



NOVEMBER 2011

OFFICE TRACTION @ GLANCE

Knight Frank

Mumbai

Introduction

On a recovery path from the 2008 crisis, the Mumbai office space market has been experiencing a lull in activity since Q1 FY11. Demand has stagnated as corporates have been treading cautiously in the backdrop of a market tainted by serious macroeconomic concerns and scams that have been in media glare since early last year. Further, an oversupply situation coupled with the postponement of expansion plans by the BFSI and IT/ ITeS sectors continued to exert pressure on vacancy and rental levels. The market did receive a brief respite in Q1 FY12 as this latent demand spilled over with absorption numbers in that quarter exceeding the aggregate of the preceding three quarters.

Table 1.0: A comparison of Sale and Lease transactions:

	H1 FY 12	H1 FY 11
Total area transacted	5.78 mn.sq.ft.	6.09 mn.sq.ft.
Lease transactions		
Nos.	232	109
Total area transacted	4.80 mn.sq.ft.	4.66 mn.sq.ft.
Average Rate	INR 117 /sq.ft. /month	INR 96 /sq.ft. /month
Sale transactions		
Nos.	25	35
Total area transacted	0.68 mn.sq.ft.	1.44 mn.sq.ft.
Average Rate	INR 17,571 /sq.ft.	INR 14,079 /sq.ft.

Source: Knight Frank Research

The first quarter of a financial year typically serves as a barometer for real estate market sentiment as corporate budgets and expansion plans are finalised and executed. Over 3.8 mn.sq.ft was absorbed during Q1 FY12, which although slightly less than Q1 FY11 was still over twice the space absorbed in the subsequent quarter. The fact that FY12 started with a bang does bear testament to the underlying strength of the market. However, this momentum could not be sustained as global cues weighed heavily on market forces, exerting pressure on rental and vacancy levels which had only begun to show some promise.

As per Knight Frank Research, total transacted space has fallen 4% in H1 FY12 vis-a-vis the same period last year. However, the area transacted in the lease market has actually increased marginally by 3% and the quantum of transactions has more than doubled. Investment activity has dropped significantly with the number of outright transactions falling from 35 in H1 FY11 to 26 in the current period.

Although transacted rentals and capital values have seemingly increased steeply since H1 FY11, the rise is exacerbated due to bulk of the transactions taking place in higher priced submarkets coupled with a steep fall in the market share of the IT/ ITeS sector.

Traditionally, the BFSI industry has taken up the bulk of space in the Mumbai commercial office market and we have observed that demand from the IT/ ITeS industry has been on the rise over the past few years. Both sectors have lost market share over the

Table 2.0: Distribution of office space across sectors in Q4 FY11 and Q4 FY10

Broad Industry Classifications	H1 FY 12	H1 FY 11
Other Service Sectors*	32%	13%
BFSI	25%	27%
Manufacturing	15%	19%
IT/ITeS	17%	37%
Others	11%	4%

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

Source: Knight Frank Research

previous period as the other service sectors claimed the largest chunk of the pie taking up approximately 1.88 mn.sq.ft in H1 FY12, 1.4 mn.sq.ft of which was transacted in Q1 FY12. The market share of the other service sectors has risen steeply since H1 FY11 and has comfortably overtaken the BFSI and IT/ ITeS sectors. Media, Telecom and logistics companies like Star TV, DHL, Vodafone and Jet Airways were among the most active in this sector. Almost 86% of the space transacted by this sector was concentrated in the Western Suburbs and Central Mumbai.

THE OTHER SERVICE SECTORS CLAIMED THE LARGEST CHUNK OF THE PIE TAKING UP APPROXIMATELY 1.88 MN.SQ.FT IN H1 FY12

The IT/ ITeS sector has been conspicuous due to its' lack of activity in H1 FY12 as its' market share was observed to be on the rise in 2011. This sector had accounted for a massive 2.3 mn.sq.ft. in H1 FY11 but it barely managed 1 mn.sq.ft. in H1 FY12 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.

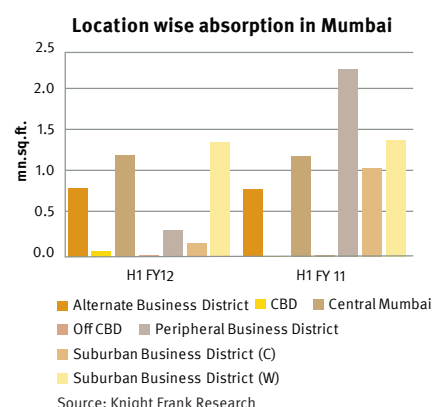
The BFSI and manufacturing sectors have lost little ground since the previous period, losing 2% and 4% of their market shares respectively. The largest deal during H1 FY12 was inked by media conglomerate Star TV, when it took up 270,000 sq.ft in Urmi Estates at Lower Parel.

THE LARGEST DEAL DURING H1 FY12 WAS INKED BY MEDIA CONGLOMERATE STAR TV, WHEN IT TOOK UP 270,000 SQ.FT IN URMI ESTATES AT LOWER PAREL.

Market activity during H1 FY12 was largely concentrated in Central Mumbai, the Alternate Business District and the western suburbs as they accounted for nearly 80% of the space transacted. This is a massive jump over the 49% share these micro-markets clocked during H1 FY11.

Classification	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

Source: Knight Frank Research



The bulk of the transactions traditionally occur in these micro-markets due to the large quantum of office spaces catering specifically to the needs of the BFSI and IT/ITeS sectors. All three micro-markets have significantly gained market share in H1 FY12

compared to H1 FY11. Corporates looking to expand showed a marked preference for the Alternate Business District and the Central Mumbai micro-markets due to the high build-up of inventory levels and consequently attractive rentals afforded there. Although unwilling to enter pre-commitments with developers, occupiers were more inclined towards taking up ready-to-occupy office spaces abundantly available in these micro-markets.

No significant transactions were noted in the premium CBD and Off-CBD micro-markets. Market players who stayed away from Nariman Point, Ballard Estate, Cuffe Parade and Fort in H1 FY11 continued to do so in the current period. Approximately 60% of the space transacted in these locations was taken up by the BFSI sector in H1 FY12.

Table 3.0: Select transactions in the Mumbai Office Market:

Location	Building	Company	Industry	Area (sq ft)	Quarter
Central Mumbai	Urmi Estate	Star TV	Other Service Sectors	270,000	Q1 FY12
Andheri (E)	Boomerang	Sitel	IT/ITeS	175,000	Q1 FY12
Navi Mumbai	Mindspace - 5-6	Cognizant	IT/ITeS	160,000	Q1 FY12
Powai	Supreme business park	Future Group	BFSI	135,000	Q2 FY12
Andheri (E)	Boomerang	Sitel	IT/ITeS	105,000	Q2 FY12
Andheri (E)	Boomerang	Tech Mahindra	IT/ITeS	100,000	Q1 FY12
Lower Parel	Indiabulls Financial Centre	Yes Bank	BFSI	100,000	Q2 FY12
Chembur	Mighty Majestic	L'Oreal India	Manufacturing	80,000	Q2 FY12
Thane	G Corp	Sterling Testing Centre	IT/ITeS	75,000	Q1 FY12
Andheri (E)	Boomerang	E Clinical Works	Other Service Sectors	75,000	Q1 FY12
BKC	The Capital	Bajaj Holdings	BFSI	70,000	Q2 FY12
Andheri (E)	Silver Utopia	DHL	Other Service Sectors	60,000	Q1 FY12
Lower Parel	Indiabulls Financial Centre	Vodafone	Other Service Sectors	50,000	Q1 FY12
Andheri (E)	Ascot Centre 2	Jet Airways	Other Service Sectors	45,000	Q1 FY12

Source: Knight Frank Research

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MARKET ACTIVITY DURING H1 FY12 WAS LARGELY CONCENTRATED IN CENTRAL MUMBAI, THE ALTERNATE BUSINESS DISTRICT AND THE WESTERN SUBURBS AS THEY ACCOUNTED FOR NEARLY 80% OF THE SPACE TRANSACTED

Express Towers in Nariman Point accounted for 74% of the space transacted during this period as Bank Of America, AZB Partners and Federal Bank took up a total of approximately 43,000 sq.ft in this property.

The Peripheral Business Districts accounted for 11% of the transacted area in the current period compared to 36% in H1 FY11. Just one outright deal was recorded compared to 24 lease deals. The IT/ITeS sector took up 68% of the space transacted in this micro-market. The BFSI and Manufacturing sectors were also seen to be active in this micro-market with companies like Baker Hughes, IDBI and Perkin Elmer took up space there.

Indiabulls Financial Center, One Indiabulls Center & Urmi Estates at Lower Parel and Boomerang at Andheri(E) featured prominently during H1 FY12 as they saw a total absorption of nearly 1.85 mn.sq.ft. during H1 FY12 which made up approximately 32% of the total area absorbed in this period.

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

Micromarkets	H1 FY 12	H1 FY 11
CBD	291	313
Off CBD	190*	158
Alternate Business District	272	274
Suburban Business District (W)	96	96
Suburban Business District (C)	106	71
Peripheral Business District	47	35
Central Mumbai	121	174

* Just one transactions was recorded

Source: Knight Frank Research

Outlook

The Mumbai Office market has stayed relatively stable in the backdrop of a possible double-dip recession in the USA, an on-going sovereign debt crisis, and concerns over a growth slowdown as seemingly irrepressible inflation and interest rates continue to rise. The series of rescue measures undertaken to ease the sovereign debt crisis will help boost global economic sentiment in the coming quarters. However, business sentiment is expected to remain subdued in the near term thereby hampering expansion activity. Further, supply is expected to outstrip demand in the short term putting pressure on rents and vacancies.

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