



SEPTEMBER 2011 OFFICE TRACTION @ GLANCE

Knight Frank

Hyderabad

Market Review

The Hyderabad office market has witnessed considerable demand for office space in the past one year. With the strengthening of the economy, a number of high profile IT firms have set up their offices in the city while others have consolidated their expansion plans. Good infrastructure and availability of skilled manpower has led Hyderabad to emerge as one of the foremost competitors for IT/ITeS office space in the country, along with the other Tier I cities. Another factor working in favour of the city is its cost effective office space rentals. Various new developments are expected to make the city more viable to the prospective occupier as well as investor in the forthcoming years. Of late, green buildings have found a number of takers amongst the corporate occupiers and

TRANSACTION VOLUME HAS PICKED UP QUARTER-ON-QUARTER SINCE Q2 2010 (APR-JUN), LEADING THE CITY TO RECORD AN ABSORPTION LEVEL OF AROUND 4.8 MN.SQ.FT. IN CY 2010. THIS TREND HAS CONTINUED ON TO 2011 AND THE FIRST HALF OF THE YEAR ITSELF SAW TRANSACTIONS AMOUNTING TO 3.7 MN.SQ.FT.

Micro-market Classification	Locations
Central Business District (CBD)	Begumpet, SP Road, Panjagutta, 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

this has encouraged the developers to come up with projects conforming to LEED certified office space.

In the recent months, despite political agitations in the region, the office market has firmed up and has continued to attract newer occupiers. Transaction volume has picked up quarter-on-quarter since Q2 2010 (Apr-Jun), leading the city to record an absorption level of around 4.8 mn.sq. ft. in CY 2010. This trend has continued on to 2011 and the first half of the year itself saw transactions amounting to 3.7 mn.sq.ft. The first quarter of 2011 (Jan-Mar) recorded transacted volume of 1.68 mn.sq.ft. while Q2 2011 (Apr-Jun) saw approximately 2.02 mn.sq.ft being absorbed. In the same quarter last year, ie in Q2 2010, Hyderabad market had witnessed the absorption of 0.73 mn.sq.ft.

Table 1: Type of transactions in Q2 2010 (Apr-Jun) and Q2 2011 (Apr-Jun)

Transaction Summary	Q2 2010 (Apr-Jun)	Q2 2011 (Apr-Jun)
Lease Transactions		
Total Area Transacted	0.73 mn.sq.ft.	2.02 mn.sq.ft.
Weighted Average Rental Value	INR 39/sq.ft./month	INR 33/sq.ft./month

Source: Knight Frank Research

The weighted average rental value across office micro-markets during Q2 2010 stood at INR 39/sq.ft. per month, while the weighted

average rental value during Q2 2011 was observed at INR 33/sq.ft per month. In Q2 2010, the average area transacted per deal was observed at approximately 15,000 sq.ft whereas in Q2 2011 it was observed at a larger average size of around 30,000 sq.ft. with a higher number of transactions as well, compared to Q2 2010. The average rental values have been observed to have declined in Q2 2011 over the values charged in Q2 2010 by 12-20%, although rentals have stabilized in the past six months. This can be attributed to the large office space supply available in the suburban and peripheral micro-markets, leading to higher vacancy levels.

THE AVERAGE RENTAL VALUES HAVE BEEN OBSERVED TO HAVE DECLINED IN Q2 2011 OVER THE VALUES CHARGED IN Q2 2010 BY 12-20%, ALTHOUGH RENTALS HAVE STABILIZED IN THE PAST SIX MONTHS

Sectoral Analysis

The IT/ITeS sector has been contributing significantly to the economic growth of the region in the past few years.



THE IT/ITES SECTOR HAS BEEN CONTRIBUTING SIGNIFICANTLY TO THE ECONOMIC GROWTH OF THE REGION IN THE PAST FEW YEARS. THE SECTOR HAS BEEN RESPONSIBLE FOR OCCUPYING THE LARGEST QUANTUM OF SPACE ON A YEAR-ON-YEAR BASIS

The sector has been responsible for occupying the largest quantum of space on a year-on-year basis

In Q2 2010, this sector was responsible for around 72% of the total area transacted. This amounted to approximately 0.53 mn.sq.ft. and constituted of companies like Facebook, Zensar Technologies, Alcatel Lucent, Tera Data, etc.

The share of the IT/ITeS sector in office space absorption went up in Q2 2011 and was recorded at 76% of the total transacted area, amounting to around 1.54 mn.sq.ft.. Key transactions were led by companies such as Facebook, TCS, Convergys, IBM and Keane India.

Besides the prominent IT/ITeS sector, the city has a diversified industry base

Table 2: Distribution of office space across sectors in Q2 2010 (Apr-Jun) and Q2 2011 (Apr-Jun)

Sectors	Q2 2010 (Apr-Jun)	Q2 2011 (Apr-Jun)
IT/ITeS	72.3%	76.0%
BFSI	5.1%	9.4%
Consulting	5.6%	2.0%
Energy	Nil	0.3%
Infrastructure	5.9%	3.7%
Manufacturing	0.5%	3.4%
Telecom	0.8%	Nil
Others	9.9%	5.3%

Source: Knight Frank Research

Table 3: Select transactions in Hyderabad office market in Q2 2011 (Apr-Jun)

Building	Occupier	Location	Approx Area (sq.ft.)
White House	Feedback Ventures	Begumpet	7000
Queens Plaza	Intergraph	Begumpet	50000
Raheja-Mind Space	Bank of America	Hitech City	45000
Meenakshi	Convergys	Hitech City	180000
DLF	Cognizant	Gachibowli	350000
ICICI Towers	ICICI Lombard	Gachibowli	100000
Divyasree Orion	IBM	Manikonda	220000
Divyasree	Keane India	Manikonda	43000
Q City	Caparo	Nanakramguda	6000
Q City	Conseco	Nanakramguda	43000

Source: Knight Frank Research

contributing to its growth. The BFSI sector has firmed up considerably since Q2 2010 where it occupied around 5% of the total space leased out, to increase its share to over 9% of the total transacted space in Q2 2011. Some of the prominent BFSI companies which took up office space in the city during the period April – June 2011 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. Another sector which has increased its foothold in the city's office market since Q2 2010 is the manufacturing sector. This industry occupied a minimal 0.5% of the total office space leased out in Q2 2010, which subsequently increased to over 3% of the total transacted area in Q2 2011.

BESIDES THE PROMINENT IT/ITES SECTOR, THE CITY HAS A DIVERSIFIED INDUSTRY BASE CONTRIBUTING TO ITS GROWTH

Meanwhile, other sectors like consulting and infrastructure have been observed to have lost their sheen in Q2 2011 as compared to Q2 2010, inferred from Table 2. However, the declining figures in Q2 2011 do not

necessarily depict the sector's flagging interest in the city's office market. On the other hand, the energy sector which did not have any presence in Q2 2010 has emerged as a new sector on the office space horizon, occupying around 0.3% of the total area transacted.

Thus, owing to the variation seen in the type of non-IT companies which took up office space in Q2 2010 with those in Q2 2011, it can be inferred that barring the IT/ITeS sector, there is no constant sector in Hyderabad which occupies the most office space on a quarter-on-quarter basis.

Table 3 lists out some of the prominent office space transactions that took place in Q2 2011.

Geographic Analysis

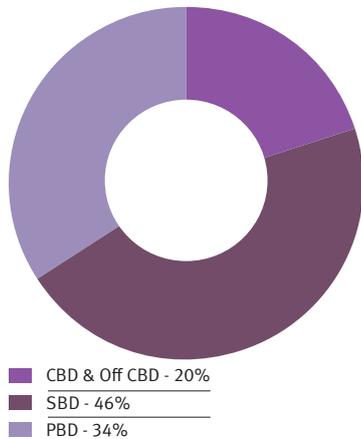
While a consistent demand for office space was witnessed across most major office markets of the city, majority of the leasing transactions were observed in the suburban and peripheral office micro-markets. The location-wise share in office space absorption during the period Q2 2010 and Q2 2011 has been depicted in Chart 1.

As is evident from Chart 1, the CBD and Off-CBD locations witnessed relatively lesser volume of office space transacted as compared to the SBD and PBD locations. While Q2 2010 saw just 0.15 mn.sq.ft. of

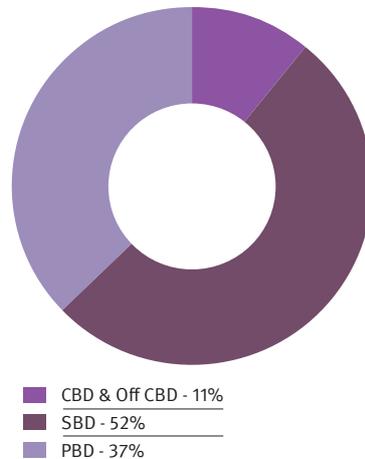


Chart 1: Location wise share in office transactions in Q2 2010 (Apr-Jun) and Q2 2011 (Apr-Jun)

Location-wise share in Q2 2010 (Apr-Jun)



Location-wise share in Q2 2011 (Apr-Jun)



Source: Knight Frank Research

THE SBD OFFICE MICRO-MARKETS OF HITECH CITY, MADHAPUR, KONDAPUR AND MANIKONDA HAVE BEEN THE PRIME HUBS OF OFFICE SPACE TRANSACTION ACTIVITY

thereby highlighting the attractiveness of the region for corporate occupiers. Some major office space occupiers of the region include Convergys and Facebook in Hitech City, PI International in Madhapur and IBM in Manikonda.

WHILE A CONSISTENT DEMAND FOR OFFICE SPACE WAS WITNESSED ACROSS MOST MAJOR OFFICE MARKETS OF THE CITY, MAJORITY OF THE LEASING TRANSACTIONS WERE OBSERVED IN THE SUBURBAN AND PERIPHERAL OFFICE MICRO-MARKETS

office space leased out in the CBD and Off-CBD micro-markets, contributing to 20% of the total office space transacted in the city, the share dipped to 11% in Q2 2011 with around 0.23 mn.sq.ft. of area leased out. The decline in transaction volume in these micro-markets maybe attributed primarily to the dearth of quality office space in the region, which led most occupiers to explore the suburban and peripheral office micro-markets. Some of the key tenants who took up space in the CBD and Off-CBD micro-markets in Q2 2011 include Feedback Ventures and Naukri.Com in Begumpet, Rockwell Automation in Ameerpet, Prometric Systems in Banjara Hills and Ozonetel in Somajiguda.

The SBD locations, on the other hand, were observed to be the most preferred office destination, primarily favoured by the IT/ITeS sector, with the highest concentration of Grade A office stock. The SBD office micro-markets of Hitech City, Madhapur, Kondapur and Manikonda have been the prime hubs of office space transaction activity. These suburban micro-markets were responsible for occupying 0.34 mn.sq.ft. of office space, depicting 46% of the total office space transacted in Hyderabad in Q2 2010. This share increased to 52% of the total transacted area in Q2 2011, translating to approximately 1.05 mn.sq.ft of office space. Amongst the micro-markets, Hitech City accounted for over 80% share of the total office space absorption in the SBD region in Q2 2010 and around 70% in Q2 2011. The interest garnered by the SBD office micro-markets may be attributed primarily to the availability of large scale Grade A office space at competitive rentals,

AMONGST THE MICRO-MARKETS, HITECH CITY ACCOUNTED FOR OVER 80% SHARE OF THE TOTAL OFFICE SPACE ABSORPTION IN THE SBD REGION IN Q2 2010 AND AROUND 70% IN Q2 2011

Meanwhile, the PBD office locations of Nanakramguda and Gachibowli have also established themselves as strong contenders for office space in the city. Q2 2010 witnessed office space absorption of around 0.24 mn.sq.ft. in the PBD locations, accounting for 34% of the total transacted area, which increased to 37% in Q2 2011, thereby occupying approximately 0.74 mn.sq.ft. of office space.

Table 4: Transacted rental values of prominent micro-markets in Hyderabad (in INR/sq.ft per month)

Micro-markets	Q2 2010 (Apr-Jun)			Q2 2011 (Apr-Jun)		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Central Business District (CBD) & Off-CBD	37	60	47	28	55	40
Suburban Business Districts (SBD)	29	55	40	27	50	33
Peripheral Business Districts (PBD)	25	45	30	27	48	32

Source: Knight Frank Research



These micro-markets have been attracting a number of IT/ITeS major players and include tenants such as Cognizant, Zensar Technologies, Polycomm and Consec, amongst others. Other sectors have evinced interest in these PBD micro-markets as well, with companies like ICICI Lombard and Caparo setting up their offices in this region

Table 4 highlights the minimum, maximum and weighted average of rental values across micro-markets for Q2 2010 and Q2 2011. A large variation in rentals ranges has been observed in Q1 2010 and Q2 2011 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. For instance, an IT/ITeS sector transaction took place at SBD location of Hitech City at INR 42/sq.ft. per month for an area of 16,300 sq.ft., while a company belonging to the manufacturing sector took up space in another SBD location of ECIL at INR 28/sq.ft. per month for an area of 3,500 sq.ft. It should also be noted that in the SBD and PBD locations, as most of the transactions were in the IT/ITeS sector, the average rentals are more skewed towards the minimum value.

Outlook

Hyderabad office market has emerged largely unaffected by the political agitation in the region. This can be inferred from the extensive construction of new office space in and around the city and the expansion plans of existing IT companies as well as the quantum of transaction activity in the region. Several new developments of smaller sizes, primarily in the CBD and Off CBD locations testify to the trend of increasing popularity of the non-IT space along with the proliferation of newer sectors into the city. Meanwhile, the IT/ITeS industry is expected to continue to contribute towards office space absorption in the forthcoming years as well. Besides the existing IT hubs of Hitech City and Madhapur in the SBD and Gachibowli in the PBD, a number of other locations have come up on the occupiers' radar. Amongst them, Uppal and Pocharam in the eastern peripheral part of the city, Shamshabad in the southern peripheral of the city and Bachupally and Jawahar Nagar in the northern part have emerged as newer micro-markets offering office space. As a matter of fact, the projects in Uppal,

Pocharam and Shamshabad are expected to witness good volume of leasing in the next few quarters.

Uppal has been promoted as the next Hitech City and is envisaged to be developed under the 55,000-acre wide IT Investment Region proposed by the state government, the region encompassing the eastern part of the city surrounding Uppal as well as the existing Hitech City and areas close to the international airport. Besides, Infosys has recently announced that its 430-acre campus located in Pocharam would be developed as the largest IT campus in South Asia. Also, Nasscom, the association of Indian IT companies, is launching a substantial training programme for graduates and aspiring IT professionals with a target to train 100,000 students in the next one year in Andhra Pradesh. These factors, as well as the fact that Hyderabad has several infrastructure initiatives underway, shall further augment the city's attractiveness to the potential occupier. With the metro rail project in the pipeline and the Outer Ring Road being laid, the real estate markets are expected to do considerably well over the next few years

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To secure your personal copy, please contact



Dr. Samantak Das, National Head – Research
+91 (022) 67450101 samantak.das@in.knightfrank.com

India Research

Dr. Samantak Das National Head - Research
+91 (022) 6745 0101
samantak.das@in.knightfrank.com

KnightFrank.co.in

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