



OCTOBER 2012 OFFICE TRACTION @ GLANCE

Knight Frank

Hyderabad

Market Review

The Hyderabad office market witnessed consistent office space demand during the first half of the new financial year 2012-2013 (FY13). However, the impact of regional political upheaval and unfavourable global economic conditions were adversely felt across all sectors and occupiers remained cautious about their expansion plans. The prime factors working in favour of the Hyderabad office market are its reasonable rental values and better infrastructure, as compared to other IT/ITeS dominated cities, that aided in sustaining the office space demand.

The Hyderabad office market is classified in to different sub-markets. Locations like Begumpet and SP Road form the Central Business District (CBD), while Banjara Hills and Jubilee Hills form the Off-CBD office markets. Other key micro-markets like Madhapur, Kondapur and Hitech City form the Suburban Business District (SBD) and primarily comprise the IT/ITeS strength of the region. Another key IT/ITeS hub, Gachibowli, forms a part of the Peripheral Business District (PBD). Extensive infrastructure developments like Outer Ring Road and radial roads have further led to the growth of peripheral micro-markets like Shamshabad, Pocharam and other HADA localities.

The Hyderabad office market had observed a substantial increase in office space demand in FY 2011-2012 (FY12) and totalled absorption of around 5.4 mn.sq.ft during the year. The first half of FY12 witnessed hectic activity in the office space market, leading

Micro-market Classification	Locations
Central Business District (CBD)	Begumpet, SP Road, Punjagutta, Somajiguda, Ameerpet
Off-CBD	Banjara Hills, Jubilee Hills
Suburban Business District (SBD)	Hitech City, Madhapur, Kondapur, Manikonda
Peripheral Business District (PBD)	Gachibowli, Nanakramguda, Uppal, Pocharam, Shamshabad

the city to record an absorption level of around 3mn.sq.ft. Substantial demand was seen during the first half of FY13 as well, with absorption of about 2.5mn.sq.ft. of office space during the corresponding period of April-September. While the second half of FY12 had witnessed a decline in demand for office space by 20% over H1 FY12, it seemed to have picked up pace in the new financial year.

SUBSTANTIAL DEMAND WAS SEEN DURING THE FIRST HALF OF FY 2013 AS WELL WITH ABSORPTION OF ABOUT 2.5 MN.SQ.FT OF OFFICE SPACE DURING THE PERIOD

Table 1: Summary of transactions

Transaction Summary	H1 FY 2012 (Apr-Sep)	H1 FY 2013 (Apr-Sep)
Lease Transactions		
Total area transacted	3 mn.sq.ft.	2.5 mn.sq.ft.
Weighted Average Value	INR 33/ sq.ft./month	INR 38/ sq.ft./month

Source: Knight Frank Research
The weighted average rental value across office micro-markets during H1 FY12 stood at INR 33/sq.ft. per month, while the weighted average rental value during H1 FY13 increased to INR 38/sq.ft per month, signifying an increase of 15% between the two periods.

Sectoral Analysis

Hyderabad office market has primarily been dominated by the IT/ITeS sector. However, in the recent months the city has observed an influx of several non-IT sectors who have occupied a significant quantum of office space.

Table 2: Distribution of office space across sectors

Sectors	H1 FY 2012 (Apr-Sep)	H1 FY 2013 (Apr-Sep)
IT/ITeS	78%	64%
BFSI	4%	6%
Consulting	11%	Nil
Manufacturing	2%	2%
Healthcare/Pharma /Biotech	Nil	23%
Other Service Sectors	5%	5%

Source: Knight Frank Research

In H1 FY12, the IT/ITeS sector was responsible for 78% of the total area transacted during that period. This amounted to approximately 2.3 mn.sq.ft. and constituted of companies like Facebook, Convergys, Cognizant, IBM, etc. The sector was hit by global economic slowdown in the succeeding quarters and cautious occupier sentiments in the market led to a decrease in absorption. Around 64% of the total area transacted was occupied by the IT/ITeS sector in H1 FY13. Key transactions were led by companies such as Accenture, AMD and Amazon.

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The reduction in the share of the IT/ITeS sector hailed the entry of a number of newer sectors in the city. While H1 FY12 saw the prominence of the consulting companies, the corresponding period in FY13 saw the healthcare/pharma/biotech industries gaining ground. These combined sectors were responsible for the absorption of 23% of the total office space transacted in the first half of FY13. Some of the prominent tenants that took up office space in Hyderabad include Novartis, Celon Labs, Ocimum Biotech and Neuland Labs.

Meanwhile, the BFSI sector occupied around 4% of the total space leased out in H1 FY12, that increased to 6% of the total transacted space in H1 FY13. Some of the prominent BFSI companies that took up office space in the city during the period H1 FY12 include Bank of America in Raheja Mindspace and First America in Ascendas IT Park, both located in Hitech City, and ICICI Lombard in ICICI Towers, located in Gachibowli. On the other hand, the first half of FY13 saw office space transactions by BFSI sector companies like ICICI Bank in Jubilee Hills, Karvy in Hitech City and L&T Finance in Begumpet.

Another sector, besides IT/ITeS, that endeavoured to gain foothold in the city's office market include the manufacturing sector. The sector occupied around 2% of the total office space leased out in both H1 FY12 and H1 FY13.

On the other hand, the consulting sector has been observed to have lost its sheen in FY13 as compared to H1 FY12, inferred from Table 2. However, this does not necessarily depict the sector's flagging interest in the city's office market.

Sectors with nominal office space presence, that have been clubbed under the section 'Other service sectors' include infrastructure, energy, media, etc. Table 3 lists out some of the prominent office space transactions that took place in H1 FY13.

Table 3: Select transactions in Hyderabad office market in H1 FY 2013 (Apr-Sep)

Building	Occupier	Location	Approx Area (sq.ft.)
Divyasree Orion	Accenture	Raidurga	140,000
Mindspace	AMD	Madhapur	200,000
Standalone Building	Serve All	Jubilee Hills	5,000
Sarvottam	FMC Technologies	Hitech City	17,708
Ascendas IT Park	Kofax India Pvt Ltd	Hitech City	14,564
My Home Hub	Celon Labs	Madhapur	30,000
Mindspace	Novartis	Madhapur	100,000
Divyashree Omega	Amazon	Hitech City	140,000

Source: Knight Frank Research

THE IT/ITES SECTOR WAS HIT BY GLOBAL ECONOMIC SLOWDOWN AND CAUTIOUS OCCUPIER SENTIMENTS LED TO A DECREASE IN THE SECTOR'S SHARE OF ABSORPTION IN H1 FY13

Geographic Analysis

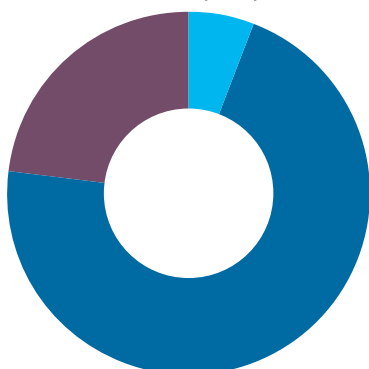
The period H1 FY12 witnessed a consistent demand for office space across most major office markets of the city, while H1 FY13 saw the dominance of the suburban micro-markets. The location-wise share in office space absorption during the two periods has been depicted in Charts 1 and 2.

As is evident from the Charts given, the share of the CBD and Off-CBD locations

increased significantly from 6% in H1 FY12 to 21% in H1 FY13. Thus, while the period during FY12 saw these micro-markets lagging behind the SBD and PBD markets, the scenario has taken a turn in FY13. This positive trend of demand for centrally located office spaces has risen mainly due to the proliferation of non-IT/ITeS sectors in the city. Some of the key tenants who took up space in the CBD and Off-CBD micro-markets in H1 FY13 include SKS Micro-finance in Begumpet, Bharat Petroleum in Banjara Hills, Vsoft in Kaveri Hills and Uniten in Somajiguda.

The SBD continued to be the most preferred office destination, primarily favoured by the IT/ITeS sector. The SBD office micro-markets of Hitech City, Madhapur, Kondapur and Manikonda have been the prime hubs of office space transaction activity in the city and offer Grade A office space at competitive rentals. These suburban micro-markets

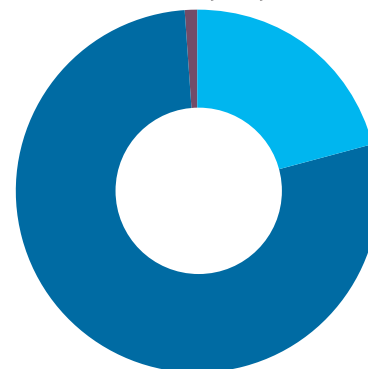
Chart 1: Locationwise Share in H1 FY 12 (Apr-Sep)



■ CBD & off CBD - 6%
■ SBD - 71%
■ PBD - 23%

Source: Knight Frank Research

Chart 2: Locationwise Share in H1 FY13 (Apr-Sep)



■ CBD & off CBD - 21%
■ SBD - 78%
■ PBD - 1%

Source: Knight Frank Research



were responsible for occupying a significant 71% of the total office space transacted in Hyderabad in H1 FY12. With the PBD locations somewhat relinquishing their stand in the office market, this share increased to 78% of the total transacted area in H1 FY13. Some major office space occupiers of the region include Amazon and Velocity Networks in Hitech City, AMD and Micro Excel in Madhapur, and Novartis in Madhapur.

HI FY13 SAW THE DOMINANCE OF THE SUBURBAN MICRO-MARKETS. PBD OFFICE LOCATIONS, WHICH HAD EXHIBITED A STRONG Foothold IN HI FY12, SEEMED TO HAVE FALLEN BEHIND IN THE NEW FINANCIAL YEAR

Meanwhile, the PBD office locations, that had exhibited a strong foothold in H1 FY12 with 23% of the total office space absorption, seemed to have fallen behind in the new financial year. Although micro-markets such as Uppal, Shamshabad and Pocharam evinced occupier interest for large scale requirements during the first half of FY13, no transaction closures of notable magnitude were observed in these markets. A few transactions were observed

Table 4: Rental values of office space transactions (in INR/sq.ft/month)

Micro-markets	H1 FY 2012 (Apr-Sep)			H1 FY 2013 (Apr-Sep)		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Central Business District (CBD) & Off-CBD	28	55	40	30	58	40
Suburban Business Districts (SBD)	28	63	35	32	60	40
Peripheral Business Districts (PBD)	27	48	33	30	35	31

Source: Knight Frank Research

to have taken place in Gachibowli and Nanakramguda, contributing to just 1% of the total office space absorbed in H1 FY13. While the previous corresponding period in FY12 saw a number of IT/ITeS major players like Cognizant, Amazon, CGI Information Systems and Conseco taking up a large quantum of office space in the PBD micro-markets, FY13 witnessed only a handful of tenants such as Ene Media and Hiradius.

Table 4 highlights the minimum, maximum and weighted average of rental values across micro-markets for H1 FY12 and H1 FY13.

A large variation in rental ranges has been observed in both these halves across all the micro-markets of the city. This variation is on account of the location of the transacted properties as well as the industry type and the area occupied. Rental values remained largely stable during the year on account of delay in decisions regarding deal closures, as occupiers chose to move cautiously amidst continued turbulence in the global economy.

Outlook

The Hyderabad office market strove to maintain the momentum witnessed in the first half of FY 2012 in the new financial year as well, despite weak sentiments on the global economic front as well as the political agitations in the region. However, expansion activity is expected to remain restrained owing to the low GDP growth and economic uncertainty. Hence, the demand for office space is expected to remain moderate in the next two quarters. On the infrastructure front, work on the Hyderabad Metro Rail has commenced in suburban locations such as Miyapur and Nagole. The project is estimated to be completed by July 2017 and will provide a boost to the city's realty market. Upcoming supply in the CBD and off-CBD micro-markets in the forthcoming quarters can put pressure on the rentals in the region. However, Grade A rentals are expected to remain stable in Hyderabad in the medium term due to the availability of a variety of space options across all micro-markets of the city.

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