



RESEARCH

SEPTEMBER 2012 OFFICE TRACTION @ GLANCE

Knight Frank

Chennai

Market Review

Chennai office market in FY 2013 has been characterized by cautiousness adopted by potential occupiers as well as the existing ones on account of the ongoing economic crisis in the global markets. While the previous year, 2011, recorded the highest quantum of office space absorption post the economic recession, the momentum could not be sustained in the new financial year. The prevailing uncertainty led a number of IT/ITeS firms, the prime demand driver for office space in the city, to postpone their expansion plans and modify their revenue and employment projections for the year.

Chennai office market in Q1 FY 2012 (April-June) was represented by robust demand and restricted supply. As a result, majority of the transactions recorded during that period were pre-commitments for office space. Around 1.20 mn.sq.ft. of office space, excluding pre-committed space, was transacted in Q1 FY 2012. In contrast,

CHENNAI OFFICE MARKET IN FY 2013 HAS BEEN CHARACTERIZED BY CAUTIOUSNESS ADOPTED BY POTENTIAL OCCUPIERS AS WELL AS THE EXISTING ONES ON ACCOUNT OF THE ONGOING ECONOMIC CRISIS IN THE GLOBAL MARKETS

Micro-market Classification	Locations
Central Business District (CBD) & Off-CBD	Mount Road, Anna Salai, Nungambakkam, TTK Road, RK Salai, Egmore, Greams Road, Nandanam, Poonamallee High Road, Nelson Manickam Road
Suburban Business District (SBD)	Taramani, Mount Poonamallee Road, Guindy, Anna Nagar, Adyar
Peripheral Business District (PBD)	Old Mahabhalipuram Road (OMR), Velachery, GST Road, Ambattur

approximately 1.10 mn.sq.ft. of office space was absorbed in the corresponding period in FY 2013. This depicts the negative impact of the global economic slowdown on the city's office market. However, a slight increase in the weighted average rentals was observed in FY 2013 over the value in FY 2012, signifying some amount of market traction.

Although Q1 FY 2013 witnessed lower quantum of office space absorbed vis-a-vis the same quarter last year, there has been an improvement of 22% over the previous quarter, Q4 FY 2012, that recorded absorption of 0.90 mn.sq.ft. of office space. Demand for office space emanated mostly from the IT/ITeS sector and was absorbed mainly by the projects in the micro-markets of Manapakkam, Guindy, OMR and Ambattur.

Sectoral Analysis

As mentioned, in the recent years Chennai office market has been dominated primarily by the IT/ITeS sector. In Q1 FY 2012, out of the total 1.20 mn.sq.ft. absorbed, about 75% was absorbed by the IT/ITeS sector. This share declined to around 48% of the total office space transacted during the first quarter of FY 2013. This decline in the IT/ITeS sector absorption may be attributed primarily to the inability of the economies of the North American and European countries to revive as per expectations.

Table 1: Summary of transactions

Transaction Summary	Q1 FY 2012 (Apr-Jun)	Q1 FY 2013 (Apr-Jun)
Lease Transactions		
Total area transacted	1.20 mn.sq.ft.	1.10 mn.sq.ft.
Weighted Average Value	INR 46/sq.ft./month	INR 48/sq.ft./month

Source: Knight Frank Research

This affected the growth of the sector and Q1 FY 2013 did not see as many transactions as its corresponding period in FY 2012. Some of the key IT/ITeS companies that took up space in the city in FY 2013 include Virtusa, Verizon, HCL, SRM Technologies and Amazon.

An analysis of the sectoral distribution in Q1 FY 2013 showed the emergence of a number of other industries in the market. While Q1 FY 2012 saw just 6% of the total office space transacted being occupied by the BFSI sector, this figure rose to a significant 20% in Q1 FY 2013. Some of the key BFSI firms that took up office space in the city include Citibank at SP Infocity located in Perungudi, Artha Money at MBC Towers in Alwarpet and Barclays at DLF IT Park in Manapakkam.

APPROXIMATELY 1.10 MN.SQ.FT. OF OFFICE SPACE WAS ABSORBED IN Q1 FY 2013 IN CHENNAI

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DEMAND FOR OFFICE SPACE EMANATED MOSTLY FROM THE IT/ITES SECTOR AND WAS ABSORBED MAINLY BY THE PROJECTS IN THE MICRO-MARKETS OF MANAPAKKAM, GUINDY, OMR AND AMBATTUR

Another sector that increased its footprints in Q1 FY 2013 as compared to Q1 FY 2012 is engineering. The office space leased by this sector increased from 6% to 8% in Q1 FY 2013. Prominent engineering firms like L&T, Dorschel and Lloyds were responsible for contributing towards the increase in office space absorption in Q1 FY 2013.

Other sectors like media, telecom, aviation, automobile and consulting firms together contributed about 13% in Q1 FY 2012 and 22% in Q1 FY 2013 towards office space absorption. Some of the key office transactions in Chennai in Q1 FY 2013 have been depicted in Table 3.

Table 2: Distribution of office space across sectors

Sectors	Q1 FY 2012 (Apr-Jun)	Q1 FY 2013 (Apr-Jun)
IT/ITes	75%	48%
BFSI	6%	20%
Engineering	6%	8%
Manufacturing	0%	2%
Other Service Sectors	13%	22%

Source: Knight Frank Research

Geographic Analysis

The CBD of the city witnessed a higher number of transactions in Q1 FY 2013, as compared to the corresponding quarter in FY 2012. While the CBD micro-markets in Q1 FY 2012 had a share of just 2% of the total office space absorbed during the period, this increased to 16% in Q1 FY 2013. This can be attributed to the increased proliferation of non-IT companies, as observed in the sectoral distribution. These firms have requirements for smaller office space

Table 3: Select transactions in Chennai office market in Q1 FY 2013 (Apr-Jun)

Building	Occupier	Location	Approx Area (sq.ft.)
Ascendas IT Park	Williams LEA	Taramani	13,800
DLF IT Park	L & T	Manapakkam	74,000
SP InfoClty	Citibank	Perungudi	18,240
Prestige Palladium	Emirates	Greems Road	8,000
Ambit IT Park	Dorschel	Ambattur	35,000
DLF IT Park	Virtusa	Manapakkam	72,000

Source: Knight Frank Research

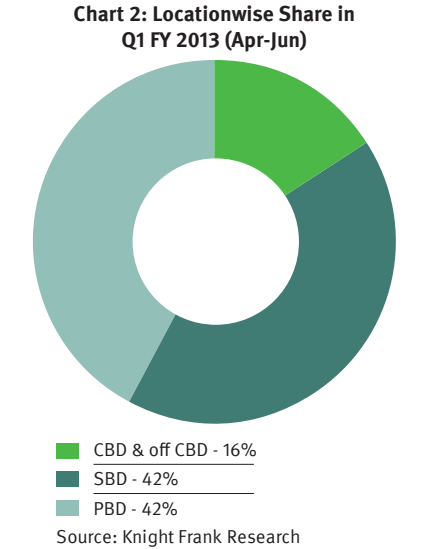
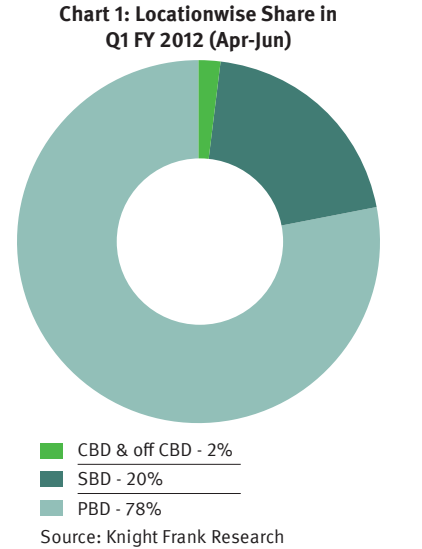
AN ANALYSIS OF THE SECTORAL DISTRIBUTION IN Q1 FY 2013 SHOWED THE EMERGENCE OF A NUMBER OF OTHER INDUSTRIES IN THE MARKET BESIDES THE DOMINANT IT/ITES SECTOR

configurations and prefer to be centrally located. Besides, the rehabilitation of older buildings made way for more office space in the central areas of the city, thereby augmenting the absorption level in the market. Some of the key occupiers in the CBD include companies such as RRRK Steel, Artha Money, Lloyds, Mitsubishi and Emaar MGF.

Of late, the SBD of the city has also been on the radar of corporate occupiers. While the region witnessed several large sized

transactions in Q1 FY 2012, accounting for around 20% of the total office space transacted, the figure more than doubled to 42% in Q1 FY 2013. Among the suburban micro-markets, majority of the transactions have taken place in Manapakkam and Guindy. DLF IT Park in Manapakkam contributed towards 61% of the total office space transacted in the SBD with a number of large transactions, whereas Guindy had several office projects adding up to an absorption share of around 25%. Major occupiers in these micro-markets include India Cements, Aditya Birla Group, Emerio Technologies, Bank of New York and Intechi Data.

As is evident from the charts given, the contribution of the PBD towards office space absorption has reduced in Q1 FY 2013 as compared to the same period in FY 2012. The region, which boasts of several advantages like availability of quality office spaces with large floor plates and state-of-the-art amenities, is mostly preferred by the IT/ITes





sector due to their large space requirements.

However, economic uncertainty has led the sector to reconsider their establishment and expansion plans, affecting the PBD micro-markets' share in the absorption pie. Moreover, the suburban micro-markets have been offering similar type of office space options to interested firms, further reducing the PBD's share. Projects like Ascendas IT Park and SP Infocity, both located on the OMR and Ambit IT Park in Ambattur, were responsible for majority of the office space transactions in the PBD region in Q1 FY 2013. Some of the notable MNC occupiers in the region include companies like Amazon, Genesis Telecom, Paypal, Williams LEA and Floorserve.

Table 4 highlights the minimum, maximum and the weighted average of rental values across micro-markets for Q1 FY 2012 and Q1 FY 2013. A wide variation in rental ranges has been observed in both the periods across

all the micro-markets. This variation is on account of the location of the transacted properties as well as the grade of the project. It has also been observed that average rentals during Q1 FY 2013 remained stagnant due to subdued demand that dampened market sentiments. The lack of movement in rentals can also be attributed to the delay in decisions regarding deal closures as occupiers chose to move cautiously amidst continued turbulence in the global economy.

Outlook

The Chennai office market has observed to have moved from being absolutely IT/ITeS dominated to a more diversified occupier base. The emergence of newer sectors bodes well for the city's office market. Although the IT/ITeS sector continues to be affected by economic constraints, with the market reflecting cautious optimism, leasing levels should remain firm and not decline

drastically. Rental values are expected to remain constant, although marginal appreciation is envisaged in projects which are witnessing some amount of leasing.

ALTHOUGH THE IT/ITES SECTOR CONTINUES TO BE AFFECTED BY ECONOMIC CONSTRAINTS, WITH THE MARKET REFLECTING CAUTIOUS OPTIMISM, LEASING LEVELS SHOULD REMAIN FIRM AND NOT DECLINE DRASTICALLY

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

Micro-markets	Q1 FY 2012 (Apr-Jun)			Q1 FY 2013 (Apr-Jun)		
	Min	Max	Weighted	Min	Max	Weighted
			Average			Average
Central Business District (CBD) & Off-CBD	45	75	60	40	85	61
Suburban Business Districts (SBD)	35	65	55	37	70	52
Peripheral Business Districts (PBD)	30	50	45	30	45	40

Source: Knight Frank Research

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