



NOVEMBER 2012

OFFICE TRACTION @ GLANCE

Knight Frank

Mumbai

Introduction

Mumbai's commercial office space market has been consolidating over the four quarters ending Q2 FY 2013 (July - September 2012) and showing signs of bottoming out. However, corporate activity which had been fairly stable weakened due to a sluggish global and local environment, resulting in a significant fall in office space take-up during Q2 FY 2013. Rent and vacancy levels that were observed to be firming, again experienced downward pressure as the demand supply gap widened further.

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, transaction activity fell nearly 23% in Q2 FY 2013 compared to the same quarter last year and 19% compared to the preceding quarter. According to Knight Frank Research, approximately 0.96 mn.sq.ft. was transacted in Q2 FY 2013 which saw investment activity in terms of outright sales also recede considerably over the previous reference period.

Sectoral Analysis

Table 2.0: Distribution of office space across sectors

Broad Industry Classifications	Q2 FY 2013	Q2 FY 2012	Q1 FY 2013
BFSI	37%	33%	74%
IT/ITeS	18%	18%	20%
Manufacturing	26%	14%	25%
Other Service sectors*	18%	36%	54%

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

Source: Knight Frank Research

TRANSACTION ACTIVITY FELL NEARLY 23% IN Q2 FY 2013 COMPARED TO THE SAME QUARTER LAST YEAR AND 19% COMPARED TO THE PRECEDING QUARTER.

The BFSI sector has been the primary driver of the office space market in Mumbai and it accounted for approximately 0.36 mn.sq. ft. in Q2 FY 2013. Banks and non-banking finance sector companies from the BFSI pack such as SBI mutual fund, Development Credit Bank and HDFC Bank were among the companies active during this quarter. A 0.20 mn.sq.ft. lease at Supreme Business Park in Powai inked by insurance brokers Jardine

Lloyd Thompson was the largest transaction during Q2 FY 2013.

The market share of the other service sector companies like media, telecom, consulting and logistics has risen consistently and on occasion eclipsed that of the BFSI and IT/ ITeS sectors over the past two years.

However, Q2 FY 2013 saw a drastic drop of this sector's share of the transactions pie. The other service sector companies took up approximately 0.18 mn.sq.ft. during Q2 FY 2013, less than half the number they clocked in Q2 FY 2012. Maersk Shipping, White Crow Consulting and Bain & Company, TNT and McCann Erickson were the most active among the other service sector companies during Q2 FY 2013. These companies accounted for over 76% of the total space absorbed by this sector.

The IT/ ITeS sector has maintained a steady market share over the trailing three quarters and accounted for 0.18 mn.sq. ft. in Q2 FY 2013. 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 Vikhroli, Andheri (E), Powai and Rabale in Navi Mumbai during Q2 FY 2013.

The manufacturing sector has gained significant ground in the preceding three quarters as its share has grown from 14% in Q2 FY 2012 to 26% in Q2 FY 2013. The bulk of the space transacted by this sector was concentrated in Andheri (E) and the Bandra Kurla Complex. Cipla, KGK Diamonds, Kone Lifts and Castrol were among the manufacturing companies active during Q2

Table 1.0: A comparison of Sale and Lease transactions:

	Q2 FY 2013	Q2 FY 2012	Q1 FY 2013
Lease transactions			
Total area transacted	0.96 mn.sq.ft.	1.23 mn.sq.ft.	1.17 mn.sq.ft.
Average Rate	INR 120/sq.ft./month	INR 118/sq.ft./month	INR 124/sq.ft./month
Sale transactions			
Total area transacted	0.05 mn.sq.ft.	0.20 mn.sq.ft.	0.14 mn.sq.ft.
Average Rate	INR 10,084/sq.ft.	INR 9,963/sq.ft.	INR 11,165/sq.ft.

Source: Knight Frank Research

India Research

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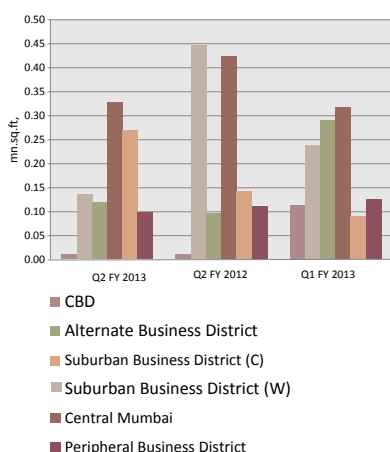


FY 2013. With the central government's focus on increasing the share of the manufacturing sector in India's GDP, it is likely that this sector's share will stay buoyant.

Geographic Analysis

Chart 1.0:

Location and quarter wise absorption in Mumbai



Source: Knight Frank Research

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.

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

Transaction activity was more dispersed across micro-markets in Q2 FY 2013 compared to Q2 FY 2012 as prospective tenants had a much wider choice among existing and upcoming office spaces across micro-markets.

Micro-markets	Q2 FY 2013	Q2 FY 2012	Q1 FY 2013
CBD	1%	1%	10%
Suburban Business District (W)	14%	37%	0%
Alternate Business District	12%	8%	25%
Central Mumbai	34%	35%	27%
Suburban Business District (C)	28%	12%	8%
Peripheral Business District	10%	9%	11%

Source: Knight Frank Research

Over a third of the transaction activity in Q2 FY 2013 took place in the Central Mumbai locations. Lower Parel accounted for approximately 75% of the transactions in

the micro-market as BFSI, manufacturing, and consulting companies like Axis Risk Consulting, HDFC Bank, Development Credit Bank and Juris Corp. among others set up shop there. Wing A of the Peninsula Business Park and the Indiabulls Finance Centre featured prominently in Q2 FY 2013 and accounted for close to half the transacted space in the Central Mumbai micro-market. Worli and Prabhadevi accounted for approximately 18% of the total transacted space in this micro-market.

The central suburban locations (Suburban Business District (C)) of Kurla, Powai, Vikhroli and the LBS Marg belt have seen a significant amount of deliveries in the four quarters trailing Q2 FY 2013 as quality office properties like Phoenix Market City and Godrej IT Park hit the market. Consequently, the central suburbs have consistently claimed a larger slice of the transactions pie over the preceding four quarters. The central suburbs more than doubled their market share in Q2 FY 2013 due to the quality and variety of product on offer. Nearly 73% of the total space transacted in this micro-market was claimed by Supreme Business Park in Powai. Jardine Lloyd Thompson, Capgemini, White Crow and TNT were among the corporates most active in this micro-market.

Andheri and Goregaon were the hot spots along the western suburbs (Suburban Business District (W)) with these locations accounting for over 95% of the activity in this micro-market. Approximately 0.45 mn.sq.ft. of office space came online in these locations and vacancy levels stayed

Table 3.0: Select transactions in the Mumbai Office Market:

Location	Building	Company	Industry	Approx. Area (sq.ft.)	Quarter
Powai	Supreme Business Park	Jardine Lloyd Thompson	BFSI	200,000	Q2 FY 2013
Lower Parel	Peninsula Business Park A Wing	Cipla	Manufacturing	115,000	Q2 FY 2013
BKC	Crescenzo	SBI MF	BFSI	56,000	Q2 FY 2013
Vikhroli (W)	Godrej IT Park	Capgemini	IT/ITeS	50,000	Q2 FY 2013
Rabale	Reliable Tech Park	Maersk Shipping	Other Service Sectors	50,000	Q2 FY 2013
Lower Parel	The Ruby	Axis Risk Consulting	BFSI	40,000	Q2 FY 2013
Lower Parel	Peninsula Business Park A Wing	HDFC Bank	BFSI	33,000	Q2 FY 2013
Lower Parel	Peninsula Business Park A Wing	Development Credit Bank	BFSI	30,000	Q2 FY 2013

Source: Knight Frank Research

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relatively high 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 0.10 mn.sq.ft., most of which was taken up by the IT/ ITeS sector. Reliable Tech Park in Rabale experienced the most activity in Navi Mumbai while NITCO IT Park constituted bulk of the transacted space in Thane.

The Central Business District of Nariman Point experienced marginal activity and rental levels in this micro-market continued their decline. The core of the commercial office space market continued its northward shift as BKC and Lower Parel have practically established themselves as the new CBDs. The Alternate Business District of BKC increased its market share in Q2 FY 2013 compared to Q2 FY 2012 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. PricewaterhouseCoopers, SBI mutual Fund and Bain & Co. 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	Q2 FY 2013	Q2 FY 2012	Q1 FY 2013
Suburban Business District (W)	88	90	89
Alternate Business District	235	255	240
Central Mumbai	141	135	138
Suburban Business District (C)	92	97	90
CBD	240	275	250
Peripheral Business District	42	46	20

Source: Knight Frank Research

WING A OF THE PENINSULA BUSINESS PARK AND THE INDIABULLS FINANCE CENTRE FEATURED PROMINENTLY IN Q2 FY 2013 AND ACCOUNTED FOR CLOSE TO HALF THE TRANSACTED SPACE IN THE CENTRAL MUMBAI MICRO-MARKET.

THE CENTRAL SUBURBS MORE THAN DOUBLED THEIR MARKET SHARE IN Q2 FY 2013 DUE TO THE QUALITY AND VARIETY OF PRODUCT ON OFFER.

MARKET ACTIVITY WILL CONTINUE TO BE MUTED OVER THE NEXT FOUR QUARTERS AS THE MARKET BOTTOMS OUT. CORPORATE EXPANSION ACTIVITY ESPECIALLY IN THE IT/ITES SECTOR IS EXPECTED TO BE SUBDUED IN THE COMING QUARTERS FOLLOWING NASSCOM'S DOWNWARD REVISION OF THE GROWTH ESTIMATES FOR THE SECTOR AT 11%.

Outlook

Market activity will continue to be muted over the next four quarters as the market bottoms out. Corporate expansion activity especially in the IT/ITeS sector is expected to be subdued in the coming quarters following Nasscom's downward revision of the growth estimates for the sector at 11%. 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.