



# BENGALURU

## OFFICE TRACTION @ GLANCE

September 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

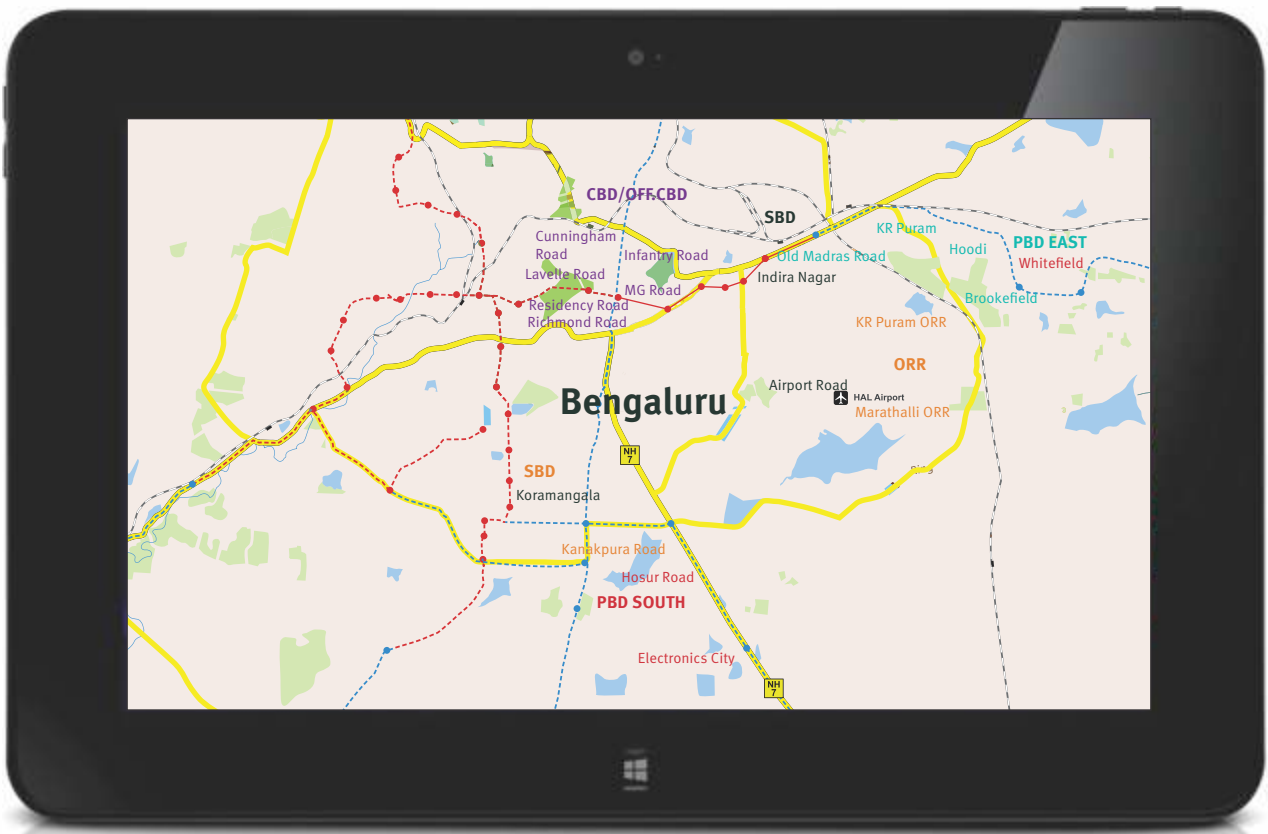
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- Absorption levels showed a **decline of nearly 37%** in H1 2013 over H1 2012
- Subdued economic conditions led to **delays** in occupiers' expansion plans
- **IT/ITeS sector** comprised **61%** of the total absorption pie in H1 2013
- **Whitefield** and **Outer Ring Road (ORR)** have emerged as preferred locations
- While demand may remain subdued, **adequate infrastructure development** will garner occupier interest

The city's office market recorded absorption of 3.98 mn.sq.ft. during H1 2013, depicting a sharp decline of almost **37%** over the absorption witnessed in H1 2012.

The Bengaluru office market witnessed mixed sentiments during the first half of 2013 (H1 2013). While the initial months exhibited marked restraint on the occupier front, owing to the economic uncertainty in the European zone and western markets, the latter period saw a resurgence of pent-up demand. The IT/ITeS industry continued to dominate the office space absorption in the city, albeit at a slower pace, even as other sectors emerged to take up considerable office space.

The city's office market recorded absorption of 3.98 mn.sq.ft. during H1 2013, depicting a sharp decline of almost 37% over the absorption witnessed in H1 2012. However, despite the city's downward absorption trend, it remains one of the most sought after office space destinations in the country, preferred by global innovation centres.



Over the past decade, Bengaluru has observed the largest volume of office space absorption in the country, supported by fairly stable prices and consistent absorption trends. Several factors continue to make the city ideal for investors, including the presence of a large talent pool, a number of SEZs for IT expansions, development of the Outer Ring Road (ORR) and the Metro Rail corridor.

The IT/ITeS sector has been primarily responsible for the city's high absorption levels, thereby leading developers to depend heavily on it for their office projects. Thus, lately, with the sector having hit a rough patch the city's office market has been impacted as well.

## BUSINESS DISTRICTS IN BENGALURU

Micro-market Classification	Locations
<b>Central Business District (CBD) &amp; Off-CBD</b>	MG Road, Residency Road, Cunningham Road, Lavelle Road, Richmond Road, Infantry Road
<b>Suburban Business District (SBD)</b>	Indiranagar, Koramangala, Old Airport Road, Old Madras Road, Bannerghatta Road
<b>Peripheral Business District (PBD)</b>	Whitefield, Mysore Road, Electronics City
<b>Outer Ring Road (ORR)</b>	Hebbal ORR, KR Puram ORR, Marathalli ORR, Sarjapur Road ORR

BENGALURU HAS WITNESSED A SIGNIFICANT SLOWDOWN IN ABSORPTION, DESPITE BEING THE MOST SOUGHT AFTER OFFICE DESTINATION. THE TOTAL ABSORPTION IN 2013 IS LIKELY TO BE BELOW THAT OF 2012.

## TRANSACTION SUMMARY

Lease Transactions	H1 2012	H1 2013
Total Area Transacted	6.28 mn.sq.ft.	3.98 mn.sq.ft.
Weighted Average Rental Value	₹41/sq.ft./month	₹45/sq.ft./month

Source: Knight Frank Research

The weighted average rental value of transactions across office micro-markets during H1 2012 stood at ₹41/sq.ft. per month, while the weighted average rental value during H1 2013 was observed at ₹45/sq.ft. per month. Thus, although the absorption level dipped alarmingly in H1 2013, the rental values saw an increase of 10%. This can be attributed to the larger number of non-IT/ITeS sector transactions during the period, involving relatively higher rentals.

## Absorption

The effect of the economic turmoil reflected prominently on Bengaluru's office space absorption as it plummeted to 1.25mn.sq.ft. during the first quarter of 2013 (Q1 2013), signifying a decline of 50% as compared to the corresponding period in 2012. The subdued economic condition resulted in a delay in occupiers' decisions as they deliberated over their expansion/establishment plans.

However, the market saw some respite as the second quarter of 2013 (Q2 2013) brought back traction into the market, clocking absorption of 2.73 mn.sq.ft., but still lagging behind the absorption in Q2 2012 by 28%. This resurgence can be attributed to the pent-up demand that had been there since the latter quarters of 2012. Keeping in mind the outlook of the driver industries and Indian and global economies, the Bengaluru office market is projected to experience absorption of around 8 mn.sq.ft. by the end of 2013 vis-à-vis over 9 mn.sq.ft. in 2012.

## QUARTER-WISE ABSORPTION IN H1 2012 AND H1 2013



● Mn.sq.ft.

Source: Knight Frank Research

THE MARKET SAW RESURGENCE OF ABSORPTION IN Q2 2013 OWING TO PENT-UP DEMAND, BUT WAS UNABLE TO MATCH THE ABSORPTION LEVEL OF Q2 2012.

## Sector analysis

### DISTRIBUTION OF OFFICE SPACE ABSORPTION ACROSS SECTORS IN H1 2012 AND H1 2013

Sectors	H1 2012	H1 2013
IT/ITeS	65%	61%
BFSI	11%	4%
Manufacturing	13%	9%
Other service sectors	11%	26%

Source: Knight Frank Research

Despite the slowdown, the IT/ITeS sector continued to be primarily responsible for occupying a major part of the absorption pie in the Bengaluru office market. While H1 2012 saw the sector size up a considerable 65% of the total office space transacted in the city, its share declined to 61% in H1 2013. Some of the key space occupiers in H1 2013 include companies like HP, JDA Software, Mu Sigma, ARM Embedded Technologies and Akamai Technologies.

The IT/ITeS sector was followed by the manufacturing sector, accounting for 9% of the total absorption in H1 2013, depicting a drop as compared to the absorption share of 13% in H1 2012. The share of BFSI sector occupiers also waned during H1 2013, accounting for a mere 4% of the absorption, whereas in H1 2012 the figure had stood at 11%. Sandvik Asia and Yes Bank

are among the notable manufacturing and BFSI companies that took up office space in H1 2013. There has been an increase in the number of occupiers comprising the category 'Other service sectors', taking up the absorption share from 11% in H1 2012 to 26% in H1 2013. These primarily include the

pharmaceutical and healthcare sector, media, consulting and telecommunication companies. Prominent occupiers in this segment include companies such as Ogilvy & Mather, Columbia Asia, Aruba Networks and Panalpina.

**SBD MARKETS, HITHERTO PREFERRED BY COMPANIES LOOKING FOR OFFICE SPACE IN PRIME LOCATIONS IN THE VICINITY OF RESIDENTIAL MARKETS, HAVE LOST THEIR SHEEN WITH THE EMERGENCE OF THE ORR OFFICE MARKETS, THEREBY BRINGING DOWN THE ABSORPTION SHARE FROM 35% IN H1 2012 TO JUST 13% IN H1 2013.**

### SELECT TRANSACTIONS IN BENGALURU OFFICE MARKET IN 2013

Building	Company	Location	Approx area (sq.ft.)
Manyata Embassy Business Park	L&T	Hebbal Outer Ring Road	115,825
World Trade Centre	Amazon	Malleswaram	40,000
First Technology Place	Invitrogen	Whitefield	26,340
Pritech	Brocade Communications Systems	Sarjapur Outer Ring Road	207,000
Prestige Terraces	Stemcor	Infantry Road	23,000
Bagmane Constellation Business Park	Samsung	Marathalli Outer Ring Road	530,000
Ecity Tower 1	OnMobile	Electronics City	140,000
Salarpuria Infinity	FireEye	Bannerghatta Road	23,000
AMR Techpark	Avaya	Hosur Road	73,000

Source: Knight Frank Research

## Geographical Analysis

In H1 2013, Bengaluru observed consistent office space demand in Whitefield and Outer Ring Road (ORR) that are more preferred due to considerable new office space supply and competitive rentals.

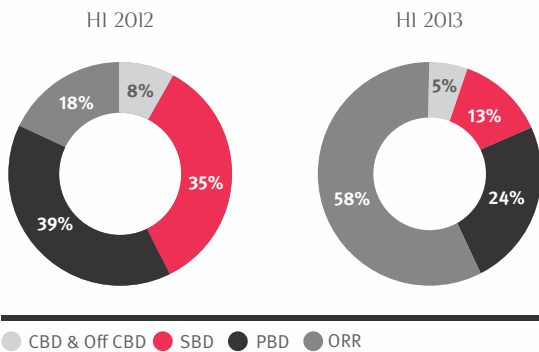
The CBD and Off-CBD office markets have been preferred by companies looking for smaller office configurations and with the intent of being centrally located. While these markets had lost some sheen owing to the obstructive construction work on the Metro Rail, completion of the same has revived occupier interest. However, although these micro-markets will continue to witness healthy occupier interest with improved commuting through the Metro Rail, the absorption share will not increase much due to the dearth of developable land. Thus, while the CBD and Off-CBD contributed to 8% of the total office space absorption in H1 2012, it decreased to 5% in H1 2013, owing to supply constraint. Some of the key tenants that took up space in the CBD and Off-CBD locations in H1 2013 include Avaya on MG Road and Lintas on Murphy Road.

Contrary to the smaller office spaces offered by the CBD micro-markets, suburban office markets like Koramangala and Indiranagar are characterized by standalone office projects that are occupied by mid-sized IT/ITeS, manufacturing, healthcare and BFSI companies.

**ORR HAS EMERGED AS ONE OF THE MOST PREFERRED OFFICE DESTINATIONS, ACCOUNTING FOR A WHOPPING 58% OF THE ABSORPTION SHARE IN H1 2013, FROM JUST 18% IN H1 2012. RENTAL VALUES IN ORR ARE EXPECTED TO WITNESS THE MOST APPRECIATION AMONG THE BENGALURU OFFICE MARKETS.**

WHILE WHITEFIELD AND THE ORR STRETCH BETWEEN MARATHALLI AND SARJAPUR ROAD WILL DOMINATE AS PREFERRED OFFICE DESTINATIONS, NEWER OFFICE MARKETS ARE EXPECTED TO EMERGE IN NORTH BENGALURU WITH VARIOUS OFFICE AND INFRASTRUCTURE PROJECTS UNDERWAY IN THE REGION.

## MICRO-MARKET WISE SHARE IN OFFICE ABSORPTION



Source: Knight Frank Research

These markets witnessed growth on the back of connectivity and good infrastructure. Thus, SBD markets are generally sought after by companies looking for office space in prime locations that are in the vicinity of residential markets, as connectivity to residential developments holds the key to sustainable office demand. Of late, these SBD markets have lost their sheen with the emergence of the ORR office markets that offer larger floor plates and state-of-the-art amenities at cheaper rentals. This has brought down the absorption share of the SBD from 35% in H1 2012 to just 13% in H1 2013. Notable transactions in H1 2013 in the SBD micro-markets include office space taken up by Amazon in Malleshwaram, Dell on Koramangala Inner Ring Road and SLK Software on Old Airport Road.

The PBD micro-markets have been typically accountable for most of the office space transactions that took place in Bengaluru. However, of late, the peripheral market of Electronics City has slackened its hold on the office market while its counterpart Whitefield continued to move onwards. The waning of occupier interest in Electronics City may be attributed to lack of premium residential developments, large retail projects, entertainment avenues and social infrastructure as well as distance from the airport. While around 39% of the office space absorption in H1 2012 belonged to the PBD, its share declined sharply to 24% in H1 2013. Whitefield remained the preferred peripheral office market. It has found resonance among the occupiers primarily due to the cheaper rentals prevalent as well as the presence of residential projects, malls, hotels and other social amenities. Key tenants that occupied office space during H1 2013 include IP Soft, AIG Insurance and Capco, all of them located in Whitefield.

ORR has emerged as one of the most preferred office destinations in Bengaluru. The office markets along the ORR came into prominence due to several factors like proximity to the CBD and major residential markets, access to large talent pools, availability of contiguous land parcels, connectivity to the airport and presence of hotel and retail projects. Besides, the aim to make the ORR seamless with the introduction of flyovers and underpasses has been achieved at most junctions and this development has resulted in the entire stretch becoming somewhat signal-free. The ORR office markets have strengthened their grip on the city's office market and the region's share in office space absorption increased from 18% in H1 2012 to a whopping 58% in H1 2013. This can be attributed to office space available at attractive rentals owing to considerable supply that entered the ORR markets in H1 2013. Some of the prominent occupiers in H1 2013 include NVidia on Hebbal ORR, LinkedIn on Sarjapur Road ORR and Samsung on Marathalli ORR.

## Rental Trend

### TRANSACTIONED RENTAL VALUES OF PROMINENT MICRO-MARKETS (IN ₹/SQ.FT./MONTH)

	CBD & Off CBD	SBD	PBD	ORR
<b>H1 2012</b>				
Minimum	50	40	25	40
Maximum	100	80	40	50
Weighted Average	68	48	30	43
<b>H1 2013</b>				
Minimum	53	40	28	43
Maximum	115	85	45	54
Weighted Average	71	49	32	48

Source: Knight Frank Research

Bengaluru did not witness much upward movement in the office market in terms of rentals in H1 2013. While weak economic conditions led the market to slow down since the second half of 2012 and continued till Q1 2013, it gained momentum in Q2 2013. This resulted in a few micro-markets to observe slight increase in weighted average rental values. Relatively strong demand observed in office projects located in Whitefield led rentals to appreciate by around 7% in H1 2013 over the values in H1 2012, while markets along the ORR stretch saw rental appreciation in the range of 10-12%. Going forward, rental values in the ORR are expected to witness the most appreciation among the Bengaluru office markets.

## Outlook

Bengaluru office market struggled and yet strove to keep its momentum in H1 2013 in the face of economic uncertainty. The office space absorption in 2013 is likely to be below that of 2012. While demand is expected to remain under pressure, the city will still evince occupiers' interest in the forthcoming months. Consolidation of office spaces by most large sized companies will continue to be the norm. Also, signs of improvement in many global economies as well as the exchange rate benefits portend well for growth of the IT/ITeS sector. Thus, demand coupled with periodic infusion of new office space will lead the rentals to remain stable, while a few markets shall witness upward revision in the coming quarters.

Infrastructure will play a major role in garnering demand in the city as it acts as a catalyst in developing a particular market. Bengaluru has been assailed by infrastructure issues in the recent years, threatening to diminish its investment potential. With various infrastructure projects underway, the situation is expected to improve and create newer office micro-markets, particularly towards North Bengaluru. The stretch between Hebbal and Yelahanka currently has a number of upcoming office projects while a few more are in the planning stage. The IT/ITeS SEZs under construction on Hennur Road and Bellary Road are some of the prominent developments that will provide impetus to the office market in North Bengaluru in the forthcoming years.

Meanwhile, Whitefield and the ORR stretch between Marathalli and Sarjapur Road will dominate as preferred office destinations due to attractive lease rentals, presence of social infrastructure and residential developments in the vicinity of the office projects.

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