Minacs	IT/ITES	51,000	Q4 FY 2013
Airoli	Mindspace	Citius Tech Solutions	IT/ITES	40,000	Q4 FY 2013
Mahape	KSL	Univeral Somp	BFSI	35,000	Q4 FY 2013
Goregaon East	Nirlon Knowledge Park	Monsanto	Manufacturing	31,000	Q4 FY 2013
Thane	Lodha I Think	Future Generali India Insurance Co. Ltd.	BFSI	27,000	Q4 FY 2013

Source: Knight Frank Research

Table 4: Business District and quarter wise share of absorption in Mumbai

Business District	Q4 FY 2013	Q4 FY 2012	Q3 FY 2013
CBD & Off CBD	0%	1%	4%
SBD West	47%	30%	47%
ABD	3%	6%	3%
Central Mumbai	4%	17%	29%
SBD Central	15%	28%	2%
Peripheral Business District	31%	18%	14%

Source: Knight Frank Research

The central suburbs almost halved their market share in Q4 FY 2013 as occupiers perceived better value in office properties located in SBD West locations like Andheri and Goregaon.

The Alternate Business District saw transaction volumes drop approximately 35% in Q4 FY 2013 compared to Q4 FY 2012 as occupiers have been looking to reduce their real estate cost footprint by taking up premium office spaces of similar quality in Central Mumbai locations such as lower Parel or Andheri and Goregaon in SBD West. Vacancy levels are currently at 17%.

Outlook

The Mumbai office space market has had a good start to the year and we expect these absorption levels to remain buoyant in the first half of the new financial year as well. However, rental growth will be restricted, as approximately 7.8 mn.sq.ft. of office space is expected to come online in FY 2014. Corporate expansion activity especially in the IT/ITeS sector is expected to be subdued in the coming quarters following Nasscom's downward revision of FY 2014 growth estimates for the sector at 11%. These factors will put pressure on vacancy levels that are currently at approximately 23%. The ABD, Central Mumbai and SBD West markets will

Table 5: Average transacted rental values in Mumbai (INR/sq.ft./month)

Business District	Q4 FY 2013	Q4 FY 2012	Q3 FY 2013
CBD & Off CBD	240	250	245
SBD West	92	89	90
ABD	265	245	260
Central Mumbai	139	128	135
SBD Central	90	90	92
Peripheral Business District	42	44	44

Source: Knight Frank Research

Central Mumbai had an inordinately weak quarter in terms of absorption volumes. However, we believe that absorption numbers will rebound as most corporates that evinced interest in Q4 FY 2013 will be converted in the subsequent quarter.

continue to attract market players while the CBD continues to lose occupiers' interest. The central government's focus on the manufacturing sector's growth will likely see its appetite for office space trend upward.

The ABD, Central Mumbai and SBD West markets will continue to attract market players while the CBD continues to lose occupiers' interest.

Research

Dr. Samantak Das

Chief Economist & Director, Research
T +91 22 6745 0101
samantak.das@in.knightfrank.com

Consultancy & Valuations

Saurabh Mehrotra

Director, Consultancy & Valuations Services
T +91 22 6745 0101
saurabh.mehrotra@in.knightfrank.com

Office & Industrial Agency Team

Mumbai

Balbirsingh Khalsa

National Director, Office & Industrial Agency
T +91 22 6745 0101
balbirsingh.khalsa@in.knightfrank.com

Bangalore

Naushad Panjwani

Senior Executive Director
T +91 80 4073 2600
naushad.panjwani@in.knightfrank.com

Chennai

Naushad Panjwani

Senior Executive Director
T +91 44 4296 9000
naushad.panjwani@in.knightfrank.com

Delhi

Mudassir Zaidi

Regional Director, North
T +91 124 4075030/31/32/33
mudassir.zaidi@in.knightfrank.com

Hyderabad

Subrata Sharma

Branch Head, Hyderabad
T +91 40 4455 4141
subrata.sharma@in.knightfrank.com

Pune

Shantanu Mazumder

Director - Pune Branch
T +91 20 3058 0617/18
shantanu.mazumder@in.knightfrank.com

COMMERCIAL RESEARCH

Recent market leading research publications.



The Wealth Report
2013



Investment advisory
Report 2013

Knight Frank Research Reports available at
www.KnightFrank.com/research

Knight Frank India research provides development and strategic advisory to a wide range of clients worldwide. We regularly produce detailed and informative research reports which provide valuable insights on the real estate market. Our strength lies in analyzing existing trends and predicting future trends in the real estate sector from the data collected through market surveys and interactions with real estate agencies, developers, funds and other stakeholders.

© Knight Frank 2013

This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank to the form and content within which it appears.

