



MUMBAI

OFFICE TRACTION@GLANCE

November 2013

The Office Traction@Glance series analyzes the office market of a city with regards to new supply, vacancy trends, key transactions, industry wise absorption, micro-market split of absorption, rental trend and future outlook.

MAIN HIGHLIGHTS OF THE REPORT

- Mumbai's office market holds steady despite an uninspiring economic environment
- First nine months of **2013** have seen absorption levels marginally exceed those during the same period in **2012**
- Lower number of deliveries in **2013** effectively offset the decrease in absorption

The fact that the first nine months of **2013** have seen absorption levels marginally exceed those during the same period in **2012** bears testament to the underlying strength of this market.

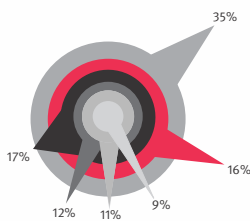
The Mumbai office space market saw IT/ITeS sector take up space in a big way during the year due to the better performance of the sector coupled with availability of large format office spaces and comparatively affordable rentals.

The BFSI sector has been the primary driver of the office space market in Mumbai but has been conspicuous by its virtual absence in the current quarter as its market share has halved YoY. However, a more detailed analysis of its absorption share for the first nine months of 2013 shows that it has remained virtually constant at 26% compared to 27% for the same period during the previous year.

Mumbai is at the forefront of the country's economic activity and among the most vibrant office markets in the country. 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.

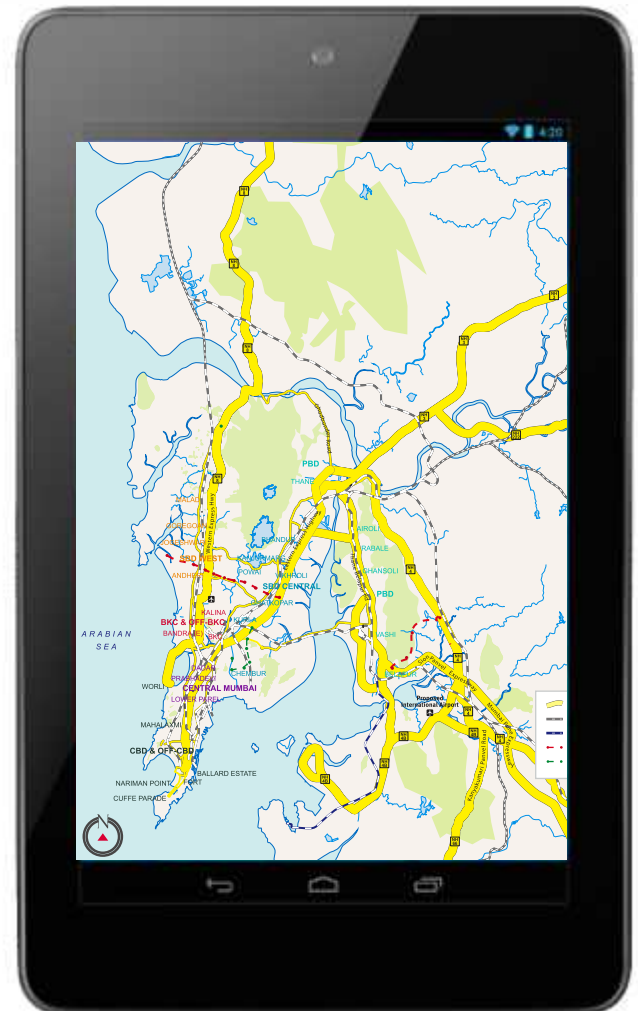
Currently, the total office space stock in Mumbai is 101.2 mn.sq.ft of which 77.9 mn.sq.ft. is occupied resulting in a vacancy level of 23%. Vacancy levels have been increasing consistently since 2009 when they were at 12%, due to the massive influx of almost 38 mn.sq.ft. of new supply in subsequent years.

BUSINESS DISTRICT-WISE SHARE OF OFFICE STOCK



- SBD West ● CBD & Off-CBD ● ABD ● Central Mumbai
- SBD Central ● PBD

Source: Knight Frank Research



THE SBD (WEST) LOCATIONS TOOK UP ALMOST A THIRD OF THE TRANSACTIONS PIE WHICH TRANSLATED TO A LITTLE OVER 0.51 MN.SQ.FT. DURING Q3 2013. ANDHERI (EAST) AND GOREGAON (EAST) ACCOUNTED FOR A MASSIVE 96% OF THE TRANSACTIONS IN THIS BUSINESS DISTRICT.

COMMERCIAL RESEARCH

A COMPARISON OF LEASE TRANSACTIONS

Lease Transactions	Q3 2013	Q3 2012	Q2 2013
Total Area Transacted	1.58 mn.sq.ft.	1.78 mn.sq.ft.	2.54 mn.sq.ft.
Average Lease rate	₹95/sq.ft./month	₹91/sq.ft./month	₹96/sq.ft./month

Source: Knight Frank Research

The market lost some traction in Q3 2013 as the quarter saw an 11% drop year-on-year (YoY) and a steep 38% drop in absorption volumes from the preceding quarter. However, vacancy levels were not impacted much as a lower number of deliveries in 2013 effectively offset the decrease in absorption. According to Knight Frank Research, approximately 1.58 mn.sq.ft. was transacted in Q3 2013.

A closer look at the January-September period reveals that Mumbai's commercial office space market has held steady in 2013 despite an uninspiring economic environment plagued by continuously rising inflation and decelerating GDP growth. The fact that the first nine months of 2013 have seen absorption levels marginally exceed those during the same period in 2012 by 2% bears testament to the underlying strength of this market. A little over 5.4 mn.sq.ft. of office space was absorbed during the January-September period in 2013.

Sectoral Analysis

The BFSI sector has been the primary driver of the office space market in Mumbai but has been conspicuous by its virtual absence in the current quarter as its market share has halved YoY. However, a more detailed analysis of its absorption share for the first nine months of 2013 shows that it has remained virtually constant at 26% compared to 27% for the same period during the previous year. Aegon Religare, India Infoline and HDFC were among the BFSI companies active in the market during Q3 2013. A 0.03 mn.sq.ft. lease inked by Aegon Religare was the largest lease transaction by a BFSI company during the quarter. A significant amount of interest was observed from BFSI companies such as MSCI Barra which is scouting for a 0.1 mn.sq.ft. office space in the western suburbs.

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. However, Q3 2013 saw a steep drop in this sector's share of the transactions pie as other service sector companies took up approximately 0.29 mn.sq.ft. during the quarter, less than half the number they clocked in Q3 2012. That said, the sector's market share in the January-September 2013 period is significantly higher at 27%, albeit substantially lower than the 34% share it had during the same period in the previous year. The struggling media and

advertising companies did not take up any space during the quarter with the exception of PVR Pictures which leased a 12,000 sq.ft. space in Lotus Corporate Park in Jogeshwari (East). Lloyd's Register (Asia), Shelf Drilling Holdings, VFS Global, TSA HR and Meril Diagnostics were the most active among other service sector companies during Q3 2013. Travel consultant Thomas Cook was observed to be actively looking for a 0.04 mn.sq.ft. office space in the western suburbs.

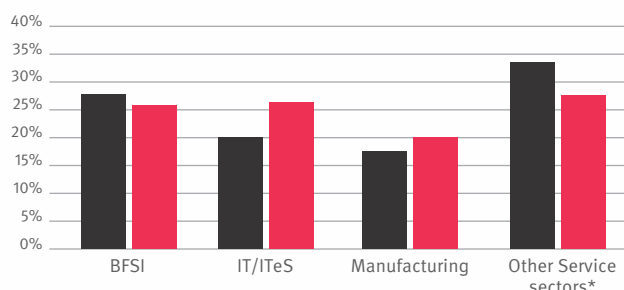
QUARTERLY DISTRIBUTION OF OFFICE SPACE ACROSS SECTORS

Broad Industry Classifications	Q3 2013	Q3 2012	Q2 2013
BFSI	12%	24%	23%
IT/ITeS	32%	14%	28%
Manufacturing	38%	22%	12%
Other Service sectors*	18%	40%	37%

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

Source: Knight Frank Research

OFFICE SPACE ABSORPTION SHARE ACROSS SECTORS - nine month analysis



● Jan-Sept 2012 ● Jan-Sept 2013

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

Source: Knight Frank Research

An improving global economy and the substantial boost in demand for offshore services triggered by an unprecedented drop in the rupee saw IT/ITeS sector companies perform much better this year. This sector took up over 1.4 mn.sq.ft. during the January - September period this year which translates to a 31% growth in absorption numbers YoY.

Nearly twice the absorption levels clocked during Q2 2012, the recently concluded quarter saw the IT/ITeS sector take up almost 0.5 mn.sq.ft. A 0.3 mn.sq.ft. lease inked by Accenture at Gigaplex, Airoli was the largest transaction of the quarter. IBM, TIBCO Software and Geometric Software were the most active companies in the IT/ITeS sector during Q3 2013. IT/ITeS sector companies showed a marked preference for the large format and comparatively lower priced office spaces available in Airoli and Andheri East during Q3 2013.

The manufacturing sector that has seen its market share increase gradually over the past four years maintained its momentum and claimed the largest chunk of the absorption pie during Q3 2013. The steep drop in absorption share during the latest sequential quarters is not alarming as we have observed that absorption activity in the manufacturing sector tends to be concentrated in the later half of the calendar year. Over 0.61 mn.sq.ft. was taken up by this sector, nearly half of which was accounted for by Merck, Glenmark Pharmaceuticals, Shell and Endress Hauser. Fabric manufacturer D'Décor acquired a 0.1 mn.sq.ft. office space at Godrej BKC and the Bandra Kurla Complex making it the largest outright transaction of Q3 2013. Notably, FMCG majors such as Kellogg's are scouting for large office spaces measuring over 0.05 mn.sq.ft. in Lower Parel and Powai respectively. 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.

BUSINESS DISTRICTS IN MUMBAI

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

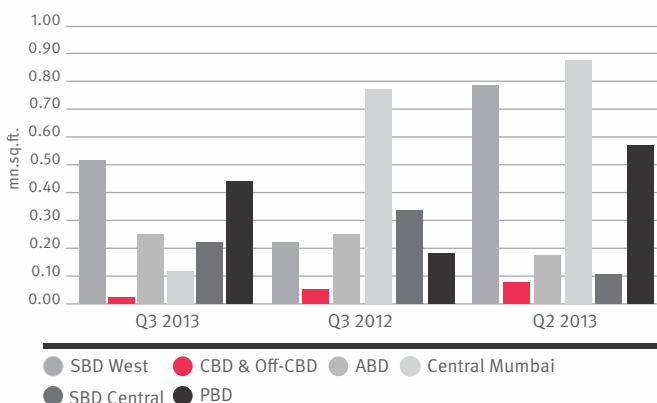
SELECT TRANSACTIONS IN THE MUMBAI OFFICE MARKET DURING Q3 2013

Location	Building	Company	Industry	Approx.Area(sq.ft)
Airoli	Gigaplex	Accenture	IT/ITeS	300,000
Andheri East	Glenmark House	Glenmark (renewal)	Manufacturing	100,000
Vikhroli	Godrej One	Merck	Manufacturing	76,000
Vikhroli	Godrej One	Endress Hauser	Manufacturing	35,000
Andheri East	L&T Business Park	TIBCO Software	IT/ITeS	30,000
Airoli	Reliable Exports	Geometric Software	IT/ITeS	28,918
Goregaon East	Nesco	Aegon Religare	BFSI	27,000
Powai	Bayer House	Dow Corning	Manufacturing	25,000
Airoli	Mindspace Airoli	Inventurus	IT/ITeS	24,204
Andheri East	Kalpataru Square	Lloyd's Register Asia (renewal)	Other service sectors	21,168

Source: Knight Frank Research

Geographical Analysis

LOCATION AND QUARTER WISE ABSORPTION



Source: Knight Frank Research

CENTRAL MUMBAI HAD AN INORDINATELY WEAK QUARTER IN TERMS OF ABSORPTION VOLUME. HOWEVER, OUR INTERACTIONS WITH MARKET PLAYERS HAVE REVEALED THAT THERE HAVE BEEN A SUBSTANTIAL AMOUNT OF ENQUIRIES THAT DID NOT SHOW FRUITION IN Q3 2013. WE BELIEVE THAT ABSORPTION LEVELS WILL REBOUND IN THIS BUSINESS DISTRICT AS MOST CORPORATES THAT EVINced INTEREST IN Q3 2013 WILL BE CONVERTED IN SUBSEQUENT QUARTERS.

COMMERCIAL RESEARCH

The SBD West and the Peripheral Business District claimed 61% of the total transacted space during Q3 2013. This was also due to the fact that the incidence of big ticket transactions was higher in Q3 2013 compared to Q3 2012 which skewed the picture in favour of a particular business district.

BUSINESS DISTRICT AND QUARTER WISE SHARE OF ABSORPTION IN MUMBAI

Business Districts	Q3 2013	Q3 2012	Q2 2013
SBD West	32%	13%	31%
CBD & Off CBD	1%	2%	3%
ABD	16%	14%	6%
Central Mumbai	7%	43%	34%
SBD Central	14%	18%	4%
PBD	29%	10%	22%

Source: Knight Frank Research

The SBD West locations took up almost a third of the transactions pie which translated to a little over 0.51 mn.sq.ft. during Q3 2013. Andheri (East) and Goregaon (East) accounted for a massive 96% of the transactions in this business district as manufacturing and other service sector companies such as Ericsson, Kone Corporation and Lloyds Register Asia (renewal) consolidated their position here. Silver Utopia & CNB Square in Andheri and Nirlon Knowledge Park in Goregaon (East) saw large amount of fresh transaction activity. Glenmark Pharmaceuticals renewed its 0.1 mn.sq.ft. lease at Glenmark House and was the largest deal of its kind in Q3 2013. Vacancy levels in this business district have stayed doggedly high at 27% despite the healthy absorption levels due to the large quantum of deliveries this market has seen over the past few quarters.

Thane and Navi Mumbai in the Peripheral Business District accounted for nearly 0.44 mn.sq.ft. and saw its market share jump from 10% in Q3 2012 to 29% in Q3 2013. Almost 96% of the transacted office space was accounted for by the IT/ITeS sector. Gigaplex at Airoli experienced the most activity in the PBD market taking up nearly 66% of the total transacted space thanks to a 0.3 mn.sq.ft. lease signed by the IT/ITeS behemoth, Accenture. 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 central suburban locations (SBD Central) of Kurla, Powai, Vikhroli and the LBS Marg belt have seen a significant amount of deliveries over the preceding twelve months as quality office properties like Phoenix Market City and Godrej IT Park hit the market. The drop in market share caused both rentals and vacancy levels in this business district to be under pressure during Q3 2013. Manufacturing sector companies claimed almost 82% of the total transacted space in this business district. Godrej One, Hiranandani Knowledge Park and Bayer House saw bulk of the transaction activity and took up over 71% of the transactions pie.

A 0.08 mn.sq.ft. lease inked by pharmaceuticals major Merck India Ltd. in Godrej One, Vikhroli was the largest transaction during Q3 2013.

Central Mumbai had an inordinately weak quarter in terms of absorption volume. However, our interactions with market players have revealed that there have been a substantial amount of enquiries that did not show fruition in Q3 2013. We believe that absorption levels will rebound in this business district as most corporates that evinced interest in Q3 2013 will be converted in subsequent quarters. Overall vacancy levels have trended lower in this business district and this phenomenon has been observed to be more pronounced in relatively cheaper properties like the Indiabulls Financial Centre that saw most of its space being occupied during 2013. However, recently, dearer properties such as Marathon Futurex and Peninsula Business Park that have significantly higher vacancy levels have recently been observed to be more amenable to rental negotiations.

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

The ABD saw a marginal decline in market share in Q3 2013 compared to Q3 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%.

Rental Trend

AVERAGE RENTAL VALUES IN MUMBAI (₹/sq.ft./month)

Business Districts	Q3 2013	Q3 2012
SBD West	102	110
CBD & Off CBD	218	240
ABD	265	275
Central Mumbai	165	175
SBD Central	85	90
PBD	48	50

Source: Knight Frank Research

Rental levels in the Mumbai office space market have not had any respite in the past two years and continued their fall in Q3 2013 as well, as all business districts experienced rental corrections in varying degrees. However, these reduced rentals were instrumental in encouraging transaction activity in a lacklustre market. The CBD & Off CBD experienced the most decline at 9% while the ABD and PBD business districts were comparatively better off with a 4% drop in rentals.

Outlook

Notwithstanding the drop in absorption volumes in Q3 2013, the Mumbai office space market has more than matched absorption numbers for the first nine months this year compared to the same period in 2012 and we expect 2013 to conclude marginally higher than the 6.2 mn.sq.ft. clocked in 2012. However, these annual absorption volumes are still a far cry from 2010 highs that were 56% higher than current levels. Expansion activity especially in the export oriented IT/ITeS sector is expected to be buoyant due to the now significantly healthier balance sheets of American and European companies. The BFSI sector would also stake claim to a bigger slice of the transactions pie once new banking licenses are issued by January next year.

Overall, the Mumbai office market is going to experience a downward pressure on rentals since the negotiations are skewed towards tenants. However, we expect rentals to stay firm in certain in-fill locations like the Andheri Kurla Road as the metro becomes operational and attract corporates that earlier settled for spaces further away due to connectivity bottlenecks. The ABD and Central Mumbai markets like the Bandra Kurla Complex and Lower Parel respectively will attract occupier interest while the CBD continues to lose market share.

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